



# Select Committee on Science and Technology

## Corrected oral evidence: Government R&D funding in 2021

Thursday 15 April 2021

10 am

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Members present: Lord Patel (The Chair); Baroness Blackwood of North Oxford; Viscount Hanworth; Lord Kakkar; Lord Krebs; Baroness Manningham-Buller; Lord Mitchell; Baroness Rock; Baroness Sheehan; Baroness Walmsley; Baroness Warwick of Undercliffe; Lord Winston.

Evidence Session No. 1

Virtual Proceeding

Questions 1 - 15

### Witnesses

Rt Hon Kwasi Kwarteng MP, Secretary of State, Department for Business, Energy and Industrial Strategy; Holly Yates, R&D Strategy and Investment, Science Research and Innovation, Department for Business, Energy and Industrial Strategy.

### USE OF THE TRANSCRIPT

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## Examination of witnesses

Kwasi Kwarteng and Holly Yates.

Q1 **The Chair:** Good morning, all, and particularly to the Secretary of State and Ms Yates for joining us. We appreciate that very much. Before I start, I will declare my interests. I am a fellow of the Royal Society of Edinburgh and the Academy of Medical Sciences, and I am associated with a university as a previous professor emeritus and chancellor. We will start straightaway, Secretary of State, because our time is limited. We have questions to ask on several areas and will start with the recent Horizon issue.

Q2 **Lord Krebs:** Thank you, Secretary of State, for joining us. I declare interests as a member of Oxford University, a fellow of the Royal Society and the Academy of Medical Sciences, and a former holder of numerous research grants from different research councils.

I want to ask about the question that has been very hot with the scientific research community: Horizon Europe funding for the year 2021-22. The total envelope, I understand, is estimated at £1 billion. The Government have announced £400 million of redirected funds from within BEIS, plus an extra £250 million of new money, so there is a total of £650 million. Where is the other £350 million going to come from? Has the redirection of £400 million any implications for other research activity funded by BEIS? Finally, if the costs of the association are greater than £1 billion, who will meet those additional costs?

**Kwasi Kwarteng:** You are quite right. I need to set some context. It is important to remember that, as you know, the last SR was set in November, before we had made a decision and before the EU had made a decision for us to associate with Horizon. As a consequence of the association, the cost has been estimated at £1 billion. In the initial phase, we discussed how that would be funded. We had left the EU, so it was not coming out of a club subscription, as it were.

You are right to say that the £400 million was redirected money. We have an extra £250 million in the pot. The other £350 million is, as I understand it, part of the wider government contribution, and it will be accounted for in the BEIS budget. I would like to hear from Ms Yates to confirm that.

**Holly Yates:** Good morning. I am working on R&D strategy and finance in BEIS. The Secretary of State is exactly right. The process with Horizon results partly from the fact that the spending review took place in November, and that was ahead of reaching a conclusion of the negotiations with the European Union. Following the decision to associate, we have announced an additional £250 million in 2021-22. Regarding the £400 million of funding that had been earmarked through the SR for government priorities, the decision has been taken that supporting association to Horizon is the priority.

As we were going through the spending review, initial provision had been made without prejudice to that outcome, but, at that time, we were managing quite a lot of uncertainty over whether we would eventually associate to Horizon and what those costs would be. The precise envelope for Horizon is not yet known, so we are making good planning assumptions based on what we do know. Those conversations with the EU are still ongoing, so, again, as a sensible planning assumption, we are assuming that the cost comes in at around £1 billion. We pay for these services in foreign currency, so there is some volatility there. There is still an open conversation about the detail of our alignment, which we are hoping to conclude soon.

We will set all this out when we make our SR allocations, which we will do shortly. As I am sure you are aware, we are now in the sensitive period running up to the local elections, so there are some constraints on what funding we can announce, but we will be working to make those announcements as rapidly as we can.

**Lord Krebs:** Sorry, I did not get clarity on the two questions. Where is the extra £350 million coming from to make up the £1 billion? With the allocation for £400 million, does that have any consequences for R&D funding in other parts of the system?

**Kwasi Kwarteng:** I will deal with the first, but, in relation to your second question, the sequencing is really important. You will know that the next SR is in a different context. We are part of Horizon and there will be another conversation as to how much we are allocated by the Treasury. It does not have to have much of an impact and we will only know when we have reached a settlement in the SR 2021.

