



HOUSE OF LORDS

Economic Affairs Committee

Finance Bill Sub-Committee

Corrected oral evidence: Draft Finance Bill 2022-23

Monday 21 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. 6

Heard in Public

Questions 64 - 85

Witnesses

[I](#): Victoria Atkins MP, Financial Secretary to the Treasury, HM Treasury; Nicole Newbury, Director, Wealthy and Mid-sized Business Compliance, HMRC; Matthew Henty, Deputy Director, Enterprise and Property Tax, HM Treasury; Tessa Robins, Deputy Director, CT Innovation and Growth, Business, Assets and International, HMRC.

Examination of Witnesses

Victoria Atkins, Nicole Newbury, Matthew Henty and Tessa Robins.

Q64 **The Chair:** Welcome to the Economic Affairs Finance Bill Sub-Committee's final oral evidence session for its inquiry into the draft Finance Bill's research and development tax relief proposals. Today, we will be hearing from Victoria Atkins, Financial Secretary to the Treasury, and officials from both the Treasury and HMRC. Can I welcome you as witnesses, thank you for coming, and invite you to introduce yourselves, please?

Victoria Atkins: I have been the Financial Secretary to the Treasury for the last three weeks or so. I am also the Member of Parliament for Louth and Horncastle in Lincolnshire. I ought to declare an interest; I used to practise at the criminal Bar, and one of the many government agencies that I used to prosecute for was HMRC, as part of my work on the Attorney-General's panel.

Matthew Henty: I am the deputy director for enterprise and property tax in the Treasury.

Nicole Newbury: I am the director for wealthy and mid-sized business compliance at HMRC.

Tessa Robins: I am deputy director for innovation and growth tax policy at HMRC.

Q65 **The Chair:** Thank you very much. We will kick off with some questions. If you feel that your colleague has amply covered the subject, do not feel the need to repeat it, so that we get the best use of the time available. We wanted to start, if we may, with the Minister. Thank you for that disclosure, which is probably very helpful to this inquiry.

We wanted to ask what evidence there is that the R&D reliefs that the Government issue are leading to an increase in economic growth. Is there any empirical evidence, so that we can see whether there is value for money for the taxpayer? To widen that out a bit, we would like to understand the thinking behind the lowering of the rates in the Autumn Statement. It is not our position to question that, but we would like to understand why that route was chosen.

Victoria Atkins: First of all, it is a pleasure to appear before your committee. I imagine that I will be seeing quite a lot of you in the future.

In relation to the research and development announcements made last week in the Autumn Statement, although the Chancellor had to deliver a very sobering assessment of the economy and the predictions for the next couple of years, we wanted, as part of that, to look forward and to emphasise our commitment to growth. Research and development is clearly a critical part of that. Indeed, only today, the Prime Minister has addressed the CBI on the importance that he attaches to growth and to the economy prospering and thriving over the coming years.

Part of this is our investment in research and development—the capital expenditure that the Chancellor set out last week, but also tax reliefs for businesses. HMRC has an ongoing evaluation programme that looks into what the taxpayer gets for their money in investing in these tax reliefs, and we have reason to believe that such tax reliefs really do contribute to businesses taking a measured and calculated chance with innovation.

Our latest figures, published in 2019 and 2020, show that, for every £1 of support, the RDEC—the stratum of business relief for all businesses; it is not limited to small and medium-sized enterprises—incentivised £2.40 to £2.70 of research and development. The SME scheme had lower additionality of between 60p and £1.28 per £1 invested.

Looking internationally, there is, I am told, evidence across the OECD that tax reliefs can incentivise additional research and development. Indeed, many countries have schemes of their own making to try to encourage this. In light of wanting to ensure that we get the best value for money for taxpayers, but also being mindful of allegations and concerns relating to a particular aspect of research and development tax relief policy, we looked last week to drive forward the RDEC scheme, because we understand that, as I say, that gives us a better return on taxpayers' money, but also to tighten up the SME scheme, which I am sure we will explore in further detail in due course.

Q66 Viscount Chandos: How much spend is stimulated is one thing. Whether that spend is productive is another. I am just conscious that there is analysis to show that, for instance, big pharma is not a good R&D investor and, therefore, has increasingly cut back on what it does in-house in order to allow the R&D to be done by the biotech start-ups. Then, in due course, big pharma can acquire those start-ups. I am just a bit concerned about whether the analysis of larger company or RDEC against SMEs is the whole story.

Matthew Henty: There is a strong relationship between R&D and productivity more generally, and the Minister set out the evidence on the two schemes as we have them currently. I think your question is getting at the structure of the pharmaceutical industry and how that has developed over time. RDEC is open to SMEs that have subcontracting work. Where that is a subcontracting relationship, they already use RDEC, rather than being able to use the SME scheme. Similarly, where we have a large number of grants, SME schemes use RDEC for those sorts of projects as well. Otherwise, they would be using SME things for their own development that is not linked directly to an alternative pharmaceutical company.

Viscount Chandos: But the spend under RDEC is proportionately much greater by larger companies, even if SMEs are eligible, and I do not think that the life sciences industry is unique. By and large, smaller companies are more innovative. Yes, there is a correlation between R&D spend and increased productivity, although it does not seem to be working too well on a macro basis, but is that true proportionately in terms of large and small companies?

Matthew Henty: In what sense do you mean “proportionately”, sorry?

Viscount Chandos: One can say that R&D is good for productivity. Is the R&D that is stimulated and partially financed by RDEC proportionately more productive, given the cash spend that it stimulates, than SME spend?

Matthew Henty: I am not aware of any evidence on that specific point about moving down the chain. What we have said is that there is strong evidence that taxpayer support generates more business investment in R&D through RDEC than it does through the SME scheme, based on the evidence that we have and has been published by HMRC. I know that, collectively, on R&D, we have a strong relationship.

I do not know of evidence that disaggregates further to look at whether the R&D supported by either of the schemes is stronger or otherwise. You have taken evidence in other sessions on the SME scheme and some of the problems that we have seen there. That is not to say that that is happening in the biotech sector. I am just saying that, in general, there is a limit. It may be that the RDEC is more focused in SME and a bit more diffuse, but we would have to see. I do not have specific evidence.

