# A tough Autumn Statement but some positives on R&D and innovation

The Autumn Statement from Chancellor Jeremy Hunt was a vital lesson in the realpolitik of how to manage the public finances when the UK economy is in recession, inflation is at its highest level in over forty years, and there remain considerable hangovers from the Covid pandemic including disruptions to the global supply chain and the labour market.

Given what had happened back in September when the markets reacted badly to his predecessor's mini-budget, the Chancellor's primary aim was to develop a strategy which would balance the books and tackle high inflation by raising taxes and cutting government expenditure.

At first glance, there was little cheer within the statement with taxpayers having to pay more over the next few years through the freeze on income tax thresholds. And whilst the Chancellor has taken steps to protect the most vulnerable in society through protecting payments to pensioners and those on benefits, average real household disposable incomes are still forecast to fall by 7.1% over this year and 2023 (or £1,700 per household).

This will dampen consumer demand at a time when the UK is entering a recession that will reduce the size of the economy by 2%, and many are pessimistic as to how the nation will recover at a time when the entire global economy seems to be in trouble.

Whilst the Chancellor was restricted in how he could provide support to business, a more detailed analysis of the Autumn Statement suggests that there is some good news in terms of the development of a more productive and innovative economy.

Whereas some university leaders had been vocal in suggesting that research and innovation funding was to be cut, the government has continued its commitment to increased spending on R&D to stimulate private sector investment.

As a result, public spending on R&D will increase to £20bn a year by 2024-25, a cash increase of around a third compared to 2021-22. More importantly, the UK's most innovative companies will be supported directly through an increase of £2.6bn in Innovate UK programmes during this period.

As ever, the challenge for Welsh universities and businesses will be to work harder to get a bigger share of this funding which has been well below what would be expected in the last 20 years.

In addition, funding for the catapults – where the application of research is accelerated and new technologies are further developed – will increase by 35%. This is good news for the Compound Semiconductor Applications Catapult in South Wales which is seen as critical to developing a whole range of new industries in the region.

Wales will also benefit from funding for the Advanced Technology Research Centre with up to £10m of support being provided to deliver a defence-focussed Centre of Excellence in collaboration with the Welsh Government.

Unfortunately, whilst areas such as the Midlands, North East England, North West England, and Yorkshire and the Humber are receiving funds to help manufacturing firms boost their productivity through advanced digital technology, the Made Smarter programme is not available in Wales.

Given Wales has a higher dependency on manufacturing for economic growth than the rest of the UK, this is highly disappointing, and it would be good if the Welsh Government would look to adopt this programme to help Welsh manufacturers to grow.

Given the cull of most of the policies developed in the mini-budget, some of the more business-friendly measures are retained in the Autumn Statement. For example, the annual investment allowance will be permanently set at £1m from April 2023 providing businesses with a 100% tax deduction on qualifying investment up to that limit.

In addition, the government will continue to increase the generosity and availability of the Seed Enterprise Investment Scheme which helps to generate funding for new businesses and has indicated that it may also do the same for the Enterprise Investment Scheme. There are also hints that there may be changes to encourage greater institutional investment into innovation which could mean pension funds being encouraged to support high technology firms.

Whilst the general principle of investment zones survives, these will now be focused in developing a limited number of high potential clusters for new growth industries and leveraging research strengths to do so.

In this respect, it’s critical that the Welsh Government, along with universities in Wales, starts to consider how they can develop strategies to take full advantage of the opportunities that may arise from the refocusing of this policy.

This focus on developing high quality clusters is also emphasised by the proposed changes to EU regulations in five growth industries namely digital technology, life sciences, green industries, financial services and advanced manufacturing and the decision to ask the chief scientific adviser Sir Patrick Vallance to lead new work on how regulations should be changed to better support safe and fast introduction of new emerging technologies.

Therefore, whilst no rabbits were pulled out of the hat in an Autumn Statement that was largely focused on managing public finances and the challenges of high inflation, there were some positive developments in supporting innovation that could bear fruit in years to come.

For Wales, the challenge will be as always to ensure that our businesses and universities are supported properly to take full advantage of the increased funding in place and the different initiatives to boost productivity and innovation.

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