



HOUSE OF LORDS

Economic Affairs Committee

Finance Bill Sub-Committee

Corrected oral evidence: Draft Finance Bill 2022-23

Monday 7 November 2022

4 pm

Watch the meeting

Members present: Lord Leigh of Hurley (The Chair); Viscount Chandos; Lord Monks; Baroness Noakes; Lord Palmer of Childs Hill; Lord Turnbull.

Evidence Session No. 3

Heard in Public

Questions 21 - 39

Witnesses

[I](#): Chris McDonald, Policy Chair for Innovation and Enterprise, FSB (Federation of Small Businesses)/Chief Executive Officer at the Materials Processing Institute; Alice Jeffries, Head of Tax Policy, CBI (Confederation of British Industry); Kitty Ussher, Chief Economist, IoD (Institute of Directors).

Examination of witnesses

Chris McDonald, Alice Jeffries and Kitty Ussher.

Q21 **The Chair:** Welcome to the Economic Affairs Finance Bill Sub-Committee's third oral evidence session. Today we will be hearing from business representative bodies on the draft Finance Bill's research and development tax relief proposals. I welcome the witnesses to this committee and I invite them to give brief introductory remarks about themselves.

Alice Jeffries: I am the head of tax policy for the CBI, the Confederation of British Industry. We are a business representative body, representing 190,000 businesses and roughly a third of the private workforce.

Chris McDonald: I am here as the policy chair for innovation and enterprise for the Federation of Small Businesses. The federation operates slightly differently to CBI in that people in my position are all lay members. I have a day job, which is running a business as well. The business I run is an innovation development company based in Redcar in north-east England. It has a turnover of £7 million a year. We develop new technology largely for the metals sector.

The Chair: Thank you for coming to us from Redcar, and on hybrid?

Kitty Ussher: I am the chief economist at the Institute of Directors. We represent the mid-market of British business, typically SMEs. We have around 20,000 members across the whole of the UK. Thank you very much for allowing me to give evidence virtually.

Q22 **The Chair:** Thank you. To start off, I will ask for your opinion on how effective you think R&D relief is in encouraging investment in R&D.

Alice Jeffries: It is helpful to start with why R&D spending is important in the first place. Business R&D and innovation is essential to drive long-term, sustainable growth. We know that the businesses that invest in R&D consistently show more productivity; it is around 13% more than businesses that do not. It is also essential for hitting targets like net zero and ensuring food and energy security into the future, so facing those future-proofing challenges. R&D tax credits form one part of that system. They do not function in isolation. The innovation system also includes a great deal of public R&D funding and it covers other government levers like support for the skills base and the labour market through immigration, childcare and things like the apprenticeship levy, and ensuring that the regulatory environment enables innovation.

Within that, R&D tax credits do play an incredibly important role. They are complementary rather than an alternative to much of that public funding. They provide stability. They have been broadly unchanged, apart from tweaks in rates and some of the changes we will talk about today, for roughly 20 years. Unlike grants, for many businesses they are certain so they can be factored into decision-making. They unlock breakthroughs from unexpected places, so rather than government having to have

decided that they think something innovative may happen in an area, a business can do something itself that it considers to be innovative. Those unfashionable but essential innovations in things such as food production, chemical inventions and unexpected things like the DeepMind project that came out of games development can often be funded through R&D tax credits when they may not qualify for other forms of public support.

Overall, we think that R&D relief is hugely effective in increasing private business investment, and that business investment is key to sustainable growth.

Chris McDonald: From a small business perspective, in the evidence submitted by the Federation of Small Businesses we cited an OECD survey that showed that particularly for small businesses you can expect a 1.4 return per pound, so £1.40 of private sector investment for every £1 of tax incentive. Some of the reasons for that, speaking personally as someone who runs a small business, are that there is that level of certainty, but R&D tax credits are also responsive and flexible to business need. There is a big difference between other innovation interventions, such as grants, and R&D tax credits, which reward success, which is very consistent with small business culture. Entrepreneurs like incentives that reward success. They are responsive and flexible to business need, whereas grant programmes tend to be much more top driven.

Kitty Ussher: From our viewpoint, I would concur with what my colleagues have said. Our surveys of members show that they are an important part of the investment ecosystem. They are understood and for those companies that are at the cutting edge of some kind of advance they are known and used.

It is probably worth putting on record two other bits of external evidence. The HMRC evaluation report found a correlation between R&D tax credits and the level of research and development that was undertaken in large companies and under the SME scheme. An OECD evaluation showed that private sector R&D has risen over the last decade in the UK—we may have wished it to rise more—and its suggestion was that that was relevant to the generosity of the tax credit scheme.

Q23 **Viscount Chandos:** Do you think that R&D tax credits are generous enough? There is a continuing review, so if you think that there should be changes, what might those be?

Chris McDonald: We have presented some evidence that shows quite clearly that if you increase the rate of the incentive then you also increase the uptake, particularly for small businesses. In terms of changes to the scheme, which is the second part of your question, it is very important that we have a good look at the definition of the scheme. If we sit back and think, "What is the purpose of this scheme?", it is to stimulate innovation in businesses, which improves productivity and supports growth and jobs. Currently, the definition used in the scheme is much more about what I would term "new-to-world" or "new-to-industry"-type innovation, when much of the innovation undertaken by

small businesses is new-to-firm innovation. That is still innovation and it will improve productivity and growth.

In fact, I reflect back on a speech that Andy Haldane gave in 2016 when he came to visit my institute. He talked about the long tail of innovation in UK businesses, which is not related to any particular geography. In any industry there are high-productivity companies and lower-productivity companies. The difference is that the lower-productivity companies have not adopted these new-to-firm innovations.

We are very focused on ground-breaking science, quite rightly, through our UKRI programmes and our university base, but when it comes to supporting innovation in business, the focus has to be growth and return on investment for the UK economy. That is why I think—the Federation of Small Businesses supports this, and we have provided evidence as part of our submission—allowing a greater degree of new-to-firm innovation to be included in the R&D tax credits would significantly improve the impact of the credits. In the report we have linked to, we have shown how that definition is used in other countries around the world, including Canada. For whatever reason, we choose to use a narrower definition in the UK.

Kitty Ussher: At a high level, we were very supportive of the decision made last year by the Treasury to include data and cloud computing and pure mathematics. It is probably worth putting that on record, and I know that that is what is coming before the House in this session.

