

UK Artificial Intelligence Sector Study

Research report for the Department for
Business, Innovation, Science & Trade

Annex on qualitative findings



Department for
Business, Innovation,
Science & Trade

Contents

UK Artificial Intelligence Sector Study qualitative findings report	1
Contents	2
Executive summary	3
Introduction	5
Glossary	6
1 Infrastructure, compute and data	8
1.1 Procurement	8
1.2 Compute access and dependency	12
1.3 Wider infrastructure and energy limitations	15
1.4 Views on sufficiency of compute	16
1.5 Copyright	17
1.6 Intellectual property	18
2 Funding and growth	20
2.1 Funding landscape	20
3 Market dynamics	23
3.1 Global and domestic competitiveness	23
3.2 Sovereign capability	25
3.3 Enablers of growth	28
3.4 Emerging risks and market scenarios	30
4 Business views on priorities for government support	32
4.1 Four strategic areas	32
5 Conclusion	35
Annex: Methodology	37
Our standards and accreditations	39

Executive summary

This report presents the findings from 30 in-depth qualitative interviews with UK-based AI businesses, exploring the opportunities and challenges shaping the sector. The research revealed a sector that was strong in innovation but which faced systemic challenges. A core theme was the UK AI sector's deep and unavoidable dependency on a small number of large, US-based providers for critical infrastructure, including cloud compute, hardware, and foundational models. While the UK was seen as a strong environment for founding an AI start-up, significant barriers existed when it came to scaling, leading to a "scale-up gap" that threatened the UK's long-term competitiveness.

INFRASTRUCTURE, COMPUTE AND DATA

The procurement landscape was dominated by a few US "hyperscalers",¹ creating a dependency that exposed UK businesses to high and volatile costs, the strategic risk of "vendor lock-in", and geopolitical vulnerabilities. Businesses reported that a lack of viable sovereign alternatives, coupled with client demands, often dictated the use of specific, dominant technology ecosystems. This reliance had tangible consequences, with reports of a price premium for using UK-based data centres compared to the EU, and exposure to exchange rate fluctuations from being billed in US dollars.

Procurement was further complicated by hardware supply constraints, particularly for smaller firms who found themselves competing with consumers for essential components like GPUs. For many, access to compute was considered sufficient for product development but was anticipated as a major challenge when deploying services commercially and at scale. This was compounded by wider UK infrastructure limitations, with businesses noting that a lack of access to the energy grid was a "real barrier" to developing more sovereign data centre capabilities.

Businesses were also navigating an uncertain legal landscape around copyright and intellectual property (IP). The prevailing sentiment was that for foundational models, it was too late to raise the issue of copyright as the models had already been trained. A more pressing concern for many was the protection of their own IP when using third-party tools, though the current IP regime was not felt to sufficiently reflect the realities of AI.

FUNDING AND GROWTH

There was a consensus that while the UK was a good place to start an AI business, it was a difficult place to scale one. This was largely attributed to a risk-averse domestic funding culture, where UK investor valuations were estimated to be far lower than in the US. This perceived "scale-up gap" left UK firms at a significant disadvantage compared to better-funded US rivals. The administrative burden of public funding, particularly from Innovate UK, was described as having a poor effort-to-reward ratio, with R&D tax credits praised as a more effective, though retrospective, mechanism.

MARKET DYNAMICS

Globally, the UK was seen as being a "fast follower" behind the dominant US and China. A common strategic view was that the UK's competitive edge lay not in developing

¹ Hyperscalers refer to large technology companies that provide cloud computing services at global scale, such as Amazon Web Services (AWS), Microsoft Azure and Google Cloud.

foundational AI models, where it could not compete with the US and China, but in using these models to innovate world-leading AI products and services.

A key UK advantage was its world-class talent pool, but this was felt to be under threat from a "brain drain" driven by significantly higher salaries in the US. Domestically, growth was hampered by slow and risk-averse client adoption. This was compounded by a disconnect between client enthusiasm for AI and their readiness to deploy it effectively, with businesses reporting that many client organisations lacked the data quality and technical foundations needed to support adoption.

The concept of sovereign capability elicited a wide range of views. While data sovereignty was a commercial necessity for UK public sector and European clients, the pursuit of a fully sovereign UK tech stack was viewed by many as unfeasible or unrealistic. A more nuanced theme of "cultural sovereignty" emerged, highlighting the need for UK-centric models that reflected British values and legal frameworks.

STRATEGIC PRIORITIES RECOMMENDED FOR UK GOVERNMENT

Businesses expressed a strong desire for decisive government action to address the systemic challenges identified throughout the research, including dependence on foreign AI infrastructure, barriers to scaling, slow adoption, talent shortages and increasing international competition.

Key recommendations focused on using the government's unique position to enable the private sector, remove friction, and provide long-term stability.

- **Use public sector procurement as a catalyst:** It was recommended that Government and public bodies like the NHS could act as strategic first customers to validate UK start-ups, provide crucial revenue, and help create "national champions". Businesses called for mechanisms to ensure major contracts cascaded down to SMEs, rather than defaulting to large, foreign providers.
- **Reform funding to target the scale-up gap:** Support could focus on facilitating access to funding and unlocking funding for commercialisation and scaling. This included streamlining the bureaucracy of innovation grants and introducing targeted tax incentives for individuals and pension funds to unlock private capital and encourage investment in UK AI firms.
- **Build and retain the future talent pipeline:** It was suggested that government support could address the skills shortage and high-salary costs through direct financial support, such as subsidising graduate and apprentice salaries. This could be paired with investment in education and maintaining frictionless visa routes to ensure continued access to top-tier global talent.
- **Provide regulatory and strategic clarity:** Businesses called for a clear, visible national strategy that addressed foundational infrastructure constraints like energy and data centre capacity. It was felt that establishing clear, pro-innovation "guardrails" and a mature IP regime for AI could provide the certainty needed for long-term investment and build client trust.

Introduction

Perspective Economics, in collaboration with Beauhurst, Ipsos, and a consortium of advisers, was commissioned in February 2026 to deliver an analysis of the UK's artificial intelligence (AI) sector in 2025. The aim of the study was to better understand the scale, profile and economic contribution of AI business activity in the UK, and how government could best support future growth and technological progress in the market for AI.

This report is published as a supporting annex to the wider AI Sector Study. It provides additional detail and explanation from qualitative interviews conducted with AI businesses and should be read alongside the main AI Sector Study report. The principal findings from these interviews are also reflected in the main report, while this annex provides additional evidence, context and illustrative examples from participating businesses.

This report presents the main findings and themes from the 30 interviews with AI businesses conducted by Ipsos. As in previous years, the topics covered included infrastructure and compute capacity, AI procurement, sources of funding, growth expectations and associated barriers and enablers, national and international competition, AI sovereignty, and future AI trends. This wave also introduced three further (sub)topics for discussion: energy costs, copyright, and the impact of certain future scenarios. Details of the methodology can be found in the annex.

When considering these findings, it is important to note that qualitative research explores a range of experiences and opinions of businesses in detail, providing insight into the key reasons underlying businesses' views. It is not (and is not designed to be) representative of the wider population. Analysis of the data therefore focuses on the values and experiences of businesses, rather than prevalence.

A NOTE ON INTERPRETATION

The findings presented throughout this report reflect the views, experiences and perceptions of participating businesses. These findings should therefore not be interpreted as reflecting the views of DSIT or the UK Government.

Glossary

Term	Definition
Agentic AI	AI systems that can make decisions and carry out actions with limited human input. Unlike AI tools that only respond to prompts, agentic AI systems can perform tasks, interact with other systems, and work towards defined goals.
AI assurance	Processes, standards and practices used to assess whether AI systems are safe, reliable, transparent and operating as intended.
AI sovereignty	A broad term describing a country's ability to influence, control or access the technologies, infrastructure, data and capabilities required to develop and deploy AI.
Cloud compute	Computing resources, such as processing power, data storage and AI services, accessed over the internet rather than through hardware owned and operated by a business.
Compute	The processing power required to train, deploy and run AI systems. Businesses often access compute through cloud service providers or dedicated hardware such as GPUs.
Cultural sovereignty	The idea that AI systems should reflect the values, laws, cultural norms and social expectations of the country or society in which they are used.
Data centre	A facility that houses computing infrastructure such as servers, storage systems and networking equipment used to store, process and distribute data.
Data sovereignty	The principle that data is stored and processed within a particular country or jurisdiction and remains subject to that jurisdiction's laws and regulations.
Edge AI	The concept of AI systems that run on local devices, equipment or sensors rather than relying on a centralised cloud service.
Edge-native inference	AI processing that takes place directly on local devices, sensors or hardware rather than relying on centralised cloud infrastructure. This can reduce latency and reliance on internet connectivity.

