TECH STARTUP MANIFESTO 2022

COADEC
The Coalition for a Digital Economy

ten THE ENTREPRENEURS NETWORK

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ABOUT COADEC

The Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scale ups.

Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 2000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem.

Our work has seen many successes, from the establishment of the Future Fund and the expansion of the Tier 1 Exceptional Talent Visa, to the delivery of the UK's Patient Capital Fund.

We represent the startup community on the Government's Digital Economy Council, and the UK on the board of the international group, Allied for Startups.

ABOUT THE ENTREPRENEURS NETWORK

The Entrepreneurs Network is a think tank for Britain's most ambitious entrepreneurs. We support entrepreneurs by:

- Producing cutting-edge research into the best policies to support entrepreneurship;
- Campaigning for policy changes that will help entrepreneurship flourish;
- Hosting regular events to bridge the gap between entrepreneurs and policymakers;
- Updating entrepreneurs on how policy changes will impact their business;
- Making the case in the media for entrepreneurs' contributions to society.

We are the Secretariat of the APPG for Entrepreneurship, which was set up to encourage, support and promote entrepreneurship and to engage with entrepreneurs; and to ensure that Parliament is kept up to date on what is needed to create and sustain the most favourable conditions for entrepreneurship.

ACKNOWLEDGEMENTS

The Entrepreneurs Network and Coadec teams are extremely grateful to the members of the tech startup community who have contributed towards this report - either in person or via email. This manifesto is for you and about you.

FOREWORD

Tech startups have been the British economic success story of the past decade.

You can measure this success by the obvious metrics, like our stunning VC investment figures, which are better year-on-year, or you can look at the less obvious ones - like the fact that more and more young, ambitious people are being drawn to work in startups or to build their own. But the trend line is clear: the tech community, just a footnote a decade ago, is now the heart of the British economy.

But now, for both the tech ecosystem and the rest of the British economy, there are storm clouds on the horizon. For the startups, there's a funding crisis with valuations cut, hiring freezes imposed and investment drying up. For the UK as a whole, there's a macroeconomic crisis, a cost of living crisis and an uncertain growth path for years to come.

The next Prime Minister will have to face up to these challenges. We believe the best way to address this will be to tackle them together. By supporting the UK's great entrepreneurs and startups, the new Prime Minister wouldn't just be transforming our tech ecosystem, but our country's economic prospects too.

This means delivering on Government policy that helps the startup ecosystem take the next big step in its journey, and committing to smash down the barriers that prevent these companies from thriving.

To help a founder anywhere in the UK, from any background, who has the right idea and mindset to attract the capital they need to build their business.

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

To deal with the bureaucracy that prevents firms hiring the best talent possible to grow their businesses.

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

To turn good intentions from the government into real action on innovation that propels our very best companies onto an even faster growth trajectory.

This manifesto sets out some of the ways we believe the next Prime Minister can tackle these lofty challenges. These aren't exhaustive, but they are critical.

Whatever happens to our economy and startup ecosystem in the coming months, there is no going back to a time when the startups our organisations work with are an economic sideshow. British startups can, should, and will be centre stage in any successful British economic strategy in the months, years and decades to come.

The new Prime Minister should, and we hope will, do everything in their power to support them.

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The Coalition for a Digital Economy (Coadec)

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WHAT STARTUPS WANT FROM THE NEXT PRIME MINISTER

ACCESS TO CAPITAL

Financial opportunities designed to help startups grow and scale need modernising to fully unleash the UK's potential.

- Update the phenomenally successful Enterprise Investment Scheme (EIS), Seed Enterprise Investment Schemes (SEIS), and Venture Capital Trusts (VCTs).
- Unleash institutional funds into startups by reforming the pension charge cap.
- Streamline and supercharge the British Business Bank's approach to investing in underrepresented founders.
- Reform the listings regime to permit more extensive use of dual-class share structures.

ACCESS TO TALENT

Attracting the best international talent is the driving force behind the UK's startup success story.

- Expand the Youth Mobility Visa to include the United States.
- Ensure the new Scale-up Visa and High Potential Individual Visa work as they were intended.
- Widen financial access to UK coding bootcamps so that more workers can upskill.
- Overhaul the Home Office's costs and reduce delays on the Skilled Worker Visa.

