

**The prior options reviews of public sector research establishments : fifth report / Science and Technology Committee.**

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SCIENCE AND TECHNOLOGY  
COMMITTEE

Fifth Report

**THE PRIOR OPTIONS REVIEWS OF PUBLIC SECTOR  
RESEARCH ESTABLISHMENTS**

Report and Appendices together with the  
Proceedings of the Committee

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*Ordered by The House of Commons to be printed  
17th July 1996*

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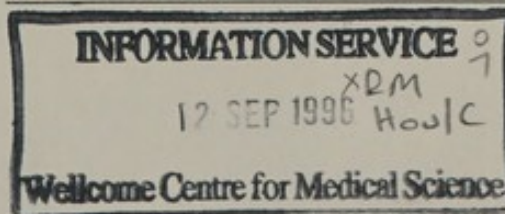
# SCIENCE AND TECHNOLOGY COMMITTEE

## Fifth Report

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The Science and Technology Committee is appointed under Standing Order No 130 to examine the expenditure, administration and policy of the Office of Science and Technology and associated public bodies.

The Committee consists of 11 Members. It has a quorum of three.

The Committee has power:

- (a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;
- (b) to appoint specialist advisers either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference;
- (c) to communicate to any other such committee and to the Committee of Public Accounts and to the Deregulation Committee its evidence and any other documents relating to matters of common interest; and
- (d) to meet concurrently with any other such committee for the purposes of deliberating, taking evidence, or considering draft reports.

Unless the House otherwise orders, all Members nominated to the Committee continue to be members of it for the remainder of the Parliament.

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The following were nominated Members of the Committee on 13 July 1992:

Mr Spencer Batiste  
Dr Jeremy Bray  
Mr Malcolm Bruce  
Mrs Anne Campbell  
Cheryl Gillan  
Mr William Powell

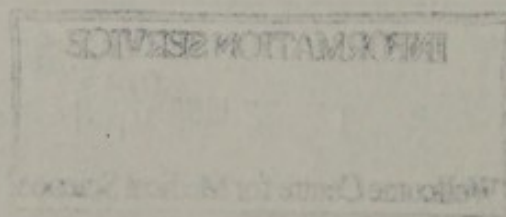
Sir Giles Shaw  
Sir Trevor Skeet  
Dr Gavin Strang  
Sir Gerard Vaughan  
Dr Alan W Williams

Sir Giles Shaw was elected Chairman on 15 July 1992.

On 9 November 1992 Mr Malcolm Bruce was discharged and Mr Andrew Miller added to the Committee.

On 16 November 1992 Dr Gavin Strang was discharged and Dr Lynne Jones added to the Committee.

On 7th November 1995 Cheryl Gillan and Mr William Powell were discharged and Mr Ian Bruce and Mr Patrick Thompson were added to the Committee.



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# FIFTH REPORT

## THE PRIOR OPTIONS REVIEWS OF PUBLIC SECTOR RESEARCH ESTABLISHMENTS

The Science and Technology Committee has agreed to the following Report:

1. In 1994 the Government conducted a Multi-Departmental Scrutiny of Public Sector Research Establishments. This Scrutiny attracted a great deal of attention and the Committee reported on its conclusions in its First Report of Session 1995-95.<sup>1</sup> The Committee had a number of concerns about the Scrutiny's conduct and its recommendations for rationalisation. The most significant were that:

- privatisations should be supported only if they did not lead to a reduction in the country's knowledge base;
- repeated reviews could adversely affect the efficiency of Government Research establishments and the morale of their staff;
- the Scrutiny Team had failed to appreciate the distinction between Research Council Institutes and other Government Research Establishments; such institutes were part of the means by which Research Councils fulfilled their missions, and should be considered in this context.