Term	Definition
Foundation model	A large AI model trained on vast amounts of data that can be adapted for a wide range of tasks, such as text generation, coding, image creation or analysis.
GPU (Graphics Processing Unit)	A specialised computer chip capable of performing large numbers of calculations simultaneously. GPUs are widely used for training and running modern AI models.
Hyperscaler	A large technology company that provides cloud computing services at global scale, such as Amazon Web Services (AWS), Microsoft Azure and Google Cloud.
Inference	The process of using a trained AI model to generate outputs, predictions or decisions based on new data or user inputs.
Large Language Model (LLM)	A type of AI model trained on large volumes of text data that can understand and generate human-like language.
Open-source model	An AI model whose underlying code, model weights or both are made publicly available, allowing others to inspect, modify and build upon it.
Open-weight model	An AI model whose trained parameters (or “weights”) are publicly available, allowing others to use or adapt the model, although the original training data and development process may not be fully open.
Procurement	The process of selecting, purchasing and managing technology, services or infrastructure suppliers. In this report, procurement often refers to businesses acquiring cloud, compute or AI services.
Scale-up gap	The challenges businesses face when moving from early-stage development and product validation to commercial growth and expansion. In this report, participants commonly used the term to describe difficulties accessing finance, customers and other resources needed to grow.
Sovereign AI capability	The ability for a country to access, develop or control key elements of the AI ecosystem, including infrastructure, data, models, talent and supply chains.
Token	A unit of text processed by an AI model. Many AI services charge based on the number of tokens used as inputs and outputs.

Term	Definition
Vendor lock-in	A situation where a business becomes dependent on a particular technology provider, making it difficult, costly or disruptive to switch to an alternative provider.

1 Infrastructure, compute and data

SUMMARY

- The UK AI sector is dependent on a small number of large, US-based providers for critical infrastructure, including cloud compute, hardware, and foundational models.
- This dependency is driven by a lack of viable sovereign UK alternatives, and client requirements that often dictate the use of specific, dominant technology ecosystems.
- Businesses face procurement challenges including hardware supply constraints (among smaller firms), high and volatile costs, the risk of “vendor lock-in”, and exposure to geopolitical vulnerabilities. This is compounded by uncertainty around copyright and the protection of their own intellectual property when using third-party tools.
- Access to compute is generally considered sufficient for the development phase of AI products and services, but there are reports and anticipated challenges of insufficient compute when these products and services are deployed commercially and at scale.

1.1 PROCUREMENT

The interviews revealed a complex and challenging procurement landscape for UK AI businesses, dominated by a small number of large US-based providers. Businesses reported navigating hardware supply constraints, challenging contract structures, and a market concentration that created both stability and frustration. The decisions businesses made were influenced by a wide range of factors, from client demands and cost pressures to considerations around integration with existing technology ecosystems.

Hardware supply constraints are increasing costs for smaller businesses

A key barrier was the difficulty and expense of procuring the necessary hardware for AI development (such as GPUs and RAM), particularly for on-premises solutions among firms working in fields such as big data analytics and computer vision.

While there were cases where businesses used cloud providers for training and deployment, some use cases still required local or edge-based infrastructure. This was particularly the case where businesses needed to process data locally, provide low-latency services, or deploy AI functionality directly onto customer sites and devices. In these situations, businesses reported difficulties obtaining the hardware required to support AI workloads, particularly GPUs and memory components. Businesses described purchasing hardware at relatively small scale and therefore competing with consumers and hobbyists for equipment, rather than accessing the large-volume purchasing arrangements available to hyperscalers and major technology firms.

Smaller businesses reported that manufacturing of key hardware, particularly GPUs, was not keeping pace with demand, and that large tech firms were buying up the available stock. This was causing stock shortages for smaller firms. It was also pushing prices up so that on-premises infrastructure was becoming prohibitively expensive for many SMEs, who could either not absorb the costs or could not viably pass the costs on to their customers. For example, one small business said the cost of local compute for edge solutions had doubled in the last six to nine months.

As a result of these market conditions, one micro start-up said they effectively had to procure hardware in the same way that a consumer would, putting them in direct competition with consumers like gamers and hobbyists for the necessary equipment. Another micro start-up business reported having to resort to eBay and second-hand markets to find the hardware they needed.

These challenges were compounded by the rapid pace of technological advancement. To run the latest AI models, companies needed the latest hardware, meaning they had to upgrade more regularly. This resulted in recurring and significant costs associated with staying up to date and operating as efficiently as possible.

Client requirements and existing technology ecosystems drive procurement decisions

A wide range of factors influenced how and where AI businesses procured AI capacity, services, hardware or technologies:

- **Client needs and requirements:** This was a dominant factor. Procurement was often customer-driven, with customers dictating the use of specific data centre locations for data sovereignty reasons, security reasons (for example, the use of specific on-premises setups, such as “air-gapped” solutions), or to reduce the latency from data transfers.

For businesses in regulated sectors or serving public sector clients, UK or EU data sovereignty was described as a critical, non-negotiable requirement. For example, this was the case for a FinTech start-up handling sensitive financial data, a company working with the public sector, and an aviation business that was part of the UK's critical national infrastructure.

“Data security and data sovereignty are really important to us. We are talking about effectively processing ... hugely sensitive data objects that we need to make sure we have a well understood control of.”

Large AI business

Beyond data sovereignty concerns, data latency was also a key driver of compute location. For example, a logistics analytics company had an Australian client who did not have data sovereignty requirements but did have data latency requirements. This effectively meant that the business had to use a data centre in Australia.

“Last year we implemented the same software for an Australian company. They had a requirement that it should be located closer to them. That was not a hard sovereignty requirement, but there was a known data latency issue.”

Small AI business

- **Integration and existing ecosystems:** Ease of integration with client systems was another key factor, often leading AI businesses to choose the provider that their clients already used. For example, AI businesses with clients using Google procured Google's AI products and services, while those whose clients used the Microsoft 365 suite often used Azure to develop any new AI services.

"Fundamentally our customers ... are heavily Microsoft-biased. So that became actually quite a big factor because we do so many integrations."

Small AI business

- **Cost and price:** Cost was a key determinant in decisions, particularly among smaller businesses. These businesses looked for the best market price that suited their own or their customers' needs.

"We just look at the market price and get the cheapest or the one that's best suited to our current clients."

Small AI business

For example, one business noted their choice of Google was because it was cheaper than AWS at the time. Another noted that during their development phase when they received free credits, ease of use and ease of access were the initial drivers for selecting a provider. However, they anticipated that cost would become the dominant factor as they moved towards the commercialisation phase.

- **Reliability and performance:** Reliable service provision and model accuracy were important, particularly when initial costs were covered by provider credits.
- **Data security:** Concerns about how data would be used or the lack of control over data security were leading some businesses to actively avoid providers from certain countries such as China, even if these countries were considered to be developing more innovative technologies.

"Of course you see emerging technologies coming from China, which are quite innovative in some ways, but there's just basic business reluctance to wanting to use their infrastructure because there you probably don't have much control as to what will happen with your data."

Small AI business

One business also raised the concern that UK businesses more generally could be exposing themselves to unknown security risks if tied to providers who were not transparent about their security models or where their data is processed. This business reported that only some providers were transparent about this, while others left such details unstated. To mitigate this, the business suggested that the government should set out clear guardrails on the security models that providers must have in place in order to work with UK companies.

"What is probably more of a concern is actually being tied to a supplier where their security model is not correct."

Micro AI business

- **Customer service support:** The availability of human support was a key differentiator, particularly for early-stage start-ups. For example, one business chose Google partly because they could speak to a human customer service representative, which they contrasted with their experience with another provider of having to deal with customer service chatbots.
- **Flexibility and avoiding vendor lock-in:** There were examples of businesses choosing to build their systems with open-source tools. This allowed them to remain model-agnostic and retain the flexibility to switch between LLM providers in case a particular provider suddenly raised their costs.

“If you build [the technology] in a particular way, open-source type stuff, then you can switch easily. And that's the flexibility that we're trying to build into what we're creating.”

Small AI business

Another example involved a business actively managing this risk by investing in redundancy and having backup plans with alternate vendors.

Provider contract structures provide support start-ups but increase ecosystem dependence

The start-up programmes offered by major providers like Google, AWS and Azure were viewed positively overall in supporting early-stage businesses to develop their products and services at low cost.

“Having access to resources very early on ... credits for early-stage start-ups ... that really is crucial.”

Small AI business

However, these start-up programmes were also viewed as a clear strategy by providers to tie new businesses into their ecosystem. The credits provided as part of these programmes had an expiry date, by which time new businesses would be reliant on the provider's technologies or services and would need to pay the provider's full price or incur the cost of switching provider.

Beyond start-up programmes and incentives, the contract structures offered by major providers were a common theme. When discussing access to AI models and LLM services, businesses reported that many providers used subscription models where token limits were set per month, but with minimum 12-month contract terms. This meant businesses had to estimate monthly usage for at least one year in advance, which was particularly challenging for AI businesses with fluctuating or unpredictable demand, or those entering the commercialisation phase. It was also a common frustration that unused credits could not be carried over month-to-month.

“We have all of those [subscriptions] and then we have to estimate month on month what our potential requirement is for the next month. And those will be minimum 12-month contracts where we basically lose [tokens] on a monthly basis if we don't use them ... which is a pain.”