STARTUP-FRIENDLY REGULATION

Startup-friendly regulations need to be clear, simple and flexible enough to help disruptors grow.

- Ensure future AI regulation supports startups.
- Modernise data regulations while ensuring that the UK's data adequacy agreement with the EU is maintained.
- Champion digital free trade.
- Guarantee an online safety regime that does not damage startups and innovation.
- Modernise employment law to help startups compete.

FOSTERING INNOVATION

We must cement and protect the UK's position as a world leader in tech. Systems and organisations designed to help innovators need to do a better job.

- Reform Innovate UK's processes for allocating grants.
- Improve the incentives for universities to spin out startups and take smaller equity stakes.
- Open the public sector up for startups by simplifying procurement rules and eliminating barriers that prevent innovative businesses selling to the government.

ACCESS TO FINANCE

Tech businesses are capital hungry: they can take years to develop a profitable product, often require masses of computing power, and need staff with highly in-demand skills and high salaries.

Many entrepreneurs start out their ventures on a shoestring budget, funded by savings, a salary from their main job, or the bank of friends and family. After this initial 'bootstrapping' stage, founders then typically need to sell their vision to investors.

Central to a healthy, thriving, and sustainable startup ecosystem is creative churn: a pipeline of innovative firms competing for limited resources that enable their idea to be given a chance to disrupt incumbents. The role of investors is critical in identifying, funding, and growing the best young companies and ensuring that the best ideas can take off.

But there are blockages at multiple points of our startup pipeline. The number of equity deals for the earliest stage startups is trending downwards – there has been a 17% reduction from 2018.[1 2] Multiple studies have also found VCs have a serious diversity problem: 89p in every £1 of venture funding goes into all-male founding teams. Too often the decision-makers who determine whether or not an investment is made are not representative in terms of both gender and ethnicity of the UK population. This is creating unnecessary barriers for female and ethnic minority founders seeking to raise funds. And for businesses attempting to scale - critical for most tech startups - there is a dearth of homegrown patient capital. As a result, many are forced to sell to overseas businesses to continue their growth.

One explanation for the lack of long-term patient capital, relative to the US, is the role pension funds play. In the US, 65% of venture capital funding comes from pension funds, while in the UK, pension funds contribute just 12%.[3]

Insufficient access to public markets is another problem for scaling businesses: UK financial markets are not hospitable to innovative, high-growth technology companies. As a result, entrepreneurs are increasingly looking to the US NASDAQ over the London Stock Exchange. The number of firms trading on the London Stock Exchange is down 18% from 2015.[4]

The UK needs to cultivate a financial market that reflects the future of the economy. This means creating a market which better understands technology companies and could compete effectively with the NASDAQ for listings of UK tech stocks. And, while the Financial Conduct Authority (FCA) has considered some reforms, its approach so far has fundamentally missed a critical opportunity to modernise and make the UK the top destination for firms looking to list.

The UK should be aiming to be the destination of choice for entrepreneurs starting out, firms looking to list, and investors interested in entrepreneurs of all shapes and sizes.

UPDATE THE PHENOMENALLY SUCCESSFUL ENTERPRISE INVESTMENT SCHEME (EIS), SEED ENTERPRISE INVESTMENT SCHEMES (SEIS) AND VENTURE CAPITAL TRUSTS (VCTS)

Targeted tax reliefs, such as the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs), have been phenomenally successful at channelling more private investment into early-stage, innovative, but riskier, businesses. These investment incentive schemes have played a large role in making the UK such a successful startup ecosystem, as well as attracting many founders from outside the UK to start their startups here. The schemes are envied and copied around the world, but they've not kept pace with the startups they are designed to help. In order to keep the schemes world-leading, startups need the following updates:

1. Make EIS and VCTs Evergreen: The EIS and VCTs are due to expire in 2025 - in contrast to the SEIS scheme which is permanent. The periodical sunset for EIS and VCTs gives investors and startups undesirable uncertainty, limiting both financial and business planning. If the UK is to maintain its momentum and pride of place as an attractive destination for venture capital and entrepreneurs, it should extend its world-leading incentive schemes in perpetuity.

