Bright future: Big investment has fuelled UK tech sector growth

IBISWorld examines how significant investment in emerging technologies has driven the rapid growth of the UK tech sector, despite economic uncertainty.

The tech sector is highly globalised and dominated by conglomerates based in the United States and China. However, the United Kingdom has been able to gain a foothold on the world stage, as investment has surged since 2014. The UK tech sector is broad and diverse, with world-leading firms involved in the development, scaling and implementation of various technologies, including artificial intelligence (AI), the Internet of Things (IoT) and 5G communications. According to the latest available data from the Office for National Statistics (ONS), the tech sector’s contribution to the economy grew to £150 billion in 2018, compared with £122.7 billion in 2017. This rapid growth has been reflected in employment numbers, which are estimated have increased by over 500,000 between 2014 and 2019, according to the ONS.

The tech sector has become one of the most significant areas of employment in the country, greater than both the finance and hospitality sectors. Over the five years through 2019, the number of employees in the tech sector are expected to have grown at a compound annual rate of 3.7% to reach just under 1.5 billion, as represented by ONS data for those employed in information and communication sector. This is over triple the speed of UK employment growth in general.

Despite the uncertainty of the potential loss of access to the European market following the UK’s departure from the European Union, those wishing to work in the tech sector continue to flock to the United Kingdom. This is due to a variety of factors, including London’s role as a hub for fundraising and Britain’s world-leading institutions, such as its research-led universities and legal system.

Employment areas
Although the United Kingdom officially left the European Union in January 2020, Facebook has announced that it is going to expand its staff numbers by 1,000 over the course of 2020. This is because the company is seeking to employ more people able to integrate AI and machine learning (ML) into its systems and take down harmful content. This will make London Facebook’s largest engineering hub outside of the United States.

However, AI and ML are not the main areas driving employment growth in the tech sector. The two largest primary areas of employment expansion are insurtech and fintech, which added 24% and 18% of the sector’s jobs respectively between 2015 and 2018, according to Tech Nation. This is expected to have been the result of firms flocking to the United Kingdom in order to exploit London’s dominance in the global financial services sector. While employment in the insurtech and fintech segments has been surging, employment in the tech sector is heavily weighted in e-commerce, cyber security and Software as a Service, at 27%, 13% and 10% of overall tech employment respectively, with these firms tending to focus on the domestic market.

Increasing investment and public support
Reflecting Britain’s attractiveness as a hub for investment into the global tech sector, it accounts for the third largest amount of capital in the world. According to the Tech Nation Report 2019, British tech firms attracted over £10.1 billion of venture capital investment in 2019 alone, of which £3.9 billion was
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Employees in the UK Information and Communication sector

![Graph showing employees in the UK Information and Communication sector from Jan-Mar 2010 to Jan-Mar 2019.](source)

- In 2019, the number of employees in the UK Information and Communication sector reached a peak in Jan-Mar 2019, with a slight decline in Jan-Mar 2018.
- The graph illustrates a general trend of increasing employment in the sector from Jan-Mar 2010 to Jan-Mar 2019.

Invested in early-stage companies, up from £3 billion in 2018. Venture capital investment has increased overall during the past five years, from £2.1 billion in 2014.

Government support for the tech sector is expected to have encouraged investment to soar. For example, in the 2017 Budget, the government announced £75 million of funding for the development of AI, while further supporting 200 new PhDs in the area. This is part of a wider government strategy to create a culture of research, such as through the newly formed UK Research and Innovation, the awarding body for tech research funding which has a budget of over £7 billion each year and brings together the seven Research Councils, Innovate UK and Research England. Such support has enabled employment in the sector to thrive, giving firms the confidence to continue to settle and expand in the United Kingdom despite the ongoing economic uncertainty. This is because the United Kingdom continues to be at the forefront of research and application of the technologies.

Much of the investment in the tech sector was directed to high-growth opportunities and scaleup companies, which the Organisation for Economic Co-operation and Development defines as one whose employment or revenue has grown at a compound annual rate of 20% over the past two years. The United Kingdom received 5.2% of global investment
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in scaleup companies in 2018, significantly higher than the UK’s share of world GDP, at 2.2%, as firms located in the United Kingdom have access to venture capital, angel investment, grants and public offering. Furthermore, the UK tax regime is favourable for tech companies. For example, SMEs can claim 130% tax deduction from R&D tax credits. This means a real reduction in R&D costs of nearly 25%.

Ongoing growth
With a high level of support for innovative and disruptive technologies, a large number of enterprises have entered the market. According to Deloitte Fast 50 2019, the most rapidly growing firms are fintech and software companies. In fintech, many of these firms tend to focus on disruption. For example, there has been a rise in the number of payment providers and services, as well as in lending platforms, such as peer-to-peer or personal loans. Software providers are focusing on integrating the latest technology into business, such as blockchain, IoT, AI and ML.

The key to the growth of the UK tech sector is Britain’s supportive investment framework. The United Kingdom ranks fifth on the World Intellectual Property Organisation’s 2019 Global Innovation Index. Additionally, it is sixth largest economy in the world, it contains the world’s best universities and it consistently ranks towards the top of the World Bank’s Ease of Doing Business index. The government has continued to support the sector, especially in new and emerging technologies. While economic growth is expected to be fairly stagnant over the next five years, the tech sector is forecast to continue to boom as it plays an ever-larger part in the UK’s industrial strategy, with PwC forecasting that AI will boost the economy by £232 billion by 2030.

IBISWorld Industry reports used in this special report:
- SP0.026  Payment Systems in the UK
- SP0.027  Peer-to-Peer Lending Platforms in the UK
- SP0.084  Social Media Platforms in the UK
- UK0.036  Financial Technology in the UK

Venture capital investment in the UK tech sector

*Converted from US dollars

SOURCE: TECH NATION

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