

Prior options review of public sector research establishments

Research Paper 96/69

10 June 1996



On Tuesday 11 June 1996 there is to be a debate, on an opposition motion, on the prior options review of public sector research establishments. The origins of the current review date back to the 1993 science white paper and the subsequent *Multi-Departmental Scrutiny of Public Sector Research Establishments* published by the Cabinet Office's Efficiency Unit in June 1994. This paper examines the current prior options review together with the background to the earlier reviews.

William Lea
Science and Environment Section

House of Commons Library

Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

CONTENTS

	Page
I Science white paper	5
II Scrutiny review of research establishments	7
A. Background	7
B. The Scrutiny review report	9
C. Responses to the Scrutiny review report	10
III Prior options review	11
A. Government response to the Scrutiny review	11
B. Timetable and guidelines for the prior options review	13
C. Outcome of the first tranche of prior option reviews	17
D. Building Research Establishment	19
IV DTI's research laboratories	21
A. Background	21
B. National Engineering Laboratory	22
C. National Physical Laboratory	22
D. Laboratory of the Government Chemist	23
E. National Weights and Measures Laboratory	23

I Science white paper

The current prior options review was announced at the end of September 1995, but the whole issue dates back to the publication of the science white paper in May 1993. The white paper, *Realising our potential: A Strategy for Science, Engineering and Technology* announced that the future of public sector research establishments (PSREs) would be reviewed¹:

"...The Government believes that many of the services currently provided by Government research establishments could be carried out in the private sector, and that privatisation is a realistic prospect for a number of establishments. There will be a further scrutiny of the best organisational and management structures for those laboratories which are likely to remain in the public sector"

The contents of the White Paper were informed by a report specifically commissioned from the Efficiency Unit of the Cabinet Office and the Office of Science and Technology on the *Review of allocation, management and use of Government expenditure on science and technology*. This recommended that "the ownership of S&T capabilities and procurement of S&T should be separated" commenting:

1.46 The first option for consideration is the scope for privatisation. A number of objections to privatisation were raised but given different departments' growing experience in non-research fields of overcoming similar concerns we find the objections largely unconvincing, especially where there is a reasonable prospect of changing the GREs' [Government Research Establishments'] cultures, extending their capabilities and customer-base, and reducing their costs.

1.47 In some cases, getting the GRE's into shape for privatisation will take time, nevertheless, we believe it should be seriously considered as the first option. **We recommend that departments, in consultation with the relevant industrial sectors, reconsider the privatisation option for their own GREs and identify those which could follow this route within three years and within six years.**

1.48 The impetus required to achieve widespread GRE privatisation will not occur so long as there are no incentives for establishments or their personnel to market themselves more widely and aim their work towards commercial applications. **We recommend that the limitations on public sector research establishments selling into wide markets be reviewed and that significant incentives to develop new work be introduced at the establishment and individual level.**

1.49 We believe that the flexibility of the GREs and their progress towards privatisation would be assisted by the introduction of term contracts for new recruits. **We recommend that the use of arrangements for term contracts be extended, not only to GRE scientists and engineers but also to managers and lower level "indirect" workers as they are recruited in the future.**

¹ Para 1.18(9)

Research Paper 96/19

Before the publication of the science white paper there were moves towards some public sector research establishments achieving agency status under the Next Steps initiative. Further information on this can be found in a report from the Parliamentary Office of Science Technology (POST) on *Science and Technology Agencies* published in March 1993. POST has also produced the following Notes on these issues:

POST Note 53 *Public Sector Research Establishments* July 1994

POST Note 74 *Research Institutes and 'Prior Options'* February 1996

II Scrutiny review of research establishments

A. Background

In February 1994, the then Chancellor of the Duchy of Lancaster², William Waldegrave, announced the terms of reference for an efficiency scrutiny review of public sector research establishments (PSREs)³. A press notice commented:

Mr Waldegrave said that the scrutiny would examine research establishments sector by sector to identify those where privatisation was feasible and desirable. Where this was not the case it would identify and make recommendations on the potential for rationalisation of facilities and capabilities. The scrutiny would also examine current ownership and financing arrangements and recommend alternative models where this would lead to more effective operation of the customer-contractor principle and better value for money. He emphasized that it was essential that Britain did not waste resources on out-of-date structures, when it was vital for our future that our output of good science was increased.

This stated that the review was being conducted by a team from the Efficiency Unit of the Cabinet Office. The review had started on 13 December 1993 and would make recommendations to Sir Peter Levene, the Prime Minister's Efficiency Adviser by the end of April 1994 who would then report to the Chancellor of the Duchy of Lancaster. The terms of reference of the review were:

On a sector by sector basis:

- to identify those public sector research establishments where early privatisation is feasible and desirable.
- where early privatisation is not feasible or desirable, to identify the potential for rationalisation of facilities or capabilities, and recommend means of implementing such rationalisation.
- to consider whether changes to current ownership and financing arrangements for establishments would lead to more effective operation of open market and better value for money; if so, to recommend one or more alternative models.

