



enterprise**m3**

Delivering prosperity through innovation

Economy, Labour Market, and Skills Dashboard.

Featured topic: Innovation

EM3 SAP and EM3 Board Meetings – September/October 2023

HEADLINES

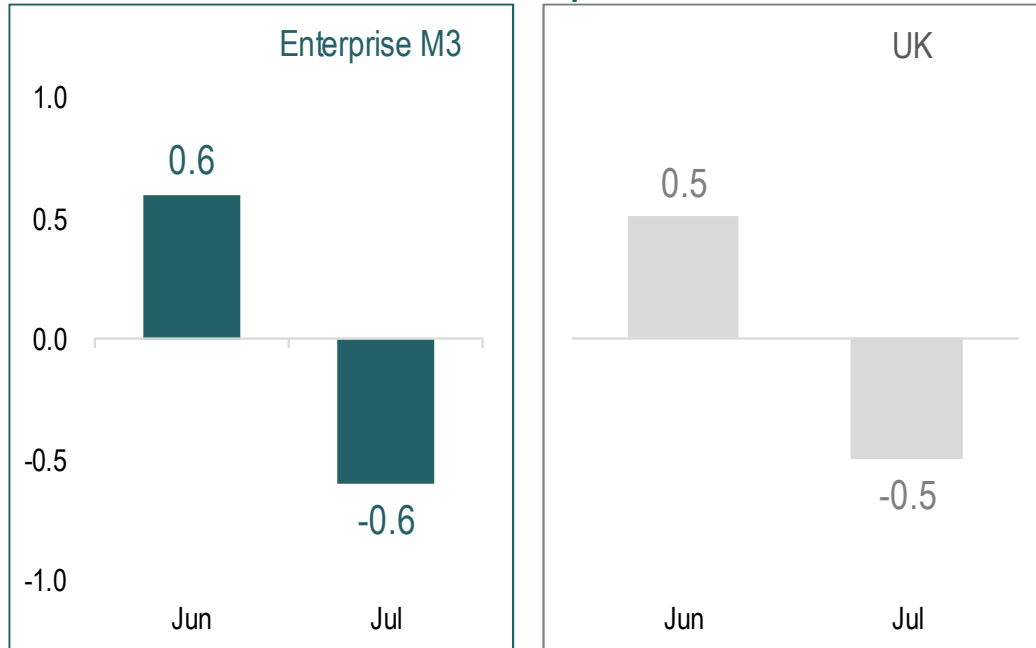
- Growth in Q2 has held up despite high inflation and rising borrowing costs, but business activity seems to have peaked in June.
- Growth has contracted in July with survey evidence pointing to subdued outlook over the short-term.
- Further easing in business costs is another sign of a slowing economy, but global oil, gas, and wheat prices are on the rise again.
- Inflation could be stickier than expected → UK recession is still possible later this year or in early 2024.
- Interest rates now expected to peak at 5.75% and perhaps fall sooner than expected.
- Labour market holding but signs of softening in EM3 region and the UK → unemployment beginning to increase but labour supply remains one of the most pressing challenges for regional economic policy.
- EM3 region has comparatively few innovation active enterprises but performs better on innovation collaboration and introducing a new good or service to the market i.e., first mover activity.
- The South East receives large share of R&D funding but in relative terms, this is lower than the North East. Higher education R&D funding is skewed to Oxbridge, but EM3's two Russell Group universities do well.



ECONOMY

ECONOMIC ACTIVITY IN EM3 REGION MIGHT HAVE PEAKED IN JUNE

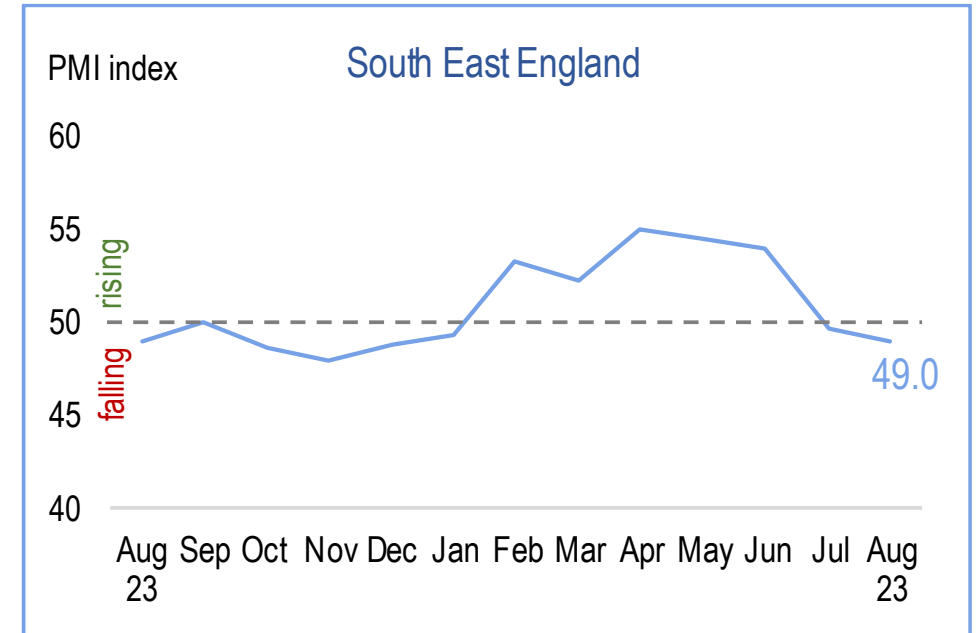
Monthly GVA growth, %
UK and Enterprise M3*



Source: ONS (2023) and *EBIS (2023) estimate

- Strong growth in June offset by a contraction in July.
- A series of 'irregular events' e.g., strikes, affected output growth in July.

Business activity (survey data)
South East England

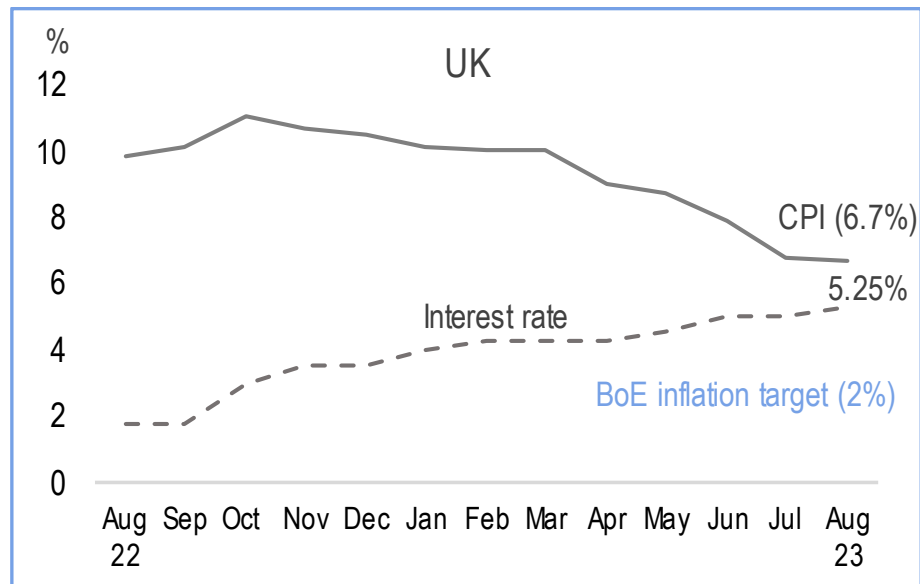


Source: Markit (2023)

- Contraction in business activity and volume of new orders in July and August.
- Subdued outlook for growth in near term for EM3 region/UK.

INFLATION DEFIES EXPECTATIONS: EVIDENCE OF A SLOWING ECONOMY?