Victoria Atkins: I have been trying to unravel this for members of the public who may not be experts in research and development financing, and have asked for some good examples of success projects that have arisen out of these tax reliefs. Unfortunately, I have been met with the answer that I am not allowed to provide those examples because of taxpayer confidentiality, but I have been given an example of the AstraZeneca vaccine, which I am hoping we do have the permission of the relevant businesses to use. It is those sorts of projects and programmes that we hope will be able to help nudge those businesses, which, ultimately, of course, are responsible for the R&D, in the right direction in the future.

The Chair: Can I just go back to the earlier point I made? When the Government decided to reduce the rates in the Autumn Statement, one understands that they had a hole to fill. The method of filling the hole in this area was to reduce the rates. Were other areas considered, such as a more aggressive analysis of the claims made or other ways of reducing the R&D spend?

Victoria Atkins: The rates were set for positive reasons first and foremost: namely, we want to help UK businesses innovate and increase productivity. To call it a happy coincidence would be too loose a use of language, but it has the very welcome side effect that we will be tightening the rules in relation to SMEs, because we have evidence to suggest that that is where there is the most vulnerability to fraudulent attack. Please see these rates as being positive things in their own right, but we will be going after the fraudulent or boundary-pushing behaviour of other agents and businesses within the R&D world.

Q67 **Lord Turnbull:** The counterclaim is made that all SMEs are now facing a

lower rate, penalising equally those who are entirely diligent about the claims that they make and those who take a chance with HMRC. The alternative to reducing the rate could have been that, in a sense, the challenge proportion is increased, so that you are trying to find the ill-judged or chancy applications and disqualifying them rather than reducing the rate for all companies, including those that are entirely scrupulous about the way that they make their applications.

Victoria Atkins: I very much welcome the scrutiny and, indeed, the media scrutiny of this, and it is absolutely the right thing for them to do, but the prioritisation that that has been given in recent weeks is at risk of giving the impression that we have made these decisions solely to combat fraud. That is not the case. We have done this because we want to increase value for taxpayers in relation to the scheme that we know shows the most benefit. As I say, it also means that we can tackle the claims under the small scheme that should be tackled, and there is a whole host of work that we will, no doubt, go through in due course.

Lord Turnbull: Effectively, you are transferring some money from one pot to another—taking it out of the SME pot and putting it in the RDEC pot. We have heard figures that you think justify that. What you are taking out of the small SME pot comes out of companies that have an entirely blameless record in terms of the quality of the application they have put in, and chancers that are being put up to it by what I would call ambulance chasers, where companies have been filling in a form for them, it is going into a computer, and they are getting paid.

The alternative would have been to increase the resources and expertise that HMRC has in looking at the claims at the time they are made, so that it weeds out more of the unsuitable, flaky claims, leaving the claims made by small companies still able to receive the original rate. I am not sure that you have really answered the point that, if you are making this transfer from pot A to pot B, you still have, within that transfer, money taken from companies whose claims are very soundly based, and those whose claims are chancy but managing to get through.

Matthew Henty: You are looking at one particular change that has been made. That is an important change and it matters to the businesses that are getting the higher rate of RDEC, as well as on the SME side. A series of changes have been made throughout the review, which has been running for quite a while now, including bringing, from April, data and cloud costs in, so that that is a qualifying credit. Limiting from overseas is another change that is tightening in some way to focus on the UK.

Looking at the return for the taxpayer—and a lot of what happened last week was about that—we estimate that this change will leave R&D expenditure unchanged in the economy but save the taxpayer money. There is a wider range of things that need to be considered, not just looking at the error and fraud side.

The Chancellor also mentioned—and it was in the document—working with R&D-intensive SMEs to see whether they need any further support.

That goes to the other part of the conversation, which is that we agree that R&D is really important. It drives productivity growth. We need to spend the money as effectively as possible, but that can also be through the spending side and grants, and it can be through tax reliefs.

The decision made on Thursday was about protecting the £20 billion of R&D spend. It was about rebalancing from the lower-value SME scheme overall to the RDEC scheme, which is higher value, saving the taxpayer money but leaving R&D business investment unchanged, according to our estimates. That is looking at the whole piece. The review is carrying on, so we will keep going.

To what you said about the compliance, we have lots of changes, as part of the Finance Bill that you are looking at, coming in from April, to make sure that compliance works more effectively as well, including in terms of HMRC resourcing.

I can see the point on the single question, but it is about looking at effectiveness of these as a whole, given how much they are now costing the taxpayer and what they were five years ago, or even less.

Victoria Atkins: For legitimate businesses, although there may be an extra form that they have to fill in, I would hope that the practical measures that we are proposing to bring in through the draft Finance Bill next spring, including requiring each claim to be supported by a named officer of each company, and advance notification of the claim, will help satisfy the integrity of the scheme and ensure that they are properly paid what they are owed by the taxpayer.

Q68 Lord Palmer of Childs Hill: You talked about the difference between the large-company scheme and the small-company scheme. From your examples that you know of and cannot disclose, is there more or less innovation from the smaller, newer companies or from the large companies? I got the impression through my career that innovation was very often from small, new companies, and that large companies very often bought in that innovation after it had already been tested. Have you any examples of this?

Matthew Henty: You would be talking about a whole ecosystem of innovation and needing support on both places. The SME definition in the SME scheme is 500 employees, which is twice the normal SME definition. That is a very large business in some respects. It is not GlaxoSmithKline, but it is a large business. When people think of small businesses, they are probably thinking smaller. Many of the claimants of that are older companies that have been going for 10 years or more. It is not just about new ones, but we want to provide that support in all of those places, and that is what this package does, combined with the commitment to work further with R&D-intensive SMEs in order to look at whether the support is right for them between now and the Budget in the spring.

Chair: We will come back to many of these subjects from different angles.

Q69 **Viscount Chandos:** You have already mentioned the proposed changes on international R&D. Are you satisfied that the proposed changes will not affect the UK's international competitiveness?

Matthew Henty: The overall package of reform is designed to ensure that the UK position is as competitive as possible, given the taxpayer money that is going in there. Most countries do not have unfettered overseas subcontracting supported by taxpayers in those countries; there are limits in most of these places. New Zealand allows only 10% overseas. Canada, Singapore and the US have other restrictions. The spillovers from R&D often happen sectorally and regionally. If those are being supported by the UK taxpayer, the policy choice there is to limit it, so that the taxpayer support will be the activity that is happening in the UK. You could argue it other ways, I am sure, but that is the decision and that seems a reasonable one.