In terms of potentially expanding it and keeping it under review, there are probably some issues around charging the costs of ancillary services that are linked to R&D direct costs. For example, if the core costs of some central functions of the organisation—payroll, HR and general costs—have to rise through an expansion that is taking place because the R&D is happening, for a smaller company that is a very real cost of R&D. Where the cut-off is in the definition is important. I am not sure that it has been fully addressed; it was not in the Government's analysis and review of their own review. We would urge a bit more scrutiny there.

My colleague from the FSB raised an important point about new-to-firm technology. We did address this in our initial written evidence, which I think the committee has seen. I am not sure how realistic it is to ask the Treasury to consider digital adoption as in scope of an R&D tax credit, important though it is for driving up productivity and growth across the economy. However, the point is still well made that the two go together when business decisions are being made, particularly by smaller companies that may be part of the long tail, even though they are working very hard.

Perhaps part of the conversation is considering whether capital allowances are being used most effectively, particularly for digital adoption of modern, 21st-century processes and cloud computing. Certainly, our evidence shows that many of our firms think that would be transformational; it is just about having the incentives to firmly prioritise it. I am slightly hesitant about pushing for something that may not

arguably be in scope, while recognising how important it is as part of the same conversation.

Viscount Chandos: Maybe in giving Ms Jeffries her moment I could throw in a supplementary question for her and the other witnesses. If it is to be more generous, should it be wider—broader in who it goes to—which is what I hear Mr McDonald saying, or deeper in terms of trying to increase fundamental innovation?

Alice Jeffries: When we talk about generosity, for many of our businesses we are talking about that in an international context. Part of what they are looking for is where they will get the best rate of return—where it is best for them to base their R&D activities if they have mobility internationally. That is true for the larger businesses that are globally mobile, but it is also true for new, early-stage businesses with globally mobile employees. An individual who is setting up his first app might do it in San Francisco, Austin, Shanghai or London and he has to pick between various different incentives in deciding where to do that.

There is an international element to deciding what we mean by generosity. When we look at the schemes that are available around the world in comparable economies with otherwise comparable regulatory systems, levels of political stability and levels of investment availability, there are a number of things that you could do in the R&D tax credit scheme to make the UK stack up and be as generous as those schemes. A couple of them have already been mentioned.

The one around the definition is key because a lot of the other countries use the broad OECD definition, which is called the Frascati definition. It includes applications of available knowledge in new ways, so that would cover those new-use or new-to-firm cases. It would also cover certain models that are becoming increasingly common and which most of us would consider innovative, but which are not necessarily captured by the current UK definition in tech and AI. Often they are using an existing algorithm but applying it in a new way or, in the case of machine learning, it is the human setting certain criteria but it is the machine doing the innovation. It is unclear how those fit into our existing definition, which is limited purely to new advances in technology and scientific uncertainties.

There is a definitional piece but there are also a number of scope pieces. When you were talking about breadth versus depth, most of these are about breadth. It would be covering capital expenditure within R&D. We do have R&D capital allowances in the UK but those are mostly beneficial to companies that are making profits and therefore potentially have corporation tax to pay, so would reduce those using capital allowances. Early-stage businesses, those doing a great deal of R&D, tend to be either not at the point where they are making profits because they have not commercialised anything—that is the nature of the business—or in highly cyclical businesses such as life sciences where it takes them 10 years to develop a drug before they make any profit from it. They are unlikely to find capital allowances particularly valuable.

When we ask members about it, we see a potentially huge benefit from capital being included because that takes you all the way back to the very first stage of the investment process. Instead of just talking about the specific project and the specific drug development, for example, you build the laboratory within the R&D tax credit system, so you do 10 or 20 projects in the UK. It makes it much easier for the UK to be seen as an R&D hub. That is probably the biggest piece; the one that comes up most commonly from our members is capital being included in the system.

I will mention a couple of others, again on this international competition piece. On green incentives and net zero, we have seen the scope widened in places such as Spain and Portugal to cover green incentives and give higher rates of tax credits to things that reduce carbon emissions, for example, and things that we want to see in the labour market. The UK has various incentives—the apprenticeship levy, for example—but in France they use R&D tax credits. You get a higher rate of tax credits if you hire somebody who has just finished their PhD and does not have personal experience in a workplace yet to encourage people to hire those new scientists and create the pipeline that they will need going forward. Other countries are using the credits in ways that we could look at and that could be hugely beneficial to UK innovation more generally.

I am not sure that there are many suggestions on how to deepen what we are doing. It is mostly covered by that definitional point.

Viscount Chandos: Could you not have a higher rate for research as opposed to development—accepting that that is a difficult distinction to draw—to address depth versus breadth?

Alice Jeffries: I suspect that a lot of our members' concern about that would be the additional complexity that it adds to the system. They have concerns about the complexity of some of the changes that are being proposed at the moment and some of the changes that have come into the system recently anyway. Adding differential rates for different parts of a project might make it even more complicated. We do have that to some extent anyway. When Kitty was talking about indirect activities, they already get a reduced rate in some cases. I think it is 65% as compared to full costs being covered. It could be done, but I am not sure that businesses would necessarily see that as beneficial.

Chris McDonald: On this breadth versus depth question, it is important to think about the whole end-to-end innovation process and what is a good intervention at each stage. The depth aspect, the fundamental science and research, is what we do really well in UK universities. We are very well renowned for that and it is very well funded through UKRI, grant programmes and so on. The key thing is that research tends to be quite risky and a grant is a great way to derisk that research.

When we get to the other end, when we are trying to make an innovation work in business, which is what I spend a lot of my time doing and have done successfully, implementation is the hardest part. I think that in the UK we underestimate the difficulty of implementation. That is why we are

not rewarding that particularly well compared with the fundamental research. The greatest reward is on the breadth. If we can bring all the businesses in the sector up to the standard of the most highly productive businesses, we will get a big boost in economic growth.

In short, my response is that the depth of fundamental science research is best done in the places with the experts with the right kind of intervention to do that, which is largely our university base. In business, we need to focus on return on investment, economic growth, commercialisation, jobs and so on. That is why I think that this new-to-firm definitional change would unlock a lot of growth for us in the UK.

Q24 Lord Monks: Chris, can I check something you said in your opening remarks? I thought you said that the tax credit system is generally pretty well liked by members of the Federation of Small Businesses, that it fitted with the culture and that tax credits were a better way of helping them than perhaps some alternatives, such as grants or something you might have to apply for and be assessed on. Did I get that right?