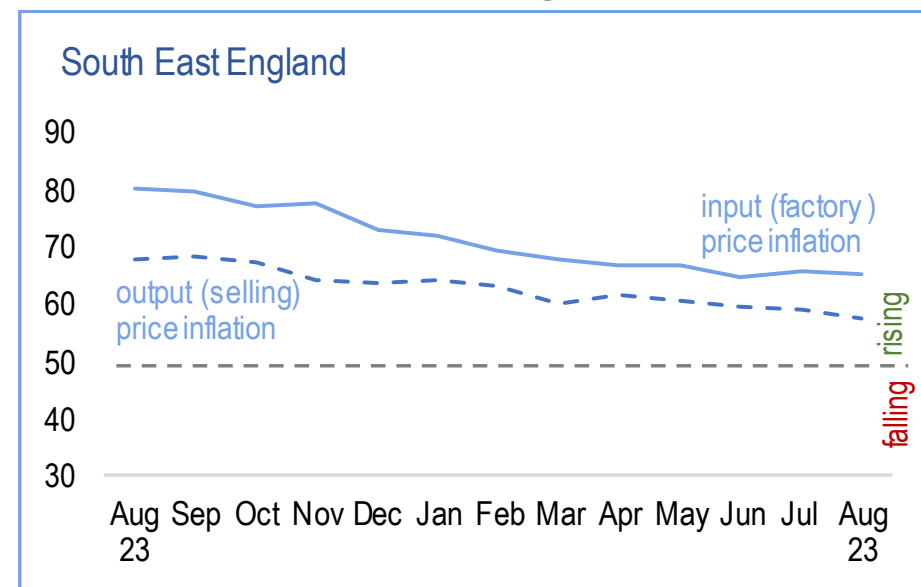
UK inflation and interest rates



Source: ONS (2023) and BoE (2023)

- Inflation fell in August, defying expectations of an increase.
- Slowdown in food price inflation but rise in petrol and diesel prices.

Business costs and prices charged South East England



Source: Markit (2023)

- Business surveys point to retreating price pressures → slowing economy.
- Oil, gas and wheat prices all on the rise again → sticky inflation.



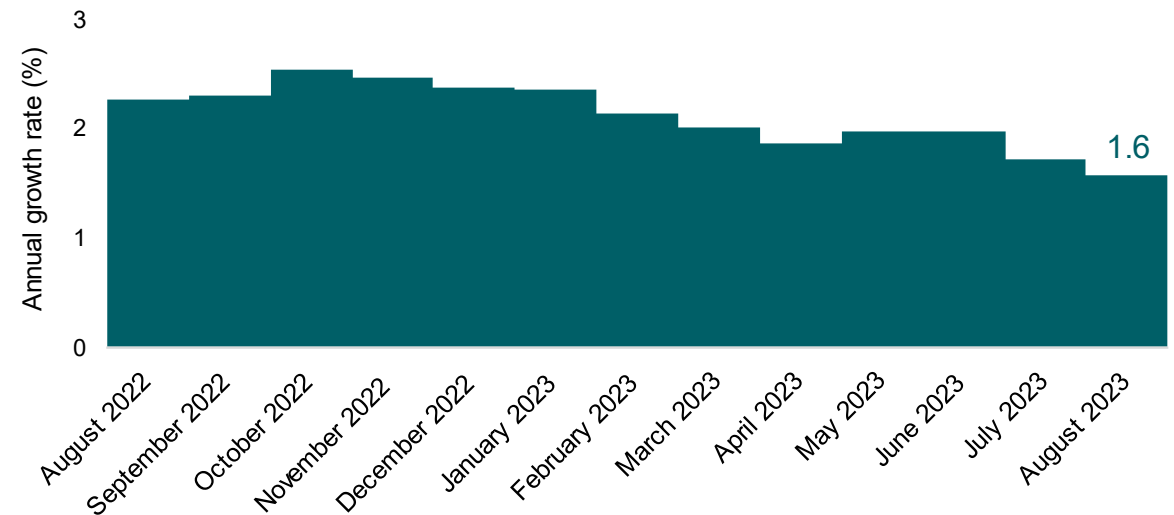
LABOUR MARKET & SKILLS

EM3 PAYE EMPLOYMENT REMAINS RESILIENT GOING INTO Q3, BUT SIGNS OF SOFTENING NATIONALLY

- High employment rate in EM3 region.
- Resident PAYE employment increased by approximately 1,300 over the last quarter (subject to revision) and still 11,400 higher than a year ago.
- Monthly PAYE employment growth slower than in quarterly employment growth, suggesting a recent softening in the labour market.
- Nationally, latest quarterly data points to labour market softening with a decrease in the employment rate compared with the previous quarter while the unemployment and economic inactivity rates both increased.
- Major policy issue for the economy > Labour supply and persistent skills-mismatch over the medium-to-long term.

PAYE employee growth (annual % change)

Enterprise M3



Source: HMRC (2023)

- 1.6% (annual PAYE growth)
- 0.2% (quarterly growth)
- 0.1% (monthly growth)

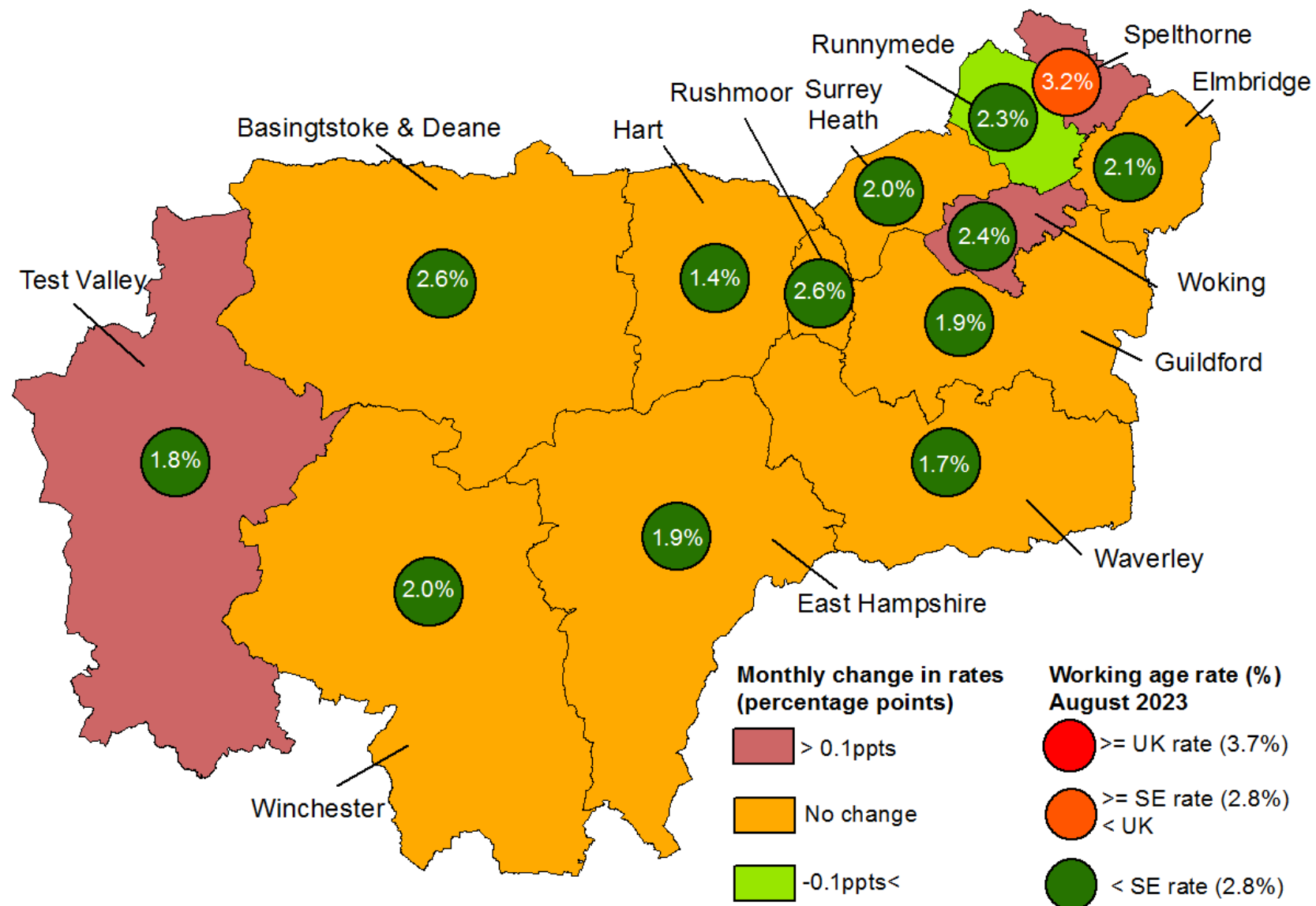
UNEMPLOYED CLAIMANT RATE BY LOCAL AUTHORITY – AUGUST 2023 (2.1%)

Shaded Districts areas

- **Green** = decrease in working age rates between Jul-Aug.
- **Orange** = no change in working age rates between Jul-Aug.
- **Pink** = increase in working age rates between Jul-Aug.

