How can we turn the UK’s tech start-ups into global champions?

techUK is the trade association for the technology sector in the UK. Our over-1000 members, the majority of which are UK-based SMEs, are based around the United Kingdom. They employ 1.1 million people across the UK, with a turnover of £329bn in 2023 and an estimated annual growth rate of 10%.

We have prepared this briefing to help Prospective Parliamentary Candidates understand key tech issues in the UK, what can be done to tackle these issues, and the benefits of doing so.

This briefing draws upon:

- Our UK Tech Plan: How the next Government can use technology to build a better Britain
- The Seven Tech Priorities for the next Government and polling of 250 tech industry leaders in February 2023.

More briefings, both from ourselves and techUK’s members, can be found on our online briefing hub.

What is the problem?

The resilience of the UK’s scale up ecosystem has been tested by geopolitical dynamics, continued inflationary pressures impacting operations and confidence, as well as a wider environment of ongoing stagnation in productivity and real wages. Changes made during and after pandemic have become entrenched and are contributing to this period of stagnation.

techUK represents over 1000 technology companies operating in the UK. Our membership ranges from businesses at the end of their early-stage start-up phase, to established SMEs. techUK’s membership therefore encompasses a range of ‘scale-up’ technology companies. These are largely UK HQ’d technology companies that are or have the potential to grow significantly at a rapid pace. Our scale-up members include companies like Pragmatic Semiconductors, Enbiosis Biotechnology, Reaction Engines, Wayve AI, Circulor, Onfido and more.

While the UK has developed a strong start-up ecosystem, companies beginning to scale face barriers ranging from skills shortages, under-investment in the tech sector from UK financial institutions, uneven conditions when ‘spinning-out’ of universities, high lab and site costs and regulatory barriers.

techUK calls for the government to double down on efforts to make the UK a place for tech firms to scale and stay.
What are the solutions?

Having worked closely with scale-up companies in our membership, we have identified that there are frequently correlations in the issues faced by foreign firms seeking to invest in the UK and supporting scale-up firms to grow. The recent Harrington review of Foreign Direct Investment identified a number of barriers to growth for firms seeking to invest in the UK.

The main barriers largely revolve around the speed of decisions from Government, transparency, and a lack of a proactive investment offer, which will also be felt by Scale-ups whose shorter life span and focus on business growth means they tend not to have the same channels or awareness as established companies. Scale-up firms would therefore benefit from a proactive offer from the Government as well as steps to address structural barriers to growth in the UK economy.

techUK were pleased to see the UK Government take on board our recommendations for a proactive scale up service that can act as a single point of entry for Government for high potential companies. The Department for Science, Innovation and Technology launched a new support package in January 2024 with a pilot support service that will target 20 of the UK’s most promising scale-ups with targeted support from government to help them unlock barriers to growth.

Some suggestions from techUK to further support scale-ups include:

1. **Address issues around talent and skills**
2. **Help scale-ups to navigate an increasingly complex regulatory environment**
   - Provide greater access to markets
3. **Unlock capital and finance**
4. **Ensure the infrastructure is in place to support scale up investment,**
5. **Drive greater diversity in the scale up ecosystem by using the Venture Capital Fellowship Programme**

**Address issues around talent and skills.**

As suggested in the Harrington Review, provide a service giving estimates to companies on how quickly visas will be approved rather than individual assessments - vital for firms who are growing quickly.

Remove fees from the Scale-up Worker visa, currently costs are over £1000 (compared to approximately £80 in Estonia).

Skilled worker visa costs for UK-based staff can be up to six times more expensive than for EU-based staff – given the Scale-up visa only lasts two years, fees should be waived for further visas after the scale-up visa has expired.
As outlined in our Seven Tech Priorities, develop an online Digital Skills Toolkit 2.0, building on the success of the Government’s Skill’s Toolkit. This should be funded to make digital opportunities and pathways more transparent and accessible to more people to retrain and upskill throughout their life.

**Help to navigate an increasingly complex regulatory environment.**

Produce a periodic bulletin setting out key regulatory changes planned for the next two years (similar to the Regulatory Initiatives Grid that the regulators provide to the financial services industry) helping scale-ups anticipate regulatory changes.

Better direct Scale-ups to the Multi-agency regulatory advice service as well as clear information on upcoming testbeds and sandboxes currently planned by the Department for Science, Innovation and Technology.

Leverage Ofcom’s Growth Duty to identify and support high growth scale-ups.