Chris McDonald: Yes, I wanted to be clear about that. I have worked in multinationals doing R&D and I have worked with and in small businesses as well. There is a clear cultural split. To generalise, people who are entrepreneurs, who are running small businesses, in general believe that it is right that they will be rewarded for their success and it is wrong to subsidise failure—I am characterising, but perhaps if you know small business owners you might recognise that. Among the small business community, an R&D tax credit is seen as a reward for success, and if a competitor receives a grant for something, “Why have they been given a subsidy?” is essentially the response. Small business owners are prepared to take risks. They understand risk in their business, and innovation is also a risk. I think that it is best when government are working with the business community to work with the grain of the culture, essentially. Automatically, R&D tax credits have a greater level of acceptance.

There is one caveat to that, which is the role of intermediaries and agents that sit between small business to try to translate the rules of HMRC and so on. That is not taken very positively among the small business community because it is seen as a non-value-adding, waste-of-money service, a necessary evil as it were, to do that translational activity.

The thrust of it, that it is risk-taking that results in success that receives a reward, goes with the grain of entrepreneurs and business culture in small businesses.

The Chair: I think Lord Turnbull wants to come in on that point.

Lord Turnbull: I just want to clarify this idea of paying a tax credit for success. I thought that there was some basis on which if you did a lot of research but never made a profit, you could still claim relief—or what I would call, in effect, a grant. It is being paid to you for the research you have done, not the profits you made from it.

Chris McDonald: Yes, you are right; you can cash in tax credits at a lower rate against losses and historical losses. That is particularly important for start-up or small, growing businesses as they grow. It is a good reason for those businesses to invest in new technology and innovation at that stage.

Lord Turnbull: We have to temper the language then, saying that this is payment for success when, in fact, some of it is not. Some of it is a down payment on success, perhaps; it is not actually success itself.

Chris McDonald: Yes, that would be fair.

Q25 **Viscount Chandos:** Tax credits are a repayable grant, are they not—conditionally repayable, because it is offset? It is selling your tax losses for—

Chris McDonald: I think that in this room we can describe it like that and it would not be wrong to describe it like that, but the point I was making was about going with the grain of the culture in the small business community. If you are a small business person and you are looking at the things that you accept as going with your mindset of being an entrepreneur, then the notion of relief on your taxes fits that culture far better than a grant.

The Chair: Can I explore that a little as well? Without putting words in your mouth, are you saying that the system of tax credits, which is largely UK, is more acceptable than grants, which is largely other countries, because grants often come with restrictions and directions, whereas a tax credit is simply repaying an entrepreneur for what the entrepreneur decides to spend the money on?

Chris McDonald: There are lots of grants available in the UK, too. I have just said going with the grain of the culture, but I also pick up your point, which goes back to the comment I made earlier about flexibility. A tax credit can be used by a business to do what the business needs to do, whereas UK grant programmes from UKRI—Innovate UK is the agency business would bid into—are driven by Innovate UK's view on what is necessary for industry, based on the user consultations it will have, which will not include a lot of small businesses.

If I am a small business owner and there is some innovation that I need to do now, R&D tax credits will help me to do it. I might see that Innovate UK ran a scheme on that 18 months ago and it might run one in 18 months' time, but that is no help to me now. That is another reason why it is important. I think, and I am sure you would agree, that when it comes to what innovation activity a small business should do, nobody knows better than the people in that business. They know far better than anyone else what their customers and their market need and how to improve their own productivity. That responsiveness is a key part of it.

The Chair: I am sorry; we interrupted Lord Monks.

Q26 **Lord Monks:** We have heard evidence from the world of accountancy

and agents that there is a lot of concern about the complications in accessing the tax credits. We note, for example, the FSB, where 40% of firms surveyed did not take part in the exercise, yet you are an enthusiast for it and you will be spreading the message. Why do you think that people are concerned about complications? Do you have any ideas about how the whole thing might be simplified? That is particularly for Chris but also for our other witnesses today.

Chris McDonald: There are a number of concerns; I will trot round a couple of them. From a small business perspective, HMRC is quite an intimidating organisation and you really do not want to get on the wrong side of it. For a group of small businesses, when they hear—and possibly the first time they hear of it is from their accountant or a cold call from an agent—that there is this marvellous scheme that will help them to get a reduction in their tax, they can be very wary about engaging with it for fear of ending up on the wrong side of a discussion with HMRC. We believe that among our members there are a significant number who essentially believe that it is too good to be true or it could lead to them having a problem with HMRC.

There is another group of members, as I alluded to earlier, who feel that if this scheme is so complex that the only way they can engage with it is through some third-party agency, then they do not want to be involved with it at all. Again, there is an element of suspicion there, not about HMRC but about the agents. I think that it was in the data that we presented that the agents are currently taking about 16% overall of the take from R&D tax credits. I would hope that HMRC would see that as a problem because that money should be applied back into the UK economy to generate productivity in firms that are doing innovation, and instead it has spawned this industry of intermediaries. I know that HMRC is concerned about the legitimacy of some claims as well as a consequence of that.

There is a problem, but small businesses cannot carry all the expertise themselves. There are a couple of things that HMRC could do to help. One would be this definitional issue of new-to-firm innovation. That would take out the problem with the word “development”, which is causing a lot of angst on whether something is or is not a development. It is new to the firm; therefore, it is in.

The other thing that HMRC could do is to engage differently around this. We have seen some good examples of where this is applied in other countries. There is an intellectual capability around innovation located within the tax body that understands innovation and how innovation works in business and is able to engage in that way. Having had experience of filling in R&D tax credit applications, this is not a tick-box exercise. You need to carefully go through each project that you have undertaken, identify the innovation potential of that project, which is naturally subjective, and then agree that with HMRC. To do this effectively, HMRC needs to have capability within the organisation that can engage in that way directly with businesses. There were some

suggestions in the submission from CBI that HMRC could do that, with which I fully concur.

Alice Jeffries: I would certainly agree with everything that Chris has just said. On simplification, our larger businesses tend to have a good relationship with HMRC. They tend to have a personal compliance manager who they engage with, and they have that early engagement and a good relationship. It is smaller businesses and the people who advise them who find themselves in the position where they are unsure what the applications will be.

That relationship has been complicated even more over the last few years by the removal of several of the R&D specialist support officers within HMRC—about eight or nine years ago some of those posts were dissolved—and some much more short-term issues that have come up around simply failure to pay. We were getting regular updates from HMRC telling us that it had delayed yet again paying SME R&D claims. We have been getting those for the last year or so. For a lot of the businesses that consider this a form of funding and build an expectation in that they will get this money because they have had it previously on similar projects, that was an unexpected change.

