

Buying British Innovation

Public Procurement's Crossroads Moment

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STARTUP
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Introduction

Best of British: A supplier of last resort for government

The Burnham administration has flown out of the traps with promises to fix procurement so that it champions firms that are creating jobs, skills and opportunities. This is welcome - today, enormous barriers and blockers persist at every stage of the government's buying process - with large, often foreign, suppliers gaining significant structural advantage over British startups and scaleups making this a worthwhile but difficult policy challenge to solve.

For British startups and scaleups this really is last chance saloon after successive administrations have delivered warm words but with little real action. The result is an ecosystem increasingly losing faith in the UK government as a buyer and champion. Our interviews with over 70 startups and venture investors highlight poor buyer interactions and misaligned incentives leading to a significant negative impact on individual companies and the sector as a whole.

Even measures like social value which purportedly are there to support British firms compete are backfiring.

More concerning still, we identify increasing examples of government's internal technology build strategy leading to direct and unnecessary conflict with successful startup businesses, placing local jobs and economic growth at risk.

In contrast, large tech firms seem to face few of these challenges, with high profile examples of traditional incumbents circumventing normal procurement practice increasingly in the news.

Britain's procurement policy now appears at a crossroads.

Continue to spend the overwhelming majority of its supply chain on large, often overseas suppliers - currently 84% of tech spend is allocated to just 150 firms, with 58% of this spend going to companies not based in the UK.

Or put its purchasing power behind the UK's world-class startup ecosystem, with the potential for more growth, more jobs, and better public services created by the country's most innovative companies.

Other countries are already making their decision. On 3 June, the European Commission announced its 'Tech Sovereignty Package' with significant legislative, regulatory and funding proposals; while the US has long been accustomed to using government spend to drive growth in home-grown technology.

If Britain gets left behind, examples of **potentially world-leading companies considering moving overseas** will only accelerate, particularly in key sectors such as healthcare and defence, where our firms should have a competitive edge.

Leaning into the UK's GovTech opportunity, by contrast, offers a huge opportunity.

GovTech: Britain's dormant superpower

The UK has a world-class startup ecosystem developing solutions at the cutting edge of AI and other technologies.

Backing startups to supply to government - referred to as GovTech - has immense benefits for the British economy and public services.

- *Powering Economic Growth* - Successful startups & scaleups play an outsized role in powering economic growth. British scaleups alone **account for 25% of the UK's turnover and 14% of employment, despite only making up 1% of the businesses**. Moving more of the government's £220bn supply chain to startup suppliers has the potential to catalyse more opportunity, more jobs and more tax receipts - a growth lever completely within the government's power to pull.

- *Better Public Services* - UK public services face some of their greatest challenges for a generation, with an ageing population, tighter budgets and an increasingly unstable geopolitical landscape. The UK startup ecosystem offers government powerful solutions harnessing cutting-edge technology. Leading GovTech solutions are already offering significant time and cost savings, with examples including: social care scaleup **Cera** estimated to have **saved the public sector £1bn to date** in preventing avoidable hospital admissions; and EdTech startup Arbor supporting **over 12,000 schools to save two hours per staff member per week** by reducing administrative burden.
- *Anchoring Leading Companies in the UK & Exporting Globally* - The challenges facing the UK public sector also exist overseas, and other governments are aware of the huge capability the British startup ecosystem offers. Having the British government as a cornerstone client anchors these fast-growing companies to the UK and provides the hallmark of quality to export to **GovTech's \$9.8 trillion global market**.

The time is now for immediate policy action to reset the government's relationship with its startup suppliers and to encourage our growing roster of current and future unicorns to consider the public sector as a key strategic market for growth.

This report is structured in two parts:

In Part 1: 'Buy vs Build', we examine the new and increasing problem of in-house government AI & tech teams unnecessarily competing with startup suppliers, cutting off opportunities for startup solutions before they even reach the market. This section includes five recommendations for government to adopt.

In Part 2: 'Assessing the Government Sales Cycle', we look at the challenges of supplying to government from the point of view of startups, dividing the sales journey into four stages: Identifying Stakeholders; Meeting with Buyers; Navigating Procurement; Scaling Solutions. At each stage we highlight the systematic barriers startups face and the structural advantages this provides larger, incumbent suppliers.

Part 1: Buy vs Build

Startups face consistent challenges in identifying and competing for government contracts, as we will explore in Part 2. However, fewer opportunities are coming to market with examples of in-house government builds becoming commonplace.

In researching this report, we encountered a growing number of startups who had seen current or potential contracts with government handed over to in-house tech teams with seemingly little evaluation of value for money or impact assessments taking place.

Worse still, in a number of cases there appears to have been a potential conflict of interest, with the stakeholders involved in deciding to bring projects in-house also then benefitting from overseeing the projects in question.

Speaking of this challenge, the startups affected expressed significant concern as to the viability of the government market going forward, for them and the ecosystem - with what one founder described as a 'chilling effect' lowering prospects of success across the sector as a whole.

To date, we have identified examples occurring across six separate government departments, with significant negative impacts for both specific startups and the wider venture ecosystems.

In each case, more expensive solutions were developed by government teams from scratch in place of already-built solutions from UK startups, placing jobs and growth at risk, with questionable use of public money.

Rather than individual actors operating against government guidance, the picture painted presents a systemic problem resulting from perverse incentive structures and lack of checks and balances on the spending of public money.

Below we present three case studies of startups that have lost current or potential government contracts to in-house solutions.

Case Study: **Basemap** and **DfT**'s Connectivity Tool

Basemap is a transport-tech startup that helps public bodies track and analyse their transport data. Historically they have supplied their TRACC tool - a transport planning platform for travel time analysis - to the majority of local councils in the UK.