2. In its Response to the Scrutiny<sup>2</sup> the Government announced that none of the radical recommendations would be implemented. Instead, the "prior options process" would be adapted and extended to cover all public sector research establishments, including Research Council establishments.<sup>3</sup> The reviews were to be conducted in three tranches. The first announcements about the future of twelve of the seventeen establishments in the first tranche were made on 22nd May 1996.<sup>4</sup>

3. The Committee has been concerned about the course of these Reviews and has written to the Minister on two occasions. Copies of this correspondence are printed as an Annex to this Report. The Minister has now supplied us with memoranda setting out the reasons for the decisions on those establishments about which announcements have been made.<sup>5</sup> The information these contain goes some way to reduce our anxiety about many of the organisations reviewed but, in our opinion, the Department has not dealt directly with our concerns about the Research Council Institutes, in this instance the four Biotechnology and

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<sup>1</sup>*Efficiency Unit Scrutiny of Public Sector Research Establishments*, HC19.

<sup>2</sup>*Public Sector research Establishments: Government response to the Multi-Departmental Scrutiny of Public Sector Research Establishments*, Cm 2991.

<sup>3</sup>Cm 2991, p6.

<sup>4</sup>The Central Laboratory for the Research Councils is to remain in public ownership; the MAFF Directorate of Fisheries Research, the Scottish Office's Fisheries Research Services, the Forestry Commission Research Division and the National Weights and Measures Laboratory are to become Next Steps Agencies; the Scottish Agricultural Science Agency is to remain in public ownership but 'the possibility of closer alignment with other related establishments in Scotland should be considered.' It was announced that the Scottish Crop Research Institute and the Macaulay Land Use Research Institute should retain their separate existence but that 'the possibility of a move from the public sector to the private sector merits further consideration.' The President of the Board of Trade concluded that the four BBSRC Institutes, the Institute of Arable Crops Research, the Institute of Grassland and Environment Research, the John Innes Centre and the Silsoe Research Institute should also retain their separate existences but that 'full independence from the public sector ... would be a desirable option.' Sir Peter Levene is conducting further work on the possibility of transferring these six institutes from the public sector.

<sup>5</sup>All have already been placed in the Library by the DTI; the Memorandum dealing with the BBSRC Institutes is printed with this Report.



Biological Science Research Council Institutes dealt with in the first tranche of reviews. The memorandum we received states:

"review teams had ... identified concerns about the potential for mission drift, which could lead to unwelcome duplication of expertise and facilities, a short-term culture that would conflict with the goals of the 1993 science and technology White Paper, "Realising our Potential"; and the loss of a strategic approach to capital investment in national facilities. They had further identified feasibility obstacles, largely relating to the cost of transferring superannuation and contingent redundancy liabilities. The review teams indicated that major changes in the management structure would be likely to incur significant costs without producing concomitant improvements. They did not favour sale of the Institutes or transfer to universities.

22. The Steering Committee noted that removing Research Council involvement in the affairs of the BBSRC Institutes would achieve a complete separation of funding and ownership and should be considered further. The Institutes would be free to make their own management and investment decisions. More substantive co-ordination between the principal public customers for research, who would continue to fund the majority of the work, should guard against the risk of mission drift. But there remained some concerns about the viability of independent Institutes, in particular, the impact on the science and engineering base if they were unable or unwilling to reinvest in sometimes unique national facilities.

23. On balance, the Steering Committee concluded that giving the Institutes their full independence was appropriate but that further work should be done on both the process and implications of such a change."

4. In his letter the Minister makes clear that Sir Peter Levene's work will be primarily concerned with the issues which prevent the institutes attaining full independence from the public sector, such as the transfer of staff-related liabilities from the public sector to the Governing Bodies of the Institutes, rather than looking at the wider implications of the change. **We consider that the Department's policy on this matter is far from satisfactory. We report now to draw the attention of the House to this before the debate on Science Policy on Friday 19th July. We are likely to return to this issue in the next session.**

## ANNEX

**CORRESPONDENCE BETWEEN THE CHAIRMAN OF THE COMMITTEE AND  
THE MINISTER FOR SCIENCE**

## LETTER TO IAN TAYLOR MBE MP FROM SIR GILES SHAW MP

7 May 1996

I am writing to ask for information about the Prior Options Reviews of public sector research establishments currently taking place. The Science and Technology Committee would be grateful for an early sight of the reports, as and when they become available. In the interim, I would be grateful if you could provide us with a summary of the Government's approach to this. It would be particularly helpful to know the extent to which the Prior Options Reviews cover the same ground as the Efficiency Scrutiny carried out in 1994 and how much of the Review team's work focuses on issues identified in that Scrutiny, and how much on new issues.