There is a more general point about how HMRC engages with businesses. The advanced notification that has been added into the suggestions that came this year is not something that we think adds to HMRC's understanding of what the projects are. It does not help the businesses to understand whether their projects are likely to qualify for R&D relief, so we are not sure what it is doing to improve the quality of the system. Originally, it was proposed that it should be advanced notification before the project even begins, which a lot of businesses simply said was not possible because they would not know exactly what the innovative part was until they had created the project plan. It is better for it to happen six months after the end of a tax year than before the project starts, but I am still not sure that it adds very much to HMRC's understanding of what businesses are doing.

What would be more helpful—again, there are lots of international comparators for this—is an advanced assurance system. HMRC technically has one of these for small businesses, but it allows you to use it only once. If you do multiple projects as a small business and you have used advanced assurance once, you are not allowed to use it again. We do not understand why that is the case if HMRC wants more engagement with taxpayers to understand their projects and whether they fit within the rules. There was also a pilot to do this for large companies, which was run in 2019-20. HMRC was supposed to produce a report; we understand why this was not its highest priority in 2020, but it was supposed to produce a report to say whether the pilot was helpful, whether businesses found it useful and whether it got more information about innovation in the large-credit system. It did not produce that report as far as we are aware.

There is this option out there to have a much better engagement level and HMRC has tried it, but it has designed it in such a way that it does not work for the businesses that want to use it. We think that it could do more in that space.

Kitty Ussher: I think that there is a very general high-level point of principle here, which is that if you are running a small business, you should not have to engage an intermediary in order to deal with government. There are a number of different bits of the relationship that business has with government where intermediaries are extremely common. This is one of them, with apologies to those of our members who are intermediaries in the R&D tax credit space. Another one, for context, is dealing with local authorities and the Valuation Office Agency on business rates administration. There is clearly an issue there as well.

The reason why that is a problem is if you go straight back to first principles—this is how I like to think of it—the purpose of using taxpayers’ money to encourage scientific advances is to try to encourage more of that research and development to take place. We think that there is a public interest in doing so; therefore, it is valid to use taxpayers’ money to incentivise it.

It should be having an impact at the point of decision. You should be sitting around the boardroom thinking, “Is this too risky to do or not? Does the reward justify the risk? I am not sure”, and then the finance director says, “Perhaps we can tilt the balance of that because of the Government’s R&D tax credit”. I am simplifying, but it should be before the event, not after. As colleagues have said, what we are hearing from our members at the moment is, “We are not sure if we are eligible”, “We are a bit daunted by the risk of making a false claim” or “We will have to ask for help to see if we will be eligible and it is something we will apply after the event rather than at the point of decision”. It is absolutely essential that at the point of trying to decide what your medium-term R&D budget and planning is, you know whether you are eligible or not. There has to be that assurance process.

There are lots of very simple things that can be fixed through market research with eligible companies as well, such as worked examples, better language and easier to fill out processes, so you understand as completely as possible whether your proposed spend will be eligible or not right at the get-go.

Lord Monks: How can HMRC give that assurance that you are looking for that you are eligible if you can put a claim together?

Kitty Ussher: I would suggest that it needs to invest in that service, do it case by case for more complex situations and certainly work extremely hard at its user experience portal or whatever information services it develops going forward. It has to feel straightforward to exactly the type of companies that are engaging in this. It is no different from any other communication challenge. This is about worked examples, guidance and language. It is about the translation of how government and economists

see it through to the language that people are using in the boardroom day to day.

The point was well made about the word “development”, which can be used very differently in a pure science or technological advance way as opposed to the idea of investing in something that is new to the business. Regardless of which of those is in scope—that is a separate debate—people have to know what it is that they are talking about. The definition of what is and is not in scope has to be clear in everyday business language. If that means that it is not in scope, that is fine, but that needs to be known at the outset.

Alice Jeffries: I would agree with that. I think that it is a two-stage process. We are talking about guidance and worked examples. When you look at the BEIS guidance, some of those examples are seriously out of date. They talk about DVD players, not modern tech and innovation. That is in BEIS and HMRC. That is the kind of thing that everyone can access on an individual business level before they engage with HMRC. They can look at it on the internet, but it seems to be not comprehensible or not up to date. The second part of that process is an actual advanced assurance process where they apply to HMRC to say, “We think this project ticks the boxes. Does it?” They can get that assurance in advance before they start.

Q27 **Lord Palmer of Childs Hill:** I just want to clarify something. When most companies deal with HMRC, they are dealing with a district office. Could you explain the relationship between the district office and these people with expertise? Is there an easy link between the two? Most companies will just deal with their district office. Is this expertise in the district office or is it further afield?

Alice Jeffries: I am not an expert on the structure of HMRC, but I will say that there is an existing service within HMRC to do advanced assurance for small businesses. I suspect that if you asked your district office for this, it would refer you to that, but you can also find the contact details on the internet.

Lord Palmer of Childs Hill: There is an extra link, Chair, in this between the HMRC most companies will deal with and the people who are dealing with the mechanics of this system of tax credits. It is something that perhaps ought to be looked at.

The Chair: I think that it is a different group, but yes.

Lord Palmer of Childs Hill: I know, but these experts have identified to me that they are not sure where those experts live within HMRC.

The Chair: Thank you. We have to move on with a bit more of a pace, so I suggest that everyone, including myself, tries to restrict themselves from supplementary questions unless they are burning. We will move on to Baroness Noakes.

Q28 **Baroness Noakes:** We have covered some of this territory, which is

about international comparisons. You have been talking about the different scope definition used elsewhere, but I want to move away from that and concentrate on the research and development that the UK Government are trying to encourage, rather than new-to-firm innovation—I think we can park that as a separate issue. Looking internationally, which countries do you think are successful in getting additional research and development in the terms described? Are there lessons from other countries for being effective in getting more research and development?

Alice Jeffries: The OECD keeps quite good statistics on R&D developments around the world. We know that a number of the G20 economies do better than us in terms of the percentage of their GDP that is spent on R&D. For example, in South Korea it is just under 5% and I believe for France and Germany it is over 3%¹ in the latest statistics they have published. Those economies have some of the additional scope we have talked about. France would include capital expenditure. South Korea has a regulatory system that is heavily geared towards supporting innovation.

