UK Spring Budget: Quantum investment, R+D credits but no scale up funding

Did Hunt's Spring Statement promise to end the woes for a beleaguered UK? We talked to founders, investors and professionals from the breadth and width of the UK innovation economy to find out.

The only G7 economy not to have predicted growth. A country totally lacking scale up funding, leading to companies heading stateside. Botched IPOs. These are by now familiar characterisations of a UK economy on the rocks. So how did Chancellor Jeremy Hunt try to reverse this?

In a nutshell, the key takeaways affecting the innovation economy were: a £2.5B investment for quantum, a partial reversal of the R&D tax credits, both an AI prize and sandbox, £80M for 'investment zones' and failure to extend the Energy Bill Relief Scheme (EBRS).

Who better to provide an overall assessment than Gerard Grech, CEO of Tech Nation? He seemed encouraged, commenting the following:

"The budget is a positive indication of the UK Government's commitment to becoming a Science and Technology Superpower. We welcome the measures aimed at supporting the UK tech industry, including the introduction of additional tax support for R&D and the announcements on an AI sandbox and ambitious Quantum investment which will generate investment in new industries, whilst protecting consumers and businesses."

The good

A boon for Quantum

James Palles-Dimmock, CEO of Quantum Motion, which last month raised £42M in the largest ever UK raise for a quantum computing startup, said the following:

'The UK is becoming a low risk place to undertake high risk ventures, largely as a result of world leading research supported by government and successfully spun out of universities. The National Quantum Technologies Programme (NQTP) was a key part of this.

The next phase, with an increased budget of £2.5B will put us at the forefront globally for governmental investment into quantum technologies, after some significant support from the US, Germany and China to their respective national programs. It is a big signal that the UK wants to build on the 'unfair advantage' that we have thanks to the work of the NQTP and our world leading universities and that we have a desire to see quantum technologies through to commercialisation.'

Shake up to the R+D credits and 'investment zones'

According to a *worrying study conducted by Coadec* before the budget was announced, startups could see a negative impact of around £100K on average due to the predicted changes in R&D policies.

Yesterday's budget, however, includes a partial reversal of these policies. This means that companies spending over 40% of their budget on research and development will now be eligible to claim a 27% rate of reimbursement, amounting to £27 back from the Treasury for every £100 spent on R&D costs.

Following the announcement in the budget that the government is also introducing additional tax support to help research & development intensive SMEs, Mike Randall, CEO of Simply Asset Finance got in touch to point out the following:

'The Chancellor's announcement of more R&D support for SMEs – which will allow them to claim back £27 for every £100 invested – will be well received by those looking to grow quickly and innovate their services. However, for more established, long-running SMEs, this may have limited impact and we urge the Government to consider broader support to help those smaller businesses driving the economy but not currently investing in R&D.'

Mike was also keen to highlight the positive effect of the new investment zones:

'Levelling up across the country will play a vital role for the UK economy's growth. Since starting our company, we have witnessed first-hand how business investment has struggled to support growth over the past few years, with smaller firms often facing a raft of challenges when seeking vital funding. We welcome the Chancellor's announcement of 12 new investment zones across the UK, which we hope will build profitable, competitive business opportunities across business hubs beyond the capital.'

The bad

Energy Bill Relief Scheme (EBRS)

The Treasury's failure to extend the Energy Bill Relief Scheme (EBRS) was inevitably met with disappointment from SMEs. Joseph Calnan, Manager of Corporate FX Dealing at Moneycorp got in touch with the following:

'We already knew from the FSB that *over 350,000 SMEs stood to downsize, restructure or close entirely* if their energy bills reverted to the higher rates in April. But hot on the tails of a fresh wave of uncertainty from the SVB collapse, which has rattled the foundations of the UK's SME ecosystem, this blow is going to be felt even more keenly.

Factor in the accompanying rise in corporation tax and today's budget becomes more disappointing still. *Business insolvencies are already reaching levels* not seen since the 2008 financial crisis and this could get worse if current conditions prevail. We saw from the swift intervention over the weekend that the Treasury is willing and capable of protecting UK plc, but today it appears to have regressed in that regard.'

The ugly

No scale up funding solution

Further announcements have been received cynically by those including Ritam Gandhi, founder and director of Studio Graphene:

'This Budget was a mixed bag. The PM makes a habit of mentioning that he's spent time in Silicon Valley, while the Chancellor often references his own entrepreneurial experiences. So, it stands to reason they'd champion entrepreneurship, particularly in tech, and these topics were certainly at the heart of Hunt’s speech – yet he also overlooked some key issues inhibiting innovation and growth.

Yes, there were positives: there were boosts for AI companies. Tax cuts for R&D and those investing in IT and machinery in the UK are to be welcomed. And the investment zones sound promising, but exactly how and where the £80 million of funding will be spent in those 12 hubs remains to be seen. In the meantime, some of the most common challenges UK tech businesses face were not adequately addressed – namely, accessibility of funding for scaling businesses (kicked down the road to the Autumn Statement), and helping plug the tech skills shortage that holds back so many digital companies.’

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