

House of Commons  
Committee of Public Accounts

**DELIVERING THE  
COMMERCIALISATION  
OF PUBLIC SECTOR  
SCIENCE**

Fifty-ninth Report of Session 2001–02



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COMMERCIALISATION  
OF PUBLIC SECTOR  
SCIENCE**

Fifty-ninth Report of Session 2001–02

*Report, together with  
Proceedings of the Committee,  
Minutes of Evidence and an Appendix*

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## Committee of Public Accounts

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### Footnotes

In the footnotes of this Report, references to oral evidence are indicated by ‘Q’ followed by the question number; references to the written evidence are indicated by the page number as in ‘Ev .....’.

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### EVIDENCE (*Monday 11 March 2002*) (HC 689-i, Session 2001–02)

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Mr Robin Young, Permanent Secretary, Department of Trade and Industry; Mr John Taylor OBE, Director General of the Research Councils, Office of Science and Technology, Department of Trade and Industry; Professor Julia Goodfellow CBE, Chief Executive, Biotechnology and Biological Sciences Research Council; Professor Sir George Radda CBE, Chief Executive, Medical Research Council; and Professor John Lawton CBE, Chief Executive, Natural Environment Research Council .....	Ev 1

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# FIFTY-NINTH REPORT

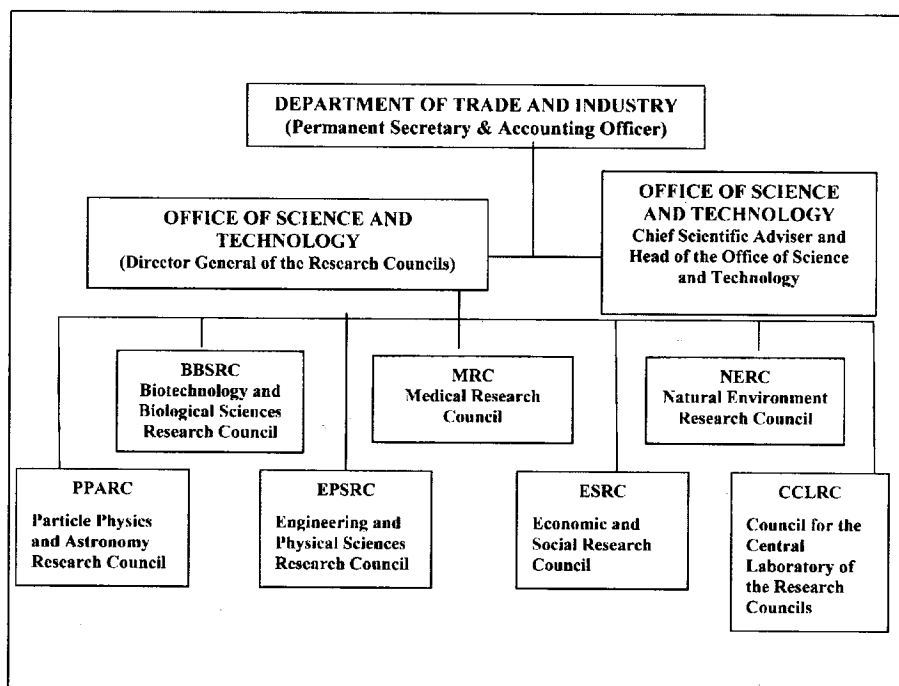
The Committee of Public Accounts has agreed to the following Report:

## DELIVERING THE COMMERCIALISATION OF PUBLIC SECTOR SCIENCE

### INTRODUCTION AND LIST OF CONCLUSIONS AND RECOMMENDATIONS

1. The Department of Trade and Industry spends over £500 million on research and research facilities in 83 Public Sector Research Establishments (“Research Establishments”) through seven Research Councils (Figure 1). The Government is encouraging Research Establishments to increase the application of their research, in co-operation with the private sector, to stimulate greater economic and social benefits for the nation. This “commercialisation” of research is, nevertheless, intended to remain subsidiary to Research Establishments’ core function of conducting research in support of the public interest.<sup>1</sup>