Viscount Chandos: Minister, is that not trying to kill two birds with one stone, which is to improve productivity in companies that use the benefit from the R&D, but also to foster the R&D activity within the UK? In an ideal world, we would all like that, but are there not going to be instances of companies that would substantially benefit in productivity and growth terms from R&D that could not be conducted predominantly in the UK? Are you not sacrificing too much in narrowing the scope for international co-operation?

Victoria Atkins: No, and we have said that there may well be exceptions, which we will look at very carefully, but I come back to the point that I answer to my constituents. If my constituent in Mablethorpe is paying their taxes in a very deprived part of the Lincolnshire coastline, I need to be able to explain to them why we would be spending R&D money overseas rather than here in the UK.

Although I fully accept that there may be restricted circumstances where it is impossible for the business to perform otherwise, we do have to focus on encouraging productivity and growth here in the UK. In fairness, other countries take that approach. Indeed, taking a step back, even with these changes, we will still spend the most as a percentage of GDP and have the highest number of claims of any country in the OECD, so we are, internationally, very attractive with these rates.

Q70 **Lord Monks:** Just following on from that, given that so much of large-scale British industry and services is overseas-owned, and that head offices and research centres are dotted all around the world, especially probably in the European Union, is that not a factor that marks us out from countries that are rather more nationalistic and protectionist in the way that they have structured their businesses? Is it easier for them to follow up with some restrictions on overseas research and development than it is for us? Do you recognise that point that I am making? Would the car industry, for example, qualify, as it is all virtually overseas-owned and much of the R&D is done abroad?

Matthew Henty: If an overseas-headquartered company is investing in the UK through a UK company and paying corporation tax here, it will be able to claim the R&D tax reliefs for the activity that is happening here. It would not then be able to subcontract it to someone else, maybe another part of its group overseas, following these restrictions, without that and still qualify. A company can subcontract overseas and take a 100% revenue deduction in the normal way. It is just that it is not getting, for example in the SME scheme, the super deduction for the activity that is happening overseas, only for the activity undertaken in the UK.

Lord Monks: So the link is with corporation tax and where that is payable.

Matthew Henty: Yes.

Lord Monks: Just to change tack, if I may, you will not be surprised to hear that most of the witnesses we have seen with an interest in this are asking for more, from the Government and so on. One of the key ones has been about relief for capital expenditure. We were just talking about international comparisons. Some of the other countries do that. Ireland and France are two that have been drawn to our attention. Do you think that there is any scope in the further development of your thinking on this for capital expenditure to qualify?

Victoria Atkins: The committee will be unsurprised to hear that we heard the same during our review. There is already a 100% tax deduction on offer for R&D capital. Again, we would have to consider whether this proposal is value for money, as it would be likely to have considerable cost. We must let the review continue, but the relief of 100%, as given at the moment, is pretty generous, I would say.

Lord Monks: Can you say any more about the review that is ongoing beyond the current proposals in the Autumn Statement?

Victoria Atkins: I cannot in relation to the autumn Finance Bill that is coming forward. Of course, we will be making changes in relation to compliance and other issues in the spring Finance Bill.

Matthew Henty: We committed in the Autumn Statement to looking at the case further and consulting on merging the schemes. The schemes are now quite close in generosity. There is a simplification element there. SMEs in particular can find themselves claiming in both places, depending on the circumstances.

We have heard quite strong messages generally that the above-the-line credit version of the RDEC scheme has a lot of value for businesses. There could be a case to bring it all together. The history of this is that we started with the SME scheme; then we had a large company scheme and went to RDEC. That is probably the better model, although that needs to be consulted on, and it may be the time to push it all together. We will be looking at that and consulting in due course.

Q71 **Baroness Noakes:** I would like to shift to the abuse of the R&D reliefs

that are available, to try to understand what happened. For several years, the number of claims has been increasing, as has the cost of the relief to the taxpayer. Presumably, the identification of fraudulent claims or claims in error had been increasing at the same time, but it was not until earlier this year that a pause was put in, with longer times for processing and therefore payment to individuals.

I am trying to understand when it was realised that there was a problem. Given the big increase in numbers and amount, why was this not spotted earlier?

Victoria Atkins: I will ask Nicole to come in here as the representative of HMRC.

Nicole Newbury: As with all reliefs, it is a balance for us between making sure the reliefs are easy to claim and quick to process, so we are supporting innovation and productivity in business, and making sure we have an appropriately robust system for checking and verifying claims. Over recent years, we have seen challenges on two fronts: first, a growth in the spurious claims—the ones that clearly are outside of the definition—and, secondly, the organised criminal attacks we identified in April. Those were of scale, and we acted quickly to pause payment for two weeks to make sure we understood the attack and strengthened our systems appropriately.

In relation to the first area of challenge, the growth in spurious claims, we have taken significant steps to strengthen our risking processes, using data-led intelligence and innovative risking techniques to spot spurious claims. We have also significantly increased the resource we deploy on our compliance to address the claims that are clearly outside of the rules. It is fair to say that, with the current design of the system, we are getting around 60,000 claims worth less than £50,000 a year. That means the additional resourcing is not going to solve the problem in isolation.

It is for that reason that a number of the proposals in the draft Finance Bill for next spring will give us more information, so we can risk assess more effectively. We will be able to support businesses at an earlier stage to not make errors and spurious claims, meaning we better address risk upstream without the need for further costly downstream intervention, which costs not only HMRC and the public purse but businesses as well.

Baroness Noakes: You draw a distinction between the organised crime attack, which was earlier this year, and a more general problem of spurious and other incorrect claims. That has been bad enough to cause HMRC's accounts to be qualified. This problem has been around for some time and I do not understand why the action, some of which we are seeing in this Finance Bill, is taking so long.

Nicole Newbury: The activity we undertook from April onward, the pause of two weeks and the extra processing time, was directly as a result of the organised criminal attack. HMRC accounts have been qualified for the past three years because of the level of error and fraud

in the scheme, and we have taken multiple actions over multiple years to address the level of error and fraud.

The R&D review, about which my colleagues have spoken, started some years ago and is coming to fruition through a number of measures. That goes right back to reintroducing the Pay As You Earn cap, as an example, in order to mitigate the level of error and fraud. Operationally, we have more than doubled the resource on our specialist SME scheme compliance teams to make sure we are putting as much as possible into stopping spurious claims.

Baroness Noakes: Will HMRC's accounts be qualified again this year?

Nicole Newbury: You will have seen from the evidence you have gathered through the course of your inquiry that we are still facing a large number of spurious claims. We are continuing to improve our risking and the approach that we take to compliance. We are trying new and innovative compliance methods such as large-scale one-to-many activity.