When we talk to businesses, they talk about the entire innovation space. They talk about public funding, R&D tax credits and other incentives that would support them in finding the highly skilled labour force they need to do that innovation, not just R&D tax credits.

Baroness Noakes: Are you saying that the lessons would be outside the tax system?

Alice Jeffries: Some businesses would tell you that the UK R&D tax system covers a gap that in other countries would be covered by public funding.

Baroness Noakes: Ms Ussher, did you have anything to add to that?

Kitty Ussher: I do not think that I do, because I always go to the OECD for international comparisons. It sounds like you are already aware of that source of information.

Baroness Noakes: Is the OECD using its own definition—the broader definition? Are we not comparing like with like when we look at the level of R&D in the UK economy compared with, say, South Korea or France?

Alice Jeffries: It is one of the oddities of the UK R&D tax credit system that it uses this other definition. For example, the ONS in its private business investment in R&D statistics uses the OECD Frascati definition, which is a broader and different definition. It is the one that most people are using. That is the widely understood international definition and the fact that the UK uses a different one specifically for R&D tax credits is an oddity.

¹ Note from witness: according to OECD data Germany and Japan had levels over 3%, not Germany and France. The source for that information is available [here](#).

Q29 Lord Turnbull: When we are talking about R&D, I still think that we are dealing with an intermediate output. We are not doing R&D in order to accumulate a lot of intellectual property. We are doing it because we can then apply it to something and thereby achieve improved productivity. What is the evidence that for the length of time this scheme has been going it is getting through and making a difference to productivity?

Alice Jeffries: This is a very good time to talk about the last ONS statistical update. You may have seen that on 29 September it released an update on business R&D investment, which adjusted its previous estimates by roughly two-thirds upwards. It rose from I think £25 billion to just over £40 billion in the last year it had done this adjustment because it was underestimating SME investment in R&D in particular.² The reason that I think that is important in the context of this question is that we do not have the statistics at the moment to say what the level of productivity increase has been and what the impact on growth has been because we are waiting for a much bigger methodological update from the ONS, which we will not get until—

Lord Turnbull: That must be evidence that productivity is growing more slowly because we are putting more input in, yet there is no sign of any increased output from it. As a result of that revision, unless there is a corresponding increase in output, you are not recording an increase in productivity, which is the real thing that we are after.

Alice Jeffries: We have not yet seen the methodological update on the output number, which the ONS has told us it would expect to see some adjustment to. It will be much smaller as a proportion because it is looking at the whole economy as opposed to just R&D. The ONS will not be in a position to give us that number for a while.

The other thing is that some changes were made to the R&D tax credit system, in particular in 2012 around limits. Since then, we have seen a huge increase in SME investment in R&D in terms of the claims that HMRC is seeing. We would expect to see quite a long delay between the increase in claims and the actual productive output because, as you say, R&D is the intermediary stage. They develop a new process. They then make a claim for that process slightly further down the line. They may then commercialise or the productivity increase they see from that process takes a while to feed through to the economy. We are not necessarily seeing the outputs of those inputs yet and most of those are relatively recent.

Lord Turnbull: Most of this is based on the faith that if you do the R&D, in the end it will get adopted. You would not have bothered to do it if you did not think that you would be able to exploit it. We have not seen the fruits of that coming through.

² Note from witness: the exact figures published by the ONS show that the previous estimates (£25.2bn, £26.0bn and £26.9bn for 2018, 2019 and 2020 respectively), have been reweighted such that the new estimates of spending are £40.2bn, £41.6bn and £43.0bn for the same periods. These results are available [here](#).

Chris McDonald: The challenge is that we do not have a counterfactual. We do not know what would have happened if we had not done the R&D we have done. What we do have is the OECD data. It is not straightforward. It says that 43% of UK firms are innovative. That is better than the USA, China and Japan, despite the fact that we have a relatively small manufacturing sector, but our productivity is lower than many of these countries as well.

Maybe what you were driving at is how we can be sure that the innovation we are doing is adopted and actually sees some sense in the economy, which is the bit we are all bothered about. I think that when it comes to tax credits, we can have more confidence than we can with research and innovation grants because the tax credits are closer to the sharp end, as it were. The bit that I am most involved in is commercialising technology. They are generally associated with that bit. More risky, less well-developed R&D tends to go down the grant route rather than the other way.

Q30 **Lord Turnbull:** Can I follow up a point that Viscount Chandos made about widening and deepening? There is a school of thought that says that when this scheme was originally designed it was meant to be designed for high-tech companies employing lots of scientists, but over time it has become more generalised and the amount of ground-breaking work being done under this is not what the original founders of the system were expecting to see. Do you recognise that?

Chris McDonald: I do not know what was in the mind of the original founders, but my view is that if you want to do ground-breaking, fundamental new science, the right way to do it is through grant schemes. You would use our excellent university base and liaise with colleagues such as those I work with. On the other side of it, we have a need to improve business productivity and the best way we can do that—I mentioned the data that Andy Haldane shared—is to bring lots of small businesses in the economy up to the level of the best in class. That is the best way to do that.

In the UK, we are often sidetracked, I think, by, “Here is an amazing science investment that will deliver in a generation”, when right now, today, we could get firms to increase their productivity, employ more people and add more value to the economy. I would like to see some recognition and some focus on the fact that that is not an easy job to do. Implementation of science and research is a hard job, just as breaking new ground in science and research is. I say that as someone who has worked across that whole field and has a lot of respect for people in all those areas.

Alice Jeffries: We talked about complementary routes earlier, but the many incremental advances that you might see in, say, food and drinks manufacturing, construction or agriculture from businesses being able to decide what is the most effective productivity booster for them through R&D tax credits probably weigh about as much in certain ways as the big scientific advances. You do want to do the fission project, but you also

want agriculture to use less carbon and water every single time it produces a meal, to hit your net-zero targets. You are much more likely to achieve that if you have a system that rewards the incremental benefit as well as the big science project.

Kitty Ussher: I am not sure that I completely agree with Chris that the only contribution that the private sector has to make to productivity is adoption of other people's advances. I think that the whole point of the R&D tax credit is a recognition that there are advances to be made within the private sector and there are often very good commercial incentives to do so, but sometimes they need sharpening, which is the point of the R&D tax credit.

To come back to the prior question around why this has not shown up in productivity, there are a whole load of other things that affect productivity. Skills and a strong competition policy are very good examples. Levels of all different types of investment are a very good example. Each of these is affected in turn by a whole load of other variables. At the moment confidence is very low. Our members are feeling wary about investing in many cases. Without wanting to be too nerdy, you can only really answer the question with a specified econometric model, so you may need to go to some other macro-economist to answer that one clearly.