A list of the bodies covered by the review was published on in March 1994 and it included both Government departmental research establishments, such as the Building Research Establishment, and research council institutes, such as NERC's Institute of Terrestrial Ecology⁴. The full list is shown overleaf:

² The Office of Science and Technology which was then part of the Office of Public Service and Science (OPSS)

under the Chancellor of the Duchy of Lancaster transferred to the DTI in July 1995. Further details can be found in Library Research Paper 95/103 on *Transfer of the OST to the DTI and UK science policy*

³ "Multi-departmental scrutiny of public sector research establishments announced" *OPSS News Release 16/94* 2 February 1994

⁴ HC Deb 3 March 1994 cc 809-811W

Science and technology establishments included in the PSRE scrutiny

Life sciences sector

ADAS	MAFF
Central Veterinary Laboratory	MAFF
Central Science Laboratory	MAFF
Food Science Laboratory	MAFF
Torry Research Station	MAFF
Directorate of Fisheries Research	MAFF
Natural Resources Institute	ODA
Marine Laboratory/Fisheries Research Services	Scottish Office
Scottish Agricultural Science Agency	Scottish Office
Scottish Crop Research Institute	SARI
Rowett Research Institute	SARI
Hannah Research Institute	SARI
Macaulay Land Use Research Institute	SARI
Moredun Research Institute	SARI
Institute for Animal Health	AFRC
Institute for Food Research	AFRC
Institute of Grassland and Environmental Research	AFRC
Institute of Arable Crops Research	AFRC
Roslin Institute	AFRC
Babraham Institute	AFRC
Institute of Plant Science Research	AFRC
Radiobiology Unit	MRC
Toxicology Unit	MRC
Dunn Nutrition Unit	MRC
Virology Unit	MRC
Reproductive Biology Unit	MRC
Institute of Virology and Environmental Microbiology	NERC
Institute of Terrestrial Ecology	NERC
Institute of Fresh Water Ecology	NERC
Dunstaffnage Marine Laboratory	NERC
Plymouth Marine Laboratory	NERC
Public Health Laboratory Service	DoH
Horticultural Research International	MAFF
National Institute of Agricultural Botany	MAFF
National Radiological Protection Board	DoH
National Institute for Biological Standards	DoH
Forestry Commission Laboratories	Scottish and Welsh Offices, MAFF

SARI - Scottish Agricultural Research Institute parented by Scottish Office

Physical sciences sector

Building Research Establishment	DOE
Transport Research Laboratory	DOT
Police Scientific Development Branch	Home Office
Forensic Science Service	Home Office
National Engineering Laboratory	DTI
National Physical Laboratory	DTI
AEA Technology (and Warren Spring)	DTI
Laboratory of the Government Chemist	DTI
National Weights and Measures Laboratory	DTI
Research and Laboratory Services Division	HSE
Silsoe Research Institute	AFRC
Proudman Oceanographic Laboratory	NERC
Institute of Hydrology	NERC
British Geological Survey	NERC
Daresbury Laboratory	SERC
Rutherford Appleton Laboratory	SERC

B. The Scrutiny review report

The final report of the Scrutiny review was published in June 1994⁵, following a note from the review team on its "emerging findings" circulated to Government departments and the research councils in April 1994. On the issue of privatisation the final report found that:

"A number of establishments (the National Engineering Laboratory, AEA Technology, the Laboratory of the Government Chemist, and the Transport Research Laboratory) were announced or confirmed as privatisation candidates in the course of our review, while the National Physical Laboratory is to be given Government-owned-contractor-operated status, which may lead to privatisation in the longer term. We identified two additional establishments as meriting further detailed consideration for early privatisation: the Building Research Establishment and ADAS, Next Steps Agencies parented respectively by the Department of the Environment and the Ministry of Agriculture Fisheries and Food...

The report found very little "duplication between establishments" but that there were "significant areas of overlapping activity". The scrutiny team examined a number of different organisational models for changing the existing structure of the laboratories and recommended that two models should be considered further:

- the creation of four market sector orientated organisation groupings dealing with marine resources and environment; environment (non-marine); biotechnology and biological science; and food and agriculture;

⁵ Efficiency Unit, Cabinet Office *Multi-Departmental Scrutiny of Public Sector Research Establishments* June 1994

- the creation of geographically-based groupings in Scotland and in England and Wales.

The team also considered "alternative methods, short of structural change, for providing a co-ordinated response to changing market conditions". It concluded that "the most effective would be the appointment by the Research Councils and Departments concerned, of two directors of rationalisation tasked with recommending rationalisation in and across the areas of most concentrated overlap".