Figure 1: The relationship between the DTI and its Research Establishments



Source: *Department of Trade and Industry*

2. On the basis of a Report by the Comptroller and Auditor General we examined what progress had been made in encouraging the commercialisation of Research Establishments’ output, how the risks and rewards are managed and the monitoring of what is achieved.<sup>2</sup> We underline three main points:

- **Commercialisation should be carried out with regard to propriety and value for money.** The principles described in our predecessor Committee’s Report, *The Proper Conduct of Public Business* still apply.<sup>3</sup> But these need not impede

<sup>1</sup> C&AG’s Report, paras 2–4

<sup>2</sup> C&AG’s Report, *Delivering the Commercialisation of Public Sector Science* (HC 580, Session 2001–02) examined the Biotechnology and Biological Sciences Research Council, the Medical Research Council and the Natural Environment Research Council

<sup>3</sup> 8<sup>th</sup> Report from the Committee of Public Accounts, *The Proper Conduct of Public Business* (HC 154, Session 1993–94)

commercialisation of research provided due care is taken to avoid undermining the Research Councils' core mission and to safeguard public funds.

- Commercial projects, by their nature, will not all be successful. A sound accountability framework will not focus unduly on the failure of individual projects but will take a balanced overall view of success and failure. The so-called portfolio approach, in which performance is looked at across groups of projects, may offer such advantages. There is little sign, however, of opportunities being appraised and risks being managed on a portfolio basis. **The Department and Research Councils should formulate guidelines about the circumstances in which a portfolio approach is relevant and offer guidance on how best to obtain the benefits.**
- Difficulty in identifying meaningful performance measures and establishing baseline information means that the Office of Science and Technology lacks an objective way of assessing progress in commercialisation by Research Establishments. **The Department and Research Councils should seek to make greater use of benchmarks, for example, from the universities or the private sector to allow them to appraise progress on a more informed basis.**

3. Our more specific conclusions and recommendations are as follows:

*On encouraging commercialisation*

- (i) Some Research Council mission statements do not explicitly deal with commercialisation. The Office of Science and Technology should encourage Research Councils to be more specific about their commercialisation objectives.
- (ii) The prospect of financial reward could lead to priorities being distorted or improper action being taken. Changes aimed at promoting commercialisation should not lead to a decline in standards of public stewardship. A robust control framework would be consistent with the following general principles:
  - Incentives to perform must not allow scope for inducements which could act against the public good.
  - The sharing of rewards should be proportional between the Research Establishments themselves, and the teams and individuals who work for them.
  - Staff interests should be aligned with their Research Establishment employer, and Research Establishment interests with their public sector stakeholders.
  - Transparency is best served by benefits that are quantifiable in cash terms and awarded by managers who do not stand to gain personally and who are accountable for managing the risks.
- (iii) At present the Treasury has to be consulted if, at the departmental level, overall net receipts from all commercial activities exceed 5 per cent of that department's gross discretionary spending. It is not compulsory for the Department automatically to apply the same 5 per cent limit to each individual Research Council. The Department should make clear on an individual basis what rules will apply to each Research Council.
- (iv) Scientists believe that involvement in commercialisation activity is often not adequately recognised in staff appraisals and may affect their career adversely

because of a perceived conflict between publishing research results and the confidentiality that commercialisation often requires. The Office of Science and Technology should evaluate evidence from staff appraisal systems and propose changes if appropriate.

- (v) There is considerable demand for commercialisation experts in scientific fields and it can be difficult to retain such staff. Other Research Councils should examine whether the salary arrangements for commercialisation experts employed by the Medical Research Council would be a relevant example for them.

*On managing the risks and rewards of commercialisation*

- (vi) Research Councils vary, for good reasons, in the extent to which they directly support the commercialisation efforts of their Research Establishments. The Department should assess whether different models are equally effective in supporting commercialisation and see that lessons are passed on between public sector bodies.
- (vii) Research Establishments should mitigate the risk of losing the ability to protect know-how when scientists leave for posts elsewhere by identifying and protecting intellectual property at an early stage and the use of confidentiality agreements where appropriate.
- (viii) Research Establishments should not assume that commercialisation will automatically shift product and public liability risk to the private sector. When agreeing commercialisation projects they should protect the public sector's interests and agree arrangements that deal adequately with potential risk to the general public including, for example, the insurance arrangements for product liability.