Coloured Circles

- **Green** = August 2023 rate below UK and South East rates.
- **Orange** = August 2023 rate above or equal to South East rate but below UK rate.
- **Red** – August rate above or equal to UK rate (no red circles in EM3 area).



STEADY DEMAND FOR LABOUR IN EM3 REGION, BUT SIGNS OF A SLOWDOWN AND SUBSTANTIAL SECTORAL DIFFERENCES

- Three-months to August* saw little change in demand compared to 3-months to July.
- Labour shortages affect driving demand.
- Strong sectoral demand > nursing with high posting intensity suggesting these are hard-to-fill vacancies.
- Demand also growing for care workers, sales, business support and IT.

% change in online job postings
(3-month moving average Jul-Aug 2023)



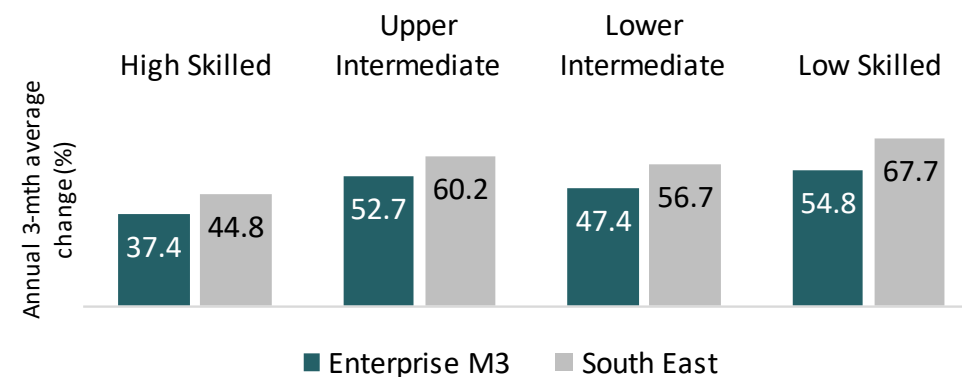
Source: Lightcast (2023), all unique job postings

*Moving average June-August compared to previous 3-month moving average (May-July to smooth out volatility in the data).

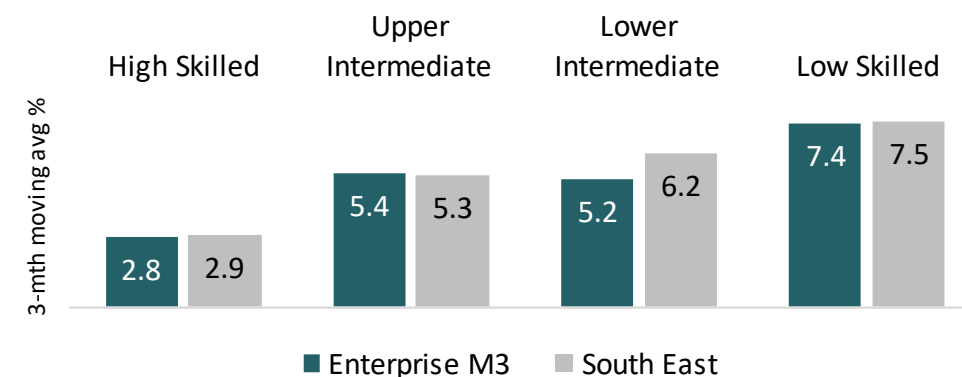
GROWTH IN DEMAND ACROSS ALL SKILL LEVELS BUT DEMAND FOR HIGH SKILLS EASING

- Three-month average growth compared to a year ago in Enterprise M3 is lower than the South East across all broad skills levels.
- Latest 3-month average change still seeing growth in demand but at a slower pace than previous 3-months. Marginally slower growth than South East except for Upper Intermediate.
- For the latest single month (August) labour demand in EM3 region in high-and upper intermediate-skilled equate to nearly 67%. Of which:
 - Nearly one third (31%) in high-skilled occupations, and...
 - ...and over one third (36%) in upper-intermediate occupations
- Low skilled seen stronger pick-up in EM3 (+7.5%) and similar to South East > low skills demand is largely consumer driven.

Annual 3-month Moving Average Growth by Occupational Skill Level August 2022 - August



Latest 3-Month Moving Average Growth by Occupational Skill Level July - August 2023





INNOVATION

HEADLINES

- The wider South-East (often including London) seen as disproportionately receiving the highest rates of public and charitable spending on R&D but that is more often focused on London, Buckinghamshire and Oxford and comparatively less so for the Enterprise M3 area (EM3) on some measures from BEIS (DBT/DESNZ).
- **BEIS 2018-2020 survey data** on innovation active enterprises (i.e., businesses engaged in some form of product/service/process innovation) headquartered by LEP shows the EM3 area with low rates of active innovators. On this measure EM3 area was ranked 29th out of 39 LEPs with Oxfordshire (1/39) ranked first. Marketing & strategy was also lower for EM3 innovation businesses, but the LEP performed better on collaboration and in bringing new innovative products, or services, to the market.
- **For Innovate UK funding** the South East slipped since 2012 as the largest recipient of funds to London. On average, the South East received around 15% of UK funding – comparatively lower compared to North East and Scotland when factoring in the number of businesses. Micro & small enterprises were the main beneficiaries of Innovate UK funding awards in 2022/23. In the EM3 area, 125 enterprises received awards - 18% of the South East region, and 2.5% nationally, and much lower than Oxfordshire.
- **R&D Tax Credits** seen an upward trend nationally since 2015, and largely driven by SME schemes and the uprating of expenditure relief on tax but dipped during the pandemic. South East region saw the second highest number of tax credit claims made and the amount claimed in 2020/21 – behind London as the leading region. The South East had the highest number of companies claiming **Patent Box relief** in 2019/20 but a lower share on the amount of tax relief claimed compared to London.
- **Higher Education research funding** heavily skewed to Oxbridge and University of London (excluding Royal Holloway) and other Russell Group universities (research-intensive). Higher education research funding for the EM3 five partnership universities is unsurprisingly dominated by the two Russell Group universities (Southampton & Royal Holloway), followed by Surrey but with very little funding awarded to the smaller University of Winchester or the more niche UCA institutions.



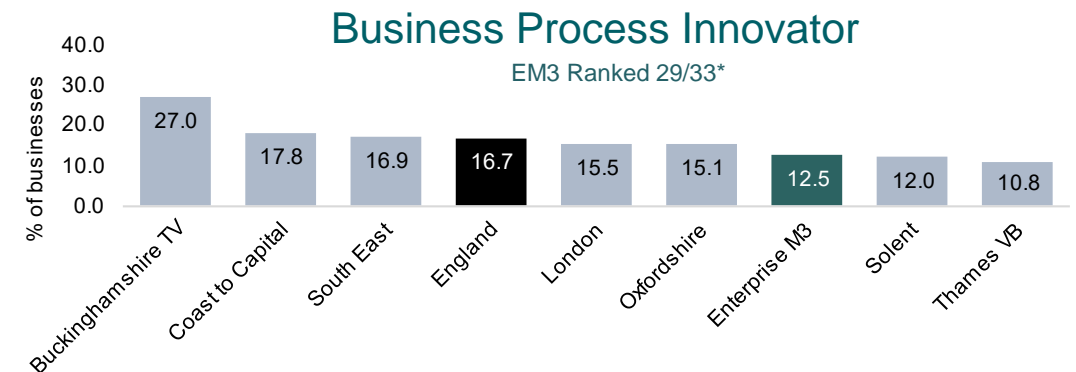
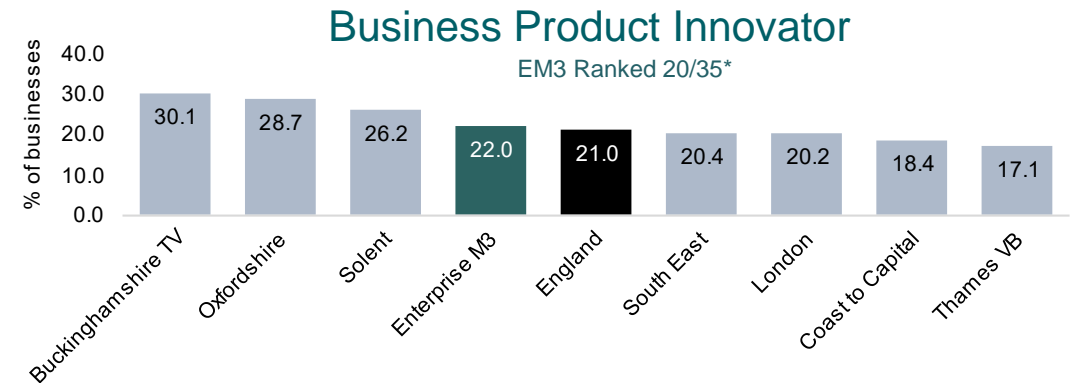
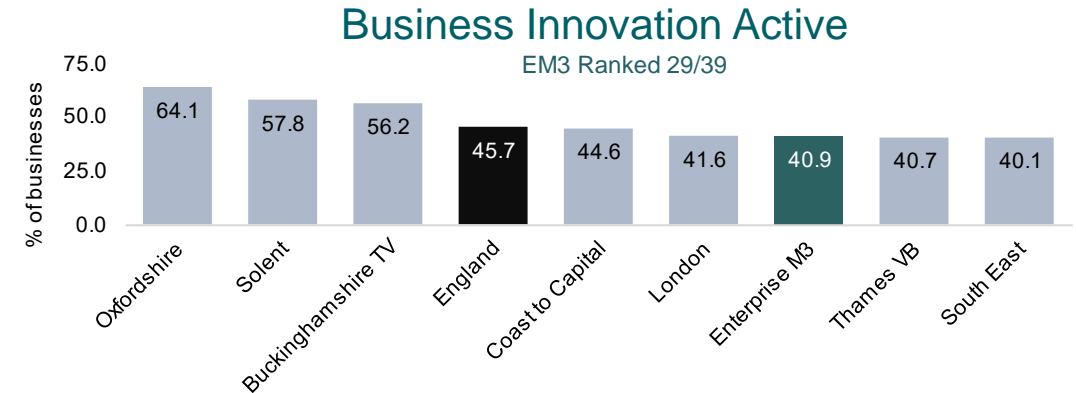
INNOVATION I: INNOVATION IN ENTERPRISE M3 AND SOUTH EAST