In 2025, the Department for Transport announced that they intended to build the 'Connectivity Tool', a 'tool to help built environment professionals to understand how sustainably located a place is and the transport interventions needed to support it.' Fearing that this might be a competitive solution to their offer, Basemap reached out to DfT on numerous occasions only to be informed that DfT did not believe the Tool would be a competitor.

This did not prove to be the case. Following DfT issuing the Tool later that year free of charge, a number of councils discontinued their licence with Basemap stating specifically that they were switching to DfT's solution. This trend accelerated when DfT issued a note to councils mandating that they use the Connectivity Tool. Although many customers have stayed with Basemap stating that its features and user experience are more effective and user-friendly than the DfT's alternative, they have lost several council clients to date.

Whereas Basemap had an off-the-shelf solution available to council buyers, DfT needed to build the Connectivity Tool from scratch. The initial contract to build the Connectivity Tool was issued for up to £1m in value. This has been followed by a subsequent £4.2m contract issued to Version 1 to maintain and further develop the contract for the next 2-years. We presume there will also be significant hosting costs on top of this price as well.

Basemap's Chief Executive remarked that attempts to gain clarity from DfT did not appear to demonstrate due transparency and impartiality. Many of the responses issued by DfT to Basemap's enquiries were received at the latest possible date to comply with their terms of service and contained limited rationale for their decision-making. The decision as to whether to build the Connectivity Tool sat with DfT's Local Transport, Planning and Housing Team - the same team that would be building the Tool, a pattern we saw repeated across examples where 'build vs buy' challenges occurred.

As Basemap's founder put it, 'the department appeared to be marking their own homework' rather than engaging fully in the possibility of alternative or better options.

Case Study: Adzuna and DWP's Find a Job service

Adzuna has been the supplier to DWP's Find a Job service for the last eight years, having started their provision of the service in 2018. The service was well received at launch by Ministers and the broader industry, winning "Best Public Sector Project" at the National Technology Awards in 2019. It has since been one of the top performing DWP services, with regular feature improvements, high service uptime and minimal cases of fraud (which plagued the previous platform run by US supplier **Monster.com**).

Adzuna were informed last year that DWP would not be renewing their contract, intimating there was a high probability that DWP would look to develop its own solution in-house.

Following this information, Adzuna attempted to enquire as to how this decision had been taken as, on the surface, the feedback they had received regarding their delivery had been consistently positive - a view expressed publicly by DWP during a market engagement event earlier in 2025. Despite attempting to reach numerous

stakeholders within DWP and publishing a white paper “Unlocking Britain’s Talent” on how AI tools could help 500,000 people into work and save £2.7 billion annually, the only members of the department they were able to appeal to were their immediate operational contact for the contract and the Digital Lead for DWP’s Jobs and Career Service - who would also be responsible for developing the solution should the service move to be built internally.

Adzuna also noted that DWP did not contact them as to the technical requirements of their current service delivery, which would be commonly asked for in advance of a market engagement process should the buyer be seriously considering another supplier. No business case or justification for the decision to build internally was provided or has been made public, other than providing DWP with “greater control, flexibility and accountability over a critical public service”.

Adzuna were at pains to emphasise that the decision to move on from their service, to another supplier or an internal option, was fully within the department’s right, as it would be for any customer. However, the lack of evident scrutiny of the use of public money in building a net new solution when off-the-shelf alternatives existed from UK scaleups appeared to contradict the government’s stated policy direction of encouraging SME involvement in government procurement. DWP has now announced an RFI to explore potential new solutions from the market, which Adzuna are fully engaged with, but little further information has been published. Adzuna also confirmed that the loss of the contract and associated revenue will have a significant impact on their business in the short to medium term.

Case Study: Beam and JusticeAI

Beam provides a series of digital and AI tools to support welfare services to reduce admin and support those most in need in our societies. They supply over 100 government bodies, both in the UK and overseas, and have been funded by the Mayor of London and some of the world’s top tech entrepreneurs.

Following an article promoting Beam in the Guardian, probation officers reached out to the company to explore the use of their Beam Notes tool within probation services. This led to a pilot contract with the Ministry of Justice (MoJ) to trial the solution in live environments. Beam offered the tool at significantly below standard rates in order to explore the opportunity and speed up procurement processes. MoJ paid Beam £13,000 while Beam's cost to customise technology, run a pilot and engage with MoJ over a period of 9 months was roughly 10 times that sum.

The pilot delivered exceptional results, including 70% improvement in time savings and 100% improvement in document quality. During the pilot, the MoJ's AI division - JusticeAI - requested a series of commercially sensitive documents from Beam. Subsequent to this, JusticeAI informed Beam that they intended to build their own version of the Notes tool, and that JusticeAI would hold the ultimate decision over which tool would be used by probation officers going forward - theirs or Beam's.

Beam attempted to lodge concerns with the MoJ's leadership and commercial team, but did not receive a meeting. They also attempted to issue FOI requests to understand the public interest case and process regarding JusticeAI's decision to build a solution from scratch with public funds rather than use one built by a UK startup and already proven within over 100 UK government bodies. The MoJ did not engage with the FOI, claiming that their response was fully exempted on sensitivity and commercial grounds.

These challenges continue up to this day, with just last month [MHCLG Digital releasing](#) 'Local Transcribe', an AI tool aimed to capture notes for frontline staff in local government - a solution that already exists on the market from a UK startup.

Across each of these case studies and others we have encountered, the individuals deciding whether to develop a solution in-house or use an external provider were the same individuals who would then oversee the building of a solution if that option were taken. They would also benefit from the additional budget and resources that came with that decision. In none of the cases does there appear to have been an

independent decision-maker or impact assessment process conducted to evaluate value for money.

