STARTUP COALITION

The Startup Manifesto

July 2024

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1. Introduction by Dom Hallas

Britain's startup and scaleup ecosystem is at a crossroads.

Over the past decade, we have made progress by almost every measure.

The truth is that this is in part because policy for the ecosystem has worked.

There are the obvious metrics, like our stunning VC investment figures, which have been supported by programmes of tax incentives and public support that have lifted our ecosystem and are now copied around the world.

Then there are the less obvious ones, like the fact that more young, ambitious people are being drawn to work in startups or to build their own every year, seeing the naive founders of yesterday turn into the ecosystem leaders of today.

We have a new government department centred around the needs of this burgeoning industry with detailed work in train on key technologies of the future. And we're leading the way in cutting edge industries – our AI sector alone is valued at £72bn and our ClimateTech sector is worth over £26bn – all supported by the success of our fundamental science and innovation building blocks.

So whilst this document is laden with recommendations for making things even better – what cannot be lost is the steps we have already taken. In many ways, the most important recommendation of all is one that will be left unsaid: don't stall the progress already being made.

Amid this success, there's also the contrast.

That for both the ecosystem and the British economy as a whole – we still see clear and critical challenges.

For startups, outside pockets there's a funding challenge with valuations being cut, hiring freezes being imposed, and companies finding critical services like R&D tax credits utterly lacking.

And for the UK as a whole, there's a spate of macroeconomic challenges, an uncertain growth path for years to come and public services unfit for purpose.

Whoever wins on 4th July will have to navigate these challenges. We believe the best way to address them will be to tackle them together. By supporting the UK's great entrepreneurs and startups, a future Prime Minister wouldn't just be driving the success of our tech ecosystem, but our country's economic prospects too.

Doing that means delivering on government policy that helps the startup and scaleup ecosystem continue its growth journey, while being laser focused on breaking down the barriers that prevent our very best companies and entrepreneurs from thriving.

The goals for this delivery should be clear:

- To ensure that Britain doesn't just compete in a world where emerging technologies like AI will change our future trajectory, but wins.

- To help a founder anywhere in the UK, from any background, gender or ethnicity who have the right idea attract the capital they need to build their business.

- To create a scaleup finance environment that allows Britain to move from building £5bn companies to £50bn companies.

- To fix the crippling bureaucracy that prevents firms from hiring the best people to grow their businesses or accessing the R&D funding they need.

- To create a regulatory environment refocused directly on the needs of our economy's most innovative and dynamic players.

This manifesto sets out some of the ways we believe the next Prime Minister can tackle these challenges. This isn't intended to be exhaustive. It's not a magnum opus, but a roadmap.

Whatever happens in our politics, our economy and our startup ecosystem over this election campaign and beyond – there is no going back to a time when startups were an economic sideshow.

British startups will be at the heart of any successful British economic strategy.

The future Prime Minister and their team should, and we hope will, do everything in their power to ensure that the growth journey our ecosystem has been on will continue.

At the Startup Coalition we can only hope that this Manifesto will give them the right tools to do just that.

Dom Hallas
Executive Director, Startup Coalition

2. Talent

Introduction

Without the ability to attract and retain the best talent, either as founders or startup employees, the UK will lose its status as one of the leading places to start and scale a startup.

Immigrant founders have an outsized impact on the UK's startup ecosystem. As The Entrepreneurs Network has previously highlighted, around 39% of the UK's fastest-growing startups have at least one immigrant co-founder.

The UK's current immigration policy, whilst harder than freedom of movement for startups, is fairly generous – at least on paper. The reality of the implementation leaves a lot to be desired as the system has been stress-tested and found wanting. Startups are typically time and cash poor, meaning processing times and rising costs can be an outsized burden. Founders also report having to grapple with costly delays, excessive red tape, and lengthy wait-times for basic application stages. Moreover, constant changes to the system create confusion. Startup founders aren't immigration law experts. They need clarity about their options and consistent policies to follow.

The UK is also facing a home-grown skills crisis. Despite repeated and widespread concerns over the needs of a future jobs market, founders feel the education system is still not equipping people with the skills they need. If they hire school leavers or graduates at all, startups tell us they spend between six months to a year providing necessary technical training. Additionally, the process of reskilling is often unnecessarily difficult and expensive for workers transitioning into the tech sector. Despite widespread acknowledgement of this, with both main parties committed to expanding adult skills training in their manifestos, so far we have not seen skills and education tackled strategically.