INNOVATION POLICY AND BEIS SURVEY TRENDS

- The % of UK businesses that are innovation active is one of the metrics for Mission 2 of the Levelling Up White Paper.
- By 2030, domestic public investment in R&D outside the Greater South East is expected to increase by at least 40%, and over the Spending Review period by at least one third – the EM3 region will not be a direct recipient of this new funding policy as it is targeted outside of the Greater South East.
- The Government has a target to raise public and private sector investment in R&D to 2.4% by 2027.
- The UK rejoined the EU's Horizon science funding scheme as an associate member, contributing an average of approximately €2.6 billion (£2.2 billion) per year to cover participation in both Horizon Europe and the space programme.
- Businesses in production and construction remain more innovative than businesses in distribution and service industries.
- Improving quality of goods or services remains the top-rated factor for undertaking innovation.
- Coronavirus (COVID-19) pandemic was the highest rated barrier to innovation, followed by excessive perceived economic risks, and the withdrawal of the United Kingdom from the European Union.
- The BEIS survey research found that STEM graduates feature highly in the workforce of innovative businesses.
- The East of England and the West Midlands were the English regions with the highest percentage of innovation active businesses in 2018-2020. However, the Oxfordshire and Solent LEPs had the highest percentage of innovation active businesses in 2018-2020 - possibly due to a larger manufacturing base - while the EM3 region lagged on several measures.

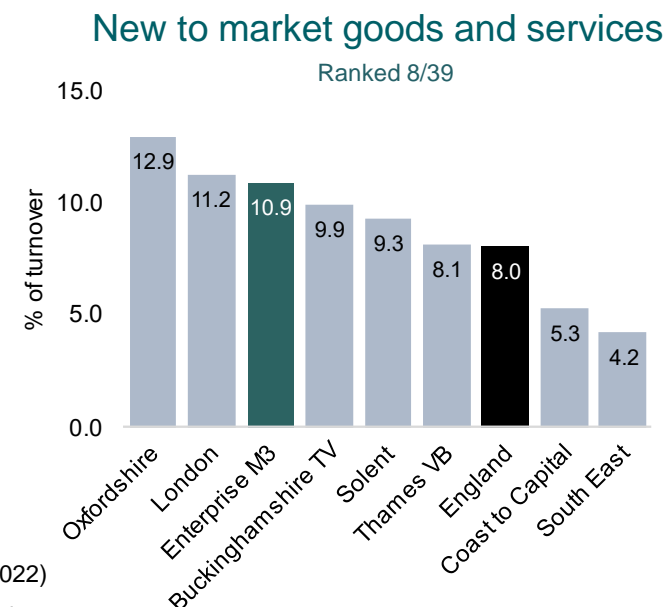
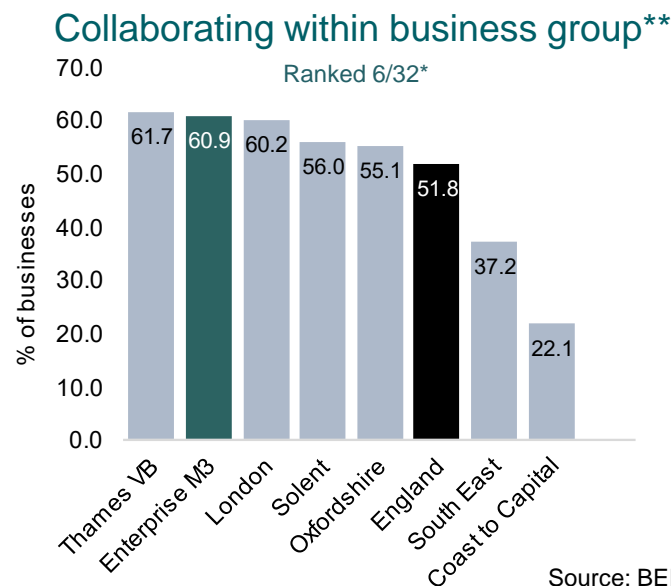
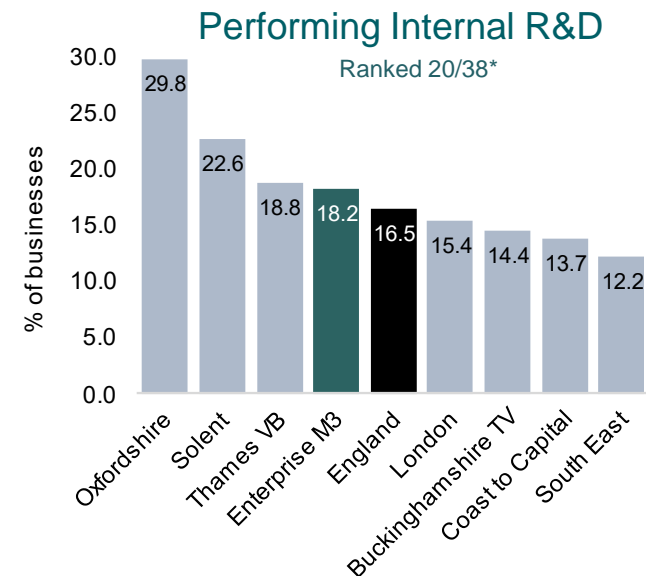
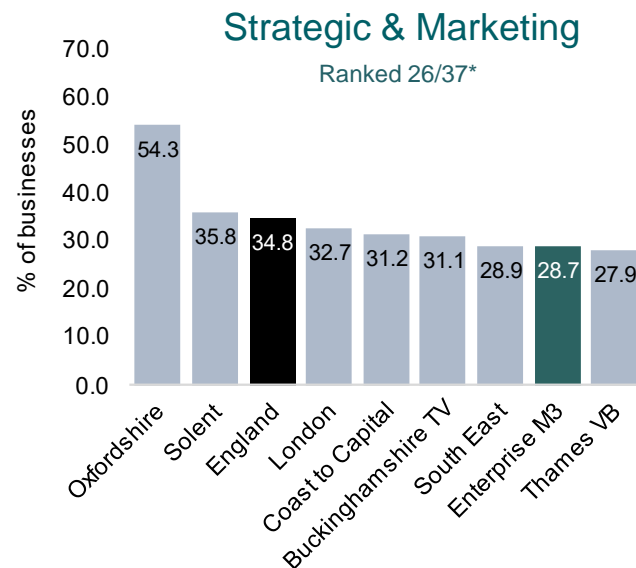
SURVEY POINTS TO FEWER ENTERPRISE M3 BUSINESSES BEING INNOVATION ACTIVE

- Survey data (2018 to 2020) points to fewer HQ businesses in EM3 region adopting innovation (active) relative to most SE & London LEPs and below national average > around one third lower than Oxfordshire and Solent (highest two LEPs in England) > skewed by more services, and Int. HQ with subsidiaries located elsewhere?
- Pandemic likely to have impacted on business innovation.
- On the Product Innovator measure, EM3 region performed better at bringing to the market or into use by business, new and improved products > marginally above England average but below Solent LEP.
- On the Process Innovator measure, EM3 region underperformed innovating significant changes in the way that goods or services are produced or provided > around half the number of businesses in Buckinghamshire LEP (highest in England), and below England average.
- However, on all three survey measures EM3 region outperformed Thames Valley Berkshire (more services?)