Additionally in each case, a net new solution was built when a strong, pre-existing market alternative from a UK startup was available. This had an impact on growth: in each case the startup in question lost revenue and in some cases resulted in the loss of jobs.

One startup, who preferred not to be named, also indicated that business cases developed by their pilot projects were then used by an internal AI team to justify their own build projects, with policy leads feeling “compelled” to go with the internal option.

Another startup highlighted that they rarely, if ever, experienced these challenges engaging with public bodies in other nations, leading them to question assigning resources to the UK compared to other geographies.

It has been a stated objective of the current and previous governments to **bring more digital and data skills into the civil service**, which has precipitated a significant rise in the number of in-house departmental AI teams. Just earlier this year, the **government announced the new PoliceAI** unit to drive “the responsible development, piloting and scaling of artificial intelligence in policing.”

Greater technology capability in government is a positive development, however more digital and data specialists within the public sector should be geared towards making government a more effective buyer of technology through a better understanding of the unique benefits startup technology can provide - not a direct competitor.

There is perhaps no clearer example of this than the [No10 Innovation Fellows](#). Government has done an astounding job at bringing in world class technical talent into government. They should not be monopolised to create an end-to-end solution for one challenge. Instead, it would be a more productive and efficient use of their capabilities to engage them as internal consultants who can identify - alongside

officials - problems and map out a spec for a technological solution the market can provide.

Clearly more guidance and oversight should be applied as to which projects internal tech & AI teams take forward. Evident discrepancies exist in the levels of scrutiny and assessment applied to building technology internally compared to purchasing it, and the result could be significant waste of public money.

Recommendations

1. **Mandatory Market Impact Assessment** - Decisions to build technology internally can have profound negative impacts on existing markets and the health of the UK tech ecosystem, taking away a startup's ability to scale, create jobs and contribute to its local and the UK economy. Any department opting for a 'build' solution over a threshold of £1 million must be mandated to submit a Market Impact Assessment (MIA), which would include the impact of a 'build' decision on UK-based companies, potential private investment, and job creation. This would move procurement from a purely internal cost-benefit analysis to a strategic tool to provide better outcomes for the country more broadly. Inspiration can be taken from Building Digital UK's (BDUK) rolling open market review which ensures that BDUK has the most up to date information about suppliers' existing and planned solutions.
2. **Fair and Comprehensive Cost Estimation** - Internal projects are frequently perceived as lower cost because they utilise existing staff and give the perception of controlled spending. This often is a false economy, not only because of diverted resources but critically due to long-term maintenance debt. We suggest that build solutions must be costed alongside 'buy' options using a standardised Total Cost of Ownership (TCO) model. This should take into account impacts such as 'customer service' and long-term infrastructure maintenance, considering that critical legacy patching already costs the government in the region of £2.3 billion annually. This approach would

force government to move away from 'day one' accounting and toward a more realistic financial view, whilst enabling more realistic comparisons between an in-house build and off-the-shelf 'buy' solutions.

3. **TCO Guidelines for Engaging Market** - To prevent large-scale shadow engineering projects from bypassing market scrutiny, we propose a strict financial trigger for open competition. If the ultimate TCO of a build solution exceeds £250,000 per annum, a formal procurement must be triggered. This ensures that the state cannot spend significant sums on internal builds without first proving that the technology is superior to, or more cost-effective than, alternatives available in the open market.
4. **Appointment of an Independent Procurement Body** - Asking a department to choose between its own internal team and an external startup is a conflict of interest that fundamentally disadvantages founders. Self-governance cannot be relied on. When a build option is proposed alongside a buy option, there should be an independent body that can adjudicate the final decision ensuring internal teams are subject to the same rigorous evaluation and delivery standards as private suppliers. This could be the Procurement Innovation Champions government has already committed to in the 2025 Budget.
5. **Transparent Decision Trees** - There will be times when the government is best placed to build internally. Work is already underway in the government, led by i.AI and the Central Digital and Data Office (CDDO), to develop a 'decision tree' to guide build vs buy decision-making. This decision tree should be transparent and act as a template that can be completed and shared openly to ensure greater accountability for these decisions. Today there is no way for founders to challenge these decisions. Building transparent mechanisms to guide internal build decision-making not only provides a route to appeal but also - we hope - nudges government to behave in a fair and responsible manner.

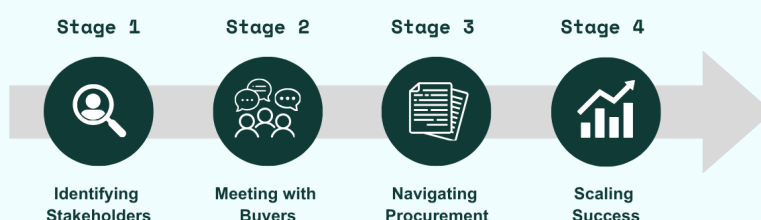
Part 2: Assessing the Government Sales Cycle

When thinking about the problems associated with government procurement, we have a tendency to focus on procurement processes themselves - complex tender notices, inscrutable bid documents, long waiting times.

In reality, the disadvantages that startups face in selling to government begin much earlier than tender exercises and end long after a contract is awarded.

In Part 2, we examine the process of selling to government from the startup perspective, looking at the barriers that exist across the entire sales cycle from end to end.