Fundamentally, world class startups need world class talent. If the UK is unable to attract and cultivate the best talent, it will lose its status as a world-leading innovation ecosystem.

Make Visas Work for Startups

It is critical that the next Government acts to ensure the UK remains globally competitive for tech talent. While the UK's visa system has been instrumental in attracting this talent, many visa routes have not been optimised effectively for startups. When it comes to existing visas, small changes can have an outsized effect.

One such change is to include stock options offered as part of an employee's compensation package when calculating the salary threshold for the Skilled Worker visa. Recent increases to salary requirements to qualify for the visa have created barriers for many startups, especially those who are unable to offer high wages at the earliest stages. Instead, stock options give early stage employees a portion of ownership in the company, entitling them to a share of the company's value and potential future profit.

Other visas could be expanded to make use of their full potential. The Youth Mobility Scheme – which enables young people to live and work in the UK for a fixed period – could expand to include the United States, EU member states and the European Economic Area, and other countries as we negotiate future trade deals, strengthening ties with our closest trading partners whilst also enabling young Brits to take advantage of the scheme.

The High Potential Individual visa could similarly be expanded. It was designed to enable graduates from top universities in the world to come to the UK. However, in practice the visa only accepts graduates from a tiny set of universities that rank the highest overall. This ignores specialist education institutions and universities that excel in a tech-related field. As a result, many prestigious universities like the Indian Institutes of Technology or top European business schools such as INSEAD are not on the approved list. Such narrow criteria means we are missing out on top tech talent – especially in AI and emerging technologies – and this should be changed.

When it comes to visas that were created specifically for startups, founders can struggle to differentiate between them and determine their eligibility. The lack of clarity around the endorsement process and its timeline is a particular frustration. For the Innovator Founder visa, for example, different endorsing bodies have different requirements, including some that require aspiring visa holders to purchase their services. This landscape could be made clearer and more efficient for founders.

"Home to global AI giants like Google Deepmind and Wayve, the UK is already a critical player in the next generation of computing. Maintaining and building on this lead will be essential to ensuring that we continue to enjoy the geo-political and financial benefits that come with it.

Key to this challenge will be investing in education and skills to foster local talent, remaining open and welcoming to the best of global talent, providing access to finance from spin-out to start-up and scale-up and ensuring our regulatory frameworks tread that careful line between safeguarding society and allowing for innovation."

Suranga Chandratillake, Partner at Balderton

Fix the Implementation Mess at the Home Office

Improving visa rules is only part of the equation though. Right now the practical administration of many visas is simply not good enough – with founders regularly facing delays, lost paperwork and unclear communication.

Like other aspects of the Home Office's administration (see pretty much anything…) this is simply not good enough. At present, the system is actively difficult on purpose, almost as a stealth tool for deterring migration. This doesn't work and only harms the UK. There's a clear role for technology in helping fix the system and clear backlogs in this and other areas – but there's also the need for a will to actually make the system easy and simple to navigate in a way that it hasn't been.

Stop Using Visas as a Cash Cow

The UK is unusual in that it charges substantially more in visa fees than it costs to administer the system. In some cases the Home Office makes thousands of pounds of profit on applications – even charging applicants for contacting the Home Office to check on the status of their visas.

Analysis from the Royal Society shows that upfront immigration costs in the UK are six to eight times higher on average than 17 other leading science nations, including the US, France and Israel. This gives competitor science nations a competitive advantage over the UK when it comes to talent, and risks slowing growth and innovation as a result. It also gives established companies a leg up over tech startups, who have less capacity to pay high fees.

The Home Office could also better align strategy with other departments, including the Department for Education and Department for Business and Trade, who have both run pilot programmes for grants to cover the cost of visas (for teachers and leaders in Artificial Intelligence, respectively) and leverage to ensure those that need help to get applications done get it.