In terms of the £350 million, in the run-up to the trade agreement we made provisions as to what would happen if we did not associate, because we did not know which way it would go. We have resources that plug the gap you describe from our budget in the customary way. That is fairly clear. As Ms Yates suggested, we are in a purdah period. We can get more clarify and give you more clarity after that period is over.

Q3 **Lord Mitchell:** Good morning, Secretary of State. I want to ask a question about the future, not just year one but thereafter. We would like to know how the Government propose to fund the UK's participation in Horizon Europe after year one. I say this because, as we all know, R&D has a long term factor about it. It is all about long-term development. Short-term uncertainty about the availability of funds really goes to the heart of the project.

**Kwasi Kwarteng:** As I have stressed already, the context of SR 2020 has been and will be very different from the context of SR 2021 this year. As I said, in 2020, we did not know that we would be associating with Horizon.

Going forward, the Government, as you know, remain committed to the 2.4% of GDP target for 2027. In order to reach that target, we will have to increase our contribution to R&D. There is no secret about that. I

hasten to add that the R&D budget itself, which is about £14.9 billion this year, is still going up.

Horizon funding is fairly secure. It is part of my job to try to secure that funding. I have to say that we have already had some success, because, as was openly canvassed, there was a question as to whether BEIS would absorb the entirety of the Horizon subscription or cost of association in its own budget. We managed to avoid that. We had very co-operative, collaborative conversations with Treasury on this. As you know, we will have to do the same thing ahead of the spending review this year.

We have identified multi-year settlements as a problem. That is precisely one of the reasons why we have brought in the ARIA Bill, with which I am sure you are familiar. You will know that ARIA has the capacity to have a much longer lead time for research funding. We have identified that as a problem and we are dealing with it. We are very conscious that research needs a much longer period with which to plan and certainty of funding. You and everyone in the committee will appreciate that we have been through a very uncertain period, which has had an impact on our public finances.

**Lord Mitchell:** We are through that initial period or are certainly getting through it. People who operate in the R&D sector are unhappy and uncertain. They do not know that funding will be there. I would like to ask again what certainty you can give them that there will be future funding, so that they can continue the projects they are working on.

**Kwasi Kwarteng:** The assurance I am giving is that the R&D budget is increasing. The other assurance I am giving is that we are absolutely and rigorously committed to the investment of 2.4% of GDP in R&D by 2027. These are cast iron commitments. I cannot anticipate the spending review of 2021 or write the budget for 2021-22 or 2022-23.

Unfortunately, I cannot give you that assurance. I can assure you that the overall envelope is going up. I can assure you that we are taking our 2.4% target extremely seriously. I cannot, in this committee, give a guarantee to every researcher in the country that their particular projects will be funded indefinitely.

**The Chair:** We move on to the wider issue of R&D funding.

Q4 **Lord Winston:** I declare an interest as an Imperial College employee and a fellow of the Academy of Medical Sciences and the Royal Academy of Engineering. I have also just had a grant from UKRI turned down—unlike Lord Krebs, but there we are.

I want to ask whether the Government have a detailed strategy for investing the £22 billion per year of public funds, roughly 0.8% of GDP, by 2024-25.

**Kwasi Kwarteng:** That is a great question. It is one of the things I asked myself when I took up the job as Secretary of State three months ago. That is exactly why, within a week of being appointed Secretary of State, I commissioned an Innovation Strategy, which will be coming out at the end of June this year. The Innovation Strategy is exactly that. It

sets out what I would call tramlines about how we can promote and increase innovation in this country, and where we want to see innovation.

One of the problems we had with the old Industrial Strategy was that it was far too broad and not focused enough. As Energy Minister, I was very privileged to see the publication of the energy White Paper, and to oversee and have a hand in the Prime Minister's Ten Point Plan, which was announced in November last year. It seemed to me that, in the net-zero space, we had far more clarity about the direction and strategy we wanted to pursue than in the innovation piece. Essentially, we gave lots of money to UKRI, and in effect we had 24 missions or challenges in the Industrial Strategy.

I thought we could take a much more streamlined approach. I am very pleased that the team here in BEIS has worked very hard on the Innovation Strategy, which will be published at the end of June. I am sure I may well be asked questions about it in forums such as this.

**Q5 Lord Winston:** Your question about focus raises another issue. Do the Government continue to respect the Haldane principle when grants are being awarded?