*On monitoring what commercialisation is achieving*

- (ix) There is insufficient evidence on the progress of commercialisation from which to conclude how well Research Establishments are doing. The Office of Science and Technology should require the Research Councils to set broad objectives for commercialisation. Operational targets should then be set by the Research Establishments themselves after annual appraisal of the scope of their research to assess its potential and outcomes compared with targets.
- (x) The development of a clear framework of responsibilities, targets and evaluation criteria which offers the right incentives, is kept up to date, and is open to external validation is likely to lead to improved commercialisation performance. The range of existing performance indicators should be supplemented, for example, by measures of financial performance and linked to relevant external benchmarks.
- (xi) More of the members of Research Councils should be drawn from outside the potentially narrow circles of public sector science and the business community that uses their research. For such external members to make a significant impact, their role should go beyond attendance at Research Council meetings so as to provide challenge and external scrutiny, for example by taking lead roles in remuneration and audit committees.

ENCOURAGING COMMERCIALISATION

4. Although the United Kingdom has a strong research record, it is widely considered to have been less successful in capturing the economic benefits of scientific advances. The

Government has therefore placed emphasis on potential improvements to the competitiveness and growth of the UK economy from more effective commercialisation of research, without compromising the commitment to scientific excellence. Although the focus is on these wider benefits the Government has also emphasised the need for the public sector to obtain the maximum financial return consistent with securing the benefits.<sup>4</sup>

5. All Research Establishments have some scope for commercialisation, depending on factors such as the nature of the science pursued and the level of demand from the market sector in which they operate. We took evidence from three Research Councils covering the majority of the Research Establishments. The Biotechnology and Biological Sciences Research Council sponsors eight large institutes covering agriculture, bioprocessing, chemical, animal healthcare, pharmaceutical and other related industries. The Medical Research Council covers a wide range of research fields relating to human healthcare through some 40 units. The Natural Environment Research Council covers terrestrial, marine and freshwater biology and atmospheric, hydrological, oceanographic and polar sciences and Earth observation and environmental monitoring.

6. In 1999 the Government commissioned the Baker Report<sup>5</sup> to help stimulate commercialisation by Research Establishments whose performance, in many cases, was thought to lag behind the university sector. This report recommended that all government purchasers of public sector research should have, as part of their research mission, the explicit objective of transferring research outputs to the wider economy. In its response to this report in November 1999 the Government said that this proposal would be addressed. Only one of the three Research Councils examined by the National Audit Office, however, recognised commercialisation explicitly in its mission statement.<sup>6</sup>

7. The Government also changed civil service conduct rules, as a result of recommendations in the Baker Report, to allow government scientists to benefit from new incentives and rewards for commercialisation activity. Until then the view was that any benefits from commercialisation activity belonged to the public sector because government scientists had already been paid, through their salaries, for carrying out the activity. The Office of Science and Technology published guidance on the management of conflicts of interest at the same time.<sup>7</sup>

8. The prospect of financial reward for commercialisation may on occasion lead to a distortion of priorities. The Department of Trade and Industry believes that in most cases commercialisation supports and complements the core scientific role of a research establishment. A key component of the Office of Science and Technology's assessment of Research Councils' progress is how commercialisation is being used to support rather than detract from the core mission, and whether research priorities are still being driven by the public good.<sup>8</sup>

9. The prospect of personal financial gain also opens up the risk of decisions being taken at the expense of the public sector, for example by individuals transferring intellectual property, improperly, into a private sector company, which they have a stake in. Our predecessors' 1994 Report, *The Proper Conduct of Public Business* was pertinent to changes in public sector management intended to encourage a more entrepreneurial

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<sup>4</sup> C&AG's Report, para 4.1

<sup>5</sup> This report was commissioned by the Treasury and the Department of Trade and Industry from Mr John Baker, then Chairman of Medeva plc, into realising the economic potential of the Research Establishments (published August 1999).