Micro AI business

However, multi-year contracts could be useful for guaranteeing capacity and fixing prices for the duration of the contract. One business noted that this was particularly relevant for AI businesses procuring compute capacity to run customer-facing services, where demand was relatively predictable and capacity guarantees were valuable. However, they were considered less suitable for research and development activities, where compute demand could fluctuate significantly from month to month.

Unpredictable pricing models create commercial and operational risk

Usage-based pricing models were felt to create significant uncertainty and risk for AI businesses. For example, one business had created an AI agent for a client in the hospitality sector. A period of unexpectedly high rainfall had caused use of the client's AI agent to spike, leading to an unexpected £10,000 bill for compute usage. This business felt the risk of such unexpected charges was potentially a barrier to AI adoption in the wider economy.

Such unpredictability made price modelling for AI businesses and their clients very difficult, especially as clients often expected a single, fixed quote for AI services.

"It's quite hard to know what things are going to cost until you've actually consumed the service, which doesn't really work for us on a pass-through basis, because most of our clients are paying for an annual entitlement to an application in advance."

Small AI business

Another company described having to do extensive modelling on token usage to ensure they covered their costs. They felt this would become increasingly challenging and uncertain as they scaled their services among more clients and users.

In addition to cost modelling, AI businesses invested significant time and resource to finding and procuring the right solutions for their needs. For example, one business reported needing to do detailed internal research to see whether different AI solutions could be brought in-house.

"The nature of the data that we consume from our clients is such that we don't really want to be passing that data out to third-party applications. So a lot of the investigatory work we do [in procurement] is whether or not these are AI modules that we can bring in-house."

Small AI business

While some mature organisations reported having formal procurement mechanisms managed by supply chain departments with specific checklists for security and compliance, smaller businesses had to develop their own approaches. For example, one business had to develop its own AI agents specifically to monitor its token usage to manage costs. Another business noted that their decision to remain provider-agnostic meant they had to invest more time and resources to learning how to use multiple tools and systems across different providers' ecosystems.

1.2 COMPUTE ACCESS AND DEPENDENCY

Access to compute capacity is a foundational and complex issue for the UK's AI sector. The interviews revealed a near-total reliance on a small number of major US cloud providers, creating significant concerns around cost, vendor lock-in, and geopolitical risk. Businesses' views on the sufficiency of compute varied depending on the size and maturity of their

business, but there was a broad consensus that costs were high and volatile, and that wider UK infrastructure limitations presented barriers to developing greater sovereign capability.

A small number of US providers dominate compute and model access

A recurring perception among businesses was that the markets for cloud services and AI models were considered highly concentrated among a small number of providers. As a result, they were considered to have significant control over pricing and capacity, including in the UK.

“It’s a very small pool of companies like Google, Anthropic and OpenAI who control this. And so they’ve basically got a monopoly over the pricing.”

Micro AI business

The dependency on data centres owned by these companies (including data centres located in the UK) was considered unavoidable in certain contexts where UK or European capabilities were not considered viable alternatives.

This market power was also a concern for smaller UK AI businesses. Businesses expressed concern that major providers could replicate their innovations, with smaller businesses lacking the resources to challenge the large players. This threat was felt to be intensifying as large AI providers had begun creating their own consulting units and expanding their feature sets, directly overlapping with the offerings of smaller UK start-ups.

1.2.1 Reliance on US providers creates cost and strategic risks

The dominance of a small set of US providers had several consequences for UK AI businesses, including high and volatile costs, a significant risk of vendor lock-in, and wider strategic vulnerabilities.

1.2.2 Compute costs are high, volatile and difficult to forecast

While participants discussed pricing uncertainty associated with AI models and token-based services in the procurement section above, businesses also highlighted wider concerns about the underlying cost of compute infrastructure itself. These concerns related to capacity shortages, geographic price differences, exchange-rate exposure and the pricing power of a small number of major providers. One key issue was the price premium for using UK-based data centres. One small business reported that its provider, Microsoft, rationed its UK-based compute capability so the business often ran out of capacity, and charged a 30% to 40% premium for compute in the UK compared to the EU. This issue was considered particularly relevant for businesses that must use UK-based servers for data sovereignty reasons.

“A lack of access to [compute] is a limiting factor because it increases the price, particularly from vendors like Microsoft, who charge more for UK-based compute than they do for European compute ... very significant, 30%, 40% more.”

Small AI business

Adding to the cost pressures, one small business reported that its provider, AWS, billed in US dollars even for services from UK or EU data centres. This exposed them to exchange rate fluctuations and conversion surcharges.

For self-funded start-ups, the upfront cost of compute could be a significant challenge, even with the availability of compute discounts for start-ups.

“Just basically getting off the ground with being able to get that compute capacity is very difficult... even so it's, it's a high bar to get into.”

Micro AI business

The volatility of pricing also presented a major risk to businesses' abilities to plan and invest. One large organisation reported that sudden cost changes from a cloud provider within the last year had rendered a planned project unviable.

Beyond direct competition, the sector's reliance on these major vendors for cloud computing and infrastructure also created cost vulnerabilities. There was a concern that the day-to-day running costs of AI were becoming prohibitive due to unpredictable, token-based pricing models controlled by a small number of suppliers.

“The cost is prohibitive for people coming into it, and the cost is getting more and more prohibitive because the big vendors need to start making money ... the day-to-day running costs become prohibitive because it's token based rather than ‘I'm buying a license or a subscription’ ... It's an unknown variable.”

Micro AI business

This dependency potentially risked leaving UK businesses exposed to sudden price increases once current subsidies for compute resource ran out, impacting the financial viability of UK AI businesses to scale or scale at speed.

1.2.3 Vendor lock-in can create operational and geopolitical vulnerabilities

A common theme was the risk of "vendor lock-in" with major US cloud providers. For some, this had caused challenges when trying to switch providers. For example, one business reported that it took them two years to fully "untangle" their product from AWS when moving to a new provider. Another estimated that a forced migration from their primary provider would result in roughly a week of downtime, which they would be reluctant to do.

“We are sort of moderately dependent on Amazon ... it would probably take us a week of downing all tools to migrate to another provider and that doesn't feel great.”

Micro AI business

For others, particularly small companies with limited resources, this lock-in was sometimes accepted as a pragmatic trade-off. The efficiency gains from using a single provider were felt to outweigh the risks of dependency or resources needed to evaluate or manage multiple providers at the same time.

“We are always naturally going to go with technology providers like Google where they can just provide us everything and we don't have to spend all the time doing risk assessments for a bunch of other different providers.”

Small AI business

According to some businesses, however, this reliance was creating significant strategic vulnerability. For example, one regulated financial firm described their 100% reliance on foreign vendors for their AI needs as a huge business risk for which there was no immediate domestic alternative. This was echoed by another business who viewed the dependency on US providers as an increasing geopolitical risk, expressing concern that the US could, in the future, decide to use compute access as a "bargaining chip".

“As a UK business, we’re 100% reliant on our AI needs from foreign vendors ... that’s a huge business risk.”

Medium AI business

“If the US decides to change its tack and starts to use that as a bargaining chip against other countries and governments ... then it could affect the business significantly everywhere.”

Small AI business

1.3 WIDER INFRASTRUCTURE AND ENERGY LIMITATIONS

1.3.1 Limited energy infrastructure constrains domestic AI capacity

There was a perception that the UK’s wider infrastructure presented a fundamental barrier to developing sovereign, large-scale AI models. For example, one business noted that the UK lacked major data centres of its own (i.e. not owned by US companies) that could host the latest frontier models, forcing businesses to choose between expensive self-hosted servers or using older models available in UK cloud regions. It was noted that training foundation models required vast compute resources and power, making large-scale training data centres and sovereign LLMs unfeasible for the UK.

“Training is all about power consumption because you need gigawatt levels of power for training. So what that means is there will be no training data centres in the UK because there just simply isn’t that level of access to power, even if they could afford it ... It is calamitous for a UK-based Large Language Model.”

Small AI business

1.3.2 Grid access is viewed as a barrier to expanding UK compute capacity

These infrastructure challenges were not limited to large-scale training. Even for smaller, local data centres designed for the day-to-day running of AI applications, energy grid access was considered a key barrier. This was felt to be preventing the development of a more distributed and sovereign capability in the UK. The challenge was expected to become more acute as more companies across all sectors would need access to compute.

“We have separately done a study for putting inference data centres local to our customers and that is where the lack of capacity on connections from 1 megawatt data centres and above shows. The limitations of grid access is a real barrier.”

Small AI business

“If you’ve got a million companies each requiring an hour of GPU time per day, then that’s a million GPU hours that are needed.”

Micro AI business

1.3.3 Energy costs reinforce reliance on cloud-based infrastructure

Energy costs were a consideration, though their direct impact depended on whether a business used cloud services or on-premises hardware. For businesses using cloud providers, energy costs were described as “masked” or “hidden” within the overall bill. However, there were reports of these costs being passed on through substantial price rises from providers like Azure.

“Essentially, it's masked from us, but Azure's costs have gone up relatively substantially ... I think the rises were about 10% across the board.”