> “As an immigrant founder of the company that achieved the UK’s largest tech listing, I understand deeply why immigration is the life-blood of a successful tech sector. However, we are in danger of losing the highly motivated, deeply ambitious founders and talent right now by making it so difficult to settle here.
>
> Four in 10 of the UK’s top 100 companies were started by immigrants and if we are to reap the full growth potential of UK tech we urgently need policies that make it painless for the most ambitious founders and best talent to come and succeed here.”
>
> **Taavet Hinrikus, Partner at Plural and co-founder and former CEO/Chairman at Wise**

Design and Implement a Skills Strategy Fit For the 21st Century

The tech sector urgently needs workers, but too many school leavers and university graduates lack the skills employers need. Upskilling or reskilling into the tech sector later in life can too often be expensive and difficult. And, as AI technologies look set to dramatically rescape our economy, it is critical that we urgently improve access to adult education and reskilling. The next government must prioritise a new strategy on skills.

Our education system is not best structured to prepare students for fast-changing tech jobs. We need to expand access to proven initiatives that do help, such as high quality intensive coding-bootcamps. Enabling people to transfer into well-paying jobs in the tech industry from other walks of life is also important for diversity in the sector.

Other schemes that contribute to skills can also be made more effective. Reforming the Apprenticeship Levy in a way that encourages meaningful investment in skills development is critical. Additionally, existing funding can be used more effectively and efficiently, like the Immigration Skills Charge that is attached to the Skilled Worker Visa. Companies pay thousands in fees that are meant to go towards supporting domestic skills development. However this money is not effectively tracked or earmarked for any specific programme.

“No party will be able to achieve meaningful economic growth or public service reform without increasing the pace of technology adoption.

AI is an inflection point and gives the U.K. an opportunity to find our next growth engine, but only if we give our tech sector the backing it needs and embed the right skills across our economy.

This manifesto is a blueprint to do exactly that.”

Euan Blair, Founder and CEO of Multiverse

3. Access to Funding

Introduction

Building great tech businesses requires money – lots of it.

We've done a hell of a job building an environment that is providing it. As is often repeated – the UK draws the third most venture capital investment in the world after the US and China. In the single month of May 2024, the amount raised in equity and debt by British tech companies (just over £5bn) is more than the whole year of 2014. The UK's Venture Capital ecosystem runs laps around its European competitors. We may have left the EU – but when it comes to VC, the UK and particularly London remains at the heart of European tech.

However, the number and value of equity deals for UK startups has declined since the record year in 2021. There were nearly a third fewer deals in 2023 compared to 2021, and the value of the deals was down by a half. Companies are feeling it.

This isn't the only challenge for getting cash to the right places. R&D tax credits are a complete mess. Founders needing scaleup capital still have to go abroad because UK pension funds aren't yet deploying into venture. We had a great share options scheme but others are catching up. And of course – it's still too hard to raise if you're a woman, or working-class, or an ethnic minority, or if you're outside of London and the South East.

All these and more will be the challenges for the next Government, but the biggest is protecting the moat – ensuring that Britain remains the investment capital of Europe and that much needed cash keeps flowing to those building Britain's future economy.

Fix R&D Tax Credits

R&D Tax Credits are a lifeblood for tech startups. Our research has shown that whilst firms leverage them throughout their journey – they are particularly valuable at early stage, with over two thirds of the startups we surveyed saying they were critical to their survival. But over the last two years, the credit has become a mess. It is now less generous, and the well-intentioned process of simplifying the scheme is incomplete and somewhat incoherent. In addition, HMRC is failing to administer the scheme at all well, and is asking for millions of credits back due to concerns about error and fraud.

The next government has a chance to fix this mess and fix the credit. This would start by changing the policy to ensure that due diligence is completed before funds are granted. This would mean adding time to applications, but would eliminate the risk of funds being claimed back. We also need a radical overhaul of HMRC's processes and expertise. Finally, we need to assess the generosity of the scheme, ensuring that it is targeted at the right firms, and matches the UK's ambitions to be a world leader in R&D.

"I've helped build four startups, including Monzo, all of which have been accelerated by R&D tax credits. I really believe they have given UK firms a huge competitive edge until now. Cherrypick is one of many companies caught up in the HMRC R&D clawback mess.

HMRC are now trying to claw back old credits even though we've gone to considerable lengths to prove we were 100% compliant with their guidelines. It's taking up so much time it's preventing us from making further technological advances that would benefit society and the UK taxpayer. I know many other founders in the same spot - the whole process needs to be revamped urgently."

Tom Foster-Carter, Founder of Cherrypick

Defending UK Tech's Venture Capital Moat

The UK has the foremost venture capital ecosystem in Europe. Not only have we built a deep bench of domestic and European capital – but the UK is now the first port of call for top tier US VCs setting up offices outside of the States – and the more HQs are here the more capital is deployed in the UK.