**Kwasi Kwarteng:** The Haldane principle is often used. I think it covers a multitude of sins. I have heard many accounts of it. I am very clear that the Haldane principle does not preclude a Government identifying areas of strategic focus. It prevents me, as a Secretary of State, directing funds to a friend who happens to be a professor of genetics, for example, at Exeter or Imperial. It prevents me having that direct involvement in the allocation of research funds.

I have spoken to John Kingman, who is the chairman of UKRI, and other professionals. As far as I understand it, the Haldane principle does not preclude a Government coming up with a strategic plan and identifying not only areas of strategic national importance, but areas where Britain has a comparative advantage. For example, we have a life sciences strategy and we can identify missions within that. The Haldane principle does not prevent Ministers identifying areas of particular interest and focus.

**Q6 Baroness Manningham-Buller:** Morning, Secretary of State. I have two things to declare. I am a fellow of the Academy of Medical Sciences and, until four days ago, I was chair of the Wellcome Trust.

I was delighted to hear you say, in answer to an earlier question, that the Government's commitment to getting up to 2.4% of GDP by 2027 was solid. "Cast iron" were the words you used. Both the committee and the research community will be delighted to hear it.

I would like to press you on whether you have a strategy for getting there, because it will require quite substantial increases year on year to reach that target.

**Kwasi Kwarteng:** Yes, we have a strategy. I know that we are all involved in the political world and government, but the key to getting to

the target is involving private sector investment. Yes, it is true that the Government will have to increase their own contribution, but I have been very clear. It has struck me very forcibly in the last three months, since I have been Secretary of State, that the surest way of getting to that target is by getting a lot more private sector investment. Only two weeks ago, I saw Paul Nurse and the fantastic work he is doing in the Crick Institute, where they have successfully managed to leverage finance from the private sector.

Your own review on the catapults makes exactly that point. The catapults have a third, a third, a third: a third of the money they get is government grants; a third is R&D collaborations with universities; and a third is commercial revenue, which is, again, from the private sector. That is a mode that can get us to the 2.4%. In the Innovation Strategy, we will be coming up with ideas, strategies and plans to leverage that investment more effectively. Indeed, the ARIA Bill, which we are in the process of passing, also has an ability to attract private capital.

You are quite right to say that the target needs to be driven partly by increasing government contributions, which we are committed to doing. But an even more effective way of getting to the target is being able to leverage private capital. That has been the one area where we have fallen down. Historically, the reason why we do not spend enough of our GDP on R&D has not necessarily been the failure of government contributions. Looking at the rather low contributions made by private capital, compared to in other countries, this is an area where we need to close the gap. If we do, we will be able to hit the target very effectively.

**Baroness Manningham-Buller:** Can I pick up on that point? How do you see the gap between government funding in the UK of, say, the medical science sector as opposed to other countries where it is increasing substantially post-corona, not that we are post-corona?

**Kwasi Kwarteng:** I was making a broad point about the fact that, if you look across the OECD and the G7, and break down the R&D spend in those countries, you will see that our government spending is not that much worse than a cross-section of our peers. Where we fall down, and have fallen down historically, is in our relative inability to attract private capital and private investment in R&D. That is something I am very focused on.

**Baroness Manningham-Buller:** The committee will certainly welcome that focus, but we are still worse, in government spending terms, than many of our other competitors.

**Kwasi Kwarteng:** I have said to you that we are in a very difficult fiscal position, as are other countries. As was alluded to, this was compounded by uncertainty relating to the EU arrangements that we had. The fact that we concluded the trade deal with the EU only three months ago added to the uncertainty. As I said, going forward, the commitment to the 2.4% is clear and I am very hopeful that we can contribute more as a Government to R&D spend.

R&D is not just about BEIS or UKRI spending. The Department of Health has a significant portion of R&D spend. The MoD, the security world, also enjoys contributions from the Government, which drive R&D. That is a world that I know you know well, Lady Manningham-Buller. Across the piece, even now, in these difficult times, overall the R&D budget is going up. I hope that we can continue doing that.

**Q7 Lord Kakkar:** I have interests to declare as professor of surgery at University College London, a member of the advisory board of the Royal Society and a fellow at the Academy of Medical of Sciences.

Secretary of State, thank you very much indeed. You made a point earlier about the capacity you now have with ARIA to provide certainty on multi-year comprehensive funding for research and development in that scheme. I would like to explore whether that might be an approach that your department proposes to take more generally and comprehensively with R&D spending, for UKRI and others, to give more certainty on multi-year commitments.