Small AI business

For any business considering moving away from the cloud to their own on-premises hardware, managing energy costs was seen as a barrier.

“It is one of the many factors that affects why we prefer cloud over running [servers] ourselves. Because when we run it ourselves, we have to manage those 24/7, as opposed on demand ... There are a few barriers to entry and one of those is energy costs.”

Small AI business

The impact of energy costs also varied depending on specific circumstances. For example, one business reported being shielded from recent price rises by a multi-year fixed-price energy contract, while another cited their location on a university campus, where they did not pay for energy costs directly, as a major strategic advantage.

1.4 VIEWS ON SUFFICIENCY OF COMPUTE

1.4.1 Compute access is considered sufficient for development but may become a constraint as businesses scale

The perception of whether compute capacity was sufficient was highly dependent on a business's maturity and operating model. For many micro and small businesses still in the product development phase, the current level of access was described as generally sufficient for their needs. However, this was expected to no longer be the case once in the commercialisation phase.

“Compute-wise at the moment, because we're still product developing, it's just about enough. But once we go to market with what we're building, it won't be enough.”

Micro AI business

Indeed, for businesses that were commercialising or scaling up already, the perception was that compute was insufficient. For example, one FinTech start-up reported hitting capacity limits with its provider despite paying significant monthly fees. At a wider scale, one business questioned whether the UK had sufficient compute capacity to account for widespread deployment and adoption of AI.

“I do think there's enough computer power for [the UK] to develop [AI], but not actually to deploy it wide scale.”

Micro AI business

A more mature, medium-sized business used contract term reserved instances for client environments, i.e. a billing discount agreement where they committed to using a specific cloud computing resource for a fixed period in exchange for lower hourly rates, to ensure sufficient compute resource. However, this business reported having to delay client projects on occasion while they waited for data centre capacity.

A key challenge for businesses with fluctuating needs was managing unpredictable or 'spiky' demand, which required access to expensive 'elastic compute' rather than more affordable

fixed usage plans. This was compounded by the long-term nature of booking compute, with some resources needing to be reserved 18-24 months in advance, a major challenge in a field evolving so unpredictably.

“It is a big challenge because when you are forecasting, you need to book this compute 18-24 months in advance. 18-24 months ago, nobody could have predicted where we were today.”

Micro AI business

1.5 COPYRIGHT

The interviews revealed a complex and often contradictory landscape regarding copyright and intellectual property (IP). While many businesses had developed strategies to mitigate direct copyright risks, there was a perception that the UK’s legal and regulatory frameworks were not fit for the realities of AI. This led to calls for greater clarity and proactive guidance from government.

1.5.1 Businesses call for greater clarity on copyright and AI training data

A common sentiment among businesses was that for the training of large, foundational language models (LLMs), the debate around copyright was already too late. There was a suspicion that major providers had built their models using illegally scraped sites and that it was now too late to regulate this retrospectively.

“What is difficult is actually what's been put into AI. And that horse has already bolted because that was done years ago.”

Micro AI business

The current environment was described by one business as a "wild west" due to a lack of clear ethical rules or frameworks for how to train models, which made some businesses uncomfortable but left them feeling they had no choice but to use the tools available.

This lack of clarity led to calls for the government to provide proactive guidance. For example, one business felt it would be good for the government to produce an ethical framework for training data collection, and that this would be useful to encourage future collaboration with universities and other potential data providers who might be wary of their data currently being used for AI training purposes. More widely, another business felt that governments across the world (including the UK) needed to step in as the current approach of waiting for the legal system to resolve these issues created significant uncertainty for businesses.

“We need governments to actually grow up and start having a proper impact here, which they're not at the moment.”

Micro AI business

Copyright potentially presented indirect risks as well. One business noted that, even if a business’ own practices were compliant, the third-party LLMs they relied on might themselves have used copyright material. They felt that a major legal decision against the company behind one of these foundational models could therefore have a significant downstream effect on their business.

In response to this uncertain environment, a common strategy was to control the data source, for example by:

- Training models on proprietary data, which had been created from scratch.
- Using data provided directly by clients under contract for a specific purpose.
- Generating synthetic data to avoid using real-world, potentially copyrighted material.

There was also an instance of a business hiring legal expertise to ensure they had performed the necessary due diligence when acquiring training data.

In other cases, copyright was considered less of an issue due to the types of tasks being undertaken. For example, one business reported focusing on "functional" and "structured" tasks, such as financial analysis, rather than creative content generation where copyright was considered a more prominent issue.

However, challenges remained, with the licensing implications of modifying open-source models for commercial use described by one business as a "minefield".

"[Copyright] hasn't come up seriously yet. But with AI, there's still a lot of uncertainty about who owns the AI models ... if you modify it, like licensing around whether you owe somebody for modifying it and using it commercially and stuff, that's a minefield that I haven't even begun to tackle yet."

Micro AI business

1.6 INTELLECTUAL PROPERTY

1.6.1 Businesses are more concerned about protecting their own IP than using copyrighted material

Beyond the risk of using copyrighted material, a more pressing concern for some was the protection of their own intellectual property (IP) when using third-party models. For example, a financial trading firm noted that previous AI model versions made assurances that data would not be used for training purposes. However, newer models now required acceptance that providers could use queries for training future versions. This raised concerns about their proprietary data being used for model training, with little practical legal recourse against overseas providers around IP protection.

"Our business lives and dies by the ... protection of its intellectual property."

Medium AI business

1.6.2 Existing IP frameworks are viewed as poorly suited to AI technologies

There was a perception that the UK's current IP regime was not suitable for AI technologies, being described as difficult and time-consuming for businesses to navigate.

"The approach to both software, intellectual property management, but also AI models ... my experience today is that it's not necessarily very mature. It's kind of an extension of the IP thinking that came before AI."

Large AI business

Other businesses felt that patents were either not possible for proprietary AI code or of unknown effectiveness.

“Somebody quoted me £10,000 for an IP deep dive ... and a patent ... and you don’t know how effective it’s actually going to be.”

Small AI business

As a result, one business reported treating their products as trade secrets rather than relying on formal IP protection. Another, working in the "nature tech" space, mitigated risk by purchasing copyrighted satellite imagery under licence and then creating their own proprietary derived data, which they could then license to their own customers.

2 Funding and growth

SUMMARY

- The UK is considered a strong environment for founding AI start-ups but presents barriers to scaling them.
- These barriers are attributed to a combination of factors, including a risk-averse domestic funding culture, bureaucratic public grant processes, slow client adoption, lengthy procurement cycles, challenges commercialising innovation, and a highly competitive market for experienced AI talent.
- There is a perception that UK firms struggle to compete with better-funded US rivals, face pressure to relocate or sell abroad to achieve scale and are often unable to bridge the gap between innovative pilots and sustainable commercial revenue.

2.1 FUNDING LANDSCAPE

The current availability of funding for AI innovation in the UK brought out a mixed response from businesses. While some businesses reported a strong funding climate with high investor appetite and active fundraising rounds, there was a consensus that the UK lagged behind the US and China. Comparisons with the EU were more mixed, with some businesses feeling the UK was slightly ahead of its European counterparts, while others felt the UK was lagging behind certain European countries such as France. The UK was characterised by one business as a "follower type environment" rather than a global leader, creating a potential barrier to growth by pushing some companies to build in the UK but scale elsewhere.

2.1.1 Public funding is valued but application processes can be burdensome

When accessing public funding, Innovate UK remained a primary government source, but grant competitions were described as fiercely competitive. One business described a poor effort-to-reward ratio, reporting that there were often 200 or 300 applications for 10 grants.

The administrative burden and bureaucracy of grant applications were cited as major barriers. Businesses reported that the process was slow, subjective, and misaligned with the fast-paced, exploratory nature of AI development. For many, the time and financial cost of applying outweighed the benefits and amounts of money being offered.

"You have to go through so much process even to get a basic £30,000 to £40,000 worth of funding. And the amount of time that you spend doing it and what you get out of it, it's just too much trouble."

Small AI business

In contrast, R&D tax credits were widely praised as a simpler, more effective, and more reliable mechanism for supporting innovation. However, it was noted that while tax credits were helpful, they were retrospective and did not solve the need for upfront capital.

There were examples of founders actively avoiding Venture Capital (VC) funding. These businesses chose to rely on commercial revenue or personal funds as they were reluctant to cede control of their companies given the level of investment required and the perceived uniqueness of their offering. They felt that VC investors' desire for a quick exit strategy did not align with the founders' own long-term ambitions, leading to a perceived culture of "short-termism" among investors.

Other alternative sources of support were described as highly valuable, including free cloud compute credits provided by major tech firms and flexible, use case driven funding bodies like the Defence and Security Accelerator (DASA).

2.1.2 Strong start-up support does not translate into easy scaling

While businesses generally viewed early-stage funding as relatively accessible, many felt the challenges associated with scaling extended beyond finance alone. Businesses described difficulties converting successful pilots into long-term commercial revenue, particularly in sectors characterised by long procurement cycles and slow adoption. Businesses also felt international markets, particularly the US, offered larger customer bases, greater appetite for innovation and more straightforward routes to commercial scale.