Policy has played a role – and it's vital as we see proposals to reform the regime around VC that protect investment incentives such as EIS, SEIS and VCTs that have been so crucial to building it up. But more broadly, the UK's VC ecosystem is seeing fresh challenges. The changing landscape may see funds collapsing and exits (the main ways investors can plough funding into new startups) threatened across the board. But if our VC ecosystem falters so will our startups.

It also means shaping a tax environment that will acknowledge the role Venture Capital plays in innovation, makes it easier to set up new funds, creates a British Business Bank that is easier to work with than ever and broadens the base of private LPs.

> "To take on the big challenges we face in the UK today, we need to think creatively and transform products, sectors, and our society – the UK is home to the startups that can power this transformation.
>
> But startups need supportive policy, and Startup Coalition's blueprint should be where the next government looks first if we want to be home to the jobs of the future."
>
> **Buffy Price, Co-Founder of Carbon Re**

Supercharge Pension Investment in the UK Tech Sector

The remarkable success of the UK's startup ecosystem has so far financially benefited more teachers in Ontario than British retirees. That's a tragedy that hits not only those pensioners but the startups who miss out on the deep pools of capital available in the City of London's institutional investors. Risk aversion and regulatory blockers have led UK pension funds to predominantly invest in what are perceived to be "safer" assets – leading them to miss out on the gains of UK tech.

A cocktail of barriers conspire to limit the number of investors who can benefit from the proceeds of high-tech growth. Firstly, a fundamental culture of risk-aversion: small-c' conservative UK pension funds don't really understand how a VC fund works. Secondly, the pension fund market is fragmented, undermining the ability of individual funds to invest optimally and in a sophisticated way. Finally, regulatory barriers.

Progress has been made – and the next government will need to continue the inflight work on the Mansion House reforms to address the interwoven issues of culture, fragmentation and regulatory blockers.

"The UK is the leading tech ecosystem in Europe, boasting a stable of revenue-generating thoroughbreds (118 companies exceeding revenues of $100m annually).

But these potential champions face a funding hurdle – a $30bn gap at the scale up stage compared to their Bay Area counterparts, which is holding them back.

Closing this gap will enable us to harness a massive economic opportunity to accelerate this country's growth and prosperity."

Catherine Lenson, COO of Phoenix Court Group

Upgrade Share Options Schemes

Startups are risky – and the rewards should reflect this. In order to compete with the high salaries that established businesses can pay, startups offer valuable workers like data scientists and software engineers the possibility of an even bigger payout down the line, through equity.

To help startups attract talent, the Enterprise Management Incentive (EMI) was introduced in 2000. EMI has undoubtedly contributed to making the UK the leading European tech hub, but its criteria have failed to keep pace with the sector as it's grown over the last two decades. Meanwhile, our competitors on the continent, inspired by our success, have concocted their own schemes that are arguably more attractive. We've seen tweaks elsewhere in the options regime – but in order to truly share the success of companies with employees we need to go further.

To start with, we can regain our lead in having the most competitive share options incentives in Europe, but we need to upgrade EMI. This starts by the next government increasing the current limits of EMI.

> "Five years ago, when we started campaigning to improve rules that govern stock options across Europe and launched the Not Optional policy initiative, UK's advantageous EMI scheme had very few competitors. Since then, many European countries including France, Germany, Sweden, Ireland, Spain and the Netherlands all introduced favourable policies, making it easier for employees to own a stake in the businesses they are helping to build.
>
> "We encourage the next government to give startups and their employees the certainty that the existing schemes and the rules that govern them are here to stay – and go further. The UK has become the most attractive destination for investment and startup creation because of its ability to attract and retain talent domestically, and internationally. In this increasingly competitive environment, it can't stand still."
>
> **Hannah Seal, Partner at Index Ventures**

Ensure Any Founder From Any Background, Gender, Race and Place in the UK Can Access the Capital and Support They Need

The UK's tech ecosystem has made incredible progress in the last decade – but that progress is not even. The data remains stark. It's way, way harder to raise if you're a woman, or working-class, or an ethnic minority, or if you're outside of London and the South East. For a growing ecosystem – this simply isn't good enough.