Let us not forget that we do an awful lot of criminal and serious fraud investigations. We have eight live criminal investigations at the moment in over 1,300 claims. Our operational compliance activity has grown and continues to grow in response to the fraud and error claims, but the changes that are proposed in the Finance Bill for next spring will enable us to tackle that even further.

Victoria Atkins: Since I have declared my previous career, it will not surprise you to learn that I am very focused on cracking down on this. Organised crime gangs like to diversify, like any successful business. Sometimes, with these sorts of frauds, it can be akin to whack-a-mole. If we find one loophole and manage to close it, they will try to find another.

With the measures in the draft Bill next spring and this heightened activity in enforcement action, we will begin to get the message out to both organised crime gangs and those agents who may be acting alone but who know they are doing wrong that it is not worth the risk for them to do so.

Should the committee choose to emphasise these efforts in its reports, that is but one way in which we can try to spread this message that all businesses, both agents and, importantly, businesses claiming R&D tax reliefs, must now please make sure they are doing so lawfully and legitimately. That is how we will get to the bottom of this.

We have massively improved the situation with VAT fraud and MTIC fraud, for example. It took some time, because it is a very lucrative form of business for OCGs, but we have a much improved picture now compared to perhaps a decade ago.

The Chair: Can I expand on that a little bit? This is an area that is topical and witnesses have commented. Could you tell us your thinking on a couple of issues that have been raised? The first is whether it would help

if agents were regulated. Do you have a view on that? Secondly, I see there is a proposal for the officers of a company to be named, but what about officers of agents and further action against agents? Could you tell us your thoughts on that?

Victoria Atkins: First, in relation to the regulation of agents, I am considering that actively. I hope, in due course, I will be able to come back to the committee with an answer to that. As I hope you appreciate, I am reading my way into this at the moment and considering the policy possibilities.

In relation to the officers of an agent, the fact that we are requiring agents to be declared will help address that. I will certainly take any views that either witnesses or the committee have as to the individual naming of agents. I take that very seriously, because I can also see how it would concentrate the minds of those submitting these forms, particularly those agents who operate under those automatic assignments.

Where businesses do not know the true ramifications of such assignments, they will be very shocked if they find out in due course that representations have been made of which they were perhaps not aware or did not quite realise the full import. I am very interested to hear those ideas.

Q72 **Lord Turnbull:** Could you clarify a bit more what you mean by "spurious"? I can think of two definitions of spurious. One would be that a company did not exist; it was a phantom company; it was sheltered and domiciled somewhere else and no money was actually spent. The other is that someone comes in, looks at the accounts of a company and says, "Do you know that you could put that item in and that item in? You have spent the money on it, but, if you put that item in, they might pay you the money on it". Which one are you talking about?

Tessa Robins: The first example you give is what we would call the criminal end of the activity, where there is no substance and it is all about trying to get money out of the tax system. What we mean by "spurious" is more the latter scenario, where there is a genuine trade going on, but it does not constitute R&D. That is either on the company's own knowledge or because an agent has come in and suggested that they may be eligible and may want to claim R&D when strictly they should not.

Lord Turnbull: Do you have any idea which one is causing the greater problem? Is it the really spurious, the criminal, or the companies that are taking a chance and seeing whether they can get away with putting it in?

Tessa Robins: At the moment we are conducting a mandatory random enquiry programme, which looks across the reliefs more broadly. That should give us some results that will help us identify better the nature of the mistakes being made and when they are spurious, in error or criminal.

At this point in time we have an estimate of error and fraud, but it is not broken down into different customer behaviours. We have some information on the level of fraud that has been tackled in recent cases, such as the one Nicole was talking about, but we do not have a clear division of our estimate.

Q73 Lord Monks: Just on the same area, in the last year or two there has been an upsurge in the number of claims and pay-outs the system has had to make. I am interested to know whether you are worried by the upsurge or pleased that this is showing the system is working. Which is it?

Victoria Atkins: We are always pleased at genuine innovation, but we are concerned at the evidence from both our own channels and those reports that we see in the papers about people claiming for having discovered avocado. That is my particular favourite. We are very concerned about that, which is why we are taking the measures that we are. We are delighted by genuine innovation, but we want to crack down on those who are testing the system.

Q74 Lord Palmer of Childs Hill: Can I just build on that? You said you hope this committee will support your efforts in dealing with abuse. I hope we will. It is a question of what is being done and whether it is helping. One of the things witnesses have spoken to us about is prenotification claims. We have not had a single witness from across the industry and outside who thought that prenotification had any use whatsoever. I would really appreciate your comments on that. Is there anywhere else in the tax system where you have prenotification? If there is not, why do you have it only on this?

Lastly, within your answers, what would be very useful—you have touched upon it—is empirical evidence. You say that you cannot give names and details, but you could give us details without stating which company it is about. We are told, “This will help and that will not help”, but I am never absolutely convinced that there is evidence one way or the other.

Victoria Atkins: That is a very helpful direction from the committee. I shall take it back to the department and say, “The committee has requested this”. That will, I hope, help my case in trying to turn up some of the good news stories. There are some good news stories in this field. If I may, I will ask Tessa to deal specifically with the point about prenotification.

Tessa Robins: The prenotification requirement, or claim notification, as we call it in the legislation, is intended to serve two purposes. The first—this was mentioned by one of your witnesses—is to help disrupt what has become quite a prevalent business model by some of the rogue agents, those that are attempting to promote spurious claims typically on a contingent fee basis. They have a habit of cold-calling businesses and suggesting that, together, they go through historic tax returns and submit claims for R&D for multiple years.

The relief is designed to incentivise additional R&D that otherwise would not have taken place. Even where the claims are genuinely R&D, there is a case that that would be subsidising deadweight costs. In many cases, these are claimants that we consider to not be undertaking genuine R&D. That is the first reason for doing so.

The second is to improve our compliance capability. Again, that is through two routes. First, it will give us some information about the R&D the business is undertaking or claiming to undertake in advance of the actual tax return with the substantive claim being submitted. That will give us some time to review that, to find out a little bit about the company and potentially to reach out to it on an educational basis to say, "We are really sorry, but, on the basis of what you've provided so far, it doesn't appear that you are likely to be carrying out R&D", so we can start to stem the spurious claims that are being submitted.