Q31 **Lord Palmer of Childs Hill:** Mr McDonald has spoken about the agents. I think that he said 16.5% of the money from the relief goes to the agents. Are there examples of agents promising clients R&D relief that does not turn out to be due at all? Are many of your compatriots in small and medium-sized enterprises caught up in invalid claims? Is there a cost to that? I suppose that there is a lot of time cost, but is there a monetary cost as well in these invalid claims?

Chris McDonald: We have supplied evidence of small businesses using agents or being put off using the R&D tax credit scheme because they are concerned about working with agents, but I do not have any evidence in front of me of the nature that you are referring to.

The Chair: It may be more of an IoD question than a CBI question. Do you have any feedback on that, Ms Ussher?

Kitty Ussher: I do not have data on the proportion of our members who are frustrated that they have wasted time on claims that they were led to believe might be valid and are now invalid. Some of this is anecdotal, but there has been talk of no-win, no-fee arrangements, which might suggest that the incentives are quite well aligned.

My main point, notwithstanding the fact that a successful claim would be welcome to many of our members, is that you should not have to use an agent, as I said previously. A well-designed system will work at the point of decision rather than after the event.

Q32 **The Chair:** What is your view of the proposed requirement in the draft legislation for companies to give advance notice of their intention to claim

R&D? Do you think that this will be effective in deterring fraudulent and abusive claims or not?

Alice Jeffries: I do not want to repeat what I have already said, but given that it is a tick-box exercise in a literal sense, as we understand it, that six months after the end of the year in which you did the project, you state that you have done it and then three months later you submit your corporation tax return, it is highly unlikely to make any difference to HMRC's understanding of what the projects are or the business's understanding of whether their claim is valid or not. We do not understand its purpose in the form that it has been introduced.

Kitty Ussher: I would agree with that.

Chris McDonald: I would agree that it is difficult to understand what the purpose is. I also notice that the requirement will not exist for companies that have made three successive claims. It presents a barrier to entry for firms that have not engaged with the scheme previously. When we look at the data, one of the things that we would like to do is to encourage more schemes that currently are not innovating to innovate through the use of such an incentive, and this would certainly be an additional barrier to that.

Kitty Ussher: I will add that I do not see what point it serves if it is after the event of having undertaken the project.

The Chair: Viscount Chandos, we have covered this a bit, but do you want to flesh that out?

Q33 **Viscount Chandos:** Yes. In terms of further modernisation to both the process and the definitions, do you think that there is more that can be done that we have not already discussed?

Alice Jeffries: As I said, I would look at capital, green allowances, and potentially ways that other countries are pulling ahead in their labour market support. One point that I have not mentioned, which is not so much modernisation but rather a technical issue with the large-credit scheme, is that when the corporation tax rate goes up next April, it loses a chunk of its value because it is paid post tax. That is true whether you are loss making or profit making. It is a slightly odd thing that you just deduct the tax rate from it regardless of whether you are paying any tax that year. There does not seem to be a correction for that in the system, but we think that that would be beneficial.

Chris McDonald: Part of the proposals included restricting the use of overseas organisations to do the R&D. Some research that we undertook a few years ago showed that small businesses certainly tend to seek their R&D support within a 50-mile radius of their business. I would not expect such a restriction to have a major impact on small businesses' ability to innovate.

One thing I will say is that the most important thing about the innovation is that it happens and that it is applied in the UK. If that means that a

business needs to find that innovation support from somewhere else, then what we would want is for the innovation to happen and then it be applied. I can give you an example from my own business. I run an innovation company and for every pound spent with us, we generate £1 of GDP. When the research that we do is applied in UK industry, the average return on investment is eight to one. It is far better for me and my colleagues to be working for UK companies than overseas companies. Equally, if we are going to have tax breaks for R&D in the UK, I would worry less about where the R&D is done and more that the application of the R&D happens in the UK because that is where we get the big benefit.

Q34 Lord Turnbull: Suppose you spend £5 million on a piece of kit that comes from Germany and you get certain credits or allowances on that, reducing your taxable profits. If you spend £5 million on developing intellectual property—in other words, buying it—I cannot see why you should say that that has to be from the UK, whereas when it is a physical piece of kit you do not make that constraint. I am rather on the side here of people who do not like this restriction to the UK. It does not seem to have any logic to it.

Kitty Ussher: If you are investing in a piece of kit, it may be covered under capital allowances anyway. I think the idea that the R&D should take place in the UK is a reasonable policy priority. I am sure that there will be some frustrations from firms that have subcontracted in a way that means that it happens to go abroad, but we feel that the Government have a right to say that they want to support R&D activity within the UK.

Alice Jeffries: We would take a slightly different view on that. There is a question—this goes to your point—around the Government's view more generally on the benefits to the UK of R&D that is collaborative and global. The roadmap that we have seen for R&D and the strategies that have been published in the last few years very much focus on the UK spillover benefits of global collaboration in terms of technological advances, access to data and the speed with which something can be done, but also the economic benefits in the longer term. The UK being a global hub for R&D means that you not only do specific R&D activities here but headquarter your company here and register your intellectual property here after you have finished projects, so that the UK benefits from the capitalisation and commercialisation of those projects after they are done. Those are all benefits to the UK economy as well.

That seems to be the general approach to R&D, so to then say that the only spillover benefits from the R&D tax credit system in the UK are when the R&D happens in the UK seems a bit flawed from our perspective. There are quite a few examples. Businesses were pleased to see a relatively flexible exception to the restriction on overseas subcontracted R&D to cover the examples of where they might do something overseas but still have a UK R&D focus. They might have regulatory requirements that they do most of a drug development in the UK, for example, but they still need to get it signed off through the FDA using a US trial before

it can be sold in the US. They might have specific requirements for their geographic or demographic testing. There are various things.

One thing that is not clearly covered in the exception is a slight oddity around defence and aerospace in that the UK Government require that certain people do overseas R&D for them militarily outside the UK. Those people will now no longer qualify for UK R&D tax credits, even though they are doing it directly for the benefit of the UK economy and security. We do not necessarily think that you need to change the exception; we just need much better guidance on what they mean by it being wholly unreasonable to do a project outside the UK. As long as we have that flexible exception and good guidance, most of the businesses do not necessarily think that they would restrict what they do here or change their behaviour as a result.