C. Responses to the Scrutiny review report

The report was widely criticised within in the scientific community and was the subject of reports from both the Science and Technology Committee of the House of Commons and of the House of Lords^{6,7}. The Commons Committee reached the following conclusion:

43. The Institute of Biology has said:

"The [Scrutiny Report] refers to "substantial rationalisation of civil research establishments over the last ten years or so," and certainly research institutes have been subjected to frequent structural changes, many of them reversing the main thrust of the previous one. Whether this has can be regarded as 'rational' or not it has reduced research capacity and demoralised many scientists."

Many other respondents complained that the Scrutiny was the latest in a series of reorganisations and that "what is needed above all is a period of stability."

44. It is, in our opinion, unfortunate that the Scrutiny Report has neglected the most obvious means of identifying overlap and encouraging change without undue disruption; the annual Forward Look and the Technology Foresight programme. The first is already in place, and the second is at an advanced stage; together they should ensure a regular look at the scientific capabilities of the entire country and an assessment of the research it needs. The OST will clearly have a role in identifying areas in which rationalisation might be possible and in ensuring that the United Kingdom has the scientific capability to carry out research on the topics identified by the Foresight programme. Rather than introducing extensive new mechanisms for rationalisation at a time when the science and technology base is undergoing radical change, we would prefer to see a period in which the OST attempted to use the new tools already available to it. It may be that the OST will continue to see a need for reorganisation, but there would then be confidence that the problems had been properly identified and that change might be implemented in a more orderly way.

⁶ *Efficiency Unit Scrutiny of public sector research establishments* HC 19 1994/95 16 November 1994

⁷ *Efficiency Unit Scrutiny of public sector research establishments* HL 5 1994/95 29 November 1994

III Prior options review

A. Government response to the Scrutiny review

The Government's response to the Scrutiny was published in September 1995⁸. On the issue of structural change the response stated:

The consultation on the scrutiny report revealed concern about the specific proposals to group establishments, in terms of the disruption that would be caused and the complex lines of accountability which could result. The government has considered these views carefully, and has decided not to proceed with these particular proposals, nor to seek rationalisation through the mechanism of appointing new Directors of Rationalisation.

However, the Government announced instead that it was "extending 'prior options' reviews to all public sector research establishments, including Research Council establishments"⁹. The response document stated:

...the Government accepts the scrutiny's finding that there should be more co-ordination and co-operation in managing research establishments across Departments and the Research Councils. This is consistent with the policies set out in the 1993 White Paper.

The Government is therefore introducing the following new measures which build on the existing prior options process (see box):

- the process will be adapted and extended to include all public sector research establishments, including Research Councils establishments;
- each review will address the actual and potential relationships the establishments in question to any others in similar or related fields, with an eye to potential rationalisation and privatisation. Owners or sponsors of other establishments, OST and the Office of Public Service will be involved on this aspect of each review;
- reviews of research establishments will be rigorous in their examination of the options for privatisation. Clear criteria will be agreed for assessing establishments are suitable for privatisation, taking account of the recommendations of the scrutiny report. Each review team should contain at least one independent member;
- each review will take explicit account of the implications of the Technology Foresight findings for the future role of establishments and of the requirements of customer Departments;
- the finding of all reviews will be considered by Ministers collectively to ensure that no cross-departmental aspects have been missed;

⁸ *Public Sector Research Establishments: Government Response to the Multi-Departmental Scrutiny of the Public Sector Research Establishments* September 1995 Cm 2991

⁹ "Building on the strengths of the Government's research laboratories" *DTI Press Notice P/95/643* 29 September 1995

- the Government aims to announce a timetable for prior options reviews of research establishment shortly, with a view to the major part of the work being completed by the end of 1996.

THE PRIOR OPTIONS PROCESS

It is Government policy to provide only those functions which are both necessary and best carried out in the public sector. Prior options reviews involve a rigorous test of whether the functions required at all, and whether there is scope for privatisation, contracting out (which could include market testing), merging bodies or transferring work between them.

Research establishments which are executive agencies or non-departmental public bodies are already subject to prior options reviews carried out by their sponsoring Departments.

The scientific press reported the Government's announcement in quite different ways. The *New Scientist* stated that:

"Nearly a year after completing an extensive review of 52 public sector research establishments the British government is to put 44 of them back under the microscope. The remaining eight have already been merged or are scheduled to be sold off. The aim of the new examinations will be the same as the original review - to identify pockets of public science that can be merged, privatised or abolished..."

The journal *Nature* on the other hand reported that¹⁰:

"In a humiliating rebuff to its own efforts to increase the efficiency with which publicly funded research laboratories are managed, the British government has rejected all three proposals put forward last year by a four-member 'scrutiny' team following visits to 53 research institutions..."