In addition, I would be grateful for an indication of:

- the extent to which Steering Groups are able to revise Review Teams' recommendations;
- the mechanisms for ensuring the consistency of decisions taken on groups of institutions dealt with in different periods (when this is appropriate);
- whether there is likely to be an opportunity for consultation on the Steering Committees' recommendations; and
- the likely timescale for putting those recommendations into practice.

## LETTER TO IAN TAYLOR MBE MP FROM SIR GILES SHAW MP

6 June 1996

As we discussed, I am writing on behalf of the Science and Technology Committee to ask for some more information on the implications of recent announcements for the Prior Options Reviews which are currently taking place, or which are to be held later this year. The Committee has become concerned about effects of the process. We would be grateful if the Office of Science and Technology could provide a memorandum setting out:

- the terms of reference of Sir Peter Levene's review, and the timescale on which it is expected to operate;
- when decisions are expected on the establishments which have already been reviewed, but were not mentioned in the announcement of 22 May;
- the OST's role, and in particular the role of the Chief Scientific Adviser in the Prior Options process.

## LETTER TO SIR GILES SHAW MP FROM IAN TAYLOR MBE MP

18 June 1996

Thank you for your letters of 7 May and 6 June. I very much appreciate the close interest that you and other Members of the Select Committee have maintained in the prior options reviews of public sector research establishments.

Your first letter raised important issues about the publication of information. I am sorry that I have not been able to respond before. As you will appreciate, the issues are of relevance to all the Government departments which commissioned and conducted the reviews, and we have discussed with them the points you raised.

You asked for clarification of the Government's plans for handling the review reports. As you know, the prior options reviews involve a rigorous examination of the need for the functions of the research establishments, and of the scope for improving their delivery through, amongst other things, the involvement of the private sector, universities or other research establishments. The review reports take the form of advice to Ministers and, as such, are not normally published. You will appreciate that the reports often contain commercially sensitive information which is not appropriate for publication.

However, we are concerned to set out as fully as possible the rationale for the decisions which have been taken regarding the establishments. Departments will be producing memoranda to this end, with supporting evidence as appropriate drawn from the reviews. The departments concerned are currently producing memoranda to cover the announcements made on 22 May; I hope to let you have these within the next few weeks.

You asked to what extent the reviews cover the same ground as the earlier efficiency scrutiny of research establishments. The scrutiny, which was conducted by a small team under the auspices of the Cabinet Office Efficiency Unit, was intended to look across research establishments in Government departments and Research Councils, and, as far as possible, to draw general conclusions.

The prior options reviews, on the other hand, are being conducted by the parent or sponsoring department or Research Council in each case, and look in greater detail at the functions of the establishments. We placed a copy of the guidelines for the reviews in the library of the House on 26 January, so that all could be clear as to the terms of reference of the reviews.

Let me make clear, as I did during the debate on the reviews in the House on 11 June (Hansard cols 212 and 213), that I do not accept that the prior options process means that privatisation is a preordained result. But it is important to recognise that research is a continuing process where both conditions and objectives change and, at times, the relationships between research bodies may also need to change. The prior options process offers a means of assessing this by looking in detail at the complex role and nature of individual establishments. Equally, if the outcome of any review is a recommendation to privatise, I do not accept that this is to the detriment of the science involved. As I am sure you will agree, research is not compromised if it is undertaken in the private sector any more than if it were undertaken in the public sector.

The guidelines also make clear that the role of the steering committees for the review is to ensure that a cross-public sector dimension is taken into account as each review progresses, and to ensure that the reviews are thorough, objective and searching. The steering committees produce reports for collective Ministerial consideration covering the outcome of each individual review in a broad subject area, and commenting upon the scope for privatisation and for making more efficient use of resources across the establishments in the field.

The Office of Public Service, the Office of Science and Technology and HM Treasury, which are represented on all the steering committees, have a particular responsibility to ensure consistency across reviews throughout the current programme.