<sup>6</sup> C&AG's Report, para 2.10

<sup>7</sup> *Good Practice for Public Sector Research Establishments on Staff Incentives and the Management of Conflicts of Interest*, Office of Science and Technology, July 2000

<sup>8</sup> Qs 5, 72-79

approach. Our predecessors referred to the importance of a framework of effective systems of control and accountability supported by responsible attitudes.<sup>9</sup>

10. To encourage commercialisation the Government allows Research Councils and their Research Establishments to retain the receipts from commercialisation, which they can share as they see fit, unless income from commercialisation, after costs, exceeds five per cent of a Department's gross discretionary spending. There is a requirement to consult the Treasury on how receipts above this limit should be dealt with, which has not been invoked because receipts at the level of the Department of Trade and Industry have not reached this percentage. A key consideration for the Treasury is that a department's core services do not become dependent on receipts which may be uncertain and irregular. Within this 5 per cent threshold it is for the departments to monitor and control the activities of their agencies and non-departmental public bodies (such as the Research Councils).<sup>10</sup>

11. There is some evidence that scientists consider that inadequate weight is often given to commercialisation in staff appraisals, as compared to more traditional factors such as peer review of the quality of science.<sup>11</sup> An analogous issue has been raised by the Science and Technology Committee, on the status accorded to industrial research outputs by Research Assessment Exercise (RAE) panels. The Committee requested information from the Higher Education Funding Council for England (HEFCE) on the number of patents submitted to Research Assessment Exercise (RAE) panels in each subject area. Though not conclusive, the figures suggested that more patents were submitted by science departments that received low RAE ratings in 2001, leading to a recommendation that HEFCE investigate whether panels have accorded due status to industrial research outputs.<sup>12</sup>

12. Successful commercialisation requires specialist technology transfer expertise, which is in short supply. Public sector salaries may not be competitive enough to attract or retain the necessary staff. The Medical Research Council, which has generated most commercialisation activity believes it has solved its recruitment problems through a flexible pay scheme.<sup>13</sup>

13. A healthy science base is an acknowledged pre-condition for successful commercialisation of science in a competitive international market. The Research Councils told us that they are content that the United Kingdom is competing well internationally in terms of attracting and retaining leading scientists. The Department is championing a co-ordinated approach by the many organisations involved to help maintain the United Kingdom as an attractive base for scientists.<sup>14</sup>

14. The Office of Science and Technology referred to the Roberts Report, *SET for success: The supply of people with science, engineering, technology and mathematics skills*, which was published in April 2002, as part of this co-ordinated approach. It noted that the international nature of the labour market contributed to problems of recruitment and retention. That Report said that UK academics were neither particularly well off nor particularly badly off, with salaries falling between those of French and of German

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<sup>9</sup> 8<sup>th</sup> Report from the Committee of Public Accounts, *The Proper Conduct of Public Business* (HC 154, Session 1993–94)

<sup>10</sup> Qs 48–52, 69–71, 112–123; Ev 23, para 10

<sup>11</sup> Q12; C&AG's Report, para 14

<sup>12</sup> 2<sup>nd</sup> Report from the Science and Technology Committee, *The Research Assessment Exercise* (HC 507, Session 2001–02), para 54

<sup>13</sup> Qs 39–42

<sup>14</sup> Qs 14–17, 22–25, 42–47, 93–94

academics (see Figure 2 below, taken from the Roberts Report). This accorded with the experience of the Research Councils that we examined.<sup>15</sup>

**Figure 2: International comparisons of average academic salary spending power**

Country	Average annual salary Spending power (£)
Canada	58,289
United States	52,300
Finland	42,939
France	33,647
United Kingdom	31,210
Norway	30,511
Australia	28,654
Spain	23,365
Germany	23,005
Japan	15,481

Source: *Underlying data from Education At a Glance 2001 (OECD)<sup>16</sup> and [www.oecd.org](http://www.oecd.org). Japan's low placing in salary terms may be due to reporting total headcount figures rather than full-time equivalents.*

