

Growing the UK economy by investing in innovation

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AN IMMEDIATE FOCUS ON MARKET-LED INNOVATION

AIRTO advocates an innovation-led strategy for stimulating output and productivity to address the UK's immediate economic challenges, and for the long-term development of a strong, competitive, energy-secure economy, that also incorporates net zero technology and climate adaptation. A focus of government funding on activities that promote existing knowledge and innovation to industry will ensure that significant short-term benefits are realised, which is crucial in the current economic climate. This means a change in the balance of existing R&D funding to applied research, development and demonstration.

This rebalancing should include support for both individual companies and sectors, either directly or through IRT sector organisations, by significantly increasing the funding of Innovate UK and other government bodies that target such applied R&D.

In addition, a programme to catalyse the transfer of existing knowledge from the IRT sector to industry (small and large) will reap immediate benefits. Such a dedicated programme (which can be viewed as the IRT sector version of the HEI focused HEIF funding) is essential for achieving this immediate benefit. AIRTO Members have individually undertaken such programmes previously, supported by national or regional funding, and have achieved significant, measurable outputs from their work with a wide range of industry and organisations from SMEs to large enterprises. A co-ordinated national programme involving the full breadth of the IRT sector will significantly build on these proven interventions. Such a programme would play a key role in a national technology adoption programme, as recently recommended in [the 2025 Technology Adoption Review](#).

LEVERAGING THE ROLE OF THE IRT SECTOR IN UK GROWTH AND PRODUCTIVITY

The UK has a wide range of world-leading organisations that comprise the IRT sector. These are independent and trusted agents for driving innovation in industry. Some of these are government owned, some are not-for-profit entities, and other are private research organisations. All are a key part of the nation's science and technology infrastructure, working closely with industry and public organisations, and collaborating with academia.

The sector has huge potential for significantly increasing its support for industry and government. In the short and medium-term this will be a key part of the plan for stronger growth and productivity. In the longer-term it will be an increasing integral part of the country's science and innovation infrastructure, playing a major role in raising the level of GDP invested in R&D and working with industry to effectively exploit the resulting technology.

The IRT sector's role in ensuring the nation reaps the full benefit of its increasing investment in R&D does need enhancing, as recommended by Sir Paul Nurse in his '[Independent review of the research, development and innovation \(RDI\) organisational landscape](#)'. This will involve investment in the sector's physical and digital infrastructure and skills, providing the necessary resources and capabilities to support industry, and create a catalytic effect that further attracts private funding with its ensuing economic benefits.

Therefore, it is recommended that the government create a fund for capital investment in IRT sector organisations. This is particularly apposite for the non-profit distributing organisations, who do not have recourse to shareholder funding for investment because of their ownership and commitment to mission driven objectives. Such funding will allow a significant increase in their support for and benefit to UK plc, and will complement existing government investment in Catapult Centres and Public Sector Research

Establishments (PSREs). Key to this funding being effective is longevity, as it also is for the funding of Catapult Centres and PSREs.

In parallel to capital funding, the change in focus of government funding for R&D should also consider appropriate levels of operation funding for the RDI sector. Current this is relatively ad hoc, with organisations receiving capital funding to develop unique national capabilities without the operational funding to install and develop the use of such facilities. There is a gap between capital funding and fully developed R&D facilities and procedures which industry will then use, funding their own focused activities.

At the end of 2023, the Research and Innovation Organisation Infrastructure Fund (RIO) was opened to non-profit distributing IRT organisations in addition to PSREs. This was welcome as a first step to address the need for capital funding. However, this first call had a comparatively modest budget (£25m) and a very short timescale to develop proposals. It is a funding scheme that needs further development and expansion to fulfil the IRT sector requirements if they are to play their full role in supporting UK growth and productivity.

There is an additional role that the sector plays in developing optimised standards and regulation for key areas of emerging technology, and providing facilities for independent assessment of compliance. This is particularly important for safety critical applications. Supporting the IRT sector in its undertaking of this role will build on the UK's existing strengths, maintaining and enhancing the national competitive advantage it delivers.

Regulatory Innovation will free-up opportunities for private investment and entrepreneurs by removing uncertainties over legal frameworks applying to the adoption and commercialisation of new and emerging technologies. AIRTO supports the important work of the Regulatory Innovation Office as part of a National Technology Adoption Plan, which government is urged to produce as soon as possible.

Part of the role of the UK's IRT community is to promote the production and adoption of UK standards and regulatory schemes abroad (BREEAM from the BRE Group for example) to the advantage of British exporting industries. The UK is also home to one of the world's leading standards laboratories in NPL and to a widely regarded accreditation service (UKAS). International presence is important and members of the IRT community have representation and customers for their services around the world.