**Kwasi Kwarteng:** You make a fair point. Ultimately, if we look at the whole piece, we are never going to get to a world where all the money is committed on a multi-year basis. That is very unlikely. We can commit to more multi-year settlements. Within UKRI, there is the capacity to fund things up to three years. ARIA has not been set up yet, but we are developing the capacity within ARIA to have multi-year settlement. I cannot say that, across the piece, the entirety of our R&D budget will be done on a multi-year basis because, as you know, budgets are done on an annual basis.

There are all sorts of uncertainties surrounding budgets. From a Treasury point of view, it is very difficult to lock oneself into multi-year commitments if one is coming up with annual budgets and one is dealing with coronavirus, Brexit, other externalities or external shocks, to be frank.

**Lord Kakkar:** Within those constraints, which are well recognised, might there be the capacity, as the approach is being taken with ARIA, for elements at least of the UKRI budget, for instance, to be given that greater certainty? Those programmes could then continue to attract not only the best science but the greatest confidence in targeting those as the foundation for strengthening and continuing to consolidate our science base.

**Kwasi Kwarteng:** You are absolutely right. There is always a challenge to look at how we can perhaps increase certainty of funding streams. Again, that is why I have raised the issue of private sector capital, because that is more, to borrow a phrase, patient capital. It can be more certain over a longer period. That would be a very good way of growing our R&D base. Look at the United States—the Bell Laboratories and the Janelia Institute. I have spoken to many of the people involved in them already. They would say that the capacity to bring in private capital gives a surer pipeline of resources over a longer period. You are killing two birds with one stone in that regard.

**Lord Kakkar:** I do not know whether I have understood this correctly. With regard to the 2020 spending review, has the settlement for BEIS been fully allocated yet or is that still to be done?

**Kwasi Kwarteng:** I will refer back to Ms Yates on this. As she suggested, the full details of the allocations cannot be issued now because we are in the purdah period. There are local elections and devolved Administration elections, which take place, I think, on 6 May. After that, we will be able to supply more details on the allocations.

**The Chair:** Would you just confirm that, Ms Yates?

**Holly Yates:** Yes. There are a couple of points to pick up there. To the question about long-term funding, the point has been well made that R&D is inherently a long-term enterprise. It is worth emphasising that we can and do invest in long-term R&D programmes; UKRI does that very routinely. This last spending review, SR 2020, was a single-year settlement for good fiscal reasons as set out by the Treasury. Even so, we identified a multi-year settlement both for ARIA and for core research, which is increasing by £400 million every year.

In terms of making the announcement of this year's allocations, it is exactly as the Secretary of State says. Having been through that process of receiving our SR settlement, getting clarity about the position in respect of association with Horizon Europe, and various other points this spring such as the announcement of the additional £250 million, we will be making the formal announcement of the allocations following the local elections.

We do not go away into a black box and do this. We work very closely with the funding bodies and our partner organisations to give them assurance and enable them to make good planning assumptions. We are in close dialogue with all those parties and keep them as up to date as we can.

**The Chair:** Secretary of State, we move on to the next subject, which is the official development assistance. As you know, there has been a lot of anxiety about the funding cuts related to that and the impact this will have on research, particularly in developing countries, and the UK's influence there. I know it is not absolutely in BEIS; it comes from other departments too. For instance, the Royal Veterinary College will get a cut of 67%, which affects animal health research in these countries.

Q8 **Viscount Hanworth:** I am emeritus professor at the University of Leicester. Naren seems to have asked my questions. It seems to me that the cuts in ODA—official development assistance, or overseas development aid as we used to call it—have disproportionately affected research and development. What assessment have the Government made of this matter?

**Kwasi Kwarteng:** We took some very difficult decisions on the ODA budget. Let us get this very clear. There are two issues here. One was the reduction from 0.7% to 0.5%, which was taken in extreme circumstances. We have made it very clear that we want to get back to



the 0.7% proportion as soon as we can. That was made very clear in government, particularly in the strategic review that we did in foreign policy. That is one area in which we took a very difficult decision, and the reduction affected ODA money across the piece.

The other issue, of course, is that the 0.7% is a proportion of GDP, which went down 9.9% last year. That compounded the reduction in the proportion of GDP that we were spending. I did this on my calculator yesterday because I had a surmise that you would ask me about this. Those two figures meant that there was a 35% cut. You are quite right to say that some of that 35% has disproportionately fallen on particular research projects, which I think is regrettable. All I would say is that I want to get back to a position where the economy is growing and we can get back to the 0.7%. If those two things happen, just as we have had the squeeze because both of those numbers have fallen down, we can get back to a much healthier position.