EM3 BUSINESSES WEAKER ON STRATEGY & MARKETING BUT STRONGER ON COLLABORATION AND AT BRINGING INNOVATION TO THE MARKET

- Strategy and marketing innovation was comparatively low in EM3 region (28.7%) > almost half that undertaken by businesses in Oxfordshire (54% and highest in England).
- EM3 region saw just under 1-in-5 businesses (18.2%) undertake internal R&D > above England average but well below Oxfordshire (29.8%).
- EM3 region had higher rates of business collaboration arrangements (60.9%) and 6th highest in England > second only to Thames Valley Berkshire (Ranked 5th).
- EM3 businesses performed comparatively well introducing a new good or service to the market before competitors > well above England average, but would more strategy & marketing improve this outcome?



Source: BEIS (2022)

* Some LEPs excluded **excludes Buckinghamshire TV as data disclosive

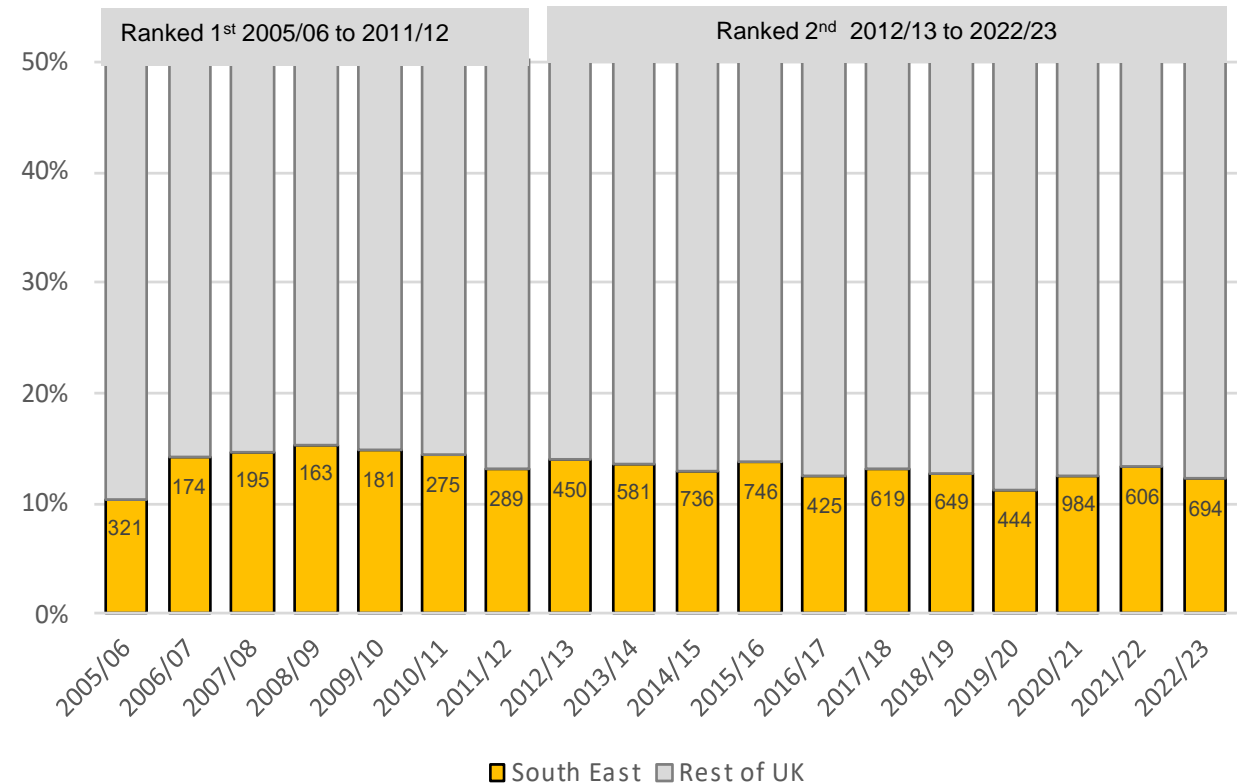


INNOVATION II: INNOVATE UK FUNDING

THE SOUTH EAST AND LONDON HAVE BEEN MAIN BENEFICIARIES OF INNOVATE UK FUNDING AND EXPENDITURE

- On number of projects funded by Innovate UK, the South East was nudged from 1st to 2nd place by London from 2012/13 onwards.
- The South East has on average accounted for around 15% of total UK funded projects between 2005/06 and 2022/23 > SE potentially under funded by business share.
- SE 15% of businesses and 15% of money awarded (1:1), North East 3% of businesses 5% of funding, Scotland 6% of business but 10% of funds awarded – both ratios closer to 2:1 funding share to businesses suggesting an advantage over the South East in relative terms.
- Since 2005/06, the South East has been awarded £2.39bn of Innovate UK funding but with an actual spend to date of £1.86bn, inferring £0.5bn not currently spent > most recent projects are still live, some until 2025/26.

South East Share of UK Innovate Funding & Number of Projects

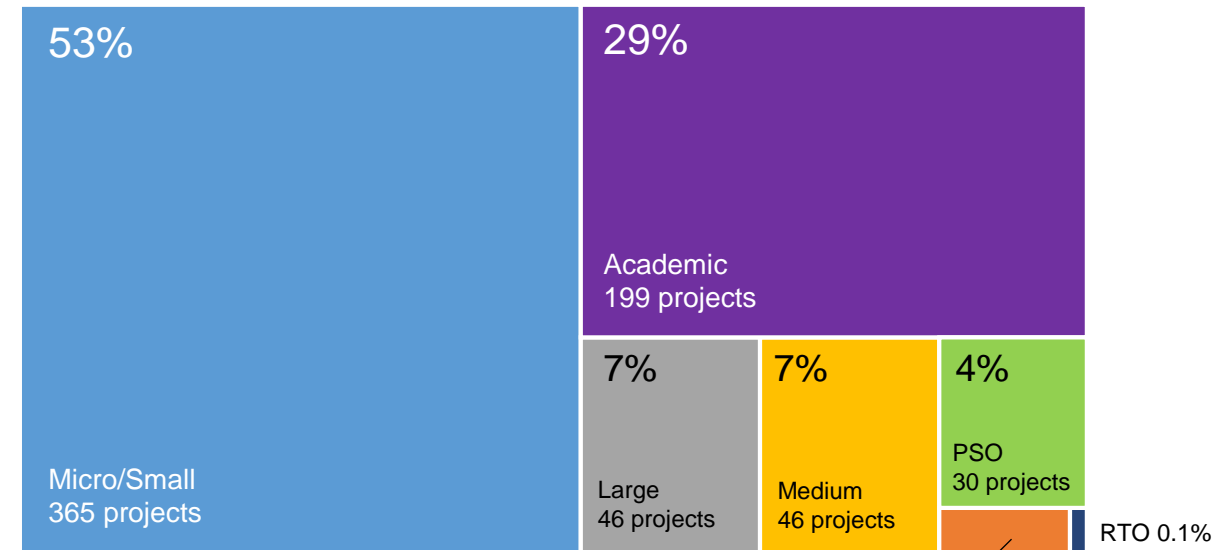


Source: Innovate UK (2022)

IN 2022/23 SOUTH EAST MICRO-SMALL ENTERPRISES WERE MAIN BENEFICIARIES OF INNOVATE UK FUNDING AWARDS

- Close to 700 projects in 2022/23 in South East, over half are Micro & Small enterprises (53%, 365 projects), followed by Academic enterprises (29%, 199 projects).
- Of the total 2022/23 South East awards offered (£241m), close to one third each went to Micro & Small (£78m) and Academic (£73m) enterprises.
- On actual spend to date of 2022/23 awards (£30.2m), Micro & Small enterprises accounted for over half (57%, £17.5m) compared to 7% for Academic enterprises (£2.1m). However, most projects are still live (active), some until 2025/26.
- A single Research and Technology Organisation* (RTO – The Faraday Institute Battery Challenge Phase 2, Oxfordshire) accounted for just 0.1% of awards offered but accounted for one fifth of the total award offered and 23% of total actual spend to date (still active/live).