As every underrepresented and underfunded founder we've spoken to for this work told us: it's no longer about warm words, it's about cold hard cash. So we need to see direct proposals from a reshaped British Business Bank that address the gaps. And we need clearer commitments to the many excellent existing ideas developed by the communities themselves to address their challenges.

Groups that do get funding do not have monopoly on good ideas – just an inside track. As the tech ecosystem matures this disparity is ever more glaring. The next government should make a concerted effort to erode these inequities, and seek to build a landscape in which the only decider on whether to back a founder is the quality of their innovation. We stand ready to support them in doing so.

> "Ensuring funding can spread to each and every corner of the UK as well as the underrepresented founders that aren't getting enough of it now is the difference between where we are today and where we want to be.
>
> We need a truly national plan to deliver the funding and support founders need to scale their businesses."
>
> **Katie Gallagher, Managing Director of Manchester Digital**

4. Startup-Friendly Regulation

Introduction

Startups, by their very nature, are created to disrupt in ways and at speeds that every other type of business is unable, unwilling or strongly disincentivised from doing. That makes them rocket fuel for innovation across the entire economy – but it can also make them a highly effective litmus test for rules. A regulatory framework that does not support startups will end up slowing or severely curtailing progress by causing the pipeline of startups to thin.

Startups are unlike any other type of business – when regulators ignore this, startups suffer. Most founders do not have the time or resources to become regulatory experts, nor do they have the cash to employ huge compliance teams. Startups need to be able to navigate a regulatory environment that has the ease, clarity, and flexibility to enable them to disrupt and scale safely. But a lack of clarity from regulators, insufficient technical expertise and an unwillingness to adapt the way they work are all common complaints.

Historically startups have been mostly confined to software, but as the ecosystem develops and the ability for tech to disrupt previously analogue industries deepens, the startup ecosystem will have to deal with more regulators – who often have not traditionally had much to do with tech. This could be a make or break moment for startup development in the UK. Take AI: beyond headline AI regulation, we will need effective regulation across verticals that have not traditionally been touched by startup innovation.

AI is also likely to be the most prominent new tech regulation created in the next decade. Here the UK's status as an AI leader will certainly be defined by the success – or otherwise – of its startups. This means AI regulation needs to work for startups. AI is and should be one of the great case studies of how pro-growth innovation starts with the small, not the mighty. The next Government faces a make-or-break moment on AI – get it wrong and we could squander our influence on economy-changing technology.

Fundamentally, startups need good regulation – the next Government needs to ensure they get it.

> "We're looking to do things differently at HIVED, and that's exactly what Startup Coalition's manifesto is all about.
>
> To ensure we drive forward innovation and accelerate decarbonisation, it's vital that voices like this are heard by whoever wins on 4th July."
>
> **Murvah Iqbal, Founder of HIVED**

Equip Regulators to Support Innovators

The UK needs to be open to pioneering technologies that improve lives, promote growth and shift our power on the global stage. And much of this comes down to shifting regulators to proactively support innovators.

Startups are typically stretched on capacity and resources, which can make it difficult for them to navigate a convoluted regulatory landscape. We regularly hear founders are concerned about how to approach a regulator or are otherwise bogged down by regulators taking what seems like an era to make a decision, sending confusing or evasive recommendations, or repeatedly asking for unnecessary or unrelated information.

When regulators create roadblocks (whether by fault or design), this can have an outsized impact on startups. We can see this clearly in the approach to technologies that are likely to have a global impact — such as cultivated meat and decentralised assets — but have struggled to bring their innovations to market because of lack of regulatory understanding or lack of regulatory capacity.

This is especially the case where we see the pace of innovation rapidly increasing, in particular at the forefront of innovation. New paradigms in spaces like AI, robotics, decentralisation and biotechnology are stretching the very fundamentals that policy is based on. It's therefore ever more critical to get the balance right and ensure we are prepared.

We need to better equip regulators or we risk over-regulating or improperly regulating startups by default.

> "Startup Coalition is a champion for startups and scaleups across the economy, and we agree with their focus on ensuring regulators don't block innovation, but supercharge it.
>
> This starts with ensuring a thriving startup ecosystem, and regulators that are set up to succeed."
>
> **Ed Steele, Co-Founder of Hoxton Farms**

Get the UK's Approach to AI Right

AI is likely to define the next wave of innovation, the UK has an opportunity to ride this wave and transform our economy and society.