Viscount Chandos: Is it not a matter of trying to kill two birds with one stone? By restricting it to the UK, you are trying to both stimulate the underlying technology and the skills in that, and increase productivity in the companies that use that. If you focused solely on increasing productivity, you would be indifferent as to where the R&D took place.

Lord Turnbull: My point of view is that that is what we should be doing. We should be focusing more on the impact that this has on UK productivity. Therefore, whether or not you have bought it in from outside, if you get the same productivity as if you did it yourself, you would not prefer fiscally one route or the other.

Viscount Chandos: Ms Ussher, you said that you thought it was a reasonable policy, I think.

Lord Turnbull: I think that it is an unreasonable policy. I am on the side of the people who do not like this restriction. I think it is illogical.

Kitty Ussher: I think that I said it was reasonable or understandable. I could see why it was done. I suppose that there are geographic spillover effects. There are cluster arguments. The point was made about spinouts from university. If that can be improved or enlarged, that is a good thing.

I saw somewhere in the government response that the unavailability of skills in the UK was not a valid reason to have an exception and that made me think that perhaps there would be an incentive to train people up in the UK if that was the only marginal factor that was making a difference. Personally—I am not sure that we have spoken out about this as an organisation—I am not quite sure why taxpayers' money should be spent having all those things take place in a different country when we know that there are spatial and skills effects.

Alice Jeffries: One thing worth noting, though—I promise I will be quick—is that businesses making investment decisions will have a checklist of what is available to them under the different schemes when they are thinking about what is most beneficial to them. Overseas subcontracted R&D was one of the unusual outliers in the UK system that

was a benefit and that is now, or will be, severely restricted. They will now see our system as less competitive as a result when you look at other features, such as capital, green support and labour force support. Part of why we are pushing for these other areas is because the UK has become less competitive internationally by introducing this requirement, or will do.

The Chair: Thank you. I think that Lord Monks's question may have been—

Q35 **Lord Monks:** I have one post-script to that. If you look at the structure of British industry, particularly manufacturing, but other sectors as well, a large proportion of the commanding heights, to coin a phrase, are foreign owned—the car industry being a particular example. In my experience, the red carpet has been rolled out by the Government for any major developments that have created jobs and wealth in particular regions that might be hard hit otherwise. I find the idea that they will take away the tax credit from some of these firms quite strange. I think it is unrealistic because, although I would not say we have been showering them with gifts to come, the policy has certainly been to lay out red carpets and give people grants for all kinds of things.

Is there not a crucial difference between the small firm that is mostly national in scope—not completely, but mostly—and the larger ones that are certainly not? Very few of them are. Will we seriously stop valued, foreign-owned companies that are creating jobs in Britain accessing a particular benefit?

Alice Jeffries: The restriction in the legislation applies where a UK company subcontracts its R&D out to somewhere outside the UK. For example, if you had a foreign car owner who built a large plant here and was doing innovation here, they would still qualify for the R&D. I am not aware of any attempts to restrict the R&D credits they could claim, other than existing restrictions in the rules around payroll and headcount in the UK, which I think most businesses thought were perfectly sensible. Those are substance requirements that you might expect for any tax benefit to be available. So no, I do not expect to see that.

Chris McDonald: Where this point is relevant, though, is that you are quite right that a lot of our manufacturing industry is essentially a branch-office economy. Those large companies have integrated R&D networks across Europe or globally and they will seek to undertake an R&D project that will include some expertise in the UK and some expertise elsewhere. They will make decisions on that basis. Personally, I would rather see the R&D and the application of the R&D happen in the UK, but I used to run an R&D function in a multinational business and I know that that is not always possible. Sometimes you have to make a choice. Where we have to make a choice, we definitely want the application here, because that is the valuable bit.

It is not always possible to do the R&D in the UK. I can give you an example. The institute that I run has an embedded capital infrastructure

for capital-intensive R&D that runs into many tens of millions of pounds. It is unique in Europe. There are other facilities that are unique in Europe that companies will want to collaborate with. We will not build all those facilities in the UK to do a little bit of R&D on them, but we need to access them.

When it comes to the choice, it is your point exactly that we want the application here. So that committee members are aware, we make no such call the other way around on fundamental science, where we pay academics in universities to do research that is applied only outside the UK. We can have a UK academic working, paid for 100% by the UK taxpayer, with zero application in the UK and all the application overseas. In this instance, to allow some of the research to be done overseas to secure an application in the UK that will add value to the UK economy is a good deal for the taxpayer.

The Chair: Very interesting, thank you.

Q36 **Baroness Noakes:** I will start with smaller companies, so basically with you, Mr McDonald, and whether smaller companies are, in your experience, aware of the availability of R&D tax relief and whether HMRC does enough to make smaller companies aware of it.

Chris McDonald: There is clearly a deep pool of small businesses that are not aware. Some of the data that we showed was that the majority of applications for R&D tax credits are repeat applications. I think that the number of new applications in a year is between 20% to 30%, so a big benefit could be obtained by expanding that pool.

There is a big issue of awareness there that needs to be addressed. Some of the measures that I mentioned were the CBI intervention around linking up the HMRC team with innovation experts in BEIS, where there is a lot of innovation capability. Getting out to talk to businesses, going through the regular business networks that exist, whether it is FSB, Chamber of Commerce, the combined authorities and so on, and using those channels to engage with businesses and increase awareness would be positive activity.

Baroness Noakes: Do you believe that R&D is carrying on and the tax credits are not being claimed, or that the lack of knowledge of the tax credits is resulting in less R&D?

Chris McDonald: If R&D is happening and companies are not claiming tax credits because they are not aware of the scheme or do not need it, then from an economic perspective I do not think that we would be too concerned. The important bit about the tax credit is to incentivise that extra bit of R&D that would not happen otherwise. We are definitely missing out on that, as we can see by this long tail of productivity decline. That is the bit that we want to grasp hold of, essentially. Bringing more businesses into the R&D tax credit scheme is getting more businesses that were less innovative to be more innovative.

Q37 **Baroness Noakes:** More broadly, there are two separate schemes.

There is the SME scheme and the other scheme. How easy is it for companies, particularly at the smaller end of the scale, to know which scheme they should be in?