You asked about the scope for consultation on the recommendations of the steering committees. As you know, each prior options review includes an opportunity for all those with an interest in the work of a particular establishment to make their views known. These views are taken fully into account by the review teams and the steering committees in reaching their conclusions. I am concerned that embarking on a further round of consultation before decisions are taken would only serve to prolong unnecessarily the uncertainty of the review process for the staff and customers of the establishments.

The outcome of each review, including the likely timescale for any changes, will be announced as soon as possible once Ministers have reached conclusions, and the memoranda referred to above will be produced.

Your second letter asked for a memorandum covering a number of issues arising from the announcements of 22 May; this is attached.<sup>6</sup>

I hope that this answers satisfactorily your questions.

#### LETTER TO IAN TAYLOR MBE MP FROM SIR GILES SHAW MP

27 June 1996

I am writing on behalf of the Select Committee on Science and Technology to express our concern about the Prior Options Reviews of Government Research Establishments currently taking place.

As you are aware, the Committee reported on the Efficiency Unit Scrutiny of Public Sector Research Establishments which preceded these prior options reviews. Our opinions have not changed from those set out in that Report:

- we believe that privatisations should be supported only if they do not lead to a reduction in the country's knowledge base;
- we are concerned about the effects of repeated reviews on the efficiency of Government Research establishments and the morale of their staff;
- we believe that Research Council Institutes are part of the means by which Research Councils fulfil their missions, and should be considered in this context.

We have written to you twice before to seek information about the Reviews; I am afraid that the announcements made so far and your replies to us have not allayed our concern.

Our general concern is about the lack of information available. In the past the process has been open; the guidelines for the Reviews were deposited in the Library and the Office of Science and Technology has been commendably ready to discuss the process with the scientific community, for example, at the meeting arranged by the Royal Society. It is now difficult even for Parliament to discover what is being considered. Disappointingly little information was given in the recent debate on Prior Options and it is clear from your reply

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<sup>6</sup>See p.xi.

to my first letter that information about the reasons for changing an institution's status will be provided only once decisions have been made. In your letter, you make it clear that "each prior options review includes an opportunity for all those with an interest in the work of a particular establishment to make their views known" but those with an interest in the health of the science base as a whole will have no opportunity to discuss the merits or demerits of the proposals.

There are a number of more specific points. First of all we are concerned about the institutes which will be given "full independence from the public sector, with the greater freedom that this will provide." It is unclear, in practice, what this will entail, and this uncertainty, together with the further reviews by Sir Peter Levene, must sap morale still further.

We are forced to comment on the basis of hypothesis and rumour, but it must be likely that such institutes would receive some guarantee of funding from their present parent body; in many cases this will be a Research Council. If they receive guarantees of funding for a longer period than they do at present there will be a danger that the change of ownership will mean that the Research Councils' freedom to change their research priorities or pattern of spending will be constrained. If they are forced to operate without secure funding there may be a danger that the Institutes' scientific quality and long term missions will be compromised by the need to seek short term funds.

The transfer of institutions to the private sector would involve some cost in the crystallisation of pension entitlements, and maybe even in redundancy payments. We would not oppose a reasonable transfer on these grounds, but we stress that, in our opinion, the decisions taken as a result of the Prior Options process should not lead to a reduction in the amount of the Science Budget available for research.

Your Memorandum tells us that "Sir Peter Levene's work is expected to be completed within a matter of weeks, rather than months". At some point we will consider publishing this correspondence in a Report to the House. We would prefer to do this when the results of Sir Peter's work are known.

LETTER TO SIR GILES SHAW FROM IAN TAYLOR MBE MP

15 July 1996

Thank you for your letter of 27 June, regarding the Prior Options Reviews of Government Research Establishments which are currently taking place.

I appreciate the Committee's concerns about the prior options process. We have tried, wherever possible, to allay any concerns that you or others may have by conducting this process in as open a manner as possible. As you know, the Government's response to the efficiency scrutiny of public sector research establishments, which launched the review process, was preceded by a four month period of public consultation, during which we received comments from more than 150 individuals and organisations. The decision making process within Government benefited greatly from these contributions, and particularly from the report of the Select Committee, and that of the Science and Technology Select Committee in the House of Lords.