There is no denying that it has been a very difficult time for budgets in particular and with regard to ODA. All I would say finally on ODA is that, yes, for people who are exposed to ODA research, it is a real lifeline, but it is not a very big proportion of the overall R&D budget. It is something like 5% of it.

**Viscount Hanworth:** As you say, those cases are regrettable.

**Kwasi Kwarteng:** I accept that. I just did not want you to get the wrong impression. We hear figures such as a 67% reduction, which are startling and concerning. I did not want to give the overall impression that the R&D budget was affected in that way.

**Viscount Hanworth:** Have the Government defined any priorities regarding the maintenance of funding? Surely there are things that really should not be allowed to go into abeyance.

**Kwasi Kwarteng:** This is a perennial debate, and that is one of the chronic problems that we have had in British research. Everyone thinks that their particular interest is critical. We get into a world where everyone's friend is nobody's friend, as the Germans say, and we do not have a strategic focus because everything is equally important. You may think that something is of great importance; other members of your own committee might not have the same ideas. I have commissioned the Innovation Strategy, because I want to get some strategic focus on this.

Q9 **Baroness Sheehan:** Secretary of State, how does the decision to cut ODA-funded R&D align with the Government's recent commitment to put science and technology at the heart of our alliances and partnerships worldwide? As an addendum to that, who within BEIS has responsibility for consulting with the R&D sector about the impact of cutting ODA-funded research on global alliances and partnerships, and on our reputation internationally?

**Kwasi Kwarteng:** I will talk about the international reputation and strategic partnerships. Then I will refer to Ms Yates about who within BEIS is interfacing with the R&D community. The ODA cuts, as I have

said, were a function of two things, primarily. The first was the reduction from 0.5% to 0.7%, and the second was the fact that GDP itself fell. There was going to be a squeeze.

Our international partnerships have never been stronger. As I have said, we have associated with Horizon. The EU was happy for us to do that. I look at the figures and see that UK organisation's share of Horizon has gone up from quite a low base in 2019 and 2020. It is already going up, and we want to drive that forward.

As I have said, while the reduction in the ODA research portion has affected many researchers, it is not a huge part of the Government's overall R&D spend. It is something like 5%. It is an important and highly valued 5%. We have been able to forge strategic partnerships and enhance those partnerships across the whole piece of the spend. It is difficult, but I do not think it has impaired our ability to co-ordinate first-rate research or our standing.

It is extraordinary to me that, even after 35 minutes, we have not mentioned the vaccine rollout, which has been a huge success. I was just on a call with a Swedish Minister, one of whose responsibilities is life sciences. He was very praising of our abilities and reach in that area, so I do not think our international standing or partnerships have been impaired in that way. I would like to refer to Ms Yates on your question about BEIS officials.

**Holly Yates:** On the point about engagement, I mentioned earlier that we try to work in a very open and collaborative way with our delivery partners on these matters. We are working with them to implement the RDA ODA settlement. We have already shared proposed allocations with delivery partners, including UKRI; we did that in February. Those partners are now working directly with their grant holders to understand the impact.

There was a question there about how we prioritise and identify where we will direct the remaining overspend. That is driven by the Government's strategic framework for ODA. That is all about how we identify the most impactful programmes, building on the work that our delivery partners are doing with the grant holders to understand the impact on them.

**The Chair:** Secretary of State, you know that medical research charities are an important part of our R&D funding and they have suffered a tremendous and significant loss because of Covid. I know the Government made some promises about dealing with them, but we have not had the response.

Q10 **Baroness Warwick of Undercliffe:** As our Chair said, Secretary of State, you will be aware that the pandemic has significantly affected the fundraising capabilities of the medical research charities. In addition to that, they are anxious about the wider cuts in R&D funding and the way in which that might have a further impact on them. The Institute of Cancer Research has 80% of its income coming from public funding. Could you tell us whether the Government have any plans to help fund these shortfalls?

**Kwasi Kwarteng:** We certainly do. As I referred to earlier, some of the allocations will be announced after the purdah period. I challenge the premise that there has been a huge cut in the R&D budget. Some areas of the budget have been reduced, for reasons we have discussed, but I do not believe that the overall commitment to R&D has gone down across the Government. I would just like Ms Yates to confirm my statement that some of the allocations will be announced after the purdah period.