South East Share of UK Innovate Funding Projects
by Enterprise Type 2022/23



Source: Innovate UK (2022)

RTO = Research Technology Organisation (might be single or several businesses under one umbrella organisation).

PSO = Public Sector Organisation

EM3 BUSINESSES TRENDING LIKE SOUTH EAST WITH MICRO-SMALL BUSINESSES THE MAIN RECIPIENTS OF FUNDING AND ACTUAL SPEND-TO-DATE

- In the latest full competition year (2022/23), there were 125 enterprises that received awards that were registered within the EM3 LEP area - 18% of South East region and 2.5% nationally.
- Close to £30 million in awards were offered (12% of South East total), and to date actual spend was £4.3 million (14% of South East total) – this contrasts to £140m in awards offered to Oxfordshire* (58% of South East).
- Micro/small enterprises accounted for 56% of enterprises, 51% of awards and 78% of total actual spend to date.
- Academic enterprises accounted for 27% of enterprises, 29% of awards but just 11% of total actual spend to date – projects likely to be over longer lead time than smaller businesses.

Businesses in Enterprise M3 area: Innovate UK Funding 2022/23

Enterprise type	Enterprises (number)		Award Offered		Actual Spend to Date	
Academic	34	27%	£8,716,013	29%	£452,892	11%
Large	8	6%	£1,958,789	7%	£80,479	2%
Medium	9	7%	£3,079,557	10%	£326,626	8%
Micro/Small	70	56%	£15,321,392	51%	£3,342,838	78%
PSO	4	3%	£791,006	3%	£80,708	2%
Total	125	100%	£29,866,757	100%	£4,283,543	100%

EXAMPLES OF INNOVATE UK NEW FUNDING RECENTLY ANNOUNCED

- **Investor Partnerships SME round 4:** UK registered businesses can apply for grant funding alongside private investment from selected investor partners.
- **Net zero living: user focused design:** UK registered businesses can **apply for a share of up to £3.8 million** to support them in developing their net zero products or services.
- **Scalable quantum network technologies: collaborative R&D:** UK registered businesses can **apply for a share of up to £10 million** for projects that address technological barriers in the commercialisation and adoption of quantum network technologies.
- **Farming Innovation Programme small R&D partnership projects round 3:** UK registered businesses can **apply for a share of up to £9.8 million** for small research and development (R&D) partnership projects.
- **Innovate UK smart grants 2023:** UK registered organisations can **apply for a share of up to £25 million** for game-changing and commercially viable research and development innovations that can significantly impact the UK economy.
- **Innovation in professional and financial services: collaborations:** UK registered organisations can **apply for a share of up to £5 million** for projects that develop new products and services within professional and financial services.
- **APC24 industrialising net zero automotive technology:** UK registered businesses can **apply for a share of up to £20 million** for late-stage research and development projects that help accelerate the UK towards a net zero automotive future.
- **CMDC round 4 feasibility studies and pre-deployment trials:** UK registered organisations can **apply for a share of up to £34 million** for innovative clean maritime technologies.
- **Innovation loans future economy: round 10:** UK registered businesses **can apply for loans for innovative projects with strong commercial potential** to significantly improve the UK economy.
- **Ofgem round 3 call for ideas:** UK registered organisations **can apply for a share of up to £450 million to** deliver net zero at the lowest cost to consumers and support innovative businesses to grow and scale.
- **Small Business Research Initiative development and delivery of quantum computing testbeds:** Organisations **can apply for a share of £30 million** to build, commission, and validate an operational quantum computing testbed in the UK.

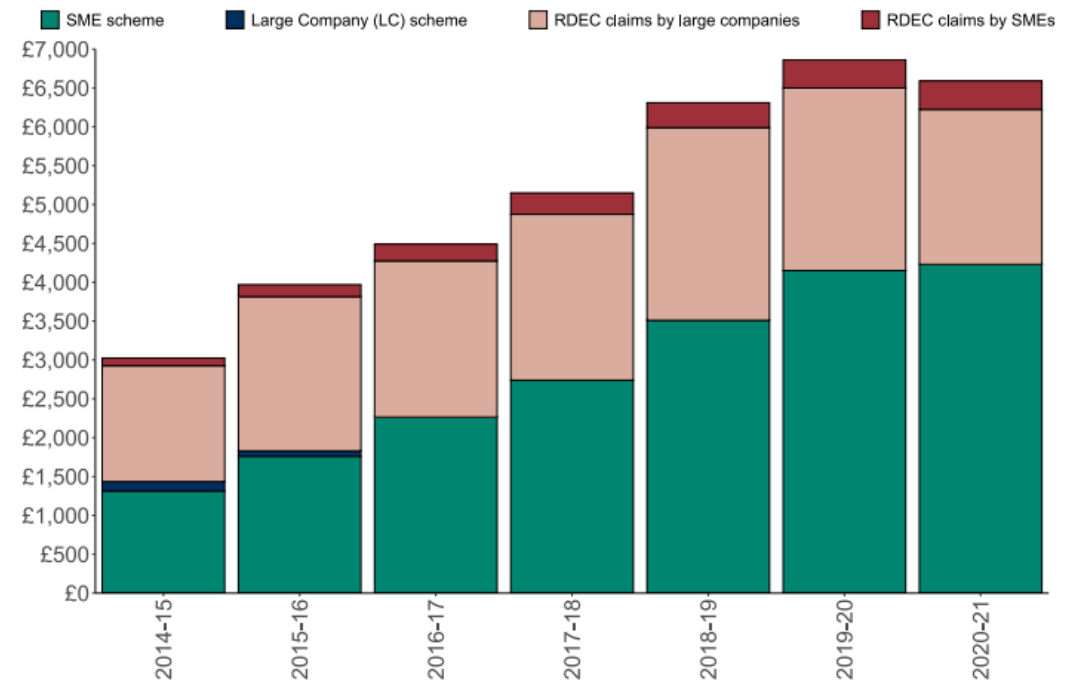


INNOVATION III: INNOVATION TAX RELIEF (R&D AND PATENT BOX)

R&D TAX CREDITS SEEING UPWARD TREND SINCE 2015 AND DRIVEN BY SME SCHEMES, ALTHOUGH PANDEMIC HAD A SMALL IMPACT ON LATEST YEAR.

- There has been a steady increase in claims since 2014 due to an increase in the SME payable credit rate (11% to 14.5%*). R&D Expenditure Credit rate (RDEC), for mostly large companies, also increased by 1% to 12% (20% since 2023). The dip in 2020-21 caused by Covid.
- The total number of R&D claims for the tax year 2020-21 (latest) was 89,300, an increase of 7% on previous year, and driven by growth in SMEs.
- This is broken down by 78,825 SME scheme claims and 10,475 RDEC claims.
- Total relief was £6.6bn > £4.2bn through SMEs and £2.4bn RDEC. However, the amount of qualifying R&D expenditure was £38.1bn, a provisional decrease of 11% on previous year (primarily due to a fall in RDEC and large company scheme but subject to revision).