2. Raise the SEIS Caps for Investors and Investees: SEIS investments are capped at a per investee, and per investor level. The influence of this cap is evident in the median first-time seed-stage deal size: for the last three years this has been around the £150k mark - the current SEIS threshold. Meanwhile, the mean first-time seed-stage deal size has been over £400k since 2017, representing a variety of alternative funding sources available, and a supply of funds. The mismatch between these two demonstrates the influence of the SEIS threshold and how it is at odds with the demand from the ecosystem (both investee and investor). It is perverse to maintain this cap whilst the sector grows. EU rules previously prevented the UK from raising the SEIS cap, but post-Brexit the UK should raise it to £200,000 for investors and £250,000 for startups.

3. Reinstate Pre-2018 Speculative Applications to HMRC for SEIS Eligibility ("Advanced Assurance"): Since the introduction of the 2018 investor identification requirements there has been a decline in first-time raises. Before 2018, pre-speculative applications to understand if a startup was SEIS-eligible were allowed. Now startups must already have an investor identified before they can inquire. This has led to a 'chicken and egg' situation whereby investors seek SEIS eligible startups, while startups must have investors locked in to understand if they qualify for SEIS. This leads to longer waits for startups, delaying their ability to get to market or their growth.

4. Extend the Advanced Subscription Agreement (ASA) Longstop for EIS & SEIS to at least 12 Months: ASAs enable startups to access cash from investors quickly - and before an official funding round - with the investment converting to shares when the round occurs. This mechanism is an EIS/SEIS compliant version of convertible notes, or SAFE notes in the US, but carry with them a time limit upon which the funding round must occur. The December 2019 changes to the ASA Longstop halved the time limit between ASA issuance and longstop, meaning startups have been compelled to adopt sub-optimal terms and have had to rush valuations.

5. Extend the SEIS Trade-based Eligibility Period from two to three years: To qualify for SEIS businesses must currently have been trading for under two years. Extending the criteria to three years would allow businesses to spend more time finessing business strategy before seeking external investment.

UNLEASH INSTITUTIONAL FUNDS INTO STARTUPS BY REFORMING THE PENSION CHARGE CAP

UK pension funds are lagging behind the rest of the world when it comes to VC investment. While pension funds contribute 65% of the capital in the US VC market and 18% in Europe, in the UK it is just 12%. This is a gap that penalises both startups and UK savers who miss out on possible outsized returns.

Assets in UK pensions schemes are expected to exceed £1 trillion by 2029: diverting just 5% of that to venture capital firms would equate to a £50bn funding boost for startups while also, according to the British Business Bank, appropriately balance risk with protecting retirement savings.

VC fees are significantly higher than passive asset classes (such as equities) due to the costs of managing an unlisted portfolio of companies. The current 0.75% Pension Charge Cap on annual fees means pension funds are barred from allocating any portfolio into more innovative opportunities.

Data shows retirement savings for an average 22-year-old could be increased by as much as 7-12%, and the average 45-year old could see an increase of 6-7%.[5] Other countries, including the US and Canada, allow pension funds to invest in this manner and have seen their returns increase significantly.[6]

After multiple consultations, it's critical the Government changes the Pension Charge Cap to boost venture investment in Britain's fastest growing companies, but also ensure that a wider group of people reap the rewards.

In addition, there is a strong case for reviewing the overall pensions landscape with a view to encouraging the creation of larger consolidated pension funds - that would create more willingness to invest in riskier assets and allow the development of more expertise in funds to do so.

STREAMLINE AND SUPERCHARGE THE BRITISH BUSINESS BANK'S APPROACH TO INVESTING IN UNDERREPRESENTED FOUNDERS

Multiple studies have found VCs have a serious diversity problem: 89p in every £1 of venture funding goes into all-male founding teams.[7] Too often the decision-makers who determine whether or not an investment is made are not representative in terms of both gender and ethnicity of the UK population. This can create unnecessary barriers for female and ethnic minority founders seeking to raise funds.

