Autumn Statement 2022

NCUB Analysis

Date: 24 November 2022

This short note provides NCUB's immediate response to the government's Autumn Statement, which was published on 17 November 2022. The Statement sets out a series of tax, welfare and public service spending decisions, alongside full economic costings that show the impact of these decisions on public debt and economic forecasting.

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Overview

The Autumn Statement 2022[1] delivered by Chancellor Jeremy Hunt MP aimed to steady the UK's economy and rebuild trust in markets in the face of globally rising inflation, as supply chains are disrupted post-COVID 19 and war in Ukraine drives up the price of energy, food and other goods. With inflation hitting 11%, the statement comes two months after Prime Minister Liz Truss' Growth Plan and the previous Chancellor's Mini-Budget[2] provoked a significant negative market reaction, contributing towards the UK's large fiscal deficit.

Forecasts show the UK's GDP growth rate will drop to 4.2% this year, then to -1.4% in 2023. Personal finances will take a hit as household incomes are set to reduce at the fastest rate in generations, decreasing by 4.3% in real terms in 2022/23. For industry, business investment, already down 8% from pre-pandemic levels, is forecasted to diminish further in 2023 due to higher input costs and interest rate increases from the Bank of England (BoE).

It is against this backdrop that the Chancellor presented his plan to balance the books, re-set the economy and grow the nation. The Autumn Statement reverses many of the measures set out in the Growth Plan, instead raising taxes and cutting public spending as the nation enters a recession that is predicted to last for more than a year. The Chancellor sought to fill the public finances gap of around £55 billion, unveiling a windfall tax on energy companies and reducing the threshold of the top personal income tax bracket from £150,000 to £125,000.

Despite these trends, research and development (R&D) in universities and businesses has been prioritised. The Government has clearly recognised the role of research and innovation as key enablers to catalysing economic growth. The commitment to invest £20 billion a year into R&D by 2024-25, previously made at last year's Spending Review, has been maintained. Reforms to R&D Tax Credits were also announced, making the scheme more favourable for large businesses, but significantly less generous for SMEs. Investment Zones are reformed once again, pared back in number and centred around universities, and new and upcoming Devolution Deals were announced to enable skills and innovation plans to be locally designed and delivered.

On jobs and skills, the Office for Budget Responsibility (OBR) forecasts unemployment will rise to a peak of 4.9% in Q3 of 2024, up to 1.7 million from 1.2 million.[3] To address skills gaps and respond to evolving sector needs, the Treasury has committed an uplift of £2.3 billion for schools in 2023-24, followed by £2.3 billion in 2024-25, whilst Sir Michael Barber has been appointed to advise the Chancellor and the Secretary of State for Education on workforce skills needs and adult reskilling.

Ahead of the Autumn Statement, NCUB published recommendations[4] aimed to deliver economic growth, and urged for R&D budgets to be maintained.[5] NCUB is now ready to work with members, and with the Government, to explore how these recommendations could further support the Government's ambition to transform the UK's economic potential through research, innovation and skills.

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[11] HMT. (2022) *Autumn Statement 2022.*

[2] HMT. (2022) *Growth Plan.*

[3] OBR. (2022) *Economic and Fiscal Outlook*.

[4] NCUB. (2022), *Leveraging our world leading capabilities to innovate, grow and prosper*.

[5] NCUB. (2022) *Open letter: Protect commitment to UK's research and innovation system.*

Research & innovation

R&D funding commitments

Amid widespread concern that, as part of efforts to fill the £55bn fiscal deficit, the Government would abandon its 2021 Spending Review commitment of increasing R&D spending to £20 billion a year by 2024-25, the Government announced that it would maintain this commitment, representing a cash increase of around a third compared to 2021-22. However, the longer-term commitment – also made at the last Spending Review – to aim to increase spending further to £22 billion by 2026-27 was notably absent from the Government's announcements.

Whilst the re-commitment to £20 billion is welcome, NCUB's analysis[6] shows that the UK remains behind competitor nations in its levels of R&D investment. Further, sustained increases to the public R&D budget, designed and delivered in collaboration with universities and businesses, would help the UK develop a competitive edge and capture more of the economic benefits of the next generation of technological innovation.

R&D Tax Credits

R&D tax reliefs are an important part of the Government's overall incentive and support package for research and innovation. The announcement at the Autumn Statement follows a series of government consultations and proposed changes to the two UK schemes, which have provoked significant debate about the role and effectiveness of the UK's R&D Tax Credit scheme.