A funding gap for mature AI companies was also identified where established companies with a proven concept, but a history of modest revenue could appear less attractive to investors looking for big and rapid growth. For example, one business that had been trading for 10 years reported struggling with a low valuation because of low demand for their transformational AI product. They felt investors were more interested in the promised returns of a start-up's unproven concept than a valuation based on a mature company's track record.

"If you invest in a start-up, you don't expect it to have revenue. You're investing in the hope of revenue. You're investing in story. If you go to a company that's been running for 10 years and you say it hasn't got revenue, then the likelihood is that we don't meet your investing criteria."

Small AI business

2.1.3 Access to funding varies significantly by sector

There was a perceived sector bias within the UK funding landscape. Investors were seen as favouring familiar, quick-return industries like FinTech, described as "the UK's bread and butter", while manufacturing and hardware businesses struggled to secure support. Additionally, businesses applying AI to sectors such as healthcare or legal tech, faced a mismatch in funding timelines. For example, one business noted that these industries required long-term funding to navigate multi-year procurement cycles, which a typical 18-month UK start-up funding cycle did not accommodate.

"The AI developments mean that a lot of start-ups are now focusing on industries that were typically hard to disrupt. So that's things like finance, healthcare and legal tech ... All of those are also characterised by much longer selling cycles ... And the typical funding cycle of a start-up is 18 months. That's not that long if the NHS purchasing cycle is a couple of years."

Small AI business

2.1.4 Risk aversion contributes to lower UK valuations

A common perception was that UK investors were culturally more conservative and risk-averse than their US counterparts, leading to significantly lower valuations for UK businesses. One business felt that UK valuations were up to 10 times lower than equivalent US VC levels, putting UK firms at a disadvantage compared to US firms in terms of attracting investment.

"There are lots of private equity organisations who are UK-based. However, they are at an enormous disadvantage against the US and other geographies because their

level of valuation and so on is probably about 10% of what you would get from a similar US organisation."

Small AI business

However, there was a view that UK investors' cautious approach was a potential positive, with lower valuations and a demand for unique differentiators potentially offering the UK market some protection if growth in the global AI sector were to slow down or reverse.

2.1.5 Businesses felt some funding models do not reflect AI business economics

One business argued that existing funding approaches often reflected assumptions associated with traditional software-as-a-service (SaaS) businesses, where recurring subscription revenues provided relatively predictable growth trajectories. In contrast, they felt AI businesses might face significant upfront compute costs, uncertain operating costs and longer pathways to commercialisation. As a result, they questioned whether some existing funding models fully reflected the commercial realities of AI development.

"[The funding model] is 25 years out of date. The funding that's available is for starting up a business where you would actually build a piece of software, you sell a piece of software and then you've got monthly recurring income ... The model for funding does not support what AI is capable of doing."

Micro AI business

Furthermore, funding sources were often seen as too narrowly defined, with funds set aside for specific types of projects or products. This meant some businesses struggled to find suitable funding, particularly if they felt their project or product did not fall into an existing category.

2.1.6 Businesses called for simpler and more targeted funding support

When asked what changes would most improve access to funding over the next 12 to 18 months, businesses highlighted several key interventions:

- **Streamlining public funding and improving signposting:** The current public funding landscape was described by one business as a highly complex "network of about 10 to 15 different pots" that requires expert knowledge to navigate, while others called for a centralised website or better signposting to improve visibility of funding options. There was also a call to streamline the application process with businesses citing Innovate UK in particular, suggesting there could be mechanisms to submit initial, short-form ideas to gauge fundability before committing resources to longer, more detailed proposals.
- **Tax incentives and private capital:** Another suggestion was to introduce targeted tax incentives for individuals and pension funds investing in AI, similar to existing schemes for fixed assets, in order to stimulate private investment.
- **Procurement as a funding mechanism:** Public sector procurement was also considered an effective lever to stimulate the UK AI market. One business suggested introducing tax-offset incentives for large corporate buyers who procure services from accredited UK AI start-ups, helping businesses bridge the gap between pilot phases and commercial revenue.
- **Strategic and sovereign investment:** Echoing concerns around compute dependency, there were some calling for larger, ecosystem-level funding mechanisms to build sovereign capabilities. This included direct government support for building data centres and providing compute grants.

3 Market dynamics

SUMMARY

- The UK is considered a "fast follower" in a global AI landscape dominated by the US and China, but there is a view that the UK's competitive advantage is in the application of AI rather than the creation of foundational models.
- The UK's world-class universities and deep talent pool are key assets, enabling it to excel in applied AI niches like FinTech, life sciences, and AI assurance. However, this advantage is threatened by a "brain drain" driven by higher salaries in the US and a risk-averse domestic market.

The debate over sovereign capability is varied, with businesses divided on whether pursuing a UK-owned AI stack is practical, feasible or desirable (beyond public sector, defence and critical national infrastructure contexts).

3.1 GLOBAL AND DOMESTIC COMPETITIVENESS

When assessing the UK's competitiveness, one business described the UK as being in the "upper end of the second tier" globally, reflecting a broad view. The consensus was that the global market was dominated by the US and China, with the UK and the EU lagging behind in terms of investment and speed of development. The competitive landscape was viewed as an increasingly global one, rather than strictly domestic.

3.1.1 The UK supports AI start-ups but struggles to scale them

Businesses agreed that the UK remained a good environment for founding an AI start-up. The market had experienced growth over the previous two years, with pre-seed and seed funding available. The democratisation of AI tools had lowered the barrier to entry, leading to an increase in new players across different scales.

However, as discussed in Section 2.1, there were reports that the UK struggled when it came to scaling these businesses. Businesses noted a cultural and financial expectation that ambitious firms must eventually relocate to the US, specifically Silicon Valley, to access deeper pools of capital, higher risk appetite, and faster execution speeds. Domestic policy headwinds were also cited as a deterrent to scaling, with businesses pointing to high taxation and political instability as factors that left the UK "middle of the pack" compared to pro-business jurisdictions.

3.1.2 The UK creates successful AI businesses but struggles to retain them

A concern regarding international competition was the UK's perceived inability to retain the talent and companies it created. Businesses cited DeepMind (acquired by Google) and ARM (listing in New York) as examples of this trend. The concern was that without domestic buyers or scale-up capital, successful UK companies would be acquired by foreign companies.

3.1.3 A strong talent base is threatened by skills shortages and international competition

Another key UK advantage was its talent pool, supported by high-quality university machine learning departments, a breadth of supporting talent and skills (e.g. in engineering and life sciences), and having government, academia, and capital concentrated geographically close together.

However, the availability and cost of skilled personnel was a bottleneck for the sector. There were reports of a shortage of experienced AI professionals with practical, commercial AI

experience. This gap had created a highly competitive labour market where experienced AI talent commanded a salary premium that many start-ups and SMEs could not afford.

“At the minute there's a real premium attached to any AI person with any kind of experience behind them ... And that is a real expensive cost. We just can't bear that. So what we're trying to look to do is see how graduates can start to bridge that gap. They're not there yet.”

Large AI business

This skills gap was exacerbated by the perception that the UK higher education system was not producing enough 'AI-ready' graduates. University curricula were felt to be too slow to adapt to the pace of AI development, with students being given mixed messages about the use of AI tools in their studies. Additionally, friction in immigration and hiring processes was cited as a barrier to bringing in top-tier global talent.

Beyond these domestic challenges, the UK's talent pool was also felt to be under threat from international competitors. Businesses noted that the UK struggled to compete with US salaries, with one business saying that applied data scientists could reportedly earn up to four times more in the US. This disparity was driving a brain drain, with UK founders moving to places like San Francisco to improve their odds of success. Furthermore, businesses warned that the UK's talent advantage was eroding, citing Brexit as a factor that reduced the availability of skilled European workers.

“We've got some fantastic brains and fantastic people but at the end of the day... they are being snatched up by the international players. I think we still have got the potential, but it's just unused potential at the moment.”

Micro AI business

3.1.4 Businesses see the UK's advantages in applied AI rather than foundational models

Strategically, businesses suggested the UK's competitive edge lay not in inventing foundational AI models, where it could not compete with US hyperscalers, but in the application and commercialisation of AI services. This was driven by the view that the UK was competitive in applied AI, AI assurance, and businesses that built upon foundational models, and also had strengths in key sectors globally, including FinTech, cyber security, and pharmaceuticals. It was also driven by a perception that the UK was far behind the US and China in particular as developers of foundational models and also lacked the infrastructure to build its own Large Language Models.

Businesses also anticipated that AI would soon cease to be a differentiator as it becomes more widespread and commoditised. As a result, businesses expected non-technical value, trust, and human-centric services would become the competitive differentiators in the near future.

3.1.5 Slow adoption and cautious buyers constrain domestic growth

The UK was felt to benefit from a strong international brand, a globally respected legal system, and the English language, which provided a credibility advantage when operating abroad.