The gaps in the market where more female and ethnic minority founders should be are clearly seen. For some of the gaps we have clear data - for example the lack of capital going to female entrepreneurs at the earliest stages - others are less well understood. Yet the effects have been felt for some time.

Despite this, and the multiple different strands of the laudable public policy work ongoing to tackle funding gaps, the BBB, an organisation that exists to fill gaps in the market, and which has the ability to shape the LP funding market like no other in the UK, lacks a holistic strategy for changing this dynamic.

The BBB should work with stakeholders across the ecosystem and coherently agree where gaps exist and how the BBB sees existing and future programmes filling them - with a view to deliberately tackling these problems with additional funding if necessary.

REFORM THE LISTINGS REGIME TO PERMIT MORE EXTENSIVE USE OF DUAL-CLASS SHARE STRUCTURES (DCSS)

Despite recent moves in the right direction, the UK's stock markets remain hostile for innovative businesses. A key factor, revealed by the FCA's recent UK Listing Review, is the inability for businesses with Dual-Class Share Structures (DCSS) to list on the premium segment of the London Stock Exchange's Main Market. DCSS enable differentiation of voting rights based on the class of share owned.

DCSS equip high-growth startups and scale ups with significant long-term capital projects, particularly companies in the technology sector, with the ability to insulate leadership teams from increasingly short-term public market forces, as well as shareholder activists. Previous research has found that indices that include firms with DCSS perform better than those that exclude firms with DCSS, meaning their inclusion would stand to benefit investors and the economy.[8]

Over the last twelve months, the FCA has announced reforms that will allow founders to retain marginally more control while benefiting from a premium listing - namely, being able to be included in indices such as the FTSE - which expose companies to significant amounts of institutional capital.

But these reforms should go much further as the current proposals are still too restrictive. The weighted votes would only apply in two scenarios: a vote on removal of a director or following a change of control. The dual-class shares will also be limited to five-year terms, undermining the crucial role they play in setting the long-term strategic direction. In other words, the UK will still be far behind the curve compared to the protections for founders in US markets. The new Prime Minister should reform the listings regime so that it permits more extensive use of DCSS.

ACCESS TO TALENT

The ability for the UK to attract the best international talent – to found their startups here or work at UK startups – is the driving force behind the UK's tech successes. London, in particular, is a beacon for talent and entrepreneurship: one of few cities that can claim to be a true global startup hub, trailing only Silicon Valley as the world's premier startup ecosystem.

When a critical mass of talent forms, success builds on success. But that also means that a large part of London's draw - and certainly the wider UK startup ecosystem - is its ability to continue to be a pull for the best talent.

Government recognises this, recently announcing one of the most generous immigration offers for the tech sector, including three new visas designed to make it quicker and easier for startups to get the talent they need. But implementation matters more than intention. The new regime has only recently begun to be stress-tested, but when we talk to startups we repeatedly hear that it is not close to working well enough. The system is plagued with costly delays, excessive red tape, and doubling wait-times for basic application stages. It's not just that we are nowhere close to having a regime that can adequately support the world-class ecosystem we have, but incompentent immigration officials are actively putting our world-leading status at risk. If we are serious about keeping the UK as a global tech hub, global tech talent needs to be able to get here.

The UK is also facing a home-grown skills crisis. Despite repeated and widespread concerns over the needs of a future jobs market, the education system is still not teaching people the right skills: the third quarter 2021 alone saw 64,000 tech vacancies.[9]

Our current education system is also not structured in a way that's good for the fast-changing requirements of tech jobs. A three-year university degree course can be out of date by the time it has finished, even if it was up to date when it started - and that's a big "if". It is also likely to be run by academics rather than industry specialists. This has resulted in tech companies telling us that they need to spend between six months to a year providing technical training for newly graduated hires. A fix for this can be innovative providers like coding bootcamps, but with price tags often ranging into the thousands of pounds, this is not an option for every career-switcher.

If the UK is unable to attract and cultivate the best talent, it will lose its status as a world-leading innovation ecosystem. The next Prime Minister will have the blueprint of a great visa system and the tools to upskill huge numbers of workers looking to get into the tech sector - they just need to ensure these opportunities work as intended.