Secondly, it means we already have some information about potential claimants before the tax return itself comes in. That should help us triage the claims, as they come in, into those that require further work and review, which we will potentially take up for inquiry, and those that can be more quickly paid out or dealt with, as the case may be.

We recognise that this constitutes an additional admin burden for legitimate traders, but we consider that it is justified in light of the levels of abuse that we see in the regime. That is why it can be justified to take this step in regard to this particular scheme when perhaps that is not necessary in other areas of the tax code, which are not currently directly under attack or open to abuse in quite the same way.

Lord Palmer of Childs Hill: Could I just add to that? Surely, better than prenotification would be limiting how far you can backdate a claim. If there was a rule that said you could backdate one tax year, that would at least be more or less current in terms of a business.

What has been suggested by Ms Robins is that there are people trawling back over X number of years and saying, "You should have made a claim for this". My feeling is that that is not going to advance the particular company or business in its innovation because the innovation has already been done. All they are trying to do is offset some of the costs.

Rather than prenotification—this is my personal view; it is not necessarily the view of the committee—there should be a limit to how far back the agents and the companies can go in submitting a claim. I wonder what your view is on that.

Tessa Robins: There already are limits in how late you can submit claims. In a sense, we already have that safeguard in the tax system. What we are trying to do with this requirement specifically is to prevent them looking at the previous year and potentially the year before that. We think that is justified.

Matthew Henty: That is what the measure does, in one way. It is six months after the end of the tax year for the company. It is six months after the R&D has happened that they need to tell HMRC, which is, in turn, six months before the deadline for submitting a tax return.

We need to be clear. It is not prenotification of doing R&D, which they do require in some countries. It is prenotification of making a claim, with the R&D having taken place. Given that R&D is a systemic planned project to resolve some scientific uncertainty—by definition, it is forward looking; you plan to do R&D—that does not seem like it is a limiting factor for businesses and their R&D activity plans.

Victoria Atkins: We might need to look at how we describe this, to make it clear that we are referring to activity that has already taken place, but it is that six-month period immediately after the close of the financial year and ahead of the tax year. Companies might then better understand that. If that is the reaction the committee has had in its evidence, clearly we need to communicate better.

Lord Palmer of Childs Hill: Maybe I have got the wrong end of the stick, but certainly prenotification seemed to me to be something in advance of the R&D rather than something during the process of the R&D.

Tessa Robins: That is why we tend to call it claim notification rather than prenotification. In the public discourse, yes, it has been called prenotification.

The Chair: Do you have evidence of people expressing frustration that they have missed it and they are not eligible to claim a credit they would have done if they had the prenotification in on time?

Tessa Robins: Are we worried about that?

The Chair: Yes, have you had complaints? Have you had people putting their hand up and complaining?

Tessa Robins: This requirement is not in force yet. From April we will be looking at that. We will be publishing further guidance for businesses before the end of the year and trying to ensure it is well publicised. More broadly, there are late claims processes, where people are able to submit for legitimate reasons. We do not envisage that this will cause significant difficulty, but we will be monitoring it in due course.

Q75 **Lord Turnbull:** One of the measures you are introducing is not just prenotification but endorsement by a senior officer of the company and possibly also someone senior in the advisory company. We have had mixed evidence on this. Some people think this does not add anything; others think it is a worthwhile change. Given that when people make a claim there is almost certainly something that says, "I certify that this is, to the best of my knowledge, complete and true", what is this really adding to the process?

Nicole Newbury: I am happy to come in on that one. When we are investigating many of the spurious claims, we see that the operating model of some of the rogue agents we have talked about is that they will go in at quite a junior level in a business and get the business to agree that they can act on its behalf in an R&D claim.

The requirement at the moment is not necessarily to include the claim on your CT return¹; you could send it in via a letter or a separate claim. Many of the illegitimate claims that we are seeing are signed off at quite a junior level in the company perhaps without an understanding of the law or the severity of putting in an incorrect claim.

By the time we come to challenge them, the senior operating officer, finance director or whoever it is in the business claims that they were unaware that a claim has been submitted on their behalf. The way the system currently works means we do not get information about the nature of the claim. It does not have to be signed off as part of the CT return. Having a senior nominated officer in the business sign it off will encourage businesses to make sure they are performing due diligence on any claims they are making.

Lord Turnbull: I am rather coming around to this idea; it is a good one. There must be lots of transactions that go on in companies where you do them only when the CFO has signed them off.

Victoria Atkins: Absolutely, yes.

Lord Turnbull: That is effectively what you are trying to achieve.

Victoria Atkins: I used to prosecute for the Health and Safety Executive. In the world of health and safety, although having a directorial responsibility for health and safety in larger companies does not prevent every accident, it can be very significant in helping a business conduct its affairs in accordance with the health and safety legislation.

Lord Turnbull: Somehow or other, people have interpreted this as meaning that you do something additional.

Victoria Atkins: It is a safeguard.

Lord Turnbull: You are saying that there is still one point at which someone has to sign off; it is just going to be more senior than it used to be.

Nicole Newbury: Yes. If businesses are taking due care and attention in the claims they are submitting, it is a very minimal additional burden.

Lord Turnbull: You have a bit of a publicity problem on that.

Q76 **Baroness Noakes:** I have a quick follow-up. Have you considered simply requiring the claim to be made as part of the CT return?

¹ Note by witness: R&D claims must always be made in a company tax return or an amendment to the return.

Nicole Newbury: Yes. Tessa might want to come in on this. The changes that are part of the Finance Bill for next spring will mean that we will require businesses to include far more detail as part of their return. It will be on a return; there will be more details of the claim; it will be signed off by a nominated officer. There will be lots more detail and it will be part of the formal process.

Baroness Noakes: You will not need the advance notification, then.

Tessa Robins: The claim notification comes in within six months of the end of the accounting period. The businesses then have a further six months until they need to submit their CT tax return.

Baroness Noakes: Do you need it to be signed off? You could just rely on the processes that underpin the submission of the CT return, which include it being signed off.

Tessa Robins: The problem is that they are currently coming through the CT return. At the moment, you just put a figure in the box for how much R&D tax credit you are claiming. Some, predominantly legitimate, companies will submit alongside that an R&D report where they will provide us with more information about the claim, but that is not mandatory or in a standard format that makes it easy to risk assess.

We are saying that, alongside the CT return that is submitted now, which forms the basis of the claim, there will be a further electronic form that will require some additional information, including the name of the officer in the company. A CT return submission is a legal document and it is a self-assessment, but unfortunately we are not seeing the R&D element of that being taken as seriously as we think it should be. Therefore, we want them to be signing off that they have reviewed that claim itself.

