

Dyson, R&D tax credits and Government procurement

For many years I have been arguing that Government policies on innovation since 2005 have lost their way and failed to recognise how industry creates wealth. At last, we are beginning to see more prominent voices supporting the policy ideas I have been advocating to stimulate wealth creation through innovation. In his recent report, 'Ingenious Britain', James Dyson has put forward in simple terms some hard hitting actions based on his own highly successful business creation experience. There are two particular areas in his report which caught my eye – R&D tax credits and Government procurement.

On R&D tax credits Dyson says, *“The implementation of the R&D tax credit has been lacklustre. It has been characterised by complex eligibility criteria, constantly changing rules and a profound lack of understanding of how research and development occurs in companies.”* He suggests a refocus to emphasise the small company R&D tax credit scheme. This is exactly what I advocated in my article in August 2008 on this topic:

“In fact if you look at the actual support claimed by SMEs it has fallen from £210 million in 2002-03 to £180million in 2005-06 (the latest published figures). By contrast, the amount claimed by large companies has risen from £180 million in 2002-03 to £420 million in 2005-06. Large companies are obviously getting better at claiming the tax credit because during this time actual company spend on R&D did not increase at all. What all this shows is that the R&D tax credit scheme is a mess and is not helping the small innovative companies who will fuel future growth in the economy. The small company R&D tax credit has been helpful (particularly the benefit to claim cash back) but it has clearly peaked and new initiatives are required to help small businesses.”

On Government procurement, Dyson recognizes the failure of the SBRI programme due to lack of a defined budget and very limited participation by Government. Again this is exactly the point have made in my article in October last year.

“Bizarrely, in the 2008 Annual Innovation Report, SBRI is highlighted as one of the main actions to improve innovation in public procurement. However, SBRI spend represents only 0.13% of the Public Procurement spend. Shouldn't BIS be focusing on the really big innovation opportunities in the £150 billion procurement spend? There is one obvious place to start. Last year, the government asked DeAnne Julius to examine how government should treat what it defined as the 'public services industry'. This was an inspired review. The whole public services industry across all sectors represents about 6 per cent of GDP, or £80 billion. This presents huge opportunities for government and business to cooperate, use technology to achieve efficiencies and promote economic growth after the recession. We were promised a response to this review in Autumn 2008 – so far nothing has appeared.”

Subsequent to some recent correspondence with Lord Mandelson, there have been two half hearted references to the Julius recommendations in BIS publications saying that action will be taken. Lord Mandelson wrote to me recently promising that there would be a more detailed announcement on this in the March 2010 Budget – I should hope so nearly two years after the DeAnne Julius report. Dyson supports the Conservative idea that 25% of all Government procurement should be with SMEs. While this is a bold target it has a sound basis since there is now a huge groundswell in the emergence of 'micro manufacturing' businesses enabled by low cost design software and mass customization methods of manufacture. The UK needs to grab hold of this emerging trend and certainly imaginative Government procurement would be a rapid way to do this. It will need innovative thinkers at the heart of Government to achieve this though.

Dr David Hughes FREng, CDir