15. We asked about the quality of the British education system and its relevance to preparing the next generation of research scientists. The Research Councils told us that many fields of research are becoming less specialised in qualitative terms and more demanding in quantitative terms and there are signs of an emerging shortage of mathematicians and physicists. The Roberts Report also noted an emerging shortage of mathematicians and physicists, compared to the growing numbers of graduates in biology and computer studies.<sup>17</sup>

16. As part of the 2002 Spending Review the Government is conducting a cross-cutting review of science and research, in part to review current funding mechanisms and levels, and to identify the priorities for resources across the funding streams held by the Office of Science and Technology and the Department for Education and Skills. The Science and Technology Committee recommended in April 2002 that consideration should be given to ring-fencing additional funding for priority areas, including for mathematicians and physicists who are needed to support commercialisation.<sup>18</sup>

<sup>15</sup> Qs 42–45; *SET for Success* (the Roberts Report), table 5.5 International comparisons of the spending power of average UK academic salaries, calculated using a method developed by the National Association of Teachers in Further and Higher Education (NATFHE) based on OECD data which does not, however, distinguish between disciplines or between grades and quality of staff.

<sup>16</sup> The OECD Purchasing Price Index, which takes benefits (which includes pension and other social benefits such as health care), taxes, exchange rates and living costs into account.

<sup>17</sup> Qs 100–106

<sup>18</sup> 2<sup>nd</sup> Report from the Science and Technology Committee *The Research Assessment Exercise* (HC 507, Session 2001–02) paras 43–45

## MANAGING THE RISKS OF COMMERCIALISATION

17. A key commercialisation risk is that scarce resources (scientists' time, funding for protecting intellectual property and to develop market potential and the cost of commercial advice) are used but a project is not successful. Developing a portfolio of related Intellectual Property may help Research Establishments to diversify risk, explore options such as different forms of commercialisation, and possibly increase the number of successful projects. A formal risk management strategy is also likely to have benefits.<sup>19</sup>

18. The Research Councils have taken different approaches to the management of commercialisation in their Research Establishments. The Medical Research Council, for example, manages Intellectual Property centrally, shares in its Units' commercial receipts and uses some of these funds to provide centralised advice and seed funding.<sup>20</sup> The Biotechnology and Biological Sciences Research Council, on the other hand, has taken none of the proceeds from commercialisation by its institutes and gives them little central support. The Natural Environment Research Council appointed four exploitation scouts to take a strategic view across the whole portfolio with different areas of expertise and to encourage technologies that can provide a platform for commercialisation. The Office of Science and Technology and the Research Councils consider, as did the Baker Report, that there is no evidence to demonstrate that one approach is more effective than another.<sup>21</sup>

19. Partly to develop a common framework to achieve effective commercialisation the Department of Trade and Industry, on 1 May 2002, launched a new initiative "Research Councils UK" in which the Director General and the Chief Executives of the Research Councils work together. One of the objectives of this new initiative is to secure the harmonisation or commonality of functions where there is advantage in doing so. Research Councils UK is to address at an early stage, for example, the establishment of a new knowledge transfer fund.

20. A sophisticated approach to the protection of intellectual property is a key aspect of the effective management of commercialisation. Guidance issued by the Patent Office in March 2002 on the management of intellectual property is intended to lead to a greater understanding of the issues and an improvement in the quality of decision-making.<sup>22</sup>

21. Research Councils adopt different approaches to funding and management of intellectual property depending on their different circumstances and the capacity of individual Research Establishments to manage intellectual property effectively. The value of intellectual property is often difficult to assess and protecting it through patents can be expensive. Confidentiality agreements may be effective where the concern is that internationally mobile scientists might lead to intellectual property being lost.<sup>23</sup>

22. The Baker Report called for an accountability framework for commercialising public sector research which emphasised portfolio risk management rather than incentivising risk avoidance. The Research Establishments examined by the National Audit Office saw benefits in managing commercialisation projects as a portfolio, although many of them did not have a sufficient flow of projects to allow management on this basis. The potential benefits include more predictable cash flows and helping to avoid dependence on the

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<sup>19</sup> Qs 14–21, 135–150