The Chair: Are you clear on that?

Baroness Noakes: I am clear on it. I do not necessarily agree with it.

Q77 **Viscount Chandos:** You said earlier that you were working to improve the approach to compliance. We have certainly had evidence from people who think that is from a pretty low base. The representative of the BioIndustry Association said that there had essentially been no checking of any sort, whether that is fair or exaggeration.

I just wondered whether, in that context, you feel the previous level of compliance that has been implemented or enforced has contributed to the growth in fraudulent or marginal claims.

Nicole Newbury: First and foremost, we need to bear in mind that this is part of the corporation tax self-assessment regime. When a company makes a claim, it comes in and we "process now, check later". We have risk-assessment processes at the point at which the claim comes in, particularly on the payable credit side, when we pay out a credit. Those risk assessments have been in place.

It is unfair to say there was no coverage and no investigation work over recent years. It is fair to say, though, that we have ramped that up. As I said before, we have doubled the resource undertaking work. The level of criminal investigation has gone up and our risk assessment processes have improved, but there is a limit to how much we can do in terms of strengthening our risk-assessment processes without an automated digital solution.

The form Tessa just talked about will enable us to do far more automated risking, which will help us to do far more effective downstream compliance at scale. As well, we will be able to do more upstream work by helping customers with pre-claim notification six months after the end of the year and supporting customers to not complete spurious claims.

Viscount Chandos: What is the timescale for that?

Nicole Newbury: Those changes will come in from April next year—that is the plan—for accounting periods beginning on or after 1 April 2023. Our risking processes will be better once those start to come through.

We have undertaken a tremendous amount of work to improve our risking processes using the sparse information we currently have. We have deployed more resources, as I have said, and increased criminal investigations. We are also increasingly using novel compliance activities and approaches to try to address the sectors where we perhaps would not expect legitimate claims to come from.

For example, we have written out to a large number of first-year claimants from sectors we would not expect credible claims to come from, to point them to the guidance and the rules, and ask them to check and notify us of any amendments. We are trying lots of different approaches to improve our compliance approach in the meantime.

Viscount Chandos: You said you paused the processing of claims back in April or May. Is there any evidence that has changed the behaviour of advisers? Could it be interpreted as evidence that you are getting more serious about the level of due diligence?

Nicole Newbury: It is too early to say whether the April pause has changed the behaviour of advisers. It has definitely stemmed the flow of organised criminal attack. We have strengthened our front end. The attack we faced in April was driven by organised criminal gangs and bogus companies, not by rogue agents, for want of a better phrase. It is too early to tell whether the follow-up activity from that attack has permeated through to different agent behaviour.

Q78 **Lord Monks:** Last week, we received evidence from a firm called Catax, which you may have heard of. Just before the hearing started, the Chair managed to slip some information to us—he was elsewhere—that Catax was alleged to have said that firms in Britain were owed £84 billion by the Treasury for claims under this scheme. The Catax representative professed no knowledge of this particular figure, although we were fairly

sure it had been said.

I am just wondering whether you recognise this. Does it affect your judgment on Catax? It is quite a big player in the area of agencies helping firms, particularly small firms. They are using this kind of tactic perhaps as an advertising gimmick for them to pursue claims. Do you recognise that?

Nicole Newbury: I do not recognise the £84 billion.

Q79 **Lord Monks:** We have asked for a written explanation of what they have said, which we have not, I believe, got yet. I am sure we will pursue it.

I have a quick question about the fraud investigation service letters. We have had some complaints that these can be a bit confrontational, adversarial and so on. Firms are rather frightened of them. It is quite a disincentive for some small firms to pursue legitimate claims because they are scared of getting in trouble with HMRC. Do you recognise that worry? No doubt you have heard it yourselves

Nicole Newbury: I recognise the worry, but we have worked hard to overcome that. Let me explain a little more about the April attacks that we faced. You will understand that over many years HMRC has operated many repayment regimes, such as for self-assessment and VAT. We pay out multiple billions of pounds, year on year. As a result of that, we are a very attractive target to organised criminal gangs. Over the years, we have faced numerous challenges and threats from organised criminal gangs, so we track all our systems and monitor for the hallmarks of fraud and attack.

As part of that and as a result of the strengthened risk assessment because of the extra investment we have made in the R&D regime, we spotted a scaled organised criminal attack on the R&D regime in April. We therefore paused payments for two weeks while we strengthened our perimeter checks, as we were working on that. From that, we introduced a new hallmarks of fraud risk assessment process, if you like. That identified to us high-risk claimants that had multiple hallmarks of fraud in a claim.

As a result of that, we have issued over 1,600 letters to those claimants where we have explained, "Your claim has triggered an alert that indicates it could be fraudulent. Therefore, we'd like you to provide a set amount of information within 30 days to support your claim". They then provide that information within 30 days and we proceed as normal. Of the 1,600 letters we have issued to high-risk claimants, 80% have not yet come back to us. When a further 15% have come back to us, we have felt they warranted further investigation because their claims did not look legitimate.

However, we know that receiving a letter like that can feel really worrisome for our customers. It is not an everyday letter that HMRC would send out. We felt that the wording of the letter and the approach

was proportionate and justified, given the nature and scale of the attack we were facing.

On our R&D communication forum, we worked with the Institute of Chartered Accountants in England and Wales and lots of other representative bodies to explain the approach we were taking and why we felt the letters were necessary, and to ask them to reassure legitimate claimants that, once they submitted the information we had asked for, we would then continue to process them as normal.

The Chair: Can I clarify that? I did not quite understand it. Did 80% not respond at all?

Nicole Newbury: Yes, 80% did not respond at all, which we believe indicates that we took justified and proportionate action in response to the threat.

The Chair: By that you mean 80% withdrew their claim.

Nicole Newbury: They have not responded, so we have not paid it out.

Q80 **Baroness Noakes:** Minister, I am sure you were as horrified as I was to find HMRC's accounts qualified on the basis of the level of fraud and error in R&D claims. How can you get yourselves satisfied that HMRC is dedicating the right amount of resource to compliance in this area, given the very big tax cost associated with these reliefs?

Victoria Atkins: I am conscious of the timing at which I come into the department, with the Chancellor and the Chief Secretary. We are getting a grip on it. I have confidence in the activities that HMRC is proposing for the future and, in fairness, the activities it has already undertaken, including the letters we have just heard about.