As you mention, we have published the guidelines for the reviews, so that all of those with an interest can be clear about the issues under consideration. For each review, interested parties have been invited to comment to the review teams. We have also committed ourselves to publishing memorandum setting out the rationale underlying announcements on individual

establishments. Ian Lang is writing to you with memoranda relating to the announcements of 22 May.<sup>7</sup>

However, I must repeat that I am concerned that to embark upon a further round of consultation at this stage would unnecessarily prolong the uncertainty for the staff and customers of the establishments.

More generally, we have welcomed and sought to engage with debate in various fora that have been proposed by the scientific community and by Parliament. I myself had a very useful exchange at the Institution of Professionals, Managers and Specialists Conference on 17 April; and Sir Robert May and other officials from OST engaged in the Royal Society's valuable discussion meeting on 26 March.

I am sorry that the Select Committee was disappointed by the amount of information made available during the debate on 11 June. You will understand that in a wide ranging debate there was only limited scope to cover individual establishments in detail. Nevertheless, I hope that I made it clear that the Government values these establishments and the work that they do. I hope that I also made clear that this is not a dogma-driven exercise, but one to establish the most effective method of operation for these establishments.

You raised a number of specific points, particularly relating to the work that Sir Peter Levene is currently carrying out and the implications for the four BBSRC plant science institutes. If I can clarify Sir Peter's role, he is not undertaking a further review of these institutes. As Ian Lang announced on 22 May, the Government has concluded that full independence from the public sector is a desirable option which merits further consideration. However, the reviews of these establishments identified a number of problems in achieving this, including the transfer of staff-related liabilities from the public sector to the Governing Bodies of the institutes. It is principally these issues that Sir Peter is examining.

I share the Committee's view that any move of the institutes to full independence should not lead to a reduction in the amount of the Science Budget available for research. There is no reason why it should, nor is there any reason why full independence should undermine the country's knowledge base. Institutes would still be able to compete for research funding from the BBSRC, while the Council would remain responsible, as now, for sustaining the science base within its area of responsibility. The Council's freedom to fulfil this mission is currently constrained because of its responsibilities, as owner of institutes, for assets and staff. Freed of these constraints, BBSRC would be able to make decisions on funding purely on the basis of the best way of meeting long-term national needs.

## APPENDICES

### MEMORANDUM FROM THE OFFICE OF SCIENCE AND TECHNOLOGY

The President of the Board of Trade, Mr Ian Lang, announced on 22 May the outcome of the prior options reviews of the Biotechnology and Biological Science Research Council agriculture and plant science institutes: the Institute of Arable Crops Research, the Institute of Grassland and Environmental Research, the John Innes Centre and the Silsoe Research Institute.

Ministers had concluded that the functions of these institutes were needed and that they should retain their separate existence, and that full independence from the public sector, with the

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<sup>7</sup>Also deposited in the Library.

greater freedom this will provide the Institutes to direct their own affairs, would be a desirable option which merits further consideration. This would be the subject of further work led by the Prime Minister's adviser on efficiency, Sir Peter Levene.

The Secretary of State for Scotland, Mr Michael Forsyth, made an announcement on the same day and in similar terms regarding the Scottish Crop Research Institute and the Macaulay Land Use Research Institute.

The terms of reference of Sir Peter Levene's committee are to give further consideration to the practicalities of extending the scope for private sector involvement in the operation of research establishments. The membership of his committee is drawn from 'central' departments: the Office of Public Service, the Office of Science and Technology and HM Treasury, and departments which have ownership and sponsorship responsibilities.

Sir Peter Levene's work is expected to be completed within a matter of weeks, rather than months. Ministers should, therefore, be in a position to consider shortly the advice of Sir Peter's committee. Once Ministers have reached a decision on the remaining establishments in the first tranche of reviews, announcements will be made as soon as possible.

The Office of Science and Technology is responsible for overseeing the follow-up to the efficiency scrutiny of research establishments, including the current programme of reviews, and for ensuring that cross-public sector coordination on science, engineering and technology matters is effective. OST officials sit on the steering committees for each of the groups of establishments.

The Chief Scientific Adviser, Sir Robert May, attends the Ministerial committee which considers the results of the prior options reviews, and is a member of Sir Peter Levene's official committee.