However, businesses noted that the UK's domestic culture was more hesitant and risk-averse compared to international rivals, with implications for AI investment (as discussed in Section 2.1) and AI adoption in the wider economy. This was reflected in a reported slow

pace of demand and adoption among potential clients. For B2B AI businesses in sectors like aviation, maritime, and enterprise procurement, sales cycles were reported to take up to two years. Businesses noted that because AI often required fundamental digital transformation rather than improving an existing capability, it was easy for clients to defer these investments when budgets were tight. This was felt to be compounded by a resistant attitude to systemic change within older, established industries.

Furthermore, businesses reported a disconnect between client enthusiasm for AI and their actual technical readiness. There were examples of AI businesses having to manage unrealistic expectations driven by public hype around tools like ChatGPT and setting expectations around the cost and speed of AI implementation for clients lacking the necessary foundational data infrastructure.

“A lot of companies are investing heavily in AI. Unfortunately, the thing of actually having decent data on which to build is again being forgotten ... It's hard to be that person in the room that says you need to focus on your fundamentals first before you can get excited about all the bright, shiny things that are coming your way.”

Small AI business

Businesses felt that slow customer adoption, lengthy procurement cycles and organisational resistance to change made it more difficult for UK AI businesses to establish a strong domestic customer base, which in turn limited their ability to grow internationally. Because it was difficult to secure domestic contracts, UK companies struggled to break into foreign markets from a position of strength. This lack of domestic agility was contrasted by the perceived proactive approach of foreign markets.

“Those organisations [in the Middle East] are a lot more happy to fund AI just to see what happens. And not only that, but also test AI in live environments ... I can see faster growth in the Middle East, building products and selling products into the Middle East than I can into the UK.”

Large AI business

Similarly, businesses reported that US states and European regions were doing more than their own local UK authorities to actively seek out UK AI companies.

3.2 SOVEREIGN CAPABILITY

The UK's reliance on international providers for AI inputs was a recurring theme. Businesses acknowledged that the UK was dependent on foreign nations, primarily the US, and increasingly China, for compute capacity, cloud infrastructure, silicon chips, and foundational Large Language Models (LLMs). Consequently, the concept of AI sovereignty elicited polarised responses, with businesses divided on how the UK should mitigate risks associated with dependence on foreign providers for compute, cloud infrastructure, chips and foundational AI models, while remaining globally competitive.

Businesses differed not only in their views about whether sovereignty was achievable, but also whether it was desirable. Some considered sovereign AI capabilities strategically important for national resilience, critical infrastructure and long-term competitiveness. Others viewed attempts to create a fully sovereign AI stack as commercially unrealistic, potentially anti-competitive, or likely to increase costs without delivering meaningful benefits beyond specific use cases such as national security or public sector data management.

3.2.1 Businesses were divided on both the feasibility and desirability of AI sovereignty

For some businesses, achieving AI sovereignty was a national security and geopolitical priority. Businesses pointed to global events, EU Exit, and potential shifts in US administration as evidence that the UK could not afford to rely entirely on foreign nations for AI technologies. For example, one business likened the risk to the energy crisis, warning that AI access could be used as a 'bargaining chip' or cut off entirely. Furthermore, having sovereign capabilities was compared to the UK's domestic biotech infrastructure, which proved vital during the COVID-19 pandemic for developing and manufacturing vaccines domestically.

Conversely, there was a view that strict AI sovereignty was a "vanity project" or practically impossible. These businesses argued that global supply chains for chips, servers, and engineering were too complex for the UK to fully domesticate.

"Part of data security is that it's distributed... if it's all in the UK, it's an exposure. So it's probably a vanity project, realistically."

Small AI business

"I would be concerned about the practicalities of it given our scale ... We are dwarfed by US investment and the US hyperscalers."

Small AI business

Rather than pursuing end-to-end sovereignty, these businesses suggested a pragmatic approach: the UK should carve out specific niches (such as quantum computing, AI assurance, or inference efficiency) to secure competitive advantage in AI rather than attempting to directly compete with US hyperscalers.

3.2.2 Infrastructure sovereignty is viewed as strategically valuable but difficult to achieve

When discussing infrastructure, specifically domestic data centres, compute capacity, and UK-owned LLMs, businesses highlighted a tension between strategic resilience and commercial viability.

Advocates argued that the UK needed to focus on UK-owned or UK-controlled AI infrastructure, and in doing so needed to address certain foundational constraints, primarily the cost and availability of energy and water. To mitigate this, businesses suggested the government needed to prioritise innovative energy solutions, such as small modular nuclear reactors and renewables, to power domestic data centres sustainably. However, there was some scepticism about the likely success of government-led infrastructure projects in this area based on previous negative experiences.

"We had G-Cloud as a data centre maybe 10 years ago, which was ... Her Majesty's government's ultra-secure, ultra-safe UK based data centre. It was commercially unviable and within about five years... we were burned because we used it and it's now not suitable. So I think we'd want to understand what that longevity was and what the benefit was."

Large AI business

Sceptics also warned that building a sovereign UK tech stack could create a concentration of risk. One business contrasted a UK-only stack with the security benefits of distributed global cloud services, noting that if a domestic data centre was compromised, it became a single point of failure, whereas global distribution offered resilience.

3.2.3 Data sovereignty is essential for some clients but viewed by others as a cost burden

Data sovereignty, the requirement for data to be stored and processed strictly within the UK, was a commercial driver for businesses selling to the public sector, the NHS, or European clients. Offering local data residency was a prerequisite for unlocking contracts. Businesses operating in critical national infrastructure or handling sensitive public sector data noted that clients required absolute control over where their data lived. Furthermore, businesses serving European markets reported that certain data types were legally required to remain within specific geographical areas. Without guarantees of local data residency, these clients were prevented from adopting AI solutions.

“Once you go to Europe, you go to the EU, it is a much bigger problem because there are certain data types that just has to be guaranteed never to leave a geographical area.”

Micro AI business

However, data sovereignty beyond public sector requirements was criticised by some as an unnecessary aim, driven by politics and perception rather than security concerns. One business expressed frustration with the NHS for imposing fragmented data restrictions that duplicated existing Medical Device Regulations. They argued that forcing companies to spin up local UK servers killed economies of scale, increased costs, and paradoxically made data less secure because smaller, localised servers were easier to compromise than global data centres.

“At the moment, if we want to go into the NHS, we will have to spin up a set of servers in the UK. That's not hard to do, but it's a cost. And given that those servers will be no more or less secure than the servers in America, it's a kind of pointless exercise... In fact, it probably makes them less secure.”

Small AI business

3.2.4 Cultural sovereignty raises the case for UK-centric AI models and guardrails

An emerging theme was the concept of “cultural sovereignty”. Businesses argued that there was value in AI systems that reflected British values, ethics and cultural nuances. Some felt this could require greater UK influence over foundational models and guardrails.

Businesses pointed out that the current frontier models were biased towards the US, embedding American (and particularly Silicon Valley) cultural norms. There was a concern that relying on foreign models meant embedding the values and biases of other countries or markets rather than building systems with guardrails that matched British sensibilities and legal frameworks.

“If we want to take our legal framework seriously and we want to take our values seriously, then that is something we should look at. I don't think we're a big enough market to force these leading tech companies to change for us.”

Medium AI business

3.3 ENABLERS OF GROWTH

As the AI sector continues to mature, UK businesses were looking beyond the initial hype cycle to identify where the long-term value would emerge. UK AI businesses identified several strategic and operational enablers that could accelerate the growth of the UK AI sector.

3.3.1 Businesses see the greatest opportunity in applied AI and AI services

Businesses viewed having a clear and feasible national strategy as an important enabler of growth, although businesses differed on the degree of government intervention required and the direction of travel.

A common perception was that UK AI businesses held a distinct competitive advantage in agile, applied services, and leveraging the UK's unique institutional strengths, rather than the UK competing directly with multinational tech giants on foundational infrastructure. As a result, there was a call for greater strategic focus on AI services as an area of significant growth potential.

"[The UK is] focused on the technology stack rather than the outcomes of the technology stack itself. This is like, I've got a hammer and I've got a carpenter. So now actually what I've got is some nails and some wood. How do I bring them together to put a shelf together? So I need to teach people to build the shelf, not to actually put a hammer together."

Micro AI business

Specific technological advances, such as the development of Agentic AI (systems capable of autonomous action), were highlighted as key areas for future growth, particularly in areas of the public sector where siloed systems had been historically challenging to previous attempts at widespread digital transformation.

"The public sector has essentially a legacy estate of integration-hostile applications that sit at the very heart of what stops the public sector from automating itself ... What is emerging is the ability for AI to write AI. So it's something that we are pushing and what it effectively means is that we can rewrite an application from scratch to make it fully automatable in less time than it takes to try and connect."

Small AI business

One business suggested that hosting sector-specific workshops to showcase the capabilities of agentic systems could drive significant adoption. Ultimately, the agility of UK start-ups to rapidly adopt and build upon these new tools was viewed as a major competitive advantage over slower-moving, larger incumbents.