Total Support Claimed through R&D tax credit schemes (£millions)

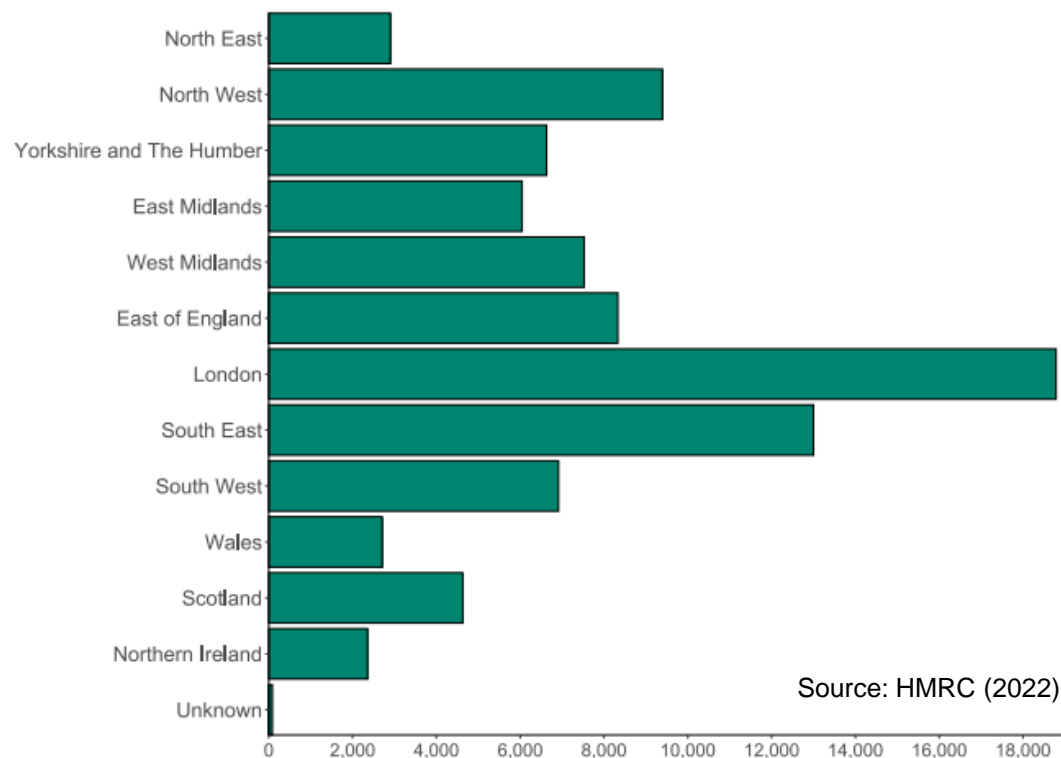


Source: HMRC (2022)

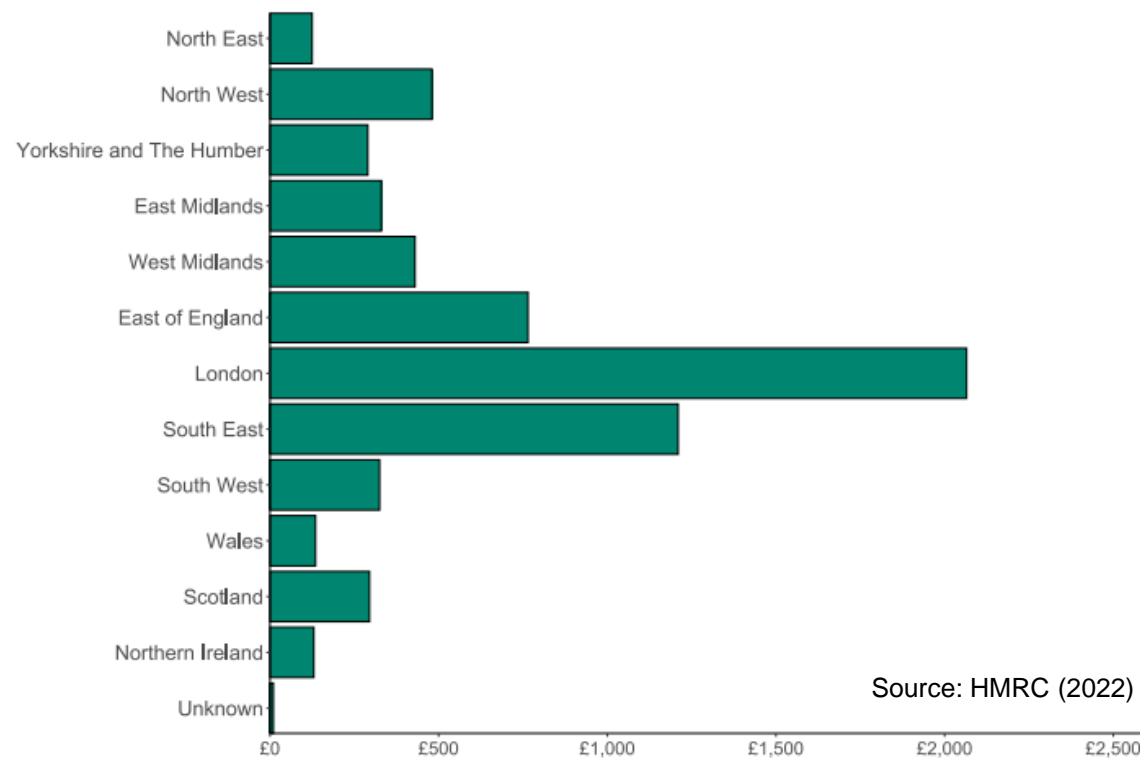
*back to 10% since April 2023 unless R&D Intensive (40% of total expenditure on R&D) where it remains 14.5%.

THE SOUTH EAST SAW THE SECOND HIGHEST NUMBER OF TAX CREDIT CLAIMS AND AMOUNT CLAIMED IN 2020/21.

Number of R&D tax credit claims made by region
(company registered address)



Amount of R&D tax credit claims by region
(company registered address) - £millions

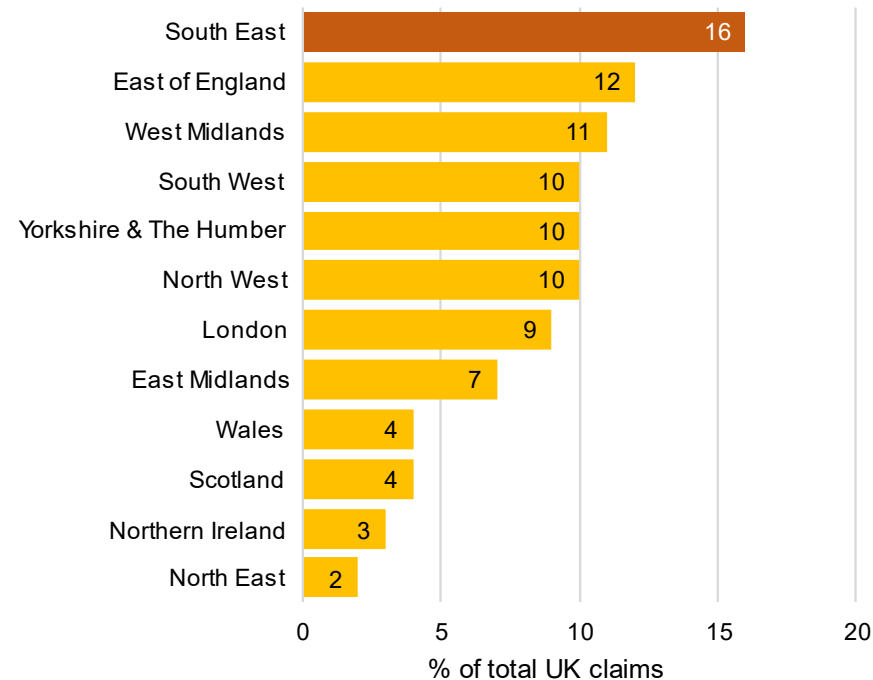


- Around 13,000 claims made in South East - representing 15% of total claims made, second only to London (18%)

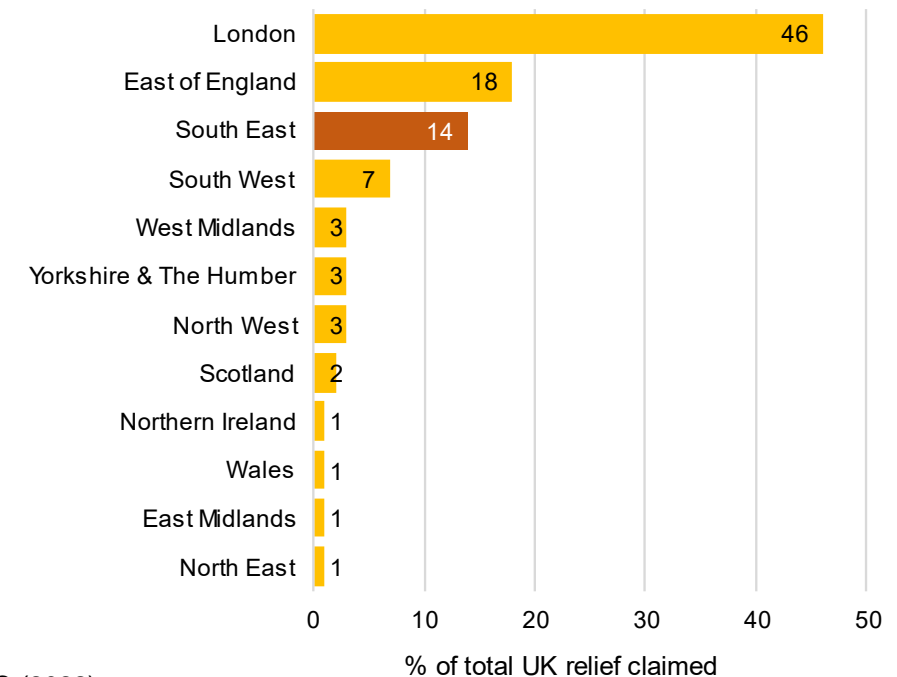
- Over £1bn claimed by South East businesses, representing 18% of total value claimed, second only to London (29%)