**The Chair:** Ms Yates, please hang on, if you could, because Baroness Walmsley's question might relate to it, so you can answer both.

Q11 **Baroness Walmsley:** Secretary of State, the Government have shown willingness to support businesses and jobs during the pandemic. Do the Government not consider that medical charities need similar full transition funding, given that their own fundraising will eventually return to normal, as they admit? Earlier, you confirmed to Baroness Manningham-Buller how important it is to leverage private sector investment to reach the 2.4%. The IPPR warns that failure to do this transition funding will have a knock-on effect in reducing industry-funded medical research too. Have you assessed the long-term impacts of this?

**Kwasi Kwarteng:** We are looking at these impacts all the time. The medical charity sector and the private sector are not analogous in terms of the support we have given to companies, because obviously we have not given companies the revenues that they had. All we have done is support them through a very difficult time. I speak to the hospitality, retail and aviation sectors. They have all had a huge impact from Covid. It goes right across our economy. It is not a distinction between the private companies, which the Government are supporting, and charities, which are suffering. There has been a huge degree of upset across the entire economy, on both the voluntary side and the private sector side.

With respect to private capital in R&D, again, I see a much more optimistic picture than the one you have described. I have spoken to investors and people around the world. They are really excited about the prospect of investing in British R&D. I spoke to the Swedish Minister about the Life Sciences Office, which they created following our model. They look to us as a key strategic partner. People across the world have been very impressed with the vaccine rollout and are looking to invest more in our capacity in the life sciences. I spoke to Paul Nurse of the Francis Crick Institute and, again, there is a huge amount of interest in what he is doing.

We are conscious that we are in a difficult period and, answering your question more directly, we do assess the long-term impacts of the Covid period on our ability to attract investment in R&D, absolutely.

**The Chair:** Ms Yates, I stopped you earlier and am sorry about that. Now it is your turn.

**Holly Yates:** Thank you so much. To take those points in order, we understand that the pandemic has been a really challenging time for fundraising. The Association of Medical Research Charities has been

working with us. It has shared lots of information on potential challenges that arise as a result of Covid.

We are working very closely with the medical research charities. My colleagues meet with them on a weekly basis, looking at how we can work together and make sure that patients continue to benefit from charity-funded research. It has definitely been an area of focus. My colleagues are also speaking to colleagues at the Department of Health and Social Care about it.

I will resist the urge to pre-empt any announcement about the allocations. As the Secretary of State says, those will be coming out shortly, in May, and that will set out our plans for R&D funding right across the piece.

**Q12 The Chair:** Is this announcement related specifically to trying to help the charities that have lost significant amounts of funding to support their research, to the tune of something like £380 million? Is this an announcement related to filling that gap on a temporary basis?

**Holly Yates:** I am resisting the urge to make any announcement. We make R&D allocations in the round, because that feels really important. What I am saying is that that has been a very live conversation.

**The Chair:** Okay. Let me put the question a different way. Should I be optimistic or pessimistic?

**Kwasi Kwarteng:** As the Secretary of State for BEIS, I am responsible not only for R&D, UKRI and the innovation space, but for pubs, retail, aviation—all sort of businesses. I speak all the time to the leaders of businesses and workers in businesses. It is undoubtedly the case that, across the economy, there has been huge pressure and people have absorbed lots of losses, frankly. We want to do our bit to try to stem the flow and recover some of the ground.

If you are asking whether we can make 100% of the loss, that is a very challenging ask. We are saying that we will try to make some contributions to mitigate the impact of what has been an unprecedented and devastating virus.

**The Chair:** Is there an opportunity here to have a discussion to say that we will fill the gap temporarily, which they then have to reimburse in some way later on when their finances improve?

**Kwasi Kwarteng:** I hate to be pedantic about this. The phrase “fill the gap” suggests that we will make whole the entire loss. That is very ambitious. I cannot promise that. I am saying that we will try to mitigate some of that damage.

**Q13 Baroness Walmsley:** I wonder whether I could raise one specific medical research charity, simply because it forms part of the Government’s manifesto pledge. Will the Government be in a position to fulfil the manifesto pledge on dementia research?

**Kwasi Kwarteng:** We are playing this game where you are trying to get us to make commitments. We have explicitly said three or four times that

we cannot make commitments during the purdah period, and that announcements will be made in May. I will stick to that in answer to your question.