Some of the building blocks are in place: great academic institutions, a strong venture capital community, many existing AI innovators and, thus far, a balanced and pragmatic approach to regulation.

Harnessing its potential and getting our approach to AI right will have to factor in many different steps along the way, but all of them need to pull towards ensuring the UK is the best market to train and build models and the best place to build on top of models.

We need to build on these foundations of our AI ecosystem and address its core challenges going forward. If we don't remedy issues like attracting top end AI talent, creating an equitable outcome for copyright, providing access to cutting-edge cloud computing now and in the future, and accessing critical but hard-to-procure data sets, we've stalled our carefully constructed racecar before we've even set off.

Beyond getting the tried-and-true basics right, policymakers must be aware that Britain winning in AI won't just be about getting "AI" policy right. The changes that this transformational technology can bring will mean a wider conversation with society and Government. It's important to understand and balance the needs of innovators in these discussions.

This broadening of the conversation will also mean there is scope for more inventive help. Government traditionally has not been very adept at delving into the market and bringing back the best working solutions for its public services. But AI looks set to upend the art of the possible and affordable that the Government should better work with companies to provide solutions to public services, starting with understanding where AI opportunities lie.

Finally we also need to shift our focus towards wider AI adoption. The UK has always been a successful early adopter of new technology, with our AI ecosystem making positive breakthroughs that tackle big problems like cancer treatment, climate change, and vehicle safety. We need to make sure these solutions are spread more effectively. If we don't better support our AI founders breaking the mould in every industry, make it easier for them to procure into our public services, and push them towards a launchpad for scaling safely, we won't benefit from our innovators and AI breakthroughs as much as another nation that's willing to adopt their tech (or even help their startups move) will.

"Almost everything we value today is possible because of technological progress – so it's vital we get our approach to AI right.

We need a careful balance and thoughtful action – and startup innovation to thrive."

Matt Clifford CBE, Co-founder of Entrepreneur First & Chair of ARIA

Make Competition Policy Work for Startups

Startups thrive in competitive markets. Done well, competition policy can be a powerful tool to create the best environment possible for them. But alongside positive progress in recent years, the ecosystem has also had to grapple with some seemingly difficult to understand decisions like lengthy investigation into Amazon's minority investment into Deliveroo or blocking of the merger between Seedrs and Crowdcube.

Startups want a pro-competitive regime that proactively supports innovation – but this has to reflect the complicated symbiotic relationship between the startup world and corporate "big tech". That means understanding the fundamental elements of a successful startup ecosystem, such as M&A among challengers who are building competitors to large incumbents in huge markets, or exits that recycle capital to be redeployed into the ecosystem. It also requires a more thoughtful view of emerging technologies – and the way tech markets are changing, such as uncovering and considering what good partnerships look like so you can block the bad. Rather than (in the case of recent AI work) calling in siloed partnerships seemingly randomly before walking it back.

Above all it means creating a pragmatic and innovative regulatory environment that recognises that competition amongst technology-led businesses often plays out in different, and more complex ways than it does in the traditional economy.

5. Accelerating Innovation

Introduction

The UK has a stunning record on startup innovation, but there are still significant barriers clogging up innovation.

Unblock these and we can accelerate new waves of startups. But today far too many of these barriers are erected by the very institutions that should be supporting success – whether its public bodies that fund research, universities that restrict spinout growth or procurement officials that keep buying legacy technology.

These barriers have continuously built up to become an institutional fatberg that prevents UK innovation.

And the irony is this should be low hanging fruit. Research on how to support spinouts exists, tech to be procured exists and most founders agree on what would make public funding for R&D work better for them. When it comes to accelerating innovation, we often know what the problem is and how to solve it – now the next Government needs to implement it.

> "The opportunity of the low-carbon economy is huge, and it will be powered by startups. If we want the UK to be home to the firms and markets of the future, we need the next Government to be listening to Startup Coalition."
>
> **Allister Furey, Co-Founder of Sylvera**

Make Public Funding Actually Work for Startups

Each year the UK's R&D grant umbrella, UK Research & Innovation (UKRI), invests billions through different programmes and councils. For many startups, money from the likes of InnovateUK is a vital injection that can help them get started, test prototypes or prove an idea has product market fit. For capital intensive projects such as Space Tech or Climate Tech this can be more than a lifeline, it can be the only game in town in the earliest stages. That means the challenges with the system are a genuine barrier to innovation.