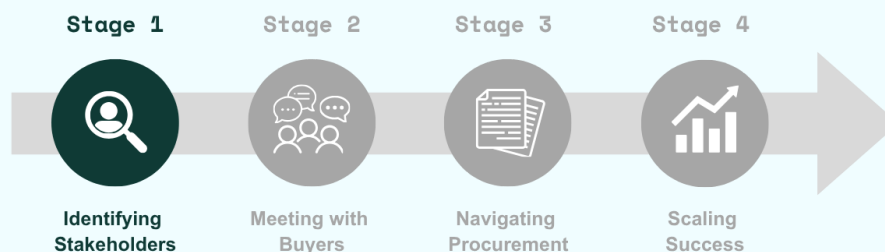
This is divided into four stages, with each highlighting the difference of experience encountered by startup suppliers compared to their larger or incumbent competitors:



For each stage, we have tried to convey the words and sentiments of startups themselves and to give life to not just the technical challenges involved, but the experience and emotions of those who encountered them.

We have also included recommendations of how the challenges raised could be addressed, and how the government can seize the opportunity that the UK's world-class startup ecosystem presents.

Stage 1: Identifying Stakeholders



Comparatively little is written about the challenges startups face in the first stage of the sales cycle - identifying buyers. However, for many startups, it can be one of the largest hurdles when looking to supply to government.

Speaking with founders, a large majority emphasised the difficulty of ‘getting in front of government buyers’, with the problem being highlighted across almost all areas of the public sector.

Describing attempts to engage central government departments, one founder described the process as ‘inscrutable’ and ‘impossible to navigate’ with no practical information on functional teams and their service owners available online.

Even startups with strong public sector track records described the challenge of engaging a new team or department as ‘immense’ and ‘opaque’ with a distinct lack of sign-posting.

Case Study: Engaging Taskforces

One founder of a legaltech company we spoke to described their attempts to engage a government taskforce.

The company was new to selling to government and had become interested in the opportunity due to the establishment of a new taskforce investigating the specific problem they had built their product to solve.

Upon reviewing the taskforce in more depth, however, they found there was no contact information or names of individuals associated with the unit available online.

After multiple attempts to contact the sponsoring department and individuals on LinkedIn who appeared as if they might be connected, they received no response. The founder described the process as “like being confronted by an impervious wall, with no obvious ways in or round”.

Many startups interviewed highlighted the differences in this regard to the private sector, even when engaging large corporate suppliers. One healthtech entrepreneur interviewed described the relative ease of engaging senior leaders in private healthcare providers in the US and UK, with many instances of ‘them coming to us’ to discuss partnership. In contrast, ‘getting a meeting with an NHS leader has been almost impossible’.

The differences aren’t just cultural. Interviewees highlighted that, unlike the private sector, civil servants are less likely to be on LinkedIn; or if they are on LinkedIn, they frequently do not share relevant information as to their role and responsibilities. This makes identifying relevant buyers significantly more challenging on many occasions.

In procurement technology company Stotles’ 2026 survey of government suppliers, ‘access to buyers early enough’ in the sales process was voted as the largest barrier facing suppliers looking to sell to government. Limited prior engagement with buyers was also voted the most common reason suppliers did not pursue tender opportunities with government and the joint most common reason suppliers felt they lost competitive tender processes.

Little detailed analysis actually exists as to the impact of pre-procurement engagement - or lack thereof - to procurement outcomes. Speaking with startups, however, they echoed the Stotles’ survey’s sentiment, with a large number of startups we spoke to emphasising that they felt they had ‘little hope’ of winning work

if they hadn't identified and spoken to the buyer pre-tender, with many stating they would rarely bid on contracts where they had not engaged the operational buyer significantly in advance of a procurement being launched.

Early pre-procurement engagement - particularly with innovative suppliers - should be a benefit to government buyers. As the Government Commercial Agency highlights, "early market engagement provides the foundation for a successful procurement by helping buyers [...] understand the particular technical requirements of the project, as well as supplier interest and capacity."

Not engaging widely with suppliers pre-procurement, however, can have the reverse effect, with technical requirements being framed in a way that prevents or discourages suppliers - particularly innovative suppliers - from bidding.

Founders interviewed described regular experiences of being 'written out' of procurement exercises due to their innovative approach - which differed to the incumbent status quo - not matching overly specific delivery requirements. As one startup put it, "we've built a car, but [...] every tender we see is asking for a fast horse".

Another startup described seeing "regular" tender notifications in their sector, but being "unable to bid" because the tender specifications did not match their solution. They "only had a chance" by identifying and engaging the buyer directly "well in advance" of any purchasing decision.

In contrast, large suppliers appear to face very few of these barriers.

Due to their larger, pre-existing supply chains, prime suppliers have a much higher likelihood of having delivered previous work with any given department than a startup, putting them closer to hand should buyers wish to conduct pre-market engagement, formally or informally.

Even when a large supplier is not an incumbent, they will likely have the resource to invest in larger sales and policy teams, or have years of CRM data to fall back on,

providing a much greater ability to navigate the government's opaque buyer landscape and secure meetings startups and new market entrants could not.

The impact of this advantage is evident in procurement data company Tussell's 2025 analysis of the market showing **84% of tech spend is allocated to just 150 firms** making up 2% of the total tech supplier market, with spend on SMEs falling in recent years.

Stotles' 2026 supplier survey also highlights the power of incumbency, with over half of respondents stating that they had gained over **60% of their annual revenue from public bodies they already worked with.**

Larger suppliers having greater networks or ability to navigate the public sector is not their fault - they are taking advantage of the resources they have to hand. However, it should not disadvantage startups to the degree that it does. The ability to participate fully in pre-market engagement - starting with identifying and getting in front of buyers - very likely has a significant impact on procurement outcomes, and government should be doing more to ensure it is a level playing field, regardless of company size.