LONG-TERM GOVERNMENT POLICIES AND FUNDING FOR INNOVATION

It is vital that investment in RD&I is sustained and enhanced to ensure the UK achieve and maintains a leading position relative to competitor nations. This stated government objective will require clear, consistent, long-term government policies and funding for innovation that will instil the confidence in industry (both indigenous and inward investing) to make the necessary investments for growth and productivity. The Spring 2025 Spending Review made the commitment of continuing funding for R&D. In addition to this commitment, AIRTO contends that, as a part of the 2025 Budget, the government should set a target for national investment in R&D to be in the top quartile of OECD nations by 2030. This means a 3% of GDP target (public and private funding). This will be key to the UK achieving its aims of a secure, science and innovation led economy, meeting its net zero ambitions.

More immediate actions to use R&D to provide growth and productivity should include:

- The simplification of the R&D Tax Credit system to make its use more straightforward, particularly for smaller companies, and its extension to cover capital spending and leasing costs. This simplification should not be used as a route for erroneous and fraudulent claims, and simplification should be combined with a more discriminating process of assessment.

The use of public procurement as a driver for innovation. The scale of public procurement in the UK means that there is huge scope for its strategies use. Consideration of the opportunity for innovation should be a part of all public procurement and, where it is appropriate, it should be both a part of the tender and project monitoring processes. This will entail changes to essential criteria for proposal assessment, and in many cases changes to the basis of the procurement such as the use of whole life costing rather than immediate costs.

A FOCUS ON PEOPLE AND THEIR NECESSARY SKILLS

To complement the investment in innovation as a driver for growth, the government must invest in the necessary skills and training to develop the UK workforce.

Therefore, it is recommended that a comprehensive 'workforce plan' for research, development, innovation and technology adoption is developed by government, covering education and skills and involving the key players: industry, the IRT sector, FECs and HEIs. This plan must include education and training at all the relevant levels, including apprenticeships, degree apprenticeships, first and higher degrees, and vocational training. Mobility of researchers, both nationally and internationally, should be a part of this plan. Facilitating the short- and medium-term movement of researchers between the IRT sector industry and academia will provide significant benefit in exploiting R&D, and in providing direction for more fundamental research.

An immediate action by government that will have an immediate benefit in the area is the restructuring of the existing apprentice levy scheme to simplify its use and ensure the funding is 100% used for skills and training. Many companies view the current scheme as a tax rather than a benefit.

IRT sector organisations are very active in the development of skills, identifying and delivering training linked to both current requirements and to the needs of emerging industries. They also have significant partnerships with HEIs to deliver post graduate training and research, targeted at developing people for future careers in applied research and industry. Much of this is delivered with ad hoc public support, or without public funding. The development of this activity into a systematic, nationwide scheme should be an integral part of a comprehensive UK workforce plan. An important part of this plan will be actions to improve the employability of graduates at first degree, Master and Doctorate levels for jobs in the area of innovation, both in the IRT sector and industry. AIRTO members can play a major role in this through hosting internships, work experience, placements and focused training courses, both before and after graduation. These will include the development of a rounded skill set that build on the graduates existing technical/scientific knowledge with understanding of the workplace environment, and financial, legal and commercial aspects of innovation. Public support for a comprehensive programme will ensure there is an effective 'pipeline' of graduates equipped to support the UK's aspirations for innovation.

AIRTO would welcome a closer partnership with government in this area of delivering education and skills. It is willing to play its full role in the development of s workforce plan for RD&I in the UK.

ABOUT AIRTO

AIRTO is the Association of Innovation, Research and Technology Organisations. Its membership comprises fifty of the principal organisations operating in the UK's innovation, research and technology (IRT) sector. The IRT sector has a combined turnover of £6.9Bn, employing over 57,000 scientific and technical staff (equivalent to the academic staff of the Russell Group of universities) and, for comparison, it is larger than the network of Fraunhofer Institutes in Germany in size and scope of activities. The sector contributes [£34Bn to UK GDP](#).

AIRTO's members work at the interface between academia and industry, for both private and public sector clients in the UK and overseas. Members cover a very wide range of industries and technologies. These include agriculture and food, pharma and bio, energy generation and distribution, manufacturing and the built environment. They may be industry specific or have cross-sectorial technology and expertise. Members include Independent Research and Technology Organisations, Catapult Centres, Public Research Establishments, National Laboratories or and privately owned innovation organisations.

FOR FURTHER INFORMATION

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