There are bright spots – the establishment of ARIA has given much needed focus to more moonshot ideas that would not traditionally have been well served.But we need more schemes that focus on startup innovation.

Right now founders too often have to navigate byzantine bid bureaucracy – wasting precious time and resources. Many also regularly tell us they feel forced to spend thousands on bid writers and grant consultants to have a chance at navigating the process. And if they get funding, the transfer of this money can be endlessly delayed, putting the viability of startups at risk.

Every pound of public money ploughed into R&D funding should work hard – but it doesn't always today. We need reform to make a system more attuned to the needs of founders and better address what new and growing sectors are crying out for.

Fix Procurement and Get Innovation to the Public

Startups are lining up to demonstrate the amazing services they can offer the British public, but progress to transform public services is stifled by the Government's struggles to procure from innovative firms.

In many cases, public procurement of technology means needlessly reinventing what is already on the market with a few extra unnecessary features. It also often requires ongoing upkeep and uses tech that quickly falls into obsolescence: the UK Government spends just over £2bn a year patching legacy IT and often has no choice but to approve further spending on bad systems with expensive consultants to service it all because they are trapped in a cost sink.

Procurement must be an effective tool for driving efficiencies both through cost and innovation. Yet, it is clear that this is not usually the case. Our procurement machine is not designed for speed, quality and cost-efficiency – all the things startups need out of the system.

We regularly hear from startups that procurement processes are too slow, overly bureaucratic, costly and confusing. Startups also regularly point to their struggle to find out information about a procurement process or how to get onto a procurement framework. We need to build wider public sector capacity to buy technology, enable procurement processes to be more competitive, make effective pre-market engagement mandatory – and ensure procurement processes are faster across the board.

> "The Government spends billions on IT procurement – often legacy, expensive systems instead of highly cost effective innovative solutions provided by startups. And because the UK doesn't have rigorous gender & minority procurement targets like elsewhere in the world, it's even harder for female founders.
>
> So instead of being drowned by huge teams, months of grilling and complex testing to procure with the government or with large enterprises we need to fix procurement to make sure founders can get revenue not just equity investment."
>
> **Emma Sinclair, Founder of Enterprise Alumni**

Deliver on Spinouts

World-renowned research is conducted at UK universities – but we are not good at commercialising it. There's too much variety in the ways UK universities approach the process of "spinning out" a startup and for most of them this could be improved. Projects like spinout.fyi (an open database listing university policies from around the world) have demonstrated just how many UK universities fall short.

At best, the process is supportive while not taking punitive amounts of equity. At worst, founders are stuck in a purgatory of negotiating terms rather than getting to market and set back by difficult cap tables from day one. This disincentivizes further investment and effectively strangles the company before it has had a chance. Terms should be aimed at encouraging follow-on investment as well as being more transparent.

The most recent Independent Review concluded in November 2023 with the then Government accepting all its recommendations. The next government must bring the parties to the table and actually deliver on both the Review's practical conclusions and its original vision: making sure that founders can spinout world-beating companies from British academic institutions in a fair and open manner.

> "UK universities have some of the world's best research labs for science and technology but a poor track record in commercialising their output. This is the product of a series of unforced errors.
>
> Ensuring universities go beyond warm words and live up to their commitments on spinout reform should be a priority for any government that's serious about science and technology leadership."
>
> **Nathan Benaich, Founder and General Partner of Air Street Capital**

Get Smart Data Done

The success of open banking, fueling a £4bn UK fintech sector, both demonstrates what consumer innovation is possible with smart data – and how disparate and underused wider consumer data is across the economy. Open banking – which now enables over seven million consumers to gain a holistic view of their finances, apply for credit and pay securely, quickly and cheaply – is the tip of the iceberg of what could be possible if consumers could consent to securely share data in real-time.

An economy enabled by smart data unlocks potential innovation across multiple levels – newcomers can put consumers in the driving seat of their data, competing on customer interface as well as core products.

The UK was on the cusp of enabling smart data – but the DPDI Bill that would have enabled it was a casualty of the election, never making it through Parliament's wash up. It is vital that the next government forge a path for smart data and ensure that startup success is not sacrificed on the altar of electoral chaos.