Recommendations

1. **Navigational Organograms** - Departments should be instructed to develop and maintain up-to-date navigational organogram and 'prime supplier' maps to help smaller suppliers navigate complex departmental supply chains.
2. **Greater Data on Pre-Market Engagement** - Not enough data currently exists as to the extent or effects of pre-market engagement in procurement outcomes, leaving little opportunity for the scrutiny required to drive better practices. Procurement documentation should be required to state which specific suppliers have been engaged prior to a procurement being published, with data collected at a departmental level on who these suppliers are, how

often they are startups or SMEs, and how frequently they result in awards following competitive processes.

3. **Mitigate Revolving Doors** - Former civil servants of SCS1 and above should be required to recuse themselves from government procurement activity with their previous department for a period of 3 years following their departure.
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Stage 2: Meeting with Buyers



Once startups have identified and got in front of public sector buyers, they face further barriers in creating engagement in the value their solution can provide.

Startups interviewed frequently cited government buyers demonstrating outdated understandings of technology capability - ‘legacy cultural mindsets’ - particularly regarding bigger suppliers being ‘better’ or ‘safer’.

One healthtech startup described being asked multiple times in numerous meetings with NHS buyers “how large their company was”, with the implication that this was being used to assess their capability to deliver. A Commercial Director from another startup providing AI-enabled recruitment solutions described frequent ‘suspicion’ from their buyers - HR Directors - if they mentioned AI in their service delivery, resulting in them downplaying mention of the technology in marketing materials and pitches.

The close connection of these attitudes to risk aversion came through strongly in many of our conversations with startups. One GovTech founder recounted a conversation with a local government buyer, where the buyer stated that “they liked his product” but “would never buy it”. When asked why, the buyer stated: “If I choose KPMG and it fails, no one questions me. If I choose an unknown startup, everyone asks why”.

The role of risk aversion in stifling innovation in public procurement is well documented from sources such as the OECD to the government’s own guidance

regarding the Procurement Act 2023, with clear impact on public service productivity and local growth opportunities.

Further challenges exist in startups' attempts to translate meetings with government buyers into procurement exercises. **Re:State's report from 2025** highlighted a number of the structural incentives encouraging buyers to design procurement in ways that favored larger providers. These include the complexity and bureaucracy of running a procurement exercise prompting commercial leads to continually increase contract size. A quote from one civil servant describes:

"It takes [government] so long to go out to the market, that [officials] don't want to have to repeat the process. So you're encouraged to put more into the scope of the contract, and make it bigger, because you still only have to do the process once" (Re:State, p25)

Tellingly a quote from another civil servant described:

"Forcing departments to target SMEs feels a bit heavy-handed. But if we didn't, we'd end up giving everything to the big firms in massive contracts, because that's easier in the short-term for our teams." (Re:State, p28)

Our interviews with startups illustrated the consequences of these incentives. Founders described frequently encountering 'odd' or 'bizarre' requirements in procurement exercises that they would not commonly encounter in similar private sector engagements.

Multiple startups approached Startup Coalition following the release of the recent NHS SBS [Healthcare AI Solutions](#) framework identifying illogical terms. Framework Lots specifically relating to back office administration and workforce productivity required applicants to demonstrate specific patient data standards. This despite the fact that solutions for these Lots had no interaction with patients or their data, engaging solely with NHS staff. The startups in question did not apply to the framework as a result.

In a separate example, one startup described having conducted extensive pre-market engagement with a buyer, only to then find that a number of additional ‘consulting services’ requirements had been inserted into the tender, which they weren’t well suited to deliver. Reflecting on the tender - which they subsequently lost - the startup’s Marketing Director described the changes as a ‘tell-tale’ sign that a larger tech services company had “got in the department’s ear [and] pushed for services we couldn’t deliver”.

Many founders we engaged described the government displaying a “tech-services” or “consulting-services as default” mentality in engaging tech suppliers, with public sector buyers presuming that adding new features or requirements to a delivery would be easy - or even beneficial - for startups to take on, presuming costs would be structured in day rates and more features would just mean more days charged.

One Commercial Director articulated how they felt they had to ‘act like consultancies’ in front of government buyers and pretend they were developing a bespoke service from scratch, because that was what buyers were ‘used to from [their larger] competitors’.

The cultural attitudes and mentality observed fly in the face of the direction of modern software development in the last 30 years. The immense value of modern technology lies in its scalability: the potential for a relatively small group of individuals to provide value to an increasingly large group of users, without the need to scale resources at the same rate.

Today, companies of less than ten employees are able to provide user-friendly, powerful services to millions of users in sensitive or highly regulated environments, with AI only accelerating this trend.

In contrast, the UK government has many examples of large consulting or tech services-led digital programmes with huge development teams, that have been significantly delayed and overspent. The **National Audit Office’s recent report** into the ‘Government’s approach to technology suppliers’ identified almost £3.3bn in

overspend and 29 years of delay from five major digital programmes alone.

Not all startups are great suppliers, and not all major projects and tech service provision lead to overspend. However, the legacy mentality of risk aversion, ‘bigger is better’ and ‘consulting services-as-default’ are at odds with the reality of the modern technology market. They also disadvantage startup suppliers and overlook the immense value they can provide to the public sector.