#### MEMORANDUM BY THE DEPARTMENT OF TRADE AND INDUSTRY

### **Prior Options Reviews of The Institute of Arable Crops Research, The Institute of Grassland and Environmental Research, The John Innes Centre and The Silsoe Research Institute**

#### **Introduction**

1. On 22 May 1996 the President of the Board of Trade, the Rt Hon Ian Lang MP, announced the outcome of the prior options reviews of the Institute of Arable Crops Research, the Institute of Grassland and Environmental Research, the John Innes Centre and the Silsoe Research Institute. In response to a Parliamentary Question from David Wilshire MP, he said:

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

"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."

2. This memorandum sets out the background to this decision.

### **The Functions of the Institutes**

#### *(i) The Institute of Arable Crops Research (IACR)*

3. The present Institute was established following a substantial review, using prior options principles, by the Agricultural and Food Research Council in 1985 and a subsequent major and costly restructuring programme which resulted in the closure of Council's Weed Research Organisation and Letcombe Laboratory and the transfer of some staff to IACR.

4. IACR occupies three sites - the Rothamsted Experimental Station (Harpenden), Long Ashton Research Station (near Bristol) and Broom's Barn (Higham). Rothamsted is a company limited by guarantee and a registered charity. None of the sites is owned by BBSRC. Both Rothamsted and Broom's Barn are owned by the Lawes Agricultural Trust Ltd. Long Ashton is a Department of the University of Bristol and its freehold is owned by the University.

5. The programme of research and training at IACR covers biological and related sciences which are integrated with the aim of optimising crop production systems and their interaction with the environment. Total income in 1995-96 was £23.8 million. BBSRC employs around 560 staff at Rothamsted and Broom's Barn. The University of Bristol employs around 230 staff at Long Ashton, under terms and conditions laid down by BBSRC.

#### *(ii) The Institute of Grassland and Environmental Research (IGER)*

6. IGER is a company limited by guarantee and a registered charity. The Institute has associate status with the University College of Wales, Aberystwyth. The programme of research and training covers basic, strategic and applied scientific research from the molecular level to systems in the field, with emphasis on grassland-related and low-input agriculture and the environment. It is concerned with management, manipulation, utilisation and environmental impact, with emphasis on adaptation to changing climatic, economic and sociological influences. Total income in 1995-96 is estimated to be £12.4 million.

7. BBSRC employs around 400 staff in IGER, including some 250 research scientists. IGER currently occupies four sites - the Aberystwyth Research Centre, North Wyke Research Station (Okehampton), Bronydd Mawr Research Station (Brecon) and Trawsgoed Research Farm (near Aberystwyth). The Governing Body of the Institute owns the assets and the leases of three of the sites it occupies.

#### *(iii) The John Innes Centre (JIC)*

8. JIC is an independent company limited by guarantee with its own Governing Council. It is also a registered charity. The Centre is located at Norwich on a site leased from the John Innes Foundation (JIF), an independent charity, which also owns all the assets of the Institute.

9. JIC is dedicated to research in plant and microbial science, the dissemination of the results of research and the training of research scientists to benefit fundamental scientific knowledge, agriculture, horticulture and biotechnology worldwide. Total income in 1995-96 is estimated to be £15.2 million. JIC employs around 440 staff under terms and conditions



of employment laid down by BBSRC, including some 300 research scientists, and it is host for a further 180 visitors and students.

(iv) *The Silsoe Research Institute (SRI)*

10. SRI occupies a single site at Wrest Park (near Bedford) part of which is leased from English Heritage and part from BBSRC. It is a company limited by guarantee and a registered charity.

11. The programme of research and training at SRI covers basic and strategic research in engineering and physical sciences for the agricultural, food and biology based industries.

12. Total income in 1995-96 was £8.7 million. BBSRC employs around 250 staff at SRI.

*Methodology of the Prior Options Reviews*

13. The prior options reviews of the four BBSRC Institutes were carried out as part of the wider programme of reviews of Public Sector Research Establishments, the timetable and guidelines for which were announced by the President of the Board of Trade on 26 January 1996.