Chris McDonald: It can be confusing and it is possible to make genuine errors. This is something that my own business has struggled with. I employ a team of R&D experts. We do some R&D that our own business does, and that is covered under the SME scheme, and we do some that is subcontracted from larger companies. That will be under the large company scheme. You would imagine that this was simple, but it is not always. We have had projects that have ended up in the wrong scheme. My experience has been that we have generally worked through that with HMRC and we have had a positive experience both when we have overclaimed and underclaimed. HMRC has helpfully worked it through with us.

We are a very R&D-intensive business, so we have that strong relationship with HMRC and this does not worry us. As I mentioned before, some small businesses find HMRC quite an intimidating organisation. That is where the BEIS specialists could maybe be of use.

Baroness Noakes: Do either of the other two witnesses have anything to add on whether the two schemes lead to inefficiencies in the R&D tax relief?

Kitty Ussher: Briefly, in the evidence we gave last year, we thought that in the companies that use it, there is quite good knowledge that there are two schemes. It might actually complicate things more if there was an attempt to merge them. We did pick up some evidence that sometimes, even though people knew there were two, they were not quite sure which one they were eligible for. There were a few anomalies that have been corrected in the legislation about when you fall foul of that through no fault of your own due to the way the company is organised. We are broadly content with having two schemes. The SME one is slightly more generous, which benefits our part of the economy as well.

Alice Jeffries: In the initial R&D review a couple of years ago, there was a suggestion from government of merging the two schemes. At that point we took the position that if it were overall a simplification and the benefits of both schemes were retained—the rates are different for SMEs and more beneficial in most cases—then a merging of the two schemes might be sensible. However, for similar reasons to the ones Kitty has just given, when we speak to SMEs in our membership, they prefer the SME scheme as it is. It has been in place for so long that they fully understand it, where they are using it, and they do not necessarily think that rejigging the entire system could be done in a way that was genuinely beneficial to them.

Q38 **Lord Turnbull:** Initially, I was going to ask whether HMRC provides sufficient support to smaller businesses, but I think that the more interesting question is: does HMRC have all the capabilities that it needs to provide support? If it does, it will be better able to write guidance and

be more knowledgeable in its interaction with companies. Is this something that HMRC cannot do on its own? Does it have to form some unit that is effectively a combined team of HMRC and BEIS that is knowledgeable about SME high-tech innovation companies?

Chris McDonald: The very existence of the intermediary agencies that have grown up suggests that there is a lack of capability in HMRC. It is understandable, because this is a complex area. The technology is complex and often you require knowledge of specific technologies and sectors to make this judgment.

My experience of dealing with BEIS is that there are some good technology experts in the various sector teams there as well. I do not think that it is beyond the resources of government at large to be able to provide the support that is necessary, but it may require a shift in thinking—thinking of it less as a tax-collecting issue and more as an economic-growth incentive. I realise that cross-department working is difficult in government. There can be a tendency to create new little siloes in different places, so I do not think that this is an easy organisational challenge to solve.

Lord Turnbull: If they are spending £7 billion a year, as with these combined schemes, surely the Government have to invest in the capability—from wherever they can get it in government—to make this worthwhile and do it properly.

Chris McDonald: Yes, absolutely; it is solvable. I am saying that it is not easy, but I am sure that it is solvable. That would be a very good outcome.

Alice Jeffries: I think that the inconsistencies that members tell us about in the way they are treated by different case managers and the different interpretations of what “subcontracted” or “qualifying indirect activities” mean, for example, tell you that there is a disconnect inside HMRC in the training that it provides to its own staff and the clarity internally on how the scheme works. That feeds through to the businesses in terms of what guidance it can provide. We think that it would be good if HMRC had a greater resource to look at its own work.

Lord Turnbull: You are right back to Lord Palmer’s point about whether this should be dealt with by different offices distributed throughout the country or centralised so you have one source of good expertise.

Alice Jeffries: Previously, there were R&D specialist teams within HMRC and businesses in our membership thought that they worked well. The reasons they were disbanded I suspect had more to do with funding and government availability to continue them than anything else, but where they were available, businesses thought that they were a useful resource. They got very good and consistent guidance from them.

Kitty Ussher: I think that a good outcome in the future would be that businesses felt able to go to HMRC for advice rather than to an

intermediary. A lot of the issues that HMRC is worrying about would go away if it focused completely on the user or customer experience here.

Q39 Lord Palmer of Childs Hill: You have all spoken about a lack of capability. I am a bit confused about whether this is in HMRC, the businesses themselves or a bit of both. This is about how one improves the capability of HMRC and at the sharp end of the businesses. My question is more to Mr McDonald on the small business section. How can HMRC be more user friendly? How can it be seen as a body that is helping innovation rather than a tax collector? I ought to have declared that I am a chartered accountant. We would regard HMRC as a tax collector rather than an innovator. That is probably how many small businesses relate to it.

Chris McDonald: It is. As you would know, that is exactly how small businesses relate to it. The case that I have been trying to make is that HMRC has an important role here in stimulating economic growth. The success of this policy is about stimulating economic growth and that is a different kind of conversation, one that is more about working together to maximise your innovation potential than trying to reduce the amount of tax break that you get as an organisation. If HMRC was capable of having conversations like that, that would be fantastic. I appreciate that that is quite countercultural to how HMRC works, which is why I say that BEIS might have a role there.

You also make a good point that there is an issue with innovation capability within businesses. It is not HMRC's job to solve that. That is what my organisation and various other organisations work on as well. To solve this productivity problem, it is not just a question of applying tax credits. We need a business culture in the UK that is all about innovation and growth. There have been some other government initiatives that have been very supportive in that sense. We mention them in our evidence; possibly the CBI does as well. We can look to those initiatives to promulgate a more innovative culture in UK small businesses.

Lord Palmer of Childs Hill: If you had the chance to advise HMRC on making the scheme less complex to some of your compatriots, is there one thing that you would suggest?

Chris McDonald: Yes, allow new-to-firm innovation. This question of what counts as a development is highly confusing for innovation specialists such as me. My top three things would be: do that, do not add any more new and complex rules, and engage in a collaborative way with businesses.

Lord Palmer of Childs Hill: "In firm"?

Chris McDonald: New-to-firm innovation. A focus on that will increase productivity and growth in the UK economy. I think that would be a very good outcome from this policy.

Lord Palmer of Childs Hill: For me that is a major outcome from these discussions.

The Chair: Unless anyone wants to pick up on the points that have just been made, I thank all three of the witnesses very much for an extremely helpful session. I hope that you will forgive me for particularly thanking Mr McDonald as he has come down from Redcar specially. We very much appreciate that. To everyone, thank you very much. I now formally end this meeting.