In October 1995, the Royal Society issued a statement about the prior-options review which included the following comments¹¹:

¹⁰ "...as UK backs down on reform ideas" *Nature* 5 October 1995 p.377

¹¹ "Scrutiny Review" *Royal Society News* October 1995

The Royal Society welcomes publication of the Government's response to the Scrutiny review of Public Sector Research Establishments (PSREs). We note that the haste that characterized the conduct of the Scrutiny review has given way to more measured consideration of the complex issues involved, and we appreciate the more balanced document that has resulted.

We particularly welcome the fact that the Government will not be launching new initiatives to implement many of the Scrutiny review's recommendations. The Government has, rightly, rejected key recommendations, such as those for grouping PSREs along geographical or market sector lines, and has recognized the need to allow local rather than central initiative to set the pace of change. In this, the Government has responded positively to the concerns of the scientific community.

The Government remains committed to its policy of privatization and intends now to pursue this by adapting and extending the prior options process to cover all PSREs, including Research Council establishments. It is not clear whether the 53 establishments that were subjected to Scrutiny review, or whether the latter will be applied only to PSREs not covered in the Scrutiny review. Since the Scrutiny review has just addressed at least part of the prior options agenda in respect of 53 establishments, there can be no case for going over the same ground again. We look forward to seeing the detailed criteria for this new prior options exercise.

The schedule for the prior options reviews, with the major part of the work being completed by the end of 1996, is a welcome improvement on the 90-day schedule for the Scrutiny review.

B. Timetable and guidelines for the prior options review

On 26 January 1996 the Government announced the timetable for the full programme of the prior-options reviews of the establishments¹² and also published the guidelines for the conduct of reviews¹³. Earlier announcements on specific establishments had been made by the Scottish Office¹⁴, MAFF¹⁵, and NERC¹⁶ amongst others. A full list of all 37 establishments involved is shown below. Of the 37, 18 in the fisheries, agriculture/plant science, physical sciences and forensic/police science sectors were to be reviewed by March 1996, another 9 in the animal science and marine and non-marine environment sectors were to be reviewed by July 1996 and the final 10 in the food and nutrition and health sectors were to be reviewed by December 1996.

¹² HC Deb 26 January 1996 cc 421-3W

¹³ Deposited paper 3/2719

¹⁴ HC Deb 23 November 1995 cc 306-7W

¹⁵ HC Deb 23 November 1995 cc 240-1W

¹⁶ "Prior options reviews of NERC research centres" *DTI Press Release P/95/889* 18 December 1995

Period 1: Reporting to ministers by March 1996

Establishment	Parent or sponsor department/research council
ADAS R&D	MAFF
Central Science Laboratory	MAFF
Directorate of Fisheries Research	MAFF
Horticulture Research International	MAFF
Fisheries Research Services	Scottish Office
Macaulay Land Use Research Institute	Scottish Office
Scottish Agricultural Science Agency	Scottish Office
Scottish Crop Research Institute	Scottish Office
Institute of Arable Crops Research	BBSRC
Institute of Grassland and Environmental Research	BBSRC
John Innes Centre	BBSRC
Silsoe Research Institute	BBSRC
Forestry Commission Research Laboratories	Forestry Commission
Daresbury and Rutherford Appleton Laboratories	OST/ CCLRC
Building Research Establishment	Department of the Environment
Health and Safety Laboratory	Health and Safety Executive
National Weights and Measures Laboratory	DTI
Police Scientific Development Branch	Home Office

Period 2: Reporting to ministers by July 1996

Establishment	Parent or sponsor department/research council
Veterinary Laboratories Agency	MAFF
Moredun Research Institute	Scottish Office
Hannah Research Institute	Scottish Office
Babraham Institute	BBSRC
Institute for Animal Health	BBSRC
Roslin Institute	BBSRC
British Geological Survey	NERC
Centre for Coastal and Marine Sciences including: Dunstaffnage Marine Laboratory Plymouth Marine Laboratory Proudman Oceanographic Laboratory	NERC
Centre for Ecology and Hydrology including: Institute of Freshwater Ecology Institute of Hydrology Institute of Terrestrial Ecology Institute of Virology and Environmental Microbiology	NERC

Period 3: Reporting to ministers by December 1996	
Establishment	Parent or sponsor department/research council
National Institute for Biological Standards and Control	Department of Health
National Radiological Protection Board	Department of Health
Public Health Laboratory Service	Department of Health
Rowett Research Institute	Scottish Office
Institute of Food Research	BBSRC
Dunn Nutrition Unit	MRC
Radiobiology Unit	MRC
Reproductive Biology Unit	MRC
Toxicology Unit	MRC
Virology Unit	MRC

The guidelines for the conduct of the reviews suggested that they should address five key questions¹⁷:

- Is the function needed?
- Must the public sector be responsible for the function?
- Must the public sector provide the function itself?
- What is the scope for rationalisation?
- How will the function be managed?

For each of the sectors a "common steering committee for related reviews" would be established and each of the steering committees would:

"...report to the relevant Ministers in the parent or sponsoring departments, in advance of reporting to Ministers collectively. The reports will cover the outcome of each individual review, and the scope for privatisation and for making more efficient and effective use of resources across the establishments in the field."