14. Each review was conducted between November 1995 and March 1996 by a review team led by BBSRC which included an independent member. The review teams, together with those covering seven other establishments in related areas, consulted extensively with users and beneficiaries and reported to an Agriculture and Plant Science Prior Options Steering Committee.

15. The Steering Committee reviewed the findings of all the review teams (covering BBSRC, MAFF and Scottish Office establishments) and satisfied itself that each review had been conducted in accordance with the guidelines provided.

16. The reviews addressed five key questions:

Are the Institutes' functions needed? Must the public sector be responsible for the functions? Must the public sector provide the functions itself? What is the scope for rationalisation? How should the function be managed?

**Basis for Conclusions**

17. In reaching the conclusions announced by the President of the Board of Trade on 22 May, Ministers had regard to the advice of the Steering Committee on the findings of the review teams.

18. The Steering Committee concluded that the functions of the BBSRC Institutes were required and that there was a case for them to receive continuing public funding. They also concluded that there were no further opportunities for rationalisation. They noted that BBSRC and its predecessor Council had carried out extensive rationalisation since 1985. Like the 1994 Efficiency Scrutiny, the individual reviews had found no evidence of duplication of programmes.

19. The Steering Committee noted that all the Institutes were constituted as distinct legal entities. The majority of the assets are already owned by the Institutes themselves, which are to that extent already operating independently. However, the Institutes are regulated by

BBSRC, which carries contingent liability for staffing, and are therefore subject to public sector financial controls.

20. The Steering Committee noted that review teams had identified advantages for Institutes of achieving full independence. These included access to new sources of research funding and capital funding from private sources via new borrowing powers.

21. However, review teams had also identified concerns about the potential for mission drift, which could lead to unwelcome duplication of expertise and facilities, a short-term culture that would conflict with the goals of the 1993 science and technology White Paper, "Realising our Potential"; and the loss of a strategic approach to capital investment in national facilities. They had further identified feasibility obstacles, largely relating to the cost of transferring superannuation and contingent redundancy liabilities. The review teams indicated that major changes in the management structure would be likely to incur significant costs without producing concomitant improvements. They did not favour sale of the Institutes or transfer to universities.

22. The Steering Committee noted that removing Research Council involvement in the affairs of the BBSRC Institutes would achieve a complete separation of funding and ownership and should be considered further. The Institutes would be free to make their own management and investment decisions. More substantive co-ordination between the principal public customers for research, who would continue to fund the majority of the work, should guard against the risk of mission drift. But there remained some concerns about the viability of independent Institutes, in particular, the impact on the science and engineering base if they were unable or unwilling to reinvest in sometimes unique national facilities.

23. On balance, the Steering Committee concluded that giving the Institutes their full independence was appropriate but that further work should be done on both the process and implications of such a change. The Steering Committee noted considerable financial obstacles. Privatisation of the BBSRC Institutes could incur pension transfer costs of up to £72.5 million in the limiting case where all accrued benefits were crystallised. In addition, contingent staff liabilities could total up to £64 million. Viewed globally and long-term, the costs of crystallising accrued pension benefits and of changing pension schemes are largely matters of cash flow but the cost penalty of changing from pay-as-you-go to funded schemes, though diminishing year-on-year, could take 25 years to be completely eliminated.

24. The Steering Committee identified as a main issue for Ministerial consideration whether more work should be commissioned on feasibility aspects of making the BBSRC Institutes fully independent; in particular, whether the estimated financial costs of pension transfers and contingent redundancy liabilities made this option feasible.

25. Ministers accepted the Steering Committee's advice and this was reflected in the President of the Board of Trade's announcement of 22 May.

PROCEEDINGS OF THE COMMITTEE  
RELATING TO THE REPORT

WEDNESDAY, 17 JULY 1996

Members present:

Sir Giles Shaw, in the Chair

Mr Spencer Batiste  
Dr Jeremy Bray  
Mr Ian BruceMrs Anne Campbell  
Sir Trevor Skeet  
Dr Alan W Williams

The Committee deliberated.

Draft Report (The Prior Options Reviews of Public Sector Research Establishments), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 4 read and agreed to.

Annex agreed to.

*Ordered*, That two Papers (Memoranda from the Office of Science and Technology and the Department of Trade and Industry) be appended to the Report.