EXPAND THE YOUTH MOBILITY VISA TO INCLUDE THE UNITED STATES

The existing Youth Mobility Visa offers a two-year visa for 18–30-year-olds from Australia, Canada, Monaco, New Zealand, Iceland and San Marino. Citizens from Hong Kong, Japan, South Korea and Taiwan can apply by ballot. An expansion for Indian Young Professionals is promised. In practice, this allows some of the most dynamic people from these countries to gain work experience in the UK and contribute to our economy before returning home, as well as building practical ties between the UK and these countries. We have a real opportunity to use this visa to strengthen the economic and cultural relationship between the UK and other trading partners.

The United States, the world's largest economy, is also our largest single trading partner.[10] With the United States, we share key democratic and cultural values, a language, and a business culture. The United States is the one country that leads the UK on tech, where the UK could benefit immensely from a shared exchange of ideas. Expanding the Youth Mobility Visa is a way to build on significant existing US-UK migration and strengthen ties between our two great entrepreneurial countries.

ENSURE THE NEW SCALE-UP VISA AND HIGH POTENTIAL INDIVIDUAL VISA WORK AS THEY WERE INTENDED

The High Potential Individual (HPI) Visa was created to enable graduates from 'top global universities' to come to the UK without a job offer, giving them the freedom to work for startups or start a business themselves. This visa is world-leading - nothing else like it exists in the world. The Scale-up Visa was introduced to enable scaling businesses to hire the talent they needed quickly by creating a more streamlined system. The Startup Visa is designed for entrepreneurs, endorsed by third parties such as VCs and accelerators, to move to the UK quickly and with less bureaucracy.

On paper all three recently introduced visas make up a generous and compelling offer for entrepreneurs and startups. But in practice there's room for significant improvement for each:

The High Potential Individual Visa

The HPI Visa's eligibility criteria does not reflect the modern world, as the scheme is closed to many of the world's best graduates. This is because the definition of 'top global university' has been defined as a "university which appears on at least two of three internationally recognised rankings of universities". These rankings assess research output, facilities and the number of Nobel Laureates employed but they're relatively weak predictors of graduate quality. This means the HPI scheme currently covers just 37 universities. A glaring omission, for example, are India's prestigious Institutes of Technology - a notoriously difficult to get into group which has educated the CEOs of Google, IBM and Twitter. Top STEM-schools such as Olin College of Engineering in the US have also been excluded. While top business schools, such as the Stockholm School of Economics, are entirely excluded.

A more reliable indicator of the rates at which graduates innovate, start companies and become executive managers is graduate earnings. Expanding eligibility to all universities where average graduate earnings exceed the median university on the existing list reveals 100 universities across 13 countries have been overlooked.[11] The next Prime Minister should expand the eligibility to allow graduates from these institutions to qualify.

The Scale-up Visa

The Scale-up Visa still has as much red tape attached to it as the current Skilled Worker visa. This matters as the Scale-up Visa was meant as a way for startups to be able to bypass the problems of the Skilled Worker Visa with their own streamlined, less costly, system. Currently the Scale-up Visa's eligibility criteria excludes some of our fastest growing startups. The sponsorship requirement should be removed and the existing eligibility definition should be replaced with a points-based system which scores businesses based on their growth rate, staff growth or VC investment.

WIDEN FINANCIAL ACCESS TO UK CODING BOOTCAMPS SO THAT MORE WORKERS CAN UPSKILL

One weapon in the armoury to combat the current skills shortage are intensive coding bootcamps and other one-off courses that help workers access the targeted training that they need to transfer into the tech sector or upskill themselves. These courses are targeted and focused on what employees need and graduates are hoovered up as a result. But these courses can run into the thousands - and they are currently ineligible for student loans. The average UK adult aged 25-34 has between £500-£5,000 saved - meaning often only wealthier people can currently access intensive tech training. Future Earnings Agreements (FEA) offer a loan based on a person's future earnings, enabling them to switch careers via a coding bootcamp without needing to pay the full sum upfront. There is currently only one regulated provider in the UK and awareness is low. The new Prime Minister should commit to an £100m Future Skills Fund structured as an FEA.