There is a real need to get the message out, to both those who would try to defraud or cheat the Revenue and those who are trying their luck, that it will not be worth the risk. We will do this through very methodical investigation work, through the specialist unit that is being set up and will be fully operational by April next year and through these extra measures, some of which we have touched upon, that will come in through the draft Bill next year to try to squeeze off the opportunity for fraud or pushing the boundaries in applications at the very beginning.

We cannot arrest our way out of this problem, as sadly is the case with many other crimes, but we can, first of all, try to reduce the opportunity for the crime to be committed in the first place when the claim is put in. For those who do persist either fraudulently or spuriously, the investigation unit is now in the process of being set up to tackle them.

Baroness Noakes: Does that mean you are now satisfied that HMRC is dedicating the right amount of compliance resource to this?

Victoria Atkins: At the moment, yes. I reserve the right to come back and say, "We need some more" or for us to add more to it. A you may

have sensed from this, we have a number of balls in the air, particularly the review HMRC is undertaking at the moment with dip sampling. We have to be led by the evidence. At the moment, we have enough.

I suspect the timing of these factors coming into play may mean we do not see results in next year's accounts; maybe it is the year after. Certainly, at the moment I think we are in the right place. If the situation develops, we will have to look again at the resources we have already deployed or will deploy.

Q81 Lord Palmer of Childs Hill: Just picking up on the comments made about improving automation, the impression I get is that, because it is automated, HMRC is missing out. Going back to the old days of district offices of the Inland Revenue, there would be a person, probably a district inspector, who was hands-on in this. The answer from Ms Newbury was that we need better automation and that we will find different ways. The words "dip sampling" were just used.

It seems to me that we need to be more hands-on rather than using sophisticated systems that have the result of taking out 80% of the claims under one scheme after the event. My question really comes down to this. Have we gone so far in fine tuning the automation that HMRC is losing the ability to pick out the rogues?

Nicole Newbury: I will come in there, if I may. To clarify, we do not have the automated risking in place yet² because we do not have the digital forms and the details of the claims in order to facilitate that automated risking at the moment. I too remember the days of district inspectors and eyes on for returns. Over the last decade or more, I have been pleased to see our use of data and intelligence and the technological strides we have made.

Having a balance of data-led and intelligence-led risking and the deployment of expert resource gives us the best of both worlds. Once the changes come in from April next year, we will have a much better and much richer set of data that we can automate. Again, it has to be coupled with that specialist resource that has eyes on those claims we are worried about. We are in best-of-both-worlds territory rather than supplanting one with the other.

Lord Palmer of Childs Hill: At the moment, HMRC's own research shows that many businesses became aware of the relief only when told by their accountants, so is R&D relief a policy lever for increasing R&D by UK companies? Are smaller companies aware of this? If they are not, is there a way of making them aware of it? The aim, we hope, is to improve R&D, industry and business in this country.

² Note by witness: We do not have the automated risking of the additional electronic form in place yet because we do not have the digital forms and the details of the claims in order to facilitate that automated risking at the moment. That will be required for accounting periods from 1 April 2023.

Victoria Atkins: If I may say so, this comes to the heart of the challenge I am throwing forward to HMRC, which is to make our taxes fairer and simpler but also to help the country prosper. You will remember last week in the Autumn Statement how the Chancellor emphasised that growth must be part of our plan for the economy going forward. These forms of tax reliefs play a really important part in enabling small but also large businesses to innovate and thrive.

We need to do better at showing legitimate small businesses that this is out there for them, should they require it and should they meet the criteria. I am told that there have been campaigns in the past through BEIS and other efforts, but this is something we should focus on as part of the overall plan that the Chancellor set out in the Autumn Statement.

HMRC's internal guidance will be available publicly. I appreciate that it is probably quite a dry read for a lot of people, so I am really interested to see whether there are other ways we can get these quite powerful messages across about how, if you are doing interesting work in research and development as defined through the BEIS definition, you might be eligible for support. I think there are ways we can do that. Your challenge to me, as a committee, if I may say so, as to quite how we address that is something we want to take forward over the next 12 months to two years.

The Chair: If HMRC clearly identifies a rogue agent, do you regard it as your responsibility to advise customers that this agent is a rogue?

Nicole Newbury: I can come in here. We absolutely see it as our responsibility to address the rogue agents. We have an agent compliance team, for example, which is dedicated to addressing rogue agents or poor standards in agent behaviour. Our specialist R&D compliance teams who focus on SMEs work closely with the agent compliance team. Our approach is to work with that specialist team to either suspend their access to HMRC accounts or report them to the relevant professional body.

As far as I am aware, we do not publicly name and shame. Our legislative powers do not extend that far at the moment, but I would have to go and check that further. We take it very seriously as part of our responsibility.

The Chair: You cannot advise a customer that the particular agent they are using is under investigation or suspicion of fraud elsewhere.

Nicole Newbury: I am not aware that we do that and I do not think we have the legislative gateway to allow us to. I will take that away. We can provide the committee with a written update, if that is okay.

Q82 **Viscount Chandos:** The Chancellor said in the Autumn Statement that the reduction in the SME rate would make it less interesting to aggressive advisers. Is that really true? It might cut out the smallest claims, but even at the new rate it seems to me there is enough juice in it for an unscrupulous adviser to think it is worth their while.

Victoria Atkins: This is where the rates and the practical measures at the beginning or, indeed, in advance of a claim, which we are bringing in as part of the draft Bill next spring, will help.

Chair, I have asked for clarification of the point I addressed you on earlier about the agency being named. I think it is the body to be named, but I will take away the suggestion about an individual being named as well.

We think these measures, and having senior oversight in businesses as large as 500 employees, will help squeeze this down and make it more difficult for these claims to be submitted in the first place.

Viscount Chandos: I accept that there is a package of changes, of which the rates are only one. To go back to Lord Turnbull's question, are the most productive SMEs not being unnecessarily disadvantaged in the R&D they do by the rate coming down, if one of the rationales for that is that it should discourage aggressive and unscrupulous advisers?

Victoria Atkins: I note the Chancellor said last week in the Autumn Statement that the OBR has confirmed that these measures have no detrimental impact on the level of R&D investment in the economy.

Viscount Chandos: The OBR is a distinguished body, but that is a statement in the present about the future. Who knows?