The guidelines stated that the membership of each committees should consist of representatives from: the parent or sponsoring departments or Research Councils of the establishments under review; other major public sector customers of the establishments; an independent member from outside the public sector; and the "central departments" (the Office of Science and Technology, the office of Public service, HM Treasury). The review teams for individual establishments will be established by the parent or sponsoring Departments or Research Councils but the guidelines stated "each review team should include an independent member from outside the public sector, to provide an external perspective as a means of challenging internal thinking".

¹⁷ Deposited paper DEP/3 2719

Research Paper 96/19

In March 1996 the Royal Society issued a further statement on the prior options review which included the following comments¹⁸:

The prior options review is tackling in one concerted programme 43 PSREs employing over 20,000 staff (of whom 60% work in R&D) and turning over a total of nearly £800 M p.a. (1992/93 data). The Council of the Royal society urges that this review should be used to optimise the nation's long-term ability to carry out scientific work in the public interest, and that it should not impact adversely on the current excellence of the UK's scientific capability.

All the PSREs in the current Prior Options review were included on the Scrutiny review, completed less than two years ago. That review found that, of the 43, only two (ADAS and BRE) were candidates for privatization.

A central challenge for the prior options process is to identify clear criteria for judging when a research function or mission should be conducted in, or at least funded by, the public sector...

The 43 PSREs in the exercise cover a wide range - of mission , of customer, of discipline, of ownership, of size, of culture. The findings must respect this diversity...

...for a university to take ownership of a PSRE is a major step with long term consequences for parties, and requires the most careful consideration by all involved.

We urge that the Prior Options review be carried out with due care and diligence. We are concerned that the first tranche of reviews is already well advanced, without adequate time having been allowed for prior consultation with the scientific community. We request that any decisions taken be published in full, together with all reports and supporting documentation.

The continued ongoing reviews of PSREs are damaging to morale and are currently affecting adversely the ability of those concerned to get on with their scientific research, to the detriment of the nation's R&D base.

Following publication of this statement, the Royal Society held a meeting into the prior options process on 26 March 1996. An article in the *New Scientist* reported¹⁹:

The sale of national research laboratories could cost the government hundreds of millions of pounds in pension and redundancy payments, warned the chief executive of one of the research councils last week...

Tom Blundell, head of the Biotechnology and Biological Sciences Research Council (BBSRC) and chairman of one of the three steering committees set up to review the sell-off plan, told a Royal Society meeting last week that the government may be overlooking the hidden costs of privatisation. 'We must remember that there are detailed questions of feasibility,' he said. 'And while I am sure the Treasury will be imaginative, I haven't heard anyone talk about this.'

¹⁸ Royal Society *Prior options review of public sector research establishments* 5 March 1996

¹⁹ "Lab sell-off could cost millions" *New Scientist* 6 April 1996

Blundell warned that pension and redundancy settlements for four BBSRC institutes alone could cost as much as £137 million in a one-off payment, and that £5 million would have to be paid out each year in pensions to people who have already retired. He reminded the group that when the National Engineering Laboratory was handed over to the German electronics company Siemens last year the government had to pay the firm almost Pounds Sterling 2 million because the lab had not been as profitable in its last year as the buyers had been led to believe.

...Many scientists at the Royal Society meeting said they fear the government will keep reviewing the suitability for privatisation of all 37 institutes until it gets the answer it wants, regardless of the evidence. The government has outlined only four possible outcomes of this round of reviews: abolition, privatisation, contracting out or rationalisation. There is no option that says the organisation is doing fine and should be left alone,' Ronald Oxburgh, rector of Imperial College, told the meeting...

Transferring research establishments to the private sector is more complicated than government officials seem to appreciate, said Dai Rees, head of the Medical Research Council. John Rae, managing director of the National Physical Laboratory, a former Department of Trade and Industry institute that was recently turned over to private operators, said that the process was 'expensive in both money and time'. He criticised the government for failing to learn from previous mistakes.

Robert May, the government's chief scientific adviser, says the latest review should be seen as a part of the evolution of British research. Strong scientific institutions, he insists, do not need to be publicly owned.

C. Outcome of the first tranche of prior option reviews

Outcomes for 13 out of the 18 establishments included in the first tranche of reviews were published on 22 May 1996²⁰. Of these 13, the Government announced that 7 were to be considered further by the Prime Minister's adviser on efficiency, Sir Peter Levene, and that 4 were to be made next steps agencies. This will be third time that Sir Peter has examined the future of PSREs (having produced a report before the science white paper and also the Scrutiny review report). Of the remaining five establishments, the future of the Building Research Establishment was announced on 2 April 1996 (see below), and decisions on the others "will be announced as soon as possible". Details of the announcements on the individual establishments are set out below.