**Unlock capital and finance.**

Announced in the Autumn Statement 2023, continue the delivery of Mansion House Reforms, including a range of reforms to private pensions to ensure they are effective as possible in unlocking institutional investment. This includes deploying the LIFTs Programme and Growth Fund that will catalyse investment into UK science and technology and stimulate the UK venture capital ecosystem.

As the Harrington Review recommends, the Office for Investment should build on its success so far and work with the British Business Bank and UK Infrastructure Bank to help investors to navigate the different financing options available through UK policy banks. For instance, creating a more targeted and proactive approach to investors through a clearly communicated toolkit.

Open a longer term review into the R&D tax credit considering its extension to capital and social science costs as well as potential reforms so that it aligns more closely with the world leading Dutch innovation box. The box offers an effective tax advantage of approximately 60% (from 2021) on profit derived from innovation.

Provide certainty for the start-up community by making the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes permanent as well as reforming the Seed Enterprise Investment Scheme (SEIS) by raising the cap for both investors and start-ups. The period under which businesses can claim SEIS should be extended from two to three years, enabling more scale ups to take advantage of the scheme.

Act on the outcomes of the Spinout review to better harmonise conditions across universities and promote best practice. For instance, making the University Spin-Out Investment Term Guide (USIT Guide), a set of best practice recommendations for negotiating investment deals, market standard for tech and software spin outs.
Ensure the Procurement Bill makes bids accessible for scale-ups, ensuring the simplified bidding process makes it easier for scale-ups to bid, negotiate and work in partnerships with the public sector. Tackle industry concerns over social value determinations.

Ensure the infrastructure is in place to support scale ups.

Scale up firms rely on physical and digital infrastructure to grow – including access to transport links nearby and reliable digital infrastructure. Improving infrastructure across the country, including planning reforms, will make the UK a more attractive place to scale and stay, supporting ‘sticky investment’.

For digital infrastructure, the next Government should optimise the planning system to be fit for the delivery of full fibre and 5G. This includes optimising resourcing and efficiency and guaranteed timescales for outcome.

Through the piloted Scale Up Support Service, provide information on anticipated areas of future investment and growth, including freeports, investment zones and city/regional growth deals. On top of this, the Business and Trade Committee’s recent recommendation for a dashboard to monitor Freeports and Investment Zones would be a useful tool for scale ups when making decisions on where to scale.

Drive greater diversity across scale ups.

To make the UK the best place for scale up businesses to thrive, women and ethnic minority founders must be invested in – currently, minorities are underinvested relative to other founders. Labour’s Start Up, Scale Up Review found 0.24% of all venture funding between 2009 and 2019 went to Black founders, a figure that declined to 0.02% for Black female founders.

techUK supported the government’s reversal on Angel investment rules, confirming it will reverse plans to raise the income and net asset thresholds to qualify as an Angel investor. This showed willing commitment to support women founders. As a next step, the government’s Venture Capital Fellowship programme, aimed at cultivating the next generation of investors of UK VC funds to support investment in high-growth companies, should target women and ethnic minority investment professionals.

What are the benefits?

Scaling companies are a key engine of growth for the digital economy, and the UK has an opportunity to become a ‘scale-up nation’ with many of the building blocks already in place. This includes a healthy start-up environment, strength in Intellectual Property protection, depth of capital markets and respected regulatory regime.

Scale-up firms typically tend to be more innovative than other firms, contributing to high skilled jobs and investing in new technology. According to the Social Market Foundation, scale ups make an outsized contribution to the UK economy. They make
up just 1% of SME firms, but account for 8% of SME employment and 22% of SME turnover. UK scale-ups make a combined turnover of nearly £500 billion.

Not only this, scale up businesses generate new tax receipts, lead business investment and innovation and drive productivity. techUK analysis on Data City estimates an average headcount growth rate of 36.6% for the group and the potential to reach over £2 billion in turnover in the near future.

How can I learn more?

If you would like to know more about the importance of getting our incentives for innovation right, you can read our UK Tech Plan and Seven Tech Priorities.

techUK can also arrange a call with yourself and our policy managers so we can brief you on this topic in more detail. If this would be of benefit to you, please contact archie.breare@techuk.org and alice.campbell@techuk.org.

techUK is also able to arrange a meeting between yourself and a member company of ours who has premises in your constituency if possible. This would provide you with a photo opportunity and allow you to discuss the importance of this issue further with a company operating in your constituency.