Recommendations

1. **Procurement Innovation Champions** - The 2025 Autumn Budget announced each department would appoint ‘Procurement Innovation Champions’ responsible for defining and delivering its innovation priorities through procurement. This was a welcome step forward and could provide a valuable lever for driving culture change and better practice within departments. However, written Parliamentary Questions recommended by Startup Coalition indicate that these roles have still yet to be appointed, halting potential progress. The importance of these positions for accountability on innovation targets should be re-emphasised by the new administration, with a deadline set for all departments to publicly announce their nominated individual.
2. **Startup & Scaleup Crown Representative** - Government should appoint a specific ‘Startup & Scaleup Crown Representative’ alongside the current SME Crown Representative. Startups face different barriers to the wider SME community in navigating government, and should be the focus of particular attention given the innovation and growth potential they offer.
3. **Deter Contract ‘Bloating’** - To deter the bloating of contracts to shapes and sizes less suited to startups, we would endorse Re:States recommendations from their 2025 report that:

- No contract for services (such as contracts billed on a 'time and materials' basis through services-based frameworks) over £100 million in value; and
 - No contracts let for more than 24 months in length for products or services for which there exists a clear competitive market (such as through a pre-existing framework).
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Stage 3: Navigating Procurement



The Procurement Act 2023 has taken welcome steps to address many of the challenges previously encountered by startups, including: encouraging greater use of Preliminary Market Engagement and pipeline notices as well as open frameworks; allowing for greater flexibility in procurement design; and issuing wider guidance on considering SMEs when designing procurement exercises.

Some of these capabilities are still in the process of becoming normal practice for commercial teams - noticeably very few startups we interviewed remarked on significant changes to their experience of procurement since the publishing of the Act.

Regardless of this uptake, however, certain challenges still remain unsolved for startups following the Act.

Speaking to founders, Social Value questions appeared as a particular pain point. **Re:State's 'Procure and Simple' report** highlights a number of challenges associated with the current application of social value criteria for startups & SMEs.

The current framework forces high-growth startups to jump through bureaucratic hoops. By demanding arbitrary commitments to formal corporate social responsibility (CSR) tick-boxes, procurement criteria unfairly penalise emerging technology companies in favour of legacy incumbents equipped with dedicated compliance teams.

This approach misses a fundamental economic reality: the social value of a startup or scaleup is inherent in their existence.

Startups generate systemic value not through performative policy documents, but through structural wealth creation and innovation:

- **Democratising Wealth Creation:** Unlike mature corporations that concentrate equity at the executive level, startups routinely distribute stock options across their entire workforce. This model gives early hires genuine skin in the game, turning regional wage earners into wealth holders.
- **The Innovation Flywheel:** Early-stage companies serve as the UK's primary incubators for entrepreneurial talent. Successful tech founders have often previously served as key employees or executives at earlier startups, with successful scaleups often creating 'entrepreneurial talent factories'. SpaceX alumni, for example, are believed to have founded over 150 startups. This recycling of talent, experience, and capital creates a self-sustaining engine of technological progress.
- **Regional Economic Growth:** High-growth startups are powerful engines of job creation outside London. From deep-tech spinouts in the Midlands to regional hubs in Manchester, Leeds, and Scotland, serial entrepreneurs build businesses and high-skilled jobs in postcodes far flung from the capital. Data from Beauhurst, commissioned by UK Tech Week and Startup Coalition, found more than 83,000 active tech companies have 3.7 million tech employees across the UK. In all, 54,000 of these firms are based outside London.

Evaluating early-stage ventures against carbon reporting frameworks or volunteer day provisions designed for multinationals creates a structural disadvantage. A five-person AI or biotech startup lacks the administrative capacity to draft 50 page sustainability strategies, yet its core technology may ultimately do far more to solve systemic industrial challenges than an incumbent's offset scheme.

Exempting early-stage startups, or automatically awarding them full credit under social value weighting, would modernise public sector buying. By removing these compliance barriers, the UK government can leverage its immense purchasing power to directly seed domestic innovation, foster regional job growth, and build a more resilient economic foundation. [It is good that moves are being made in this direction.](#)

However, the devil will be in the detail and it will be critical that metrics around job creation, skills development and 'opportunities' capture the differences between high growth startups and more traditional SMEs.

Case Study: The Confusing Application of Social Value

One HR startup we interviewed described a competitive tender process for a £15,000 contract with a local government body. The procurement included a social value question asking them to demonstrate how they would “support individuals who face barriers to employment opportunities in the North West through the delivery of the contract”.

As a provider of a digital solution with no employees in the North West, the startup asked for clarification from the buyer as to what this might include and whether the core delivery of the contract, which included recruitment, could be used in the response.

The buyer responded that the core delivery of the contract could not be used, and that any response was acceptable but typical responses might include the provision of apprenticeship opportunities or training workshops for local communities.

Being a small company with a lean operating model, the startup didn't have any of these initiatives currently in place and calculated the cost of organising workshops or apprenticeships for this contract from scratch to be in the low thousands of pounds, which would significantly eat into the small profit margins of the £15,000 contract. The startup described closely considering not bidding on the opportunity due to the Social Value question, which they characterized as “disproportionate” to the value of the contract and the size of their resources compared to a larger supplier.

A Director at the startup also described later asking a larger competitor how they answered Social Value questions, to which they learnt that the competitor had “a specialist bid team who submitted template responses” with little interaction with the actual delivery team - only furthering the sense of disadvantage the startup felt.

Framework ‘fatigue’ was also highlighted as a barrier by interviewees, with the time invested to apply to frameworks often characterised as extensive, with no promise of revenue.

One UK scaleup we spoke to about the G-Cloud 15 framework, billed as a “streamlined, compliant, and faster procurement route”, confided:

“Compared to our G-Cloud 14 application, G-Cloud 15 was a significant additional lift, particularly around Social Value and ESG requirements. These include compliance with specific standards and frameworks that are not straightforward for scaling tech suppliers.”

Another founder described his company assessing whether to apply to the recent NHS SBS £900m AI Healthcare AI Solutions framework, stating that it would either “take him a week to create a response, or cost us £12,500 to hire a specialist [procurement] consultant” neither of which they could rationalise spending.