Matthew Henty: We talked before about the additionality of the RDEC scheme being greater than the change from one to the other. Although it saves the Exchequer money—the saving on the scorecard is £1.3 billion—the overall level is the same. The other thing the Chancellor said was about working with R&D-intensive SMEs to look, before the Budget, at whether they need any other support within the overall funding window, so we will be doing that as well over the coming months. That will be part of that story.

All of this goes to it being, as you have just said, a package. I would just like to talk again about pre-claim notification. Having advance notification six months before they claim the relief gives space for HMRC to engage with businesses and ask the named individual whether they are content with their claim and to think about that before they actually make it. There is limited time to do that within the period from the tax return being made to a payment being made.

The whole package is designed to pull on lots and lots of levers to ensure the integrity of the scheme. It is not just one thing.

Q83 **Lord Turnbull:** Some SME representatives have talked about the process making it difficult to claim. Should we be trying to make it easier? I wonder whether we should break this down into two. On one hand, we should make it easier to claim in the sense that people understand what is allowed and what is not, that the documentation you provide is clearer, that the form is better designed and that it is just an easier process. On the other hand, we want it to be more difficult in the sense that the likelihood of being challenged is increased.

You have talked about increasing the risk assessment digitally and creating a specialist unit. The thing that would put up the rate of challenge is more human beings looking at this and saying, "This looks a bit dodgy". You do not necessarily go back to a company and say, "We think this is a fraud". You say, "Are you really sure you want to claim for this?" You should be pushing that part of it up and looking at it as part of your enforcement process.

Via that means, you can weigh the extra staffing costs you are putting into this measure and the revenue you will get or save from it against the staffing effort you are putting into the hundreds of other fields in which you are operating. That challenge ratio is something you should be trying to push up, rather than down.

Nicole Newbury: If I can come in on that, I said earlier that I did not think we could resource ourselves out of this issue because of the large volume of low-value claims, for example. To provide some reassurance, we are not doing just the hard-edged fraud letters we have previously talked about; nor are we just doing the thousands of volume letters to first-year claimants from sectors that we would not anticipate a successful or legitimate claim coming from.

We do a significant number of one-to-one investigations, post claim, into claims that we do not consider to meet the rules of the scheme. So far this year 84% of those have resulted in additional tax interest or penalties being paid because of the work we have done.

We have the specialist team I mentioned that focuses on the SME scheme³, but we also have resource in our large-business department that focuses on R&D claims and the compliance thereof in relation to RDEC. We also have colleagues across our fraud investigation service and our risk and intelligence service, as well as lawyers, policy specialists and customer service agents, all working together. We have significant resource across all those teams focused on doing the kind of work you refer to, Lord Turnbull.

Is there more we could do? Yes, but I think we do more with the measures we have and then we assess whether we have the right level of resource. We cannot resource ourselves out of it alone.

Lord Turnbull: Do not be seduced by some super-whizzy, slick data screen.

Q84 **The Chair:** I do not know whether you know what percentage of claims are made by advisers rather than claimants directly, but the SMEs I have spoken to said they find it too complicated to do it by themselves. Are you happy, Minister, that we have a situation where SME businesses feel compelled to use an adviser for something that perhaps they should be

³ Note by witness: We have the specialist team I mentioned that covers the SME and RDEC schemes for SMEs, but we also have resource in our large-business department that focuses on R&D claims and the compliance thereof in relation to RDEC only.

able to do for themselves?

Victoria Atkins: The process itself is pretty straightforward. We had an evaluation in 2019, and only 18% of claimants found the process difficult. Over half reported that it was easy. We will make it more demanding precisely because of some of the issues we have talked about this afternoon, but that is to support a claim that is worth, for some businesses, tens of thousands and possibly even more.

For all these claims, we want to tighten up the ability to access them. I am afraid that does mean that for legitimate businesses there will be this extra burden of providing, for example, pre-claim assistance.

Tessa Robins: In answer to the first part of your question, we think around 90%, give or take, go through agents. However, that is broadly in line with what you see in the wider corporation tax system. That would imply that there is not anything particularly more difficult about this aspect of the claim.

It is important to make a distinction between the complexity of the process itself, which, as outlined, we currently think is quite straightforward but for justifiable reasons we will be making a little more difficult for claimants, and the underlying issue of what categories of expenditure qualify as R&D.

Victoria Atkins: I think "more thorough" is a more accurate way of saying it than "more difficult".

Tessa Robins: It is, indeed. I know you have had evidence on the ease of understanding our guidance, for example. We will definitely take that forward as part of the next stage of the review. We will first be producing guidance on the changes that are being introduced, but then we will be doing a more comprehensive review of the guidance overall to make it as accessible and user friendly as it can be.

The Chair: We have had witnesses who have complained about the guidance not being clear, from both BEIS and HMRC, and others who did not know there was guidance, which is a bit worrying. Thank you for that.

Q85 **Viscount Chandos:** On the same theme of communication and implementation, we are now less than five months from the date at which the new rules will take effect. Are you giving enough priority to making sure everybody is prepared for these changes?

Victoria Atkins: Over the next five months, that will be very much a work in progress. HMRC is planning to produce new guidance and new forms, and of course some of the information that claimants will be required to produce, once the Bill has come into force later in the year, will we hope be pretty simple to provide—for example, the name of the senior officer in the business.

We very much accept that we need to get the message out to businesses that do use R&D tax reliefs legitimately that there are some changes on

the way. We will be very keen to work with important industry representatives, such as the CBI, the FSB, accountants, regulators and so on, to try to deluge the message through their channels as well. Yes, we will have to ensure that we get the message out clearly to people.

Viscount Chandos: You do not think that timetable works against a root-and-branch improvement in guidance. One of the examples given by our witnesses related to DVD technology. We are all pretty familiar with that, so it seemed a slightly improbable example of innovation.

Tessa Robins: The DVD example is from the BEIS guidelines, which do not have the force of law. We will certainly take that back to BEIS. It is important to remember that DVD technology is used as an example. It is talking about whether things would qualify for a DVD player if you made certain changes to the technology; if you just advertised it in a different way, that, of course, would not qualify.

Sometimes in those examples it is easier to use something people are very familiar with than cutting-edge technology. Yes, we are very happy to take that away and discuss that with BEIS.

Viscount Chandos: Examples are important ways of signalling the level of innovation you are looking for.

Tessa Robins: Yes, absolutely.

Viscount Chandos: Four months may seem like quite a long time, but getting things right does take time.

The Chair: Thank you very much indeed for coming to see us and for being so open and forthcoming. It is much appreciated.