As far as four Biotechnology and Biological Sciences Research Council' s (BBSRC's) institutes (Institute of Arable Crops Research, the Institute of Grassland and Environment Research, the John Innes Centre and the Silsoe Research Institute) were concerned the President of the Board of Trade stated:

...I am satisfied that the functions of these Institutes are needed and that they should retain their separate existence.

²⁰ HC Deb 22 May 1996 c.209W, cc 270-272W

Research Paper 96/19

They are currently constituted as distinct legal entities with charitable status but are regulated by the Biotechnology and Biological Sciences Research Council. Their staff are members of the Research Councils Pension Scheme and BBSRC carries contingent liability for staffing. They are consequently subject to public sector financial controls.

I have concluded that full independence from the public sector, with the greater freedom this will provide the Institutes to direct their own affairs, would be a desirable option which merits further consideration. This will therefore be the subject of further work led by the Prime Minister's adviser on efficiency, Sir Peter Levene. The Institutes would remain eligible to compete for research funding from BBSRC and other public sector funders.

A final decision was not made on the future of Horticulture Research International, but the Minister for Rural Affairs at MAFF, Tim Boswell, announced that "as part of the prior options review, the future status of HRI is now to be considered by the Prime Minister's adviser on efficiency, Sir Peter Levene" and that "decisions on the outcome will be announced as soon as possible"²¹. MAFF also announced that the directorate of fisheries research would become a next steps agency from 1 April 1997 or if not by then as soon as practicable²².

As far as the Central Laboratory of the Research Councils was concerned, Ian Lang announced:

The review found that the functions performed by CLRC are needed and that it should remain in the public sector as a Non-Departmental Public Body of the Department of Trade and Industry, through the Office of Science and Technology. The Government is content to proceed on this basis whilst asking that further work on the involvement of the private sector should be carried out as described below. I am also satisfied that the current arrangements, whereby CLRC obtains the great majority of its income from competitively-won contracts and service level agreements, bring suitable market forces to bear on it and that these should continue.

The Government has agreed with the recommendations of the steering committee for the review that the laboratory should work to achieve further reductions in its overhead costs, and that work should be done to put in place a sound, longer-term planning model between CLRC and its research council customers. In addition, I have agreed that the CLRC should be set targets for broadening its customer base, and that further work should be carried out to identify and overcome where appropriate, any barriers to greater private sector involvement with the laboratory, and on potential private sector interest in operating the establishment. These matters will be investigated by my Department.

The Scottish Office announced that the Fisheries Research Services and the Forestry Commission Research Division would become Next Steps Agencies with an intended start date of 1 April 1997. In respect of the other establishments, the Scottish Office Minister for Agriculture, Environment and Forestry, Lord Lindsay, announced²³:

²¹ HC Deb 22 May 1996 c.210W

²² HC Deb 22 May 1996 c.209W

²³ HL Deb 22 May 1996 c.97W

The prior option reviews of the Scottish Crop Research Institute and Macaulay Land Use Research Institute have also been completed. The Government is satisfied that the functions of these Institutes are needed and that they should retain their separate existence. We have concluded that the possibility of a move of these Institutes from the public sector to the private sector merits further consideration. This will therefore be the subject of further work led by the Prime Minister's adviser on efficiency, Sir Peter Levene.

In the light of the review of the Scottish Agricultural Science Agency, the Government have concluded that as its functions have a particular relevance to Scotland they should continue to be provided there, but that the possibility of closer alignment with other related establishments in Scotland supported by The Scottish Office should be considered. Further work on this will therefore be carried out by The Scottish Office.

D. Building Research Establishment

The Building Research Establishment (BRE) was highlighted as possible candidate for privatisation in the original Scrutiny report:

"It may be possible to create a privatisable entity by removing the less readily privatisable activities. An example which should be given further detailed examination is DOE's Building Research Establishment (BRE), also a net running cost agency, which has a combination of policy and commercial-type activities (DOE have assessed that 36% of BRE's staff effort goes on work which would otherwise have to be undertaken in the parent department."

The report recommended:

"that DOE review the case for moving elements of BRE into the private sector, taking account of planning now under way for TRL[Transport Research Laboratory] and NEL[National Engineering Laboratory], which conduct similar types of activity."

The Government's response to the Scrutiny report, referred to above, made specific comments about the BRE:

"A prior options review of BRE is now approaching its final stage of discussions between DOE, HM Treasury, OST and OPS, to be followed by collective consideration by Ministers. The results will be announced as soon as possible."

On 7 November 1995, the Secretary of State for the Environment, John Gummer, announced²⁴:

"I wish... to see BRE's expertise more directed towards stimulating innovation in construction and to helping industry improve its performance and competitiveness. I believe that closer links between BRE and industry will be achieved more effectively if BRE were in the private sector.