OVERHAUL THE HOME OFFICE'S COSTS AND REDUCE DELAYS ON THE SKILLED WORKER VISA

The cost of some visas has gone up by almost 500% over the past 10 years. In some cases, the Home Office makes the equivalent of 800% profit on some applications. In addition to application charges, there's a £400-a-year health surcharge and a £1,000-a-year skills charge. Home Office delays mean waiting times are now between six to eight weeks for a Skilled Worker visa. This is simply not good enough for time-poor, resource-poor startups. The Home Office simply needs to do what it said it would do, in the time it promised and at a cost that is internationally competitive. Processing Skilled Worker visas should not take longer than three weeks.

STARTUP-FRIENDLY REGULATION

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. Startups are the fuel that powers innovation across the entire economy, but this also makes them a highly effective litmus test for rules. A regulatory framework that does not support startups slows or severely curtails progress by causing the pipeline of startups to thin. We can see this most clearly when we look at the effect GDPR had on the startup ecosystem - data shows the EU's GDPR rules killed off a third of apps that had existed on the Google Play store and, crucially, halved the number of new entrants.[12]

Startups thrive when they can bring their product to market and compete fairly. But a startup's offer can easily be derailed when regulators ignore their needs. Startups do not have the time or resources to become regulatory experts, nor do they have the ability to employ huge compliance teams.

A lack of clarity from regulators, insufficient technical expertise and an unwillingness to adapt the way they work are all common complaints from startups. There is a pressing need for regulators to have cultural buy-in. Many policies designed to support startups fail when regulators are not fully committed, but where there's real commitment, such as the FCA's fintech sandbox, the results can be transformative.

Coadec's most recent investor survey shows regulators need to work to realign perceptions: 60% told us they felt regulators had only a "basic understanding" of tech startups, a further 22% thought regulators had none at all.

But beyond the case of startups needing regulators to support them doing things differently, we also need reviews of established regulation that could be enhanced when startup disruption shifts the market. Take the UK's employment frameworks for example. These feel increasingly outdated: our predominantly service-focused economy is underpinned by traditionally production-line focused rules. Gig economy startups are upending the world of work in everything from physical therapy to accountancy, offering flexibility and choice to platform earners and users alike, but our current employment rules put these startups in a straightjacket. Perversely, offering better terms - such as access to specialist insurance or training to those that want it - risks tipping gig platforms into employment categories that will take away their ability to be flexible.

As the ability to innovate becomes cheaper, and the capabilities of technology increases, significant new regulatory regimes are being drafted. These need to be planned with the utmost care - leadership in the technologies of the future will be a global strategic asset, as central to the future of the UK.

ENSURE FUTURE AI REGULATION SUPPORTS STARTUPS

The UK has a massive head start in the global shift to an AI-powered economy, hosting businesses like DeepMind as well as a world-renowned deep tech ecosystem, but there's a real risk that regulators could squander our lead. When we surveyed startups on some of the most developed proposals for AI regulation worldwide - in particular the EU's draft Artificial Intelligence Act - we found widespread concern that the resulting rules will be impractical as well as difficult to comply with. These included concerns that some of the EU's proposals in particular - such as ensuring data sets are free of errors - were not technically feasible. Startups were also concerned by the proposals for rules that automatically equate high risk innovation with high risk use.

Outside of the European Union, the UK has a major opportunity to avoid the pitfalls of the EU's proposed regime. Under the EU's model, once an AI system is categorised as 'high risk', innovating with it would be much harder and more costly. Draft compliance regulations include having to comply with mandatory legal requirements, including direction on how to develop the AI system, imposed upon them. In addition, startups would be required to demonstrate to a regulator that their systems comply with a series of strict obligations before they can be put on the market. Proposed obligations include mandatory risk assessments and strict data activity logs. Currently the EU's plans to set out the scope of high-risk AI are incredibly broad - and could be amended without the need for new legislation. For this reason it is proposed that designated 'limited and minimal-risk AI systems' be encouraged to comply with high-risk AI compliance. Startups are clear that if the UK were to echo the worst of the EU's proposals - or manage to achieve the same outcomes though a different path - this would represent an incredible threat to the strength of the AI ecosystem.