3.3.2 Public procurement could help create and validate UK AI champions

Businesses viewed government procurement as one of the most powerful potential enablers of growth. Businesses argued that if major public bodies such as the NHS or the Home Office acted as single, unified customers for transformational AI, it would help to validate UK start-ups on the global stage. One business noted that the NHS previously did this for robotic surgery, effectively building a domestic industry that could then be exported worldwide.

As a result, there was widespread frustration that the government seemed to award high-profile contracts to large, foreign companies, such as Palantir, rather than supporting domestic innovators. To counter this, there were calls for a proactive 'national champions' programme, where the government would actively sponsor and procure from high-growth UK

AI businesses, providing them with the case studies and revenue needed to scale. In this respect, one business suggested the UK could follow the example of China or the Middle East where there is a national, state-sponsored programme to foster such national champions in AI, although they expressed scepticism that the UK government would take such an 'interventionist' approach for cultural and political reasons.

"In all of the other territories where they have enjoyed great success [the Middle East and China], it's because of an interventionist state directly supporting the growth objectives and measuring itself. And the UK just doesn't engage in any of that, I think for historic reasons."

Small AI business

In addition, there was a suggestion that the government could act as a guarantor to reassure risk-averse corporate buyers in cases where a start-up lacked established revenue streams.

3.3.3 Stronger links between academia and industry could accelerate growth

The UK's higher education system was recognised as a key asset, but businesses stressed the need to better commercialise foundational academic research. There was a perception that ideas currently in university labs were not being commercialised due to a lack of industry connection or start-up funding. One suggestion to address this was to create stronger networks and mechanisms for businesses to propose commercial challenges as potential PhD projects, thereby building mutually beneficial bridges between industry and academia.

"I definitely think more interaction between the academic institutions and businesses [would be good] because there's a lot of smart people in these universities coming up with brilliant ideas that stay in a lab environment, which is a shame because once these things get out and get commercialised, it's great for the country and it's great for industry."

Micro AI business

Geographic tech clusters were also identified as a major enabler, attracting a high density of global talent. This provided networks for support, innovation and partnerships, allowing businesses to scale more rapidly.

3.3.4 Businesses want simpler support and stronger hiring incentives

To accelerate growth, there were calls for highly targeted, frictionless financial support. Beyond traditional grants, there was strong support for accelerator programmes that provided start-ups with direct contact with corporate CEOs and trial periods, thereby reducing long B2B sales cycles.

"Accelerators are really helpful ... getting facetime with a CEO or a trial period really cuts down the sales cycle and means you can sell something that they have already used rather than pitch something on PowerPoint from scratch."

Small AI business

To address skills shortages and high-salary premiums in the sector, one suggestion was for the government to provide funding to subsidise graduate and apprentice salaries. This would help SMEs absorb the upfront cost of recruiting and training graduates and apprentices, particularly where additional time and support are required before individuals become fully productive in specialist AI roles. Participants felt this could make it easier for smaller businesses to develop their own talent pipeline rather than relying on experienced hires in a

highly competitive labour market. There were calls for this to be paired with frictionless visa routes to ensure sustained access to top-tier global professionals.

3.3.5 Clear regulation and standards could strengthen trust and accelerate adoption

The UK's relatively "light-touch" approach to AI regulation compared to the EU AI Act was cited by some as a distinct strategic advantage, providing a more flexible environment for innovation. Nevertheless, the establishment of clear standards and accreditations was seen as a major growth enabler. For example, businesses noted that obtaining certifications like ISO 27001 or the emerging ISO 42001 for AI deployment helped build client trust and win public sector contracts.

In safety-critical sectors, the lack of a regulatory framework was felt to be hindering commercialisation. One business predicted that once the UK and global regulators defined how they want to assure AI safety, growth would accelerate rapidly.

"Once UK and global regulation define how it wants to assure AI [in safety critical sectors], that's going to go through the roof because then I've got a standard to meet, a standard to hit a product quality to deliver to and we can start churning those out."

Large AI business

3.4 EMERGING RISKS AND MARKET SCENARIOS

Businesses highlighted a range of future trends that would define the UK's trajectory, alongside four potential market scenarios that could alter the competitive landscape.

3.4.1 Businesses highlighted risks relating to skills, security and society

According to businesses, while AI offered significant opportunities for growth, the deployment of AI also presented risks to the UK sector and the broader economy. A key concern was the impact on the future skills pipeline. Businesses warned that as AI automated entry-level and junior tasks, companies were cutting back on hiring graduates and apprentices. This threatened to create a generation of workers who engaged in "cognitive offloading", threatening the pipeline of future senior talent and critical thinkers required to evaluate AI outputs.

"The problem more recently is that obviously the whole graduate intake is being affected even beyond apprenticeships, because people are now cutting down on taking on graduates because of what AI can do."

Small AI business

Broader societal risks were also highlighted, including the expanded target areas for cyber attacks, the environmental impact and noise pollution of massive data centres, and the danger of employees inputting sensitive corporate data into public AI tools without oversight.

3.4.2 Businesses expect future market shifts to reshape competition and growth

When asked to consider four potential future scenarios for the AI sector, businesses outlined how each might affect their organisations and the wider UK economy. These scenarios were:

- Open-weights ascendancy – a future in which open-weight AI models become increasingly prevalent
- Edge-native inference – greater use of AI processing on local devices rather than in centralised cloud infrastructure
- Sovereign AI stacks – greater use of UK-owned or UK-controlled AI infrastructure and technologies

- **Regulated oligopoly** – a market dominated by a small number of major AI providers

Businesses outlined distinct impacts for their businesses and the UK economy:

- **Open-weights ascendancy:** This scenario was viewed positively. The democratisation of open-source models would break vendor lock-in, level the playing field, and allow UK SMEs to enter an "optimisation phase" where they could serve technology more cheaply and reliably. However, businesses warned of security risks regarding the origin of these models (e.g., Chinese open-source) and cautioned that as open models raised the technological baseline, a start-up's unique features could become commoditised.
- **Edge-native inference:** Edge-native inference refers to AI processing taking place directly on local devices, sensors or hardware rather than relying on centralised cloud infrastructure. Processing AI locally on devices rather than in the cloud was considered an opportunity. Businesses argued that small models would be increasingly prevalent, noting that edge inference could reduce compute costs, eliminate latency, and provide resilience during network downtime. However, this approach came with the "technical debt" of maintaining and securing edge devices, and businesses noted that edge models required simplification compared to cloud performance.
- **Sovereign AI stacks:** Businesses suggested that greater availability of UK-based AI infrastructure could make it easier to meet certain data residency and regulatory requirements. However, views differed regarding the extent to which sovereign ownership of infrastructure would address wider regulatory or compliance challenges.
- **Regulated oligopoly:** Businesses felt this scenario was already a reality, noting that the US and China largely controlled the key supplies of AI infrastructure and hardware. However, there was optimism that market forces, the rise of open-source, and consumer demand for ethical AI (citing companies like Anthropic) would prevent a permanent monopoly.

4 Business views on priorities for government support

SUMMARY

- There is a strong desire from businesses for the government to take decisive, strategic action to create a more supportive ecosystem for growth and competition.
- There is a perception that the systemic challenges of infrastructure dependency, the scale-up gap, and intense global competition require coordinated, national-level interventions that individual businesses cannot address alone.
- Key recommendations focus on using public sector procurement as a catalyst for the domestic market, reforming funding to target the scale-up gap, using tax incentives to unlock private capital, and implementing policies to build and retain the UK's future talent pipeline.

4.1 FOUR STRATEGIC AREAS

To capitalise on the opportunities identified by the sector and overcome systemic barriers, businesses outlined a clear set of strategic priorities for the UK government. Businesses recommended that the government focus on enabling the private sector, removing friction, and providing long-term stability. These recommendations fell into four strategic areas:

- Strategy and regulation
- Commercialisation and scaling
- Public procurement
- Skills and talent

These are described in more detail below.

4.1.1 Businesses want clearer long-term strategy, regulation and IP rules

Businesses highlighted a need for a stable, long-sighted policy environment that would provide certainty for investors and founders.

- **National strategy and sovereignty:** Despite the existence of a UK National AI Strategy, there was a perception that the UK lacked a clear, coherent policy at a government level. Businesses called for a refreshed or more visible national strategy that explicitly defined the UK's approach to AI sovereignty and addressed foundational infrastructure constraints, such as energy costs, water availability, and data centre capacity.
- **Compliance and assurance:** Establishing clear regulation and assurance standards, particularly for safety-critical AI, was identified as a priority. One business felt that clear guidelines would allow clients to procure services with confidence, improving the reputation of the sector.
- **Pro-innovation guardrails:** Businesses warned that over-regulation, such as classifying public sector healthcare AI as a medical device, delayed commercialisation and risked driving talent abroad. Businesses called for sensible, internationally coordinated regulation that acted as "guardrails" rather than restrictive governance.

- **Intellectual property:** Clarity on copyright legislation and a mature intellectual property regime were recommended to protect the value of AI-generated assets.