²⁴ HC Deb 7 November 1995 cc 747-8W

Research Paper 96/19

"I therefore intend to commission consultants later this month to advise me on the relative advantages and disadvantages of the options for transferring BRE to the private sector. The consultants will be asked to take account of the need of the Government, industry and clients for construction research, advice and technical support which will be accepted as authoritative and independent of sectoral interests. The options examined will include the proposal from representatives of construction interests for a national centre for construction research and advice..."

On 30 November 1995, the Government announced that PA Consulting had been appointed to carry out the "study of the options for transferring the Building Research Establishment to the private sector"²⁵. The consultants were asked to report by 31 January 1996²⁶.

On 2 April 1996, the Secretary of State for the Environment, John Gummer, announced that the "best future for BRE would be as part of a National Centre for Construction (NCC), established by the construction industry to improve industry technology, innovation and competitiveness"²⁷:

This gives the construction industry the opportunity to translate into reality their concept of a National Centre for Construction(NCC) which would encompass BRE and would take the form of a Company Limited by Guarantee (CLG). This approach would channel directly BRE's expertise towards stimulating innovation and helping the industry improve its performance while maintaining the objectivity and independence of BRE advice. The Government is prepared to share in the funding of a study which the industry proposes to set in hand so as to put in place within six months a Business Plan for an NCC.

I would look to the industry to take account of the views of BRE management and staff and the University sector, such as that already initiated by University College London in developing this Plan. I am clear, however, that delivery of a satisfactory Business Plan carrying industry commitment to ownership is essential within the six month deadline if the proposal for an NCC encompassing BRE is to proceed.

I wish to ensure that the transfer of BRE to an NCC can be implemented swiftly at the end of a six month planning period. I have therefore put in hand work within my Department on preparations which would lead rapidly at the end of the six month period to the implementation of the NCC plan by February 1997. As a contingency, however, against the possibility that the industry is unable to prepare a satisfactory plan within the initial six months, my Department will also prepare for sale or contractorisation of BRE to be completed by February 1997.

This would be achieved through competitive tender under arrangements to maintain the independence, objectivity and authority which BRE currently provides. If no satisfactory purchaser were to emerge, a competitive contract would be let for management of BRE.

²⁵ HC Deb 30 November 1995 c.799W

²⁶ HC Deb 11 December 1995 c.516W

²⁷ HC Deb 2 April 1996 cc 164-4W

IV DTI's research laboratories

A. Background

The review process affecting the DTI's own laboratories²⁸ has, to a large extent, been separate from the review process for the other establishments described above. In May 1993, the then President of the Board of Trade, Michael Heseltine, announced that the future of all five laboratories would be reviewed by independent consultants²⁹. Warren Springs Laboratories (WSL) was removed from the terms of reference of the review after the DTI received a report on WSL's future from PA Consulting. This report had been commissioned on 1 April 1993, and after receiving its conclusions, the DTI announced that WSL would be merged with AEA Technology to form a new National Environmental Technology Centre at Harwell³⁰. Shortly after the announcement of the review of all 5 labs, Michael Heseltine announced that National Engineering Laboratory (NEL) was "working towards full commercial viability with a view to privatisation"³¹.

The outcome of the review of the laboratories was announced in April 1994³². The President of the Board of Trade, Michael Heseltine, said that:

- **NEL** would be sold in trade sale in the summer of 1995.
- The **Laboratory of the Government Chemist (LGC)** would be established as "an independent non-profit distributing company in the private sector" but that a trade sale was not ruled out if "a suitable buyer comes forward who can demonstrate the requisite independence".
- The **National Physical Laboratory (NPL)** needed to "achieve further significant restructuring" and that this would "be more effectively achieved if its management is contracted to the private sector.
- The consultants study of the **National Weights and Measures Laboratory (NWML)** had "recommended no major change" but the Government would examine the possibility of contracting out some of NWML's services.

²⁸ Warren Springs Laboratories, National Engineering Laboratory, Laboratory of the Government Chemist, National Physical Laboratory, National weights and Measures Laboratory

²⁹ HC Deb 4 May 1993 c.4W

³⁰ HC Deb 10 June 1993 c.303W

³¹ HC Deb 10 May 1993 c.311W

³² HC Deb 14 April 1994 c.251-3W

B. National Engineering Laboratory

In August 1995, the DTI announced that Assessment Services Ltd, part of the Siemens Group³³, had been selected as the preferred bidder for NEL³⁴. Details of the terms of the sale were made in October 1995³⁵. The Minister for Science and Technology, Ian Taylor, announced that "the consideration will be a negative £1.95 million, to be adjusted subsequently in the light of the level of net current assets at completion". In other words the Government paid Assessment Services Ltd "to take the National Engineering Laboratory off its hands"³⁶. The sale was discussed in a series of parliamentary questions in the House of Lords on 20 November 1995³⁷.