Beyond the resources required to apply for frameworks, startups can find themselves barred from entry due to unnecessarily high requirements, such as to demonstrate turnover above a certain threshold, multi-year trading history, and high insurance requirements.

Case Study: **Datnexa** and High Framework Thresholds

Datnexa is a startup founded in May 2023 that partners with organisations across the public and private sectors to use data, AI, and emerging technology to solve real-world problems. One of its most recognisable products ‘Hey Geraldine’, an AI

assistant & chatbot for Adult Social Care teams has been shown to deliver a 900% ROI.

In early 2025 Datnexa were in conversations with an NHS organisation in Scotland who were keen on procuring Hey Geraldine and wanted to use a specific Crown Commercial Services framework to purchase the solution.

Reviewing this framework, however, Datnexa found the financial requirements were prohibitive for small organisations. In particular, the framework required a Dun and Bradstreet score or to provide two years of audited accounts which, despite having a strong track record of delivering projects, Datnexa couldn't provide.

The result of not meeting the framework requirements was a lost sale of an AI tool to the NHS in Scotland. Only in year 3 of the business have Datnexa now fulfilled the framework requirements.

Frameworks have rapidly become one of the public sector's procurement routes of choice. In total, there are now over 4,000+ government frameworks in the UK, through which 26% of all public procurement spend now flows.

The benefit they provide commercial teams is speed and flexibility. The drawback is the burden they place on suppliers, who find themselves attempting to navigate a labyrinth of bureaucracy with 3-6 month waits for approval.

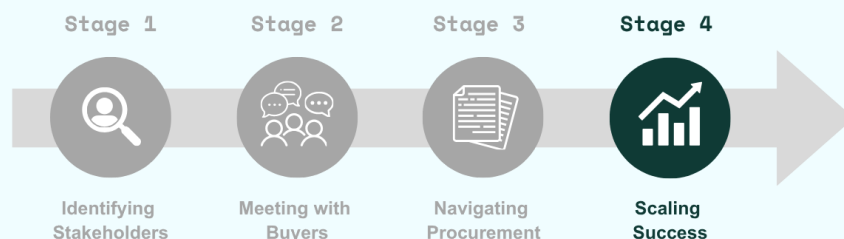
For a large supplier with greater resources and a higher likelihood of return, this is an investment worth making. For startups, the trade-off is less clear - and many now avoid certain frameworks, reducing the competitiveness of the market as a whole.

With the increased prominence of frameworks in public purchasing, it is vital that government ensures this route to market remains fair and accessible. Reducing complexity, lowering barriers to entry as default, and speeding up processes to make frameworks 'open by default' are great places to start.

Recommendations

1. **Clarify Social Value Assessment** - Implement Re:State's recommendation that Government should instead amend PPN 002 Guide to using the social value model to clarify for contracting authorities that SMEs, VCSEs, startups and scaleups, being a form of social value, should automatically score the full weight of marks for that criteria.
 2. **Expedite 'Open by Default' Frameworks** - Government is already progressing activity to ensure all frameworks are open by default, eliminating time wasted by startups waiting for application periods to reopen. Once confirmed, measures should be taken to implement this improvement quickly and ensure it extends to local government and NHS frameworks as well as central government.
 3. **Startup & SME-Friendly Frameworks Terms as Default** - Section 12 of The Procurement Act 2023 requiring contracting authorities to have regard for barriers for SMEs should be reinforced by the provision of specific guidance relating to frameworks. In particular, this should set a standard for 'SME-friendly' requirements for entry as default - covering for insurance, turnover and trading history requirements - with contracting authorities required to give specific justification for deviating from these standards.
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Stage 4: Scaling Success



One contract, however large, can't drive system-wide improvement. Nor can one contract lead to economic growth. Startups have to scale their solutions across multiple public bodies to realise both the benefits that GovTech offers UK public services and the economy.

It is in this process of scaling across government, however, that startups encounter some of their most significant challenges.

Speaking with startups, speed of sales cycles - of lack of - was overwhelmingly referenced as the most common pain point. While this was frustrating for any one contract, interviewees emphasised that it was the compounding effect of slow purchasing across multiple buyers and suppliers that caused the most significant challenges.

One founder of a healthtech startup summed up the problem:

"It often takes us 2-3 months to research and get in front of a government buyer. It can then take 4-6 months to convince them that we are worth buying from. Depending on the procurement route, that can be another 3-6 months of waiting. And then if we win, there may be months of integration or onboarding challenges or delays in payment that further drag out the process. If you repeat that across lots of contracts, that's a huge amount of lost time you just can't afford [...] You just don't get that with the private sector."

Versions of this narrative were cited by startups engaging across almost all parts of the public sector, with slow sales cycles referenced as a key reason why startups

prioritised attributing sales resources to private sector markets over government.

Whereas slow purchasing is a frustration for large companies, for startups it can be an existential problem.

Many startups rely on external investment in the initial stages to allow them to operate at a loss while developing products and gaining early market traction. In many cases, this investment is raised over multiple funding rounds two to three years apart, with investors formally or informally setting revenue targets, amongst other goals, to assess whether to invest.

Failure to demonstrate targeted revenue growth within a given timeframe frequently results in startups being unable to raise further investment, leaving them cash flow negative and often needing to let staff go or fold the company entirely.

Slow sales cycles greatly increase the risk of startups being unable to raise external investment and can deter investors from investing in the first place. As one social impact investor we spoke to confided: “we have stopped investing in [startups] looking to sell to local government because we’ve seen the same pattern of them getting stuck in slow and uncertain [purchasing] cycles that eventually lead the company to stall.”

Another startup founder stated: “We started selling in the public sector and we still have a few clients [...] but after a while we just focused elsewhere because it was faster and meant our [investors] were happier and we could grow the team.”