4.1.2 Businesses want support to focus on commercialisation and scaling

Businesses recommended shifting the focus of financial support from early-stage research toward commercialisation and scaling.

- **Targeting the scale-up gap:** Businesses urged the government to support the "industrialisation of AI" by funding the transition from research to deployable products. This included providing grants that cover upfront commercial costs, such as sales, marketing, and distribution, to help companies grow their revenue.
- **Reforming public funding:** Businesses recommended ending stop-start funding cycles to provide seamless continuation for projects. Businesses also called for a reduction in the bureaucracy associated with innovation grants, noting that rigid project management approaches do not suit exploratory R&D.
- **Tax incentives:** To unlock private capital, businesses suggested introducing targeted tax incentives for individuals, venture capitalists, and pension funds investing in AI. A business also recommended creating "special rules" for AI founders to encourage them to build and scale in the UK.
- **Adoption subsidies:** Businesses recommended providing grants and subsidies to general businesses to help them understand and implement AI within their workflows.

4.1.3 Businesses see public procurement as a tool for market creation and scale-up

Procurement was identified as a primary lever the government could use to stimulate the domestic AI market and validate UK start-ups.

- **Public sector adoption:** To overcome slow, risk-averse public procurement processes and local budget constraints, businesses recommended the government actively drive adoption. Acting as early adopters would provide start-ups with the case studies required to expand internationally.
- **Cascading contracts to SMEs:** A business suggested the government use its procurement mandate to ensure contracts cascade down to SMEs, rather than defaulting to large, established technology providers.
- **Market-side incentives:** To encourage corporate adoption, businesses recommended introducing tax offsets for large enterprises that procure services from accredited UK start-ups. A business also suggested creating government guarantor mechanisms to de-risk procurement from early-stage firms.

"The UK doesn't have an AI strategy at a national level or a government level ... develop a very clear, coherent policy ... There are no incentives to come and buy from a start-up ... you could almost look at apprenticeship credits offset against tax."

Medium AI business

4.1.4 Businesses want support to attract, train and retain AI talent

Addressing the cost and availability of talent was a consistent priority, with businesses recommending interventions across the education and employment spectrum.

- **Financial support for hiring:** Businesses recommended direct financial support to help cover salary costs for graduates and apprentices. Businesses noted that reforming employer taxes, such as National Insurance, would remove the financial disincentive to hire young UK talent.
- **Education and upskilling:** Businesses called for broader investment in education, including making university degrees more accessible and creating easy-access platforms for workforce retraining. A business noted that education must align more closely with industry needs to prepare the public for AI integration.
- **Global talent access:** To remain competitive, businesses recommended maintaining frictionless visa routes to ensure continued access to top-tier global talent.

5 Conclusion

This study sought to explore the experiences and perspectives of a diverse group of AI businesses operating in the UK. While common themes emerged, participants did not always agree and a range of views was expressed. The findings should therefore be understood as reflecting participant perspectives rather than being representative of the wider sector.

A core theme was the UK AI sector's strong reliance on a small number of large, US-based providers for essential inputs like cloud compute, hardware, and pre-trained models. It was recognised that these providers offered the platforms and services that enabled UK AI businesses to innovate and grow, as well as providing much of the infrastructure for AI adoption across the wider economy. However, this dependency had also created important commercial and strategic challenges. Businesses reported a landscape of high and volatile costs, vendor lock-in and exposure to geopolitical risk. This was compounded by hardware supply constraints and uncertainty around copyright and intellectual property, creating a complex underlying risk environment for firms building on third-party models.

In terms of funding and growth, the UK was seen as a strong environment for founding an AI start-up but presented significant barriers to businesses looking to scale. This was attributed to a risk-averse investment culture, which businesses felt led to lower valuations than in the US, alongside public grant processes that did not align with the pace of AI development. Compared with the US, investors were often described as placing greater emphasis on proven commercial performance and revenue generation rather than future growth potential.

Beyond funding, businesses faced further barriers including slow client adoption, a shortage of experienced and affordable AI talent, and the constant threat of competition from the major technology firms on which they depended.

Businesses also argued that scaling opportunities were often easier to realise overseas, citing larger customer markets, faster adoption, greater willingness to trial new technologies, and more supportive procurement environments in markets such as the United States and parts of the Middle East. Businesses in sectors including healthcare, transport and financial services described long sales cycles and slow domestic adoption as barriers to scaling within the UK.

There was a clear consensus that the UK was operating within a global AI landscape dominated by the US and China, with many feeling the UK was falling behind. One common view was that the UK should not be focusing on building foundational models but should instead exploit its competitive advantages in AI services, AI assurance and AI applications in key strategic sectors like FinTech and life sciences. The concept of "sovereign capability" also elicited a wide range of views. Data sovereignty and infrastructure sovereignty were viewed more positively in the context of public sector procurement, national defence and critical national infrastructure, but there was a perception that full AI sovereignty was not a realistic aim for the UK. A more nuanced theme of "cultural sovereignty" also emerged, highlighting the need for UK-centric models that reflected British values and legal frameworks.

Looking forward, businesses shared their views on how the government could best support the UK AI sector. There were calls for the government to provide a stable, long-term strategy and targeted, practical support for start-ups and scale-ups. Public sector or government procurement was identified as a key lever; by acting as a strategic first customer, the public sector could validate UK start-ups, provide crucial revenue, and help create national

champions. Further suggested priorities included reforming funding to target the scale-up gap, using tax incentives to unlock private investment, providing financial support to build the future talent pipeline, and establishing or maintaining clear, pro-innovation regulatory guardrails to provide the certainty needed for long-term investment.

Annex: Methodology

Data was collected through semi-structured qualitative depth interviews. Ipsos and Perspective Economics designed a discussion guide to steer the conversations, which was reviewed and approved by DSIT. The discussion guide was designed to cover topics of interest and provide a consistent approach across interviews. However, it was also designed to be used flexibly, e.g. focusing on topics that participants could speak most about.

The interviews were conducted online and lasted for about an hour each. In total, 30 interviews were conducted by Ipsos. Interviewees were purposively selected to ensure a diverse range of business characteristics. The breakdown of characteristics for AI businesses is given in the annex in Table 1.

Interviews were audio-recorded with participants' consent and transcribed, with interview notes on key themes and findings recorded in an 'analysis grid'. The analysis grid was then analysed using thematic analysis to identify common patterns and insights. In total, 6 interviewers from Ipsos conducted the interviews and analysis. Ipsos hosted two online analysis sessions (one internal, one external with DSIT present) to discuss and sense-check the emerging themes and findings.

Table 1: Breakdown of characteristics for AI businesses in the qualitative interviews

Size (number of employees)	
1-9 (Micro)	11
10-49 (Small)	13
50-249 (Medium)	5
250+ (Large)	1
Growth expectations	
Stay around the same size	1
Grow by up to 10%	0
Grow between 10% up to 25%	4
Grow between 25% up to 50%	7
Grow by 50% or more	18
Trading	
Both export and import AI products or services (including AI models)	13
Export AI products or services (including AI models)	3
Import AI products or services (including AI models)	5
Neither export nor import AI products or services	9
Region	
North East	1
North West	2
Yorkshire and the Humber	1
East Midlands	1
West Midlands	1
East of England	2
South East	4
South West	2
London	11
Northern Ireland	0
Scotland	3
Wales	2
Total	30

Our standards and accreditations

Ipsos' standards and accreditations provide our clients with the peace of mind that they can always depend on us to deliver reliable, sustainable findings. Our focus on quality and continuous improvement means we have embedded a "right first time" approach throughout our organisation.



ISO 20522

This is the international specific standard for market, opinion and social research, including insights and data analytics. Ipsos UK was the first company in the world to gain this accreditation.



Market Research Society (MRS) Company Partnership

By being an MRS Company Partner, Ipsos UK endorse and support the core MRS brand values of professionalism, research excellence and business effectiveness, and commit to comply with the MRS Code of Conduct throughout the organisation & we were the first company to sign our organisation up to the requirements & self-regulation of the MRS Code; more than 350 companies have followed our lead.



ISO 9001

International general company standard with a focus on continual improvement through quality management systems. In 1994 we became one of the early adopters of the ISO 9001 business standard.



ISO 27001

International standard for information security designed to ensure the selection of adequate and proportionate security controls. Ipsos UK was the first research company in the UK to be awarded this in August 2008.



The UK General Data Protection Regulation (UK GDPR) and the UK Data Protection Act 2018 (DPA)

Ipsos UK is required to comply with the UK General Data Protection Regulation (GDPR) and the UK Data Protection Act (DPA). These cover the processing of personal data and the protection of privacy.



HMG Cyber Essentials

Cyber Essentials defines a set of controls which, when properly implemented, provide organisations with basic protection from the most prevalent forms of threat coming from the internet. This is a government-backed, key deliverable of the UK's National Cyber Security Programme. Ipsos UK was assessed and validated for certification in 2016.



Fair Data

Ipsos UK is signed up as a "Fair Data" company by agreeing to adhere to twelve core principles. The principles support and complement other standards such as ISOs, and the requirements of data protection legislation.