As part of the Government's ongoing review of R&D tax reliefs, the Chancellor announced reforms to the reliefs to "ensure taxpayers' money is spent as effectively as possible". These reforms include a significant increase to the large business relief scheme (Research and Development Expenditure Credit (RDEC)) rate, raising it from 13% to 20%. While the small and medium-sized enterprises (SME) deduction rate will decrease from 130% to 86%, and the SME payable credit rate, which can be claimed for surrenderable losses in return for a cash R&D tax credit, will be decreased from 14.5% to 10%.

Reducing the generosity of the SME scheme could impact the innovation appetite of emerging research-intensive businesses as R&D tax credits form a key part of the UK's support to start-ups. Start-ups have the potential to become large R&D-intensive businesses of the future and will be pivotal in delivering the government's innovation-led economic vision. The impact of these changes must be monitored to ensure investment in research activity is not deterred.

Positively, the Chancellor said he will consult on the design of a single RDEC-like scheme for all, which would include making an above the line credit available for SMEs, a recommendation NCUB has called for previously. The Chancellor further promised to work

[6] NCUB. (2021), *2019 R&D Expenditure analysed: Are we on track to reach 2.4%?*

with industry to understand whether further support is necessary for R&D intensive SMEs, without significant change to the overall cost envelope for supporting R&D.

Investment zones

The Chancellor's Autumn Statement included announcements to increase the focus of Investment Zones on how universities can help to boost economies in disadvantaged areas. To do this, Jeremy Hunt announced that he would be changing the approach to Investment Zones, previously introduced by Liz Truss, to refocus on leveraging research strengths. These Zones would be centred around universities in "left-behind areas"- closely aligned to a recommendation made by NCUB in our 2020 R&D Taskforce report.[7]

Incentivising business investment

The Government recognises that encouraging business investment in the current economic climate will be challenging, but the Statement did, nonetheless, include a series of policy incentives designed to support businesses to invest and grow by:

- Setting the Annual Investment Allowance (AIA) at its highest ever permanent level of £1 million from 1 April 2023 (one of few measures retained from the Growth Plan)
- Reducing the burden of business rates by providing £13.6 billion of support for businesses over the next five years.
- Placing the UK Infrastructure Bank on a statutory footing. This, it is hoped, will cement its status as a key institution that will facilitate long-term investment in infrastructure to tackle climate change and support regional and local growth.

Although the UK's headline Corporation Tax Rate will rise from 19% to 25%, the Government says this is still the lowest in the G7, and they have committed to protect 70% of trading companies at 19% with the Small Profit Rate.

Further, the Government reiterated its commitment to unlock tens of billions of pounds for investment from UK insurers in long-term productive assets by publishing the final reforms to Solvency II. This sets out the prudential regulatory requirements for insurance firms within the EU. This includes financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure. The Government hopes that reforms to the Solvency II regime will capitalise on the UK's post-Brexit freedoms to cut EU "red tape" and unlock investment, helping to create jobs while also maintaining a high level of protection for policy holders.

Individual schemes of note

- **Increased funding for Catapults:** Funding for the UK's nine Catapult Centres, which transform ideas into workable products and services, will increase by 35% compared with the last five-year funding cycle.