C. National Physical Laboratory

In December 1994 a detailed investigation to tender was made available to five bidding consortia and in May 1995 two consortia were short listed as bidders and in late June 1995 Serco was selected as the preferred bidder for final negotiations. In July 1995 the government announced that "Serco, in collaboration with AEA Technology and Loughborough University for particular tasks, has been selected to become the contractor to manage the laboratory... for the next five years"³⁸. The announcement stated that "all but a few of the laboratory's staff will transfer to Serco, which will purchase some of the assets of the laboratory" and that other assets together with the buildings would be leased for the duration of the contract. The costs of this process were set out in a parliamentary answer in November 1995³⁹:

"Payments to Serco will be made for work carries out for DTI customers; there is no separate management fee. However, certain non-recurring costs were taken out during the negotiating process and were paid at the start of the contract. This involved... a payment of £1.55 million to Serco. This arrangement offered significantly better value for money... than the alternative of including these costs in the prices that will be charged to DTI customers.

At the request of the DTI, the Royal Society and the Royal Academy of Engineering have established a committee to advise the Department on scientific aspects of the performance of Serco⁴⁰. The committee is chaired by Sir Eric Ash.

³³ Specifically, Siemens Plessey Electronics Systems

³⁴ "National Engineering Laboratory, East Kilbride, Privatisation..." *DTI Press Notice P/95/529* 8 August 1995

³⁵ HC Deb 31 October 1995 c.211W

³⁶ "Can't give it away" *New Scientist* 2 December 1995

³⁷ HL Deb 20 November 1995 cc 129-130

³⁸ HC Deb 13 July 1995 cc 743-4W

³⁹ HC Deb 17 November 1995 cc 10-11W

⁴⁰ "National Physical Laboratory" *Royal Society News* January 1996

D. Laboratory of the Government Chemist

On 10 November 1995 the Government announced that the LGC would be sold to a management led consortium⁴¹. Other members of the consortium are the Royal Society of Chemistry and 3i plc. The announcement said that "the Laboratory will retain its present name and it will continue to discharge the Government Chemist's statutory responsibilities". On 2 April 1996, the Minister for Science and Technology, Ian Taylor, announced that the sale of the LGC had been completed on 31 March 1996⁴²:

The consideration will be a payment of £360,000 to the Department, to be adjusted subsequently in the light of the level of net current assets at completion. At the same time the Department will be making a payment to the purchaser of £1.96 million to relieve the Department of the liability for (a) site-separation work to allow LGC to untie from the National Physical Laboratory on the Department's Teddington site, and (b) building dilapidation works; the purchaser will take on the entire responsibility for the successful completion of these projects.

In the event that the purchaser is not awarded a contract which was assumed in the bid, there will be (a) a payment to the purchaser of £300,000 to forestall consequential redundancies and to enable it to develop alternative business streams, and (b) an indemnity for the cost of any such redundancies up to a maximum sum of £500,000.

Dr Worswick will be re-appointed as the Government Chemist. Virtually all the staff in the undertaking will transfer to the purchaser.

E. National Weights and Measures Laboratory

In July 1994, the DTI published the report on NWML by the consultants KPMG Peat Marwick announcing that the Laboratory "should remain a next steps agency" within the Department⁴³. In July 1995 the Government announced that an evaluation report on the performance of the Laboratory had been completed and a revised framework document had been prepared^{44,45}.

On 20 December 1995 and again on 16 January 1996, the Government announced that a prior options review of the NWML had begun^{46,47}. The announcement on the 20 December 1995 stated that "bearing in mind the extensive studies carried out leading to the decision in 1994

⁴¹ "Laboratory of the government chemist to be sold to a management-led consortium"

DTI Press Release P/95/791 10 November 1995

⁴² HC Deb 2 April 1996 cc 149-50W

⁴³ HC Deb 21 July 1994 c.533W

⁴⁴ HC Deb 18 July 1995 c.1209-1210W

⁴⁵ Deposited paper Dep/3 2030

⁴⁶ HC Deb 20 December 1995 c.1264W

⁴⁷ HC Deb 16 January 1996 cc 496-7W

Research Paper 96/19

that NWML should remain an executive agency... the forthcoming review is likely to draw extensively on this material and a particular emphasis of the review will be on the relationship with other public sector research establishments". The Department called for comments on the review by 16 February 1996.

On 22 May 1996, the Government announced that it had "accepted the review team's recommendations that NWML should remain an executive agency of DTI" making the following comments⁴⁸:

In reaching this decision the Government took into account the advantages of the maintaining the existing integration between NWML's technical and policy functions, for which support has been received from industry.

⁴⁸ HC Deb 22 May 1996 cc 270-1W

Science and Technology

Recent Research Papers on related subjects include:

Research Paper

95/103	Transfer of the OST to the DTI and UK science policy	18.10.95
94/19	Reorganisation of the Science Research Councils	01.02.94
93/94	Forthcoming Science and Technology White Paper	19.03.93