THE SOUTH EAST HAD THE HIGHEST NUMBER OF COMPANIES CLAIMING PATENT BOX RELIEF IN 2019/20 BUT LOWER SHARE OF AMOUNT CLAIMED

Patent Box Relief Companies Claiming by Region
(2019-20) % of total claims



Patent Box Relief Companies Amount Claimed by
Region (2019-20) - % of total claimed



Source: HMRC (2022)

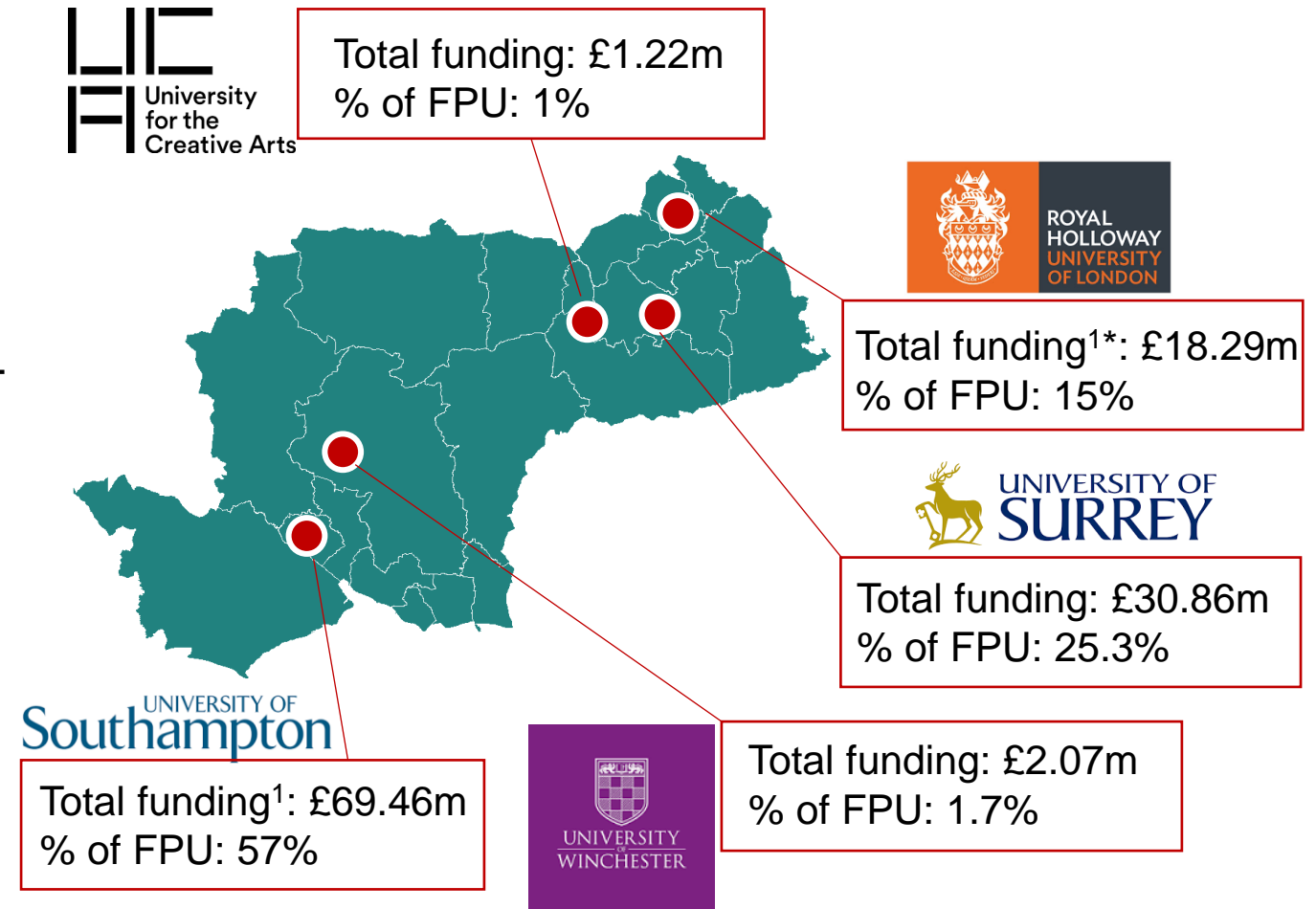
- The South East had 230 companies claim Patent Box Relief in 2019-20, the most of all regions with 16% of all claims made (1,345 companies) – eight times the North East.
- However, the South East relief accounted for 14% of total value claimed (£166 million), well below London which accounts for almost half (46%) of the total £1.2bn claimed.



INNOVATION IV: HIGHER EDUCATION INNOVATION – TOTAL RECURRENT QR & HEIF 2022-23 ACADEMIC YEAR

HIGHER EDUCATION RESEARCH FUNDING IN EM3 FIVE PARTNERSHIP UNIVERSITIES DOMINATED BY RUSSELL GROUP UNIVERSITIES

- EM3's five partner universities (**FPU**) received nearly £122m of funding in 2022/23 – 4.4% of the total UK funding that year.
- Two Russell Group universities account for close to 75% of the FPU total, with Surrey making up 25%. UCA and Winchester minor recipients.
- **FPU** received £97.6m (4.4%) of recurrent quality-related research (QR) and Higher Education Innovation Funding (HEIF) grants for the academic year 2022-23.
- **FPU** awarded 3.9% (£8.1m) of Recurrent Research Capital Investment Fund (RCIF).
- **FPU** allocated 4.5% (£5m) of one-off further allocations (Enhancing Research Culture funding and/or HEIF business and commercialisation supplement).
- **FPU** allocated 4.8% (£11.1m) of one-off Non-recurrent further allocations (QR and/or RCIF).



Source: UKRI (2023)

¹ Russell Group university

*includes Bedford College



BUSINESS UPDATES IN ENTERPRISE M3

BUSINESS NEWS HEADLINES

EXPANSION & JOB CREATION

Moto plans for new service station on M3 near Basingstoke. The new service station is planned on agricultural land to the south of Junction 6 of the M3 near Black Dam roundabout. There are currently two motorway services on the M3 at Fleet and Winchester.

Wenzel's The Bakers opens in Winchester High Street. This forms part of the bakery chain expanding across the south with Winchester being one of its five Hampshire stores, including new ones in Basingstoke, Whiteley and Southampton.

ACQUISITIONS AND MERGERS

Farnborough-based aircraft services company Up & Away has been acquired by global group Unifi Aviation, which aims to grow its UK business to more than US\$120 million in the next three years. The business provides services for cabin cleaning, de-icing, private jet detailing and more.

Shaw Gibbs has expanded with the acquisition of a three-partner accountancy practice in Surrey. The addition of the Herbert Parnell office will result in a 225-strong practice based over five offices in Oxford, **Basingstoke, Farnham**, London and **Woking**.

BUSINESS NEWS HEADLINES

CLOSURES-ADMINISTRATION

Wilko closures and potential job losses. Wilko latest high street casualty after inflation and increased competition saw large losses. Range and Poundland brought up some shops with up to 25% staying open as rebranded store. However, 10,000 staff nationwide still face uncertainty and redundancy.

AA puts Fanum House up for sale. The property is being jointly marketed by Basingstoke and Deane Borough Council, as the freehold owner of the site, and the AA, which still holds a long lease on the property.

Winchester-based Red Cat Brewing goes into liquidation following closure.

PRODUCED BY ENTERPRISE M3 LOCAL ENTERPRISE PARTNERSHIPS IN PARTNERSHIP WITH THE ECONOMIC & BUSINESS INTELLIGENCE SERVICE (EBIS)