<sup>20</sup> Qs 8, 12, 64; C&AG's Report, para 21 and Figure 9

<sup>21</sup> C&AG's Report, paras 3.6–3.7

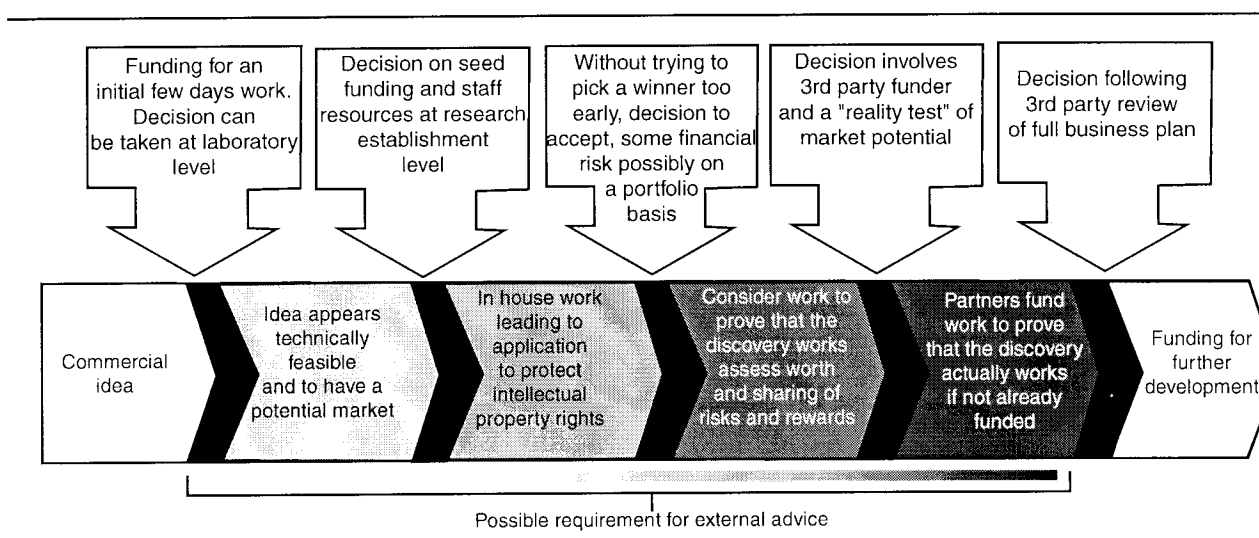
<sup>22</sup> *Intellectual Property*, The Patent Office, Universities UK and Association of University Research and Industry Links, March 2002

<sup>23</sup> Qs 17–18, 131–133, 154

success of a single project. There is little, if any, evidence of priority being given to the active development of a balanced portfolio.<sup>24</sup>

23. The National Audit Office also found little evidence of Research Establishments adopting a formal approach to assessing and managing the risks associated with commercialisation activity. It identified an illustrative formal approach focussing on key risks at key points in the process (see Figure 3, below).<sup>25</sup> The benefits of a formal approach include greater assurance that potential is being assessed in a systematic way and that individual deals fit within an overall strategy. The Department of Trade and Industry and Research Councils said that robust approaches to risk management on the lines identified by the National Audit Office were being followed.<sup>26</sup>

**Figure 3: Illustrative decision gate system for commercialisation**



Source: *C&AG's Report (HC 580, Session 2001-02)*

24. Research Councils have developed their own individual guidelines about the assessment of risks and opportunity costs. The levels of delegation to take investment decisions vary and are not always fully defined in terms of what constitutes a major or novel deal, requiring additional oversight. Research Councils, therefore, do not necessarily take a consistent approach to reviewing the impact on the direction of the science and the risks and returns achievable compared to other options, including opportunity costs.<sup>27</sup>

25. The Department of Trade and Industry and the Research Councils consider that in public sector commercialisation deals liabilities are shifted to the private sector, unless it can be demonstrated that the science was in some ways flawed and dishonest. There may also be a need, however, to ensure that the private sector could meet potential liabilities when entering into agreements with them, for example, through insurance provision.<sup>28</sup>