A particular challenge in scaling exists in what some founders characterized as the ‘tyranny of pilots’ - the relative ease of securing a pilot or proof of concept (PoC) agreement, but the comparative difficulty in translating them into a full contract.

PoCs or pilot contracts are small, ring-fenced supplier relationships often delivered for free or modest contract values for a limited time period - commonly 3-6 months. They provide public bodies with a way to test new solutions before deciding whether to procure to longer and larger contracts.

Speaking to startups, however, too infrequently did these PoCs actually translate to larger, more meaningful relationships - and not due to the performance of the PoCs themselves.

Case Study: Piloting to a Dead End

A UK-based AI startup we spoke to described being engaged by the Department for Business and Trade (DBT) to answer a problem the department's internal teams and incumbent consultants labelled 'impossible' to solve: using GenAI to audit the accuracy of 300,000 gov.uk pages.

To prove feasibility and support ministerial digital transformation goals, the startup agreed to a small contract under £10k - despite the work being valued at tens of thousands of pounds. The startup was willing to absorb the costs to demonstrate their platform's capability, believing it could then lead to a more meaningful commercial relationship.

The pilot was a success, following which the Policy Lead for the programme secured £100k of budget for a full rollout - an amount specifically chosen to remain substantially below the threshold for mandatory open competition under the 2023 Procurement Act.

Despite the success of the pilot and the available budget, transition to a contract was blocked by internal friction. Commercial teams demanded a competition for the award but simultaneously claimed they lacked the resources to run said competition. Internal stakeholders suggested the work be folded into the existing multi-million pound contract of a global consultancy firm, despite that firm having demonstrated previously that they were unable to solve the problem.

The contract would have represented 20% growth for the startup and the opportunity to recruit new regional jobs. It would also have been an opportunity for

DBT to review inaccurate or out-of-date information faster and cheaper than currently delivered.

Startups we spoke to described similar challenges to those listed in the case study above, with examples drawn from across the NHS, defence, local and central government.

Even when buyers are keen to move forward to a larger contract, procurement can often still move too slowly. A startup in the transport sector described a 9-month wait to move from pilot to starting a procurement exercise for a full contract, followed by a further 5-month wait to submit and hear back from the tender. The same startup described securing and rolling-out five contracts with the Irish government in the same period of time, with no need for pilots or proof of concepts.

Avenues do exist for government buyers to move quickly following proof of concepts, with direct awards via frameworks an available measure for solutions that demonstrate genuine innovation or are below a certain contract value. Feedback from startups, however, described a nervousness from commercial teams in using direct awards under these circumstances for fear of non-compliance.

In some cases, startups even highlighted the potential for perverse incentives to dissuade commercial teams from using direct awards. One founder recounted a conversation with an operational buyer post-contract award via a competitive tender, where the buyer suggested his Commercial Lead did not want to pursue a direct award as a competitive tender would “take longer” and “allow [the commercial team] to make the case for more resources next year.”

Beyond contracting, startups expressed disappointment that government did not do more to champion examples of successful case studies, both at a national and individual buyer level.

Interviewees remarked on how infrequently government bodies were willing to offer quotes or agree to public case studies compared to private sector clients, with fear of

being seen to be preferencing a supplier the most common reason given.

One founder commented that they wanted to “show that government has loved using [their] product” as that was what would help them gain traction with other government buyers - but that no-one seemed to want to express this publicly. Adding, “if it just comes down to how many logos I have, and not the calibre of what we’ve delivered, the larger players are going to win most times”.

Recommendations

1. **Audit Pilots & PoCs** - Not enough data exists on the translation of pilots to full contracts. Government should conduct an audit of pilots & proof of concepts issued in the last 3 years and their translation into contracts across all central government departments and ALBs to understand the scale of the challenge.
 2. **Issue Guidance on Direct Awards** - Expedited routes for innovation procurement do exist within the Procurement Act 2023. Guidance should be issued to procurement officials as to the options available for direct award following proof of concepts for innovative solutions to more greatly normalise their application.
 3. **Create Direct Awards Targets for Innovation** - To further de-risk the use of direct awards and stimulate their use, Ministers should set goals for how many direct awards they’d like to see implemented per quarter on innovation case studies. Alongside scaling of proof-of-concepts, departments can utilise ‘challenge’ or problem statements where direct-awards form the first of a stage-gated, down-selection procurement specifically targeted at procuring innovative solutions from the market.
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Conclusion

Inevitably given the subject of this report, we have focused on the challenges faced by startups in supplying to government.

However, throughout our interviews we also encountered numerous examples of positive and supportive buyer-supplier relationships, strong champions of innovation within government, and the positive effects of previous legislation such as the Procurement Act.

Founders - many of whom are former doctors, teachers, servicemen & women, and civil servants - emphasised their passion for public services and their pride for being able to support the government in achieving its policy goals.

As one Commercial Director described, “startups and civil servants aren’t as different as we look - we both want to solve society’s biggest problems”.

Interviewees also reported the benefits they gained from working with government - in particular, the greater credibility supplying to the UK public sector afforded them when approaching large private institutions or selling to governments abroad.

If the government can widen the aperture and bring startups into the heart of how it thinks about public service transformation, there is a cohort of dedicated entrepreneurs wielding the latest technology standing ready to support.

We cannot leave them waiting too long however.

As Alex Depledge, HM Treasury Entrepreneurship Advisor, highlighted recently: “[The UK has] about a 24-month window to insert ourselves into the global AI stack, or it is game over for Great Britain.” The same is true for the AI & technology solutions that will underpin government services.

If we want the technology that will power governments globally for the next decade to

be built here in the UK, now is the time for public procurement to change course and start choosing our startups.