[7] NCUB. (202), *R&D Taskforce Report: Research to Recovery.*

- **Unlocking regulatory reform in key growth sectors:** The Government will create a taskforce to identify changes in regulation with the greatest potential to unlock growth in five key industries, including digital technology, life sciences, green industries, financial services and advanced manufacturing, to identify changes that can be made over the next year which have the greatest potential to unlock growth. This work is already underway in several of these sectors, including the Government's ambitious programme of reforms in financial services. Government Chief Scientific Adviser, Sir Patrick Vallance, will be leading the work on how changing these regulations could make a tangible difference.
- **Increasing venture capital schemes:** In a bid to demonstrate their commitment to ensuring cutting-edge innovative firms have access to finance to invest and grow, the Government maintained its promise announced by former Chancellor Kwasi Kwarteng to increase the generosity and availability of the Seed Enterprise Investment Scheme and Company Share Option Plan. The announcements also included plans to consider extending the Enterprise Investment Scheme and Venture Capital Trusts in the future.
- **Opening up digital market competition:** The Government will bring forward the Digital Markets, Competition and Consumer Bill in the third Parliamentary session to provide the Competition and Markets Authority with new powers to promote and tackle anti-competitive practice in digital markets. The Chancellor said that opening these markets to greater competition will encourage new challenger firms, spur innovation, and provide consumers with higher quality products and greater choice- as well as introduce measures to prevent subscription traps and fake reviews.
- **Consultation to reform audio-visual creative tax reliefs:** The Chancellor's Statement includes plans to consult on creative sector tax reliefs to ensure they remain competitive and enhance the industry within the UK. The consultation seeks to build upon the success of the audio-visual subset of the creative industry tax reliefs, covering film, animation, high-end TV, children's TV, and video.
- **Funding for the Advanced Technology Research Centre (ATRC):** The government will provide up to £10 million of support, subject to business case, to work collaboratively with the Welsh government to deliver a defence-focussed Centre of Excellence Site in Wales, to include high security laboratory space, training and skills infrastructure.

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Skills and talent

As the global economy evolves, new technologies transform existing sectors and create new ones. The 2022 Autumn Statement cites the importance of developing technologies such as quantum, AI and robotics. As these fields grow, alongside industries delivering the green revolution, workforce skills and roles will evolve.

The UK needs an agile and highly skilled workforce to support our ambitions to be at the forefront of technological development and deployment. However, we are facing acute skills-gaps and staff shortages and a reduced supply of workers from around the world. Demand for skilled workers outstrips supply, as vacancies have risen above a million for the first time in history, and the total number of Workforce Jobs in the UK in June 2022 sat at a record 35.8 million.[8] The Autumn Statement included announcements related to schools, technical education, adult learning and addressing supply shortages.

Schools

The Government has committed an uplift of £2.3 billion for schools in 2023-24, followed by £2.3 billion in 2024-25, stating the ambition that school leavers have skills equal to those they would get in Japan, Germany or Switzerland.

This brings the core schools budget to a total of £58.8 billion in 2024-25, £2 billion greater than published at Spending Review 2021. The Government will increase the rate of per pupil funding committed at Spending Review 2021 in real terms, restoring it to 2010 levels in real terms and providing an average cash increase for every pupil of more than £1,000 by 2024-25, compared to 2021-22.

The additional resources aim to help schools deliver a high-quality education for young people. However, questions remain over whether this uplift will equate to real-life benefits when considering the inflated operational costs facing education providers, including energy bills and resources. Subjects with high running costs could experience challenges, which risks harming the quality of education and in-turn, numbers progressing through these pathways into FE, HE and the workplace. Resources must support STEM and technical subjects, which face acute skills gaps in the workplace, to ensure a future workforce supply in critical sectors.

Universities were notably absent from the published statement, amidst ongoing concern that rising inflation has put universities under increasing financial pressure with the freeze to tuition fees. This could have a negative impact on their financial sustainability, and therefore their ability to undertake research and innovation and partner with businesses.

Technical education

The Chancellor acknowledged the divide between qualification-level attainment, as the UK has low numbers of workers trained to levels 4 and 5 comparative to similar nations, and too few technicians and apprenticeships relative to technical roles.[9] He states that "despite around 50% of adults being educated at tertiary level, the UK underperforms on basic and technical skills compared to similar developed countries."

[8] ONS. (2022), *Vacancies and jobs in the UK: September 2022*

[9] Espinoza, H., *et al.* (2020), *Post-18 Education: Who is Taking Different Routes and How Much do they Earn?* Centre for Vocational Education Research (CVER)

Hunt reaffirmed commitment to T-Levels, higher technical qualifications and apprenticeships, in the ambition to boost employer-led qualifications, technical learning and student's workplace exposure. However, issues remain around work placement supply in some regions and industry sectors, and diversity within the student cohort. As these qualifications are rolled out and refined, collaboration with local industry and education suppliers must ensure supply and demand is matched, to deliver the skills required by industry and boost student's opportunities.

Adult learning

The Chancellor noted the importance of supporting upskilling throughout people's lives. Achieving Net Zero targets alone will affect around one in five, or 6.3 million jobs in the UK,[10] and research shows that seven million workers could be under-skilled for their job requirements by 2030, roughly equivalent to 20% of the workforce.[11] As 80% of the 2030 workforce are already in employment, urgent action is needed.