<sup>24</sup> C&AG's Report, paras 3.5–3.19

<sup>25</sup> C&AG's Report, paras 4.9, 4.12

<sup>26</sup> Qs 127–130, 134–150

<sup>27</sup> Q134

<sup>28</sup> Qs 127–130

26. The Office of Science and Technology considers that it has checks and balances in place to ensure the integrity of the system so that public service objectives are not distorted by the desire to exploit commercial opportunities. The performance related objectives are set by the Director General for the Research Councils and bonuses are set by a Remuneration Committee involving the Director General together with some of the Research Council members. In addition each Research Council has an Audit Committee which is responsible for overseeing the processes and outcomes of what it is doing. Research Council members are generally drawn from the scientific circles of the public sector and the business community which it serves.<sup>29</sup>

#### MONITORING WHAT COMMERCIALISATION IS ACHIEVING

27. The Baker Report recommended in 1999 that Research Establishments should develop performance measures and targets against which their knowledge transfer efforts could be assessed. By the beginning of 2002 some broad measures of Research Establishments interaction with the private sector had been put in place, such as the level of income from the private sector and the number and value of collaborative projects with the private sector. There were no specific measures of commercialisation performance.<sup>30</sup>

28. Commercialisation in the public sector is by its nature opportunistic as it seeks to exploit, but does not drive, the science research programme. The Department of Trade and Industry is in the process of revising the way in which it assesses and measures commercialisation activity. As opportunities are most frequently identified by the scientific research team involved, it considers that this activity is unsuitable for 'top-down' target setting and that there should be scope for Research Establishments themselves to suggest targets. It is therefore looking at developing a "menu" of indicators to be discussed on a year by year basis with each Research Council. The indicators currently in use include measures such as the level of income received from private sector, the number and value of collaborative or co-funded research projects and the number of co-publications with industry.<sup>31</sup>

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<sup>29</sup> Qs 11, 85-92, 145

<sup>30</sup> Qs 3-4, 151-153

<sup>31</sup> Qs 1-3, 175

MINUTES OF PROCEEDINGS OF  
THE COMMITTEE OF PUBLIC ACCOUNTS

SESSION 2001-02

MONDAY 11 MARCH 2002

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Geraint Davies  
Mr Barry Gardiner  
Mr Nick Gibb  
Mr Brian Jenkins

Mr George Osborne  
Mr David Rendel  
Jon Trickett  
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, was further examined..

The Committee deliberated.

Mr Brian Glicksman, Treasury Officer of Accounts, was examined.

The Comptroller and Auditor General's Report on Delivering the Commercialisation of Public Sector Science (HC 580) was considered.

Mr Robin Young, Permanent Secretary, Department of Trade and Industry; Mr John Taylor OBE, Director General of the Research Councils, Office of Science and Technology, Department of Trade and Industry; Professor Julia Goodfellow CBE, Chief Executive, Biotechnology and Biological Sciences Research Council; Professor Sir George Radda CBE, Chief Executive, Medical Research Council; and Professor John Lawton CBE, Chief Executive, Natural Environment Research Council, were examined (HC 689-i).

A division of the House being called, the Chairman suspended the meeting for ten minutes.

The Committee resumed.

The witnesses were further examined.

The witnesses withdrew.

\* \* \* \* \*

[Adjourned until Wednesday 13 March at Four o'clock.

\* \* \* \* \*

WEDNESDAY 17 JULY 2002

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Geraint Davies  
Mr Frank Field  
Mr Nick Gibb  
Mr Brian Jenkins  
Mr Nigel Jones

Mr George Osborne  
Mr David Rendel  
Mr Gerry Steinberg  
Jon Trickett  
Mr Alan Williams

Mr Tim Burr, Deputy Comptroller and Auditor General, was further examined.

The Committee deliberated.

\* \* \* \* \*

Draft Report (Delivering the Commercialisation of Public Sector Science), proposed by the Chairman, brought up and read.

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

Paragraphs 1 and 2 read and agreed to.

Paragraph 3 postponed.

Paragraphs 4 to 28 read and agreed to.

Postponed paragraph 3 read and agreed to.

*Resolved*, That the Report be the Fifty-ninth Report of the Committee to the House.

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

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

\* \* \* \* \*

[Adjourned until Monday 21 October at Four o'clock.]

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