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Press release

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R&D challenges are preventing tech companies from further investing in the UK, finds techUK survey

- *70% of tech companies intend to increase UK investment but face significant challenges*
- *Digital skills gap and R&D financing key obstacles to tech-led growth in the UK economy*

LONDON, 21 March 2022: Technology trade association techUK today released the new iteration of its quarterly Digital Economy Monitor, which reveals 76% of tech companies respondents place R&D as a key aspect of their business in the UK. However, major impediments such as the digital skills gap, lack of alternatives for funding R&D activities, and lack of government support such as R&D tax credits or subsidies, are limiting their ability to achieve their innovative investment goals.

The findings come amid news that during Q4 2021 the UK economy grew only 1% and projections for 2022-2024 show the economy will enter a period of stagnation[1] which can only be rectified by accelerating tech-led growth.

Tech-led growth can provide benefits for both the tech sector and the UK economy at large, with research finding small businesses that use a combination of cloud-based IT systems, online accounting software, and digital training increase annual turnover of £262,000[2] compared to those who do not use any of these services. A recent DCMS report also showed that if the UK's regional digital ecosystems are supported the sector could create another 678,000 jobs by 2025[3].

The UK has been stepping up its efforts to accelerate tech growth, with the government setting a strong marker for the kind of digital regulation it wants to drive through now that the UK has left the EU through the Plan for Digital Regulation[4] and expanding the UK's R&D Tax Credit to cover data and cloud costs. However, significant challenges that are preventing the tech sector's growth and accelerated innovation remain.

techUK's Digital Economy Monitor Q1 2022 found:

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[1] https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2022/february/monetary-policy-report-february-2022.pdf
[2] https://www.lloydsbank.com/business/resource-centre/businessdigitalindex.html
[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1020407/Digital_Regional_Ecosystems_report_v9.1.pdf
[4] https://www.gov.uk/government/publications/digital-regulation-driving-growth-and-unlocking-innovation

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- **R&D and Innovation:**
  techUK members place a high value on R&D and consider it a fundamental piece of their business models. When asked how important it is for their businesses to conduct R&D activities in the UK, 76% said it is either important (45%) or extremely important (31%). However, members highlighted several barriers that are hindering businesses from meeting their R&D objectives. Among these are difficulties in finding the relevant skills and talent to conduct R&D in the UK (37%), lack of options for financing R&D activities (24%), and lack of government support such as R&D tax reliefs or R&D subsidies (22%).

- **Improving the outlook of the sector:**
  The government has a significant role to play in supporting the tech sector in achieving its goals. When asked what would improve the outlook of tech businesses, members highlighted that increasing support for R&D and innovation (56%) would help the industry continue to expand. Members also raised that the sector's progress has been hindered by the lack of access to skills and talent. For example, 30% of members said that better training and skills support would improve the tech sector's outlook, while 21% said that they need better access to overseas talent to support the sector continue thriving, emphasising the importance of implementing some regulatory changes (19%) and investing in adequate infrastructure (19%).

- **Sales performance:**
  When asked if their sales had increased from the previous year to this date, 71% of survey respondents said they had, with 17% saying they had increased "significantly". However, 19% of respondents reported that their sales had not changed from the previous year and 10% reported a decrease in sales.

- **Investment plans:**
  techUK members expressed optimism about their plans to invest in the UK, with 70% reporting that their investment plans have increased, 30% of members reported that their investment plans had not changed in the last year, and no member stated that their investing plans in the UK had been reduced, demonstrating that the sector is committed to supporting the UK's economic recovery.

- **Headcount projections:**
  While the sector has expressed a great desire to increase their headcount in the UK, some companies have experienced significant obstacles to fulfilling the goal of creating more jobs in the UK. 60% of techUK members plan to expand their headcount in the UK, more than a third of respondents (35%) stated that they plan to keep the headcount in the UK roughly the same as it is, and a small fraction of respondents (5%) stated that they aim to decrease their headcount in the UK.

- **Outlook for the tech sector:**
  When asked how the sector will look in the next 12 months, members were positive about the sector's ability to generate growth, with 79% expecting that the outlook for businesses in the tech sector will improve, however, most members believe this

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improvement will be only "moderate" (56%). Only 2% expect that the sector's outlook will worsen, while 19% expect that it will remain roughly the same.

Recommendations for government

Accelerating tech-led growth for the benefit of the whole UK economy will require action to ensure that investment is not only driven into the UK tech sector, but that other sectors of the economy have the ability and resources to complete their digital transformation journeys. In 2022, the Government has an opportunity to deliver this with a focus on:

- **Grasping the opportunities of post-Brexit Regulation,** by setting up emerging tech taskforces, ensuring data access for cutting-edge research and development and getting the right balance on the Post Brexit regulation of the Digital Economy.
- **Accelerating digital adoption and address skill shortages to boost growth,** by expanding the coverage of the Help to Grow: Digital scheme, supporting SMEs to invest in digital reskilling through a Digital Skills Tax Credit and continuing to reform the Apprenticeship Levy.
- **Increasing support for R&D and Innovation,** by getting the expansion of R&D tax credits right, supporting businesses to invest in productivity boosting capital and machinery through a permanent tax deduction for capital expenditure and ensuring the UK gets their first to deploy key emerging technologies across our economy.
- **Establishing the right incentives for businesses to invest and grow,** by not penalising businesses and costumers via an Online Sales Tax, ensuring the UK delivers on its targets for digital infrastructure, and leveraging UK capital and financial assets to unleash the next wave of tech success stories.

Commenting on the findings, Neil Ross, Associate Director for Policy, techUK said:
"Despite strong growth in 2021, recent disruptions such as the supply chain problems, inflation, and energy cost increases are causing the UK economy to slow down its progress. Against this backdrop, techUK members remain positive and are continuing to invest in the UK, helping to drive the wider digital transformation of the economy that will boost productivity and growth. Leveraging the UK's digital sector will be vital to improving the wider economic outlook.

"To achieve this, we must act to build the right incentives not only for digitally savvy companies to continue to grow but also to support all businesses across the economy to complete their digital transformation journeys. This means encouraging businesses to continue investing in productivity-boosting capital and machinery, not penalising businesses for going digital through an Online Sales Tax, and creating partnerships between Government and industry on regulation, emerging technologies, and digital skills."

-ENDS-

Notes to Editors

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The Digital Economy Monitor is a regular survey conducted by techUK that measures and tracks operational changes, business performance, and economic perceptions within the UK tech sector. Data for the first-quarter 2022 results were gathered from the 1 February to the 4 March 2022. 55 techUK members from across the UK were surveyed, 52% of them being tech SMEs.

The full results can be downloaded here. techUK's recommendations are available here.

techUK's Digital Economy hub

About techUK

techUK is the technology trade association that brings together people, companies and organisations to realise the positive outcomes of what digital technology can achieve.

With over 850 members (the majority of which are SMEs) across the UK, techUK creates a network for innovation and collaboration across business, government and stakeholders to provide a better future for people, society, the economy and the planet.

By providing expertise and insight, we support members, partners and stakeholders as they prepare the UK for what comes next in a constantly changing world.