The Government confirmed the introduction of the Lifelong Loan Entitlement from 2025,[12] to provide more flexible finance for adults to study throughout their lives. Adult education schemes include Skills Bootcamps, which has an outcome target of all trainees receiving a job interview upon completion, and 75% progressing into a new job or new role. However, recommendations from Ofsted's recent review of Wave 2 of the Bootcamp programme[13] must be carried into Wave 3, to ensure recruitment targets are met and match job supply. The quality of training must meet expectations and employers' needs, and that local employers engage with course content development.

In a move to monitor delivery of the reforms set out in the Skills for Jobs White Paper,[14] the Government has appointed Sir Michael Barber as an adviser of the Chancellor of the Exchequer and the Secretary of State for Education. Further details on the implementation of adult re- and up-skilling programmes are needed, and these must match the urgency and scale of demand.

Supply shortages

Unemployment sat at a low figure of 3.6% in Q3 of 2022, close to its lowest rate in 50 years.[15] However, as vacancies are also at an all-time high, the Government has turned to incentivising those who are classed as 'economically inactive' back into the workforce. Working age inactivity remains high, with 630,000 more people inactive compared to pre-pandemic levels, and hiring difficulties are contributing to strong nominal wage growth of 6%.[16]

The Department for Work and Pensions (DWP) will launch a review of workforce participation to investigate this issue, and work will conclude in early 2023. Alongside incentivising workplace participation, efforts should be made to ensure workplace cultures are inclusive, flexible and welcoming to all, to attract and retain talent from all backgrounds.

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[10] Climate Action Tracker. (2021), *Warming Projections Global Update*. Climate Analytics, New Climate Institute.
[11] Industrial Strategy Council. (2019), *UK Skills Mismatch in 2030.*
[12] DfE. (2022), *Lifelong Loan Entitlement Consultation.*
[13] Ofsted. (2022), *Skills Bootcamps thematic survey. Research and analysis findings.*
[14] Delivering T Levels, approving Higher Technical Qualifications, rolling out skills bootcamps, and introducing the Lifelong Learning Entitlement from 2025.
[15] ONS. (2022) *Unemployment rate.*
[16] including bonuses, in Q3 of 2022.

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Levelling up

Announcements to support local economies included:

Support for local industry, jobs and infrastructure:

- **Resource -** The second round of the Levelling Up Fund will allocate at least £1.7 billion to priority local infrastructure projects. Successful bids will be announced before the end of the year.
- **Jobs in rail and construction and improving mobility -** The Autumn Statement recommits to the Government's transformative growth plans for railways. These include East West Rail, core Northern Powerhouse Rail and High Speed 2 to Manchester. These will provide fast, more reliable services and connect people to new job opportunities.
- **Jobs in connectivity and improving communications -** The Government also remains committed to supporting digital infrastructure investment through Project Gigabit, with an ambition to reach at least 85% gigabit-capable broadband coverage by 2025 and nationwide coverage by 2030. This aims to ensure that every corner of the UK can access fast and reliable gigabit-capable broadband, driving economic growth and productivity.
- **Jobs in clean energy and efforts to meet net zero targets -** The Government will continue to secure the UK's energy security through delivering new nuclear power, including Sizewell C (subject to final agreement) and the roll-out of cheap, clean renewables, including wind and solar. This will support the Government's commitment to reduce emissions, decarbonise the power system by 2035 (subject to security of supply) and reach net zero by 2050.

Greater devolution

- The Government is committed to devolving powers to drive local growth and tackle local challenges. This includes agreeing devolution deals with all areas in England that have appetite by 2030. The Government has agreed a further mayoral devolution deal with Suffolk County Council and is in advanced discussions on mayoral devolution deals with local authorities in Cornwall, Norfolk and the North East of England. Taken together, these deals will mean over 50% of people in England live under a directly elected mayor with devolved powers.
- The Government will deliver the Levelling Up White Paper commitment to sign new 'trailblazer' devolution deals with Greater Manchester and the West Midlands Combined Authorities by early 2023 and devolve powers to deliver levelling up in areas such as skills, transport and housing. These 'trailblazer' deals will act as a blueprint for other areas to follow. This could give local partners more flexibility and accountability over key economic growth funds, moving away from competitive bidding processes. Subject to progress of these discussions, the government will consider the eligibility of other mayoral combined authorities for these settlements, noting the need to ensure appropriate accountability structures are in place.