**The Chair:** I was going to say that, if I start playing games with politicians, I know I will lose.

**Kwasi Kwarteng:** I did not mean to trivialise this issue, but we have said on a number of occasions that, because of the purdah period and local elections, certain announcements will be made in May. Subsequent questions are asking us what those announcements might be. It is quite a circular position.

**The Chair:** I quite understand. We move on to the other sector that has approached us and talked to us a lot. It has also suffered in its finances because of Covid, and so has suffered in its ability to support research, which it normally does through its own income. That, of course, is the university sector. I will ask Baroness Blackwood to make that point, please.

Q14 **Baroness Blackwood of North Oxford:** I declare my interest as a board member at the Alan Turing Institute and a founding board member at Reuben College, Oxford.

If we have learned anything from the outstanding rollout of the vaccine programme, it is the importance of sustainable university research. With the best will in the world, even with research funding going up, there will be a shock this year, given the decisions that have been made, the late allocation and the cuts to ODA and medical research funding. Those will disproportionately affect some of the really important research assets that we have, such as the London School of Hygiene & Tropical Medicine, which has played such an important role.

First, has an assessment been made of the impact this year, and what steps will be taken to mitigate it? Secondly, there is a long-term issue of shortfalls of public funding for university research. I think research council QR funding covers about 74%. Even with recent increases, this is still comparatively down. Are you intent on trying to change that over the long term with future SR programmes, or do you think that balance is about right?

**Kwasi Kwarteng:** To the second point, you are quite right. Something you did not mention, which has had a massive impact on all our universities, is the fact that foreign students have not come in the numbers that they do traditionally. That has clearly had an impact on the revenue of many of our top universities and other institutions across the piece. We should look at that impact.

There is also a debate about what proportion of university funds come essentially from the UKRI budget and, as you point out, QR funding. Those things are not set in stone; there will always be a debate about them. I am hopeful that, once we reopen travel, we will be able to see much greater revenue from foreign students, which is an important part of universities' funding, as you know.

As for the impact assessment, clearly in the run-up to the crisis and in what we are doing we have been trying to deal with the crisis on a day-by-day basis. We would like to pursue research looking at the long-term impacts of what has happened. We may have started, but we certainly have not completed a long-term impact assessment on the universities' funding. Again, I would like to defer to Ms Yates on work that we are doing to try to work out what that long-term impact might look like.

**Holly Yates:** There are a couple of points I would pick up on there. Very early last year, it was identified that the pandemic would have a financial impact on universities, particularly through foreign students but also through conference income. Many organisations have been similarly affected through this past year. We recognised that and responded quite quickly. We worked with them to put together the SURE Fund—the Sustaining University Research Expertise Fund—last summer. In the event, the impact, particularly on foreign students, was less strong than had been feared, which is a really good thing. Of course we continue to monitor the impact of this last year on all the sectors we work with. That full impact is probably not yet quite known.

In relation to the points made about full economic cost, in the R&D Roadmap, which we published last July, we committed to looking at that. That work is now going forward with colleagues in UKRI and others, and we will be reporting on that in due course. Those are all live issues that we are working on. It will probably take a little while for all of us to really understand the impact of the pandemic.

**Baroness Blackwood of North Oxford:** I was not quite asking about the impact of the pandemic. My point was that, in the context of the pandemic, which had a significant impact on universities, decisions in the SR were superimposed that disproportionately caused additional challenges to specific institutions reliant on ODA or medical research charity funding. Those contain some of the most skilled and impressive researchers that we have in the UK.

First, what are we going to make sure that we do not lose that quality of research and innovation? Do we have visibility over that, and what are we going to do to protect it? Secondly, how are we going to look at the structural challenges that we have in the balance of research set against innovation as we go forward?

**Kwasi Kwarteng:** You ask a very specific question relating to the reduction in ODA spend, which I pointed out was significant but was only 5% of the total. For people who are affected, it can have grave consequences, and we accept that. As Ms Yates suggested, we are looking at the impact of that specifically in those areas.

The balance between QR and potential funds from foreign students, as Ms Yates and I mentioned, is always being looked at. As you know, we are going into SR 2021 and we will have very extensive discussions about what the right balance is there.

Again, I cannot give any guarantees, and I will pivot back to the fact that we are committed to growing our research base. I said that the 2.4% was a cast-iron target that we take very seriously.