MODERNISE DATA REGULATIONS WHILE ENSURING THAT THE UK'S DATA ADEQUACY AGREEMENT WITH THE EU IS MAINTAINED

Access to data is a bread-and-butter issue for an increasing number of startups. AI startups in particular regard access to data as critical. In a recent survey, 40% of AI founders told us data acquisition was their biggest operational cost, while 27% said data storage and management; 52% said they expected the lack of availability of datasets to be their biggest barrier to growth over the next five years. Current data regulations can be cumbersome to comply with and difficult to understand and mean that lots of valuable data is being deleted instead of used well. Work to reform them and introduce more clarity is critical. However, maintaining the UK's data adequacy agreement with the EU should not be put at risk by overzealous tinkering, as 75% of the UK's cross-border data flows are with EU countries. Without an adequacy agreement, organisations transferring personal data from the EEA to the UK would need to put in place a data transfer mechanism to legitimise the transfer - imposing such a requirement risks billions to the economy.[13]

CHAMPION DIGITAL FREE TRADE

One of the Government's laudable achievements in the past few years has been progress on digital trade. Particularly welcome has been a consistent and stout defence of the value of digital free trade, including its expansion via measures such as the Singapore Digital Economy Agreement.

This matters when across the world we're seeing a wave of digital protectionism, often couched in the language of 'digital sovereignty'. Whether it's in Europe via the French Cloud Doctrine, or new digital localisation requirements in emerging economies such as Nigeria and Vietnam, a leading global tech market leader such as the UK has much to lose in exports from a swing towards more closed digital markets.

The UK should continue to lead a push in both trade deals and multinational fora to ensure global digital markets remain open on data flows, on procurement, and in any area where UK startups have the chance to compete and win new markets.

GUARANTEE AN ONLINE SAFETY REGIME THAT DOES NOT DAMAGE STARTUPS AND INNOVATION

Startups share the Government's goal of a safer internet. Today's founders have grown up in the shadow of the biggest social media platforms, and many startups were created explicitly because their creators wanted to offer alternatives to consumers. But good intentions do not equate to good policy. The draft regime, as imagined by the current Online Safety Bill, has a profound misunderstanding of how its proposals are likely to play out in the real world. And, assuming startups manage to work out what they need to do, the Bill is ruinously expensive to comply with. The Government's own impact assessment estimated startups and smaller platforms will be faced with relative compliance costs of between 90 and 180 times that of big incumbents. The most recent Government amendments look set to unintentionally pose threats to everything from private messaging to R&D spending. Most egregiously of all, far from restricting the power of Silicon Valley tech giants, the Bill is primed to firmly entrench their position, sending the UK down a path towards an ever narrower internet: one built, funnelled and controlled by the current incumbents. If passed in its current form, the Online Safety Bill would represent one of the greatest threats to the UK's digital economy - and our global reputation for regulating innovation.

MODERNISE EMPLOYMENT LAW TO HELP STARTUPS COMPETE

Startups have unlocked whole new ways of living, but this can mean they butt up against rules established before their innovation was possible. Leaving rules as they are can end up unfairly protecting incumbents from disruption. One of the most pressing examples of this can be seen in UK employment law. Gig economy startups are radically expanding people's working options - bringing more competition and choice to everything from web development to accountancy, physical therapy and private catering. Gig startups tell us they want to offer more to their platform earners, such as the option of accessing specialised insurance or training, but under our current employment frameworks, there is a real risk that doing so risks legal action.

FOSTERING INNOVATION

Right now there are organisations and systems that, by their nature, should be enabling startups but aren't doing a good enough job. Government exerts significant powers over these organisations and should step in - not to control the market but to make sure it is functioning effectively.

Take R&D funding, the process for determining grants should be rigorous - but right now some of our best ideas are falling through cracks in the system. Too often startups and innovators tell us they waste precious time and resources dealing with byzantine bid bureaucracy. Startups regularly tell us they have to spend thousands employing bid writers and consultants to demystify the application process. In a recent example, one grant assessor marked down a health-tech startup proposing to improve productivity in clinical research - thereby enabling more research and more jobs - for not considering the negative effects of job losses due to automation.

