

Autumn Statement 2022 Summary

21 November 2022, John Lincoln

PHOTONICS
LEADERSHIP GROUP

The Rt Hon Jeremy Hunt, MP delivered 2022 Autumn statement on 17 November 2022. The statement included the following announcements relevant to photonics which may not have made wider popular press analysis. [Full statement available online](#), quotes taken from there, *commentary in italic*



Protection of R&D spending.

Previous commitments to R&D spending will be preserved.

“Public spending on R&D will increase to £20 billion a year by 2024-25, a cash increase of around a third compared to 2021-22”.

Given the general focus on balancing books and reducing spending this was an achievement, hinted at by Rt Hon George Freeman, MP Minister for Science in opening of Quantum Showcase the previous week. As with other departments, inflation will reduce impact”

R&D tax credits

The biggest announcement in statement not attracting popular analysis is significant reform of the R&D tax credits. This will reduce credit available to SME and significantly increase it for larger companies (to 20%). A “rebalancing” between the SME scheme and the wider R&D expenditure credit to make the latter more international competitive and the former less focus for abuse. Previously announced changes to include cloud and data costs as allowable expenses remain.

“For expenditure on or after 1 April 2023, the Research and Development Expenditure Credit (RDEC) rate will increase from 13% to 20%, the small and medium-sized enterprises (SME) additional deduction will decrease from 130% to 86%, and the SME credit rate will decrease from 14.5% to 10%” Further details will be forthcoming in an “Autumn Finance Bill 2022”

Additional consolidation into single scheme will be consulted on and “legislated for in Spring Finance Bill 2023”

R&D tax credits are highlighted by photonics industry as a key driver of investment. Changes should make this even more beneficial for larger companies. Watch for the details in both Autumn and Spring Finance bills.

Investment Zones

The previously announced investment zone program will be completely refocused, “existing expressions of interest will therefore not be taken forward”

“government will refocus the Investment Zones programme. The government will use this programme to catalyse a limited number of the highest potential knowledge-intensive growth clusters, including through leveraging local research strengths”... “The Department for Levelling Up, Housing and Communities will work closely with mayors, devolved administrations, local authorities, businesses and other local partners to consider how best to identify and support these clusters.”

This is a significant policy change, shifting enterprise zone from typically deprived industrial areas to areas centre around knowledge centres i.e. leading universities and RTO's. This should put academic centres at the core of any new Enterprise Zone proposals. Note the resurgence of the term ‘Clusters’ and thus importance of noting location of Photonics clusters.

Catapult Funding

“funding for the UK’s 9 Catapults will increase by 35% compared to the last five-year funding cycle. This £1.6 billion investment will allow Catapults to continue supporting innovation and de-risking the transition from research to commercial delivery”

The Compound Semi, Digital and Offshore Renewable energy catapults were specifically called out as part of emphasising the footprint in devolved nations.

Employment forecast

Employment remains high despite recession

“Reflecting the expected recession, the OBR forecasts the unemployment rate to rise slightly over the forecast period to 4.9% in 2024 and 4.7% in 2025. It then falls back to 4.1% by Q3 2027. The inactivity rate is projected to rise marginally and remain elevated at 37.0% over the forecast, reflecting increasing inactivity in older age groups. Despite this, the level of employment in 2027 is forecasted to be 3.5% above the level in 2021”

As discussions within the PLG reflect, growing the talent pipeline and working with a high / full employment economy presents a number of challenges. Despite a forecast recession the OBR forecast indicates this will remain the status-quo going forward.

Inflation forecast – OBR

Mid-term inflation forecast turn negative.

“The OBR expects inflation to peak at 11.1% in Q4 2022, compared with the peak of 8.7% in its March forecast. The OBR expects inflation to then fall over 2023 to 3.8% in Q4 2023 and to fall below the 2% target by Q2 2024. Inflation then turns negative between Q3 2024 and Q2 2026 as energy and food prices fall.”

I believe this is the first time I have seen negative inflation in the OBR forecast, a highly unusual economic event, management of which generates a number of significant challenges.

Dividend and Capital Gains allowances

“The government will reduce the Dividend Allowance from £2,000 to £1,000 from April 2023, and to £500 from April 2024”

“Capital Gains Tax Annual Exempt Amount from £12,300 to £6,000 from April 2023 and to £3,000 from April 2024. ...legislated for these measures in Autumn Finance Bill 2022”

SEIS and Share options

“the government is increasing the generosity and availability of the Seed Enterprise Investment Scheme and Company Share Option Plan” as previously announced

Good for start-ups and those using share options as incentives, although the value budgeted for in the expenditure account is small – £20-25m a year

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