**The Chair:** Secretary of State, you mentioned ARIA on one or two occasions. Of course, that legislation will come to the House of Lords, when we will have much more time to get into the depths of it. I would like to ask Baroness Rock to make one or two specific comments on it.

Q15 **Baroness Rock:** I have no interests to declare. Secretary of State, as Lord Patel has mentioned, you have talked about ARIA a few times. I appreciate that it is going through the Commons at the moment. I believe it is in Committee. I also appreciate that we are in purdah, but perhaps you could provide us with an update on where we are in establishing the organisation, and perhaps say a little bit about who you would expect to lead it, areas it might be working on, and even where it might be based. Are you confident that you can appoint leaders who will ensure independence and efficient operations?

**Kwasi Kwarteng:** Those are some great questions. If I were being extremely pedantic, I would say that the Bill has not passed the House of Commons, and I would not want to pre-empt or take anything for granted in that regard. I am confident that it will get through, but to answer your question about where it is sited when it has not even reached Royal Assent is perhaps putting the cart before the horse. The Bill has about 14 clauses; it is quite a simple Bill, actually. It sets up a framework under which a completely new organisation in this country is being set up. It is extremely exciting.

As you know, we fully expect to attract top talent to lead it. We are very hopeful. A number of people have already expressed interest in this sort of role. It will be absolutely independent, but independence does not mean it will be just doing its own thing. It will be part of a wider universe of research in Britain. I am very hopeful that the Innovation Strategy might provide some ideas which the future director, he or she, will take up.

The extent to which the director of ARIA says that ARIA must follow the Innovation Strategy or the Government's commitments is a question for the director. I am not in a position to pre-empt that or to prescribe what this organisation will do. It needs to have flexibility and a degree of independence. Independence does not mean that it is completely isolated from the wider strategic interests of government.

**Baroness Rock:** Thank you, Secretary of State. Will there be more information on the publication of your Innovation Strategy in June, perhaps?

**Kwasi Kwarteng:** Yes. The Innovation Strategy in June will mention ARIA, but it is not, in a way, a prospectus for ARIA. It sets out what the Government now think are important challenges in the R&D space. It will highlight ways in which we can encourage, as I have mentioned many times, greater private sector participation in research and development.

It will set what I call tramlines for how we can think about, pursue and promote innovation.

It will be for ARIA and its leadership to decide the degree to which they want to pursue our missions. This is not a state-directed research institute. This is not a replica of the Soviet Union's central command for research. It will be independent, but that does not mean that there will not be dialogue between that institution and wider government.

**The Chair:** Secretary of State, I am going to give you the last word, but before I do so, can I thank you and Ms Yates for coming today? It has been appreciated very much. We have learned a lot from you. I know we have been searching, but I hope you did not find us disrespectful, because we do not intend to be disrespectful. Yours is the department with which this committee has to work most closely, which we enjoy, because of its interest in research, innovation and, of course, universities. I hope that we will have other opportunities to meet with you. We will appreciate that. You have been most informative and I thank you very much for making time to come today. I will now give you the last word, Secretary of State.

**Kwasi Kwarteng:** Thank you very much. You have conducted the meeting with great courtesy. The questions were searching. It is a very difficult time, no question, given the triple challenge of Covid-19, the budget situation, which has affected some of the difficult decisions we have made, and the whole Brexit saga, which ended, more or less, at the end of last year and added a huge cloud of uncertainty. Given all those challenges, I was very happy to answer your questions.

It is a difficult time, but I am very hopeful that in subsequent meetings we will have lots of positive stories to talk about. As mentioned, I think the ARIA Bill will reach a successful conclusion. I hope that, in the next few months, we do appoint a director for ARIA. I am very keen that the Innovation Strategy is delivered on time at the end of June. I look forward very much to being quizzed about that in this forum and in other places. I am sure we will have a very robust exchange of ideas. As you said, it is incredibly informative, and I was very interested to hear many of the concerns of this committee.

**The Chair:** Thank you very much indeed. You will be interested to know that our current inquiry is about decarbonisation, batteries and fuel cells. I hope we will have lots of opportunities to meet with you. Thank you very much indeed. Much to my surprise, if nobody else's, I am absolutely bang on time.

**Kwasi Kwarteng:** Thank you very much. Take care.

**The Chair:** Thank you very much, and thank you, Ms Yates. Goodbye and good luck to you.