Or take the process by which university academics and students "spinout" their research and create startups. We should be focusing on making it easier to commercialise, but the mindset of many UK universities has been described to us as one of 'sitting on a gold-mine that has to be defended'. This has led to some universities making the process of spinning out difficult, demanding large equity stakes that disincentive outside investment, resulting in many fledgling companies withering on the vine before they could get going.

This also extends to government procurement processes. Startups are lining up to show Government the amazing services they can offer the British public, but too often the public sector insists on procuring bespoke solutions which take years to build and only large companies can deliver. In many cases, it means needlessly reinventing what is already on the market with a few extra unnecessary features. It also 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.

Founders repeatedly raise the fact that the public sector is too often blind to what is available on the market. To take an example that kept coming up amongst founders: 89% of startups surveyed told us they use live demos when selling, but 38% said Government teams wouldn't let them use them. Rules like this advantage incumbents who are more comfortable talking about what they could build - rather than innovators who want to demonstrate what they have built.

Reforming procurement processes by levelling the playing field between startups and incumbents could help tackle some of our most pressing problems. Take the NHS's backlog – a tech-forward NHS is not just a 'nice to have', it is vital to the sustainability of the system. And even if there wasn't a pandemic-sized hole to patch up, the UK's rapidly ageing population means there's no time to stand still. The benefits for the health service from enabling tech startups to scale could not be clearer: better patient outcomes, backlogs cleared faster and less strain on doctors and nurses who want to care for people in need, not waste time putting data into spreadsheets.

But it is not just Government services that need to digitise and innovate. The rest of the economy needs to accelerate this, and startups stand ready to help them. Government needs to think carefully about what obstacles it can clear in order to help this happen.

REFORM INNOVATE UK'S PROCESSES FOR ALLOCATING GRANTS

Too often startups and innovators tell us they have to waste time and resources dealing with byzantine bid bureaucracy. Many tell us they also feel forced to spend thousands on bid writers and grant consultants to have any chance of navigating the process. Decision-making on grants should be rigorous, but they should also be focused on letting ideas compete fairly. In addition to cutting down on unnecessary bureaucracy, as more funding for R&D has become available the new Prime Minister should look at piloting new and innovative grant awarding models such as fast grants and lotteries where all applications that meet a certain minimum standard are entered.

IMPROVE THE INCENTIVES FOR UNIVERSITIES TO SPIN OUT STARTUPS AND TAKE SMALLER EQUITY STAKES

There is a great variety in how different UK universities approach their spinouts. At best their approach can be very supportive, including helping spinout teams identify and access investors. At worst, their approach can strangle spinouts before they have had a chance to compete. Some of the worst behaviour we have encountered includes universities aggressively demanding 30-60% of equity, forcing founders to become minority shareholders from day one and disincentivising crucial outside investment. We have also seen examples of universities making IP licensing difficult and levying the sorts of royalties that prevent spinouts from reinvesting in order to accelerate growth.

Moving to a system where licensing and equity agreements between faculty spinouts and universities are more transparent and better suited to follow-on investment will ensure more research makes it out of the lab and into our day-to-day lives. The new Prime Minister should look at tying government funding to adoption of best practices for spinouts, such as better and clearer terms, in order to drive change.

OPEN THE PUBLIC SECTOR UP FOR STARTUPS BY SIMPLIFYING PROCUREMENT RULES AND ELIMINATING BARRIERS THAT PREVENT INNOVATIVE BUSINESSES SELLING TO THE GOVERNMENT

Startups are lining up to show government the amazing services they can offer the British public but our current procurement processes make it difficult for them to be seen. Pre-market engagement should be made mandatory. Early engagement with potential suppliers can help shape requirements and avoid putting up unnecessary barriers while also keeping government abreast of innovation in the market. Post-Brexit procurement reforms are also an opportunity to expand the Government's current "cloud-first policy" to a requirement that contracting authorities must consider and fully evaluate the potential market solutions before considering any other option. The new Prime Minister should mandate procurement officials produce a written explanation detailing why a bespoke solution was selected, as well as the steps taken before that decision was reached. Not only would this support meaningful pre-market engagement, it should lessen the chance that commercial-first becomes a check-box exercise.

ENDNOTES

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