*Resolved*, That the Report be the Fifth Report of the Committee to the House.

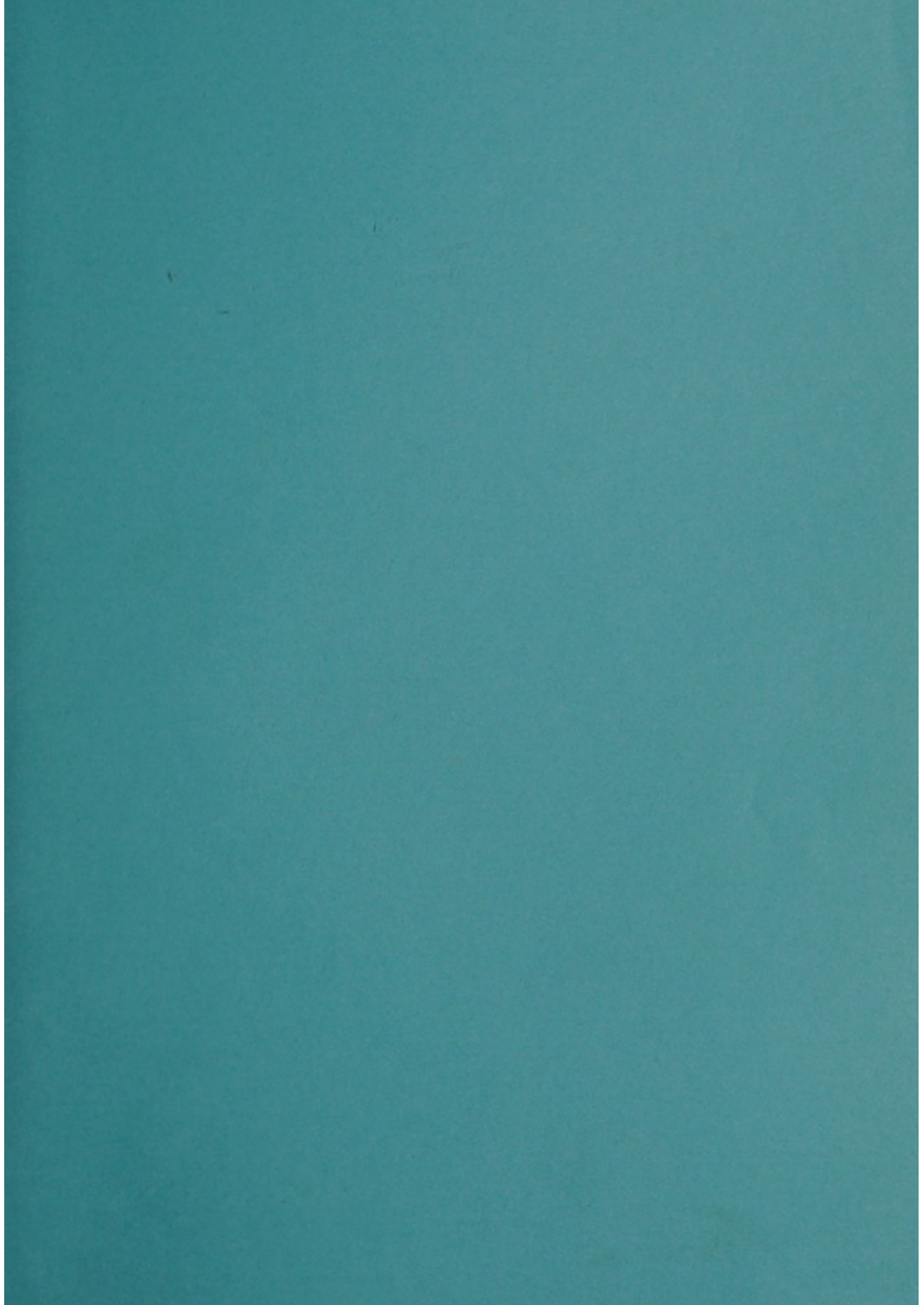
*Ordered*, That the Chairman do make the Report to the House.

[Adjourned till Wednesday 24th July at Four o'clock.]

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