REBUILDING THE NATION 04

A mountain to scale

By Charlotte Holloway

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About The Future Governance Forum

The Future Governance Forum (FGF) is a progressive, non-profit and non-partisan think tank. We aim to provide the intellectual and practical infrastructure vital to national renewal and the revival of effective progressive government acrtoss the UK.

Our goal is to shape a comprehensive new operating model for the way the country works, delivering effectively across national, devolved, regional and local government. We bring together people and institutions with the expertise to develop and implement new models of partnership, policy development and service delivery.

Our current programmes of work explore:

- **Mission Critical:** how can governments develop missions as more than a signal of intent, but a theory and a practice of government?
- **Impactful Devolution:** how can government meaningfully and permanently devolve power to regional and local level in one of the most centralised countries in the world?
- **Rebuilding the Nation:** how can we utilise innovative models of public and private investment to deliver future policy objectives?

By prioritising these questions we are thinking about new progressive models of governance for the long term.

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About Boardwave

Launched in May 2022, Boardwave is an independent social enterprise that has grown rapidly with over 1,900+ UK & European software CEOs, founders and their Investors as members, of which 1,200 are in the UK.

For a generation, Silicon Valley's collaborative community has fostered some of the world's most valuable companies. Committed to creating similar conditions for success, Boardwave aims to propel the UK and European software industry forward, nurturing the next generation of global leaders.

Boardwave is helping tackle this by providing a comprehensive ecosystem of support for free to its members, offering leaders access to expertise, knowledge sharing, mentoring, and coaching, thought leadership, and personal development. It also facilitates access to capital and ensures a clear voice to governments.

Boardwave is privately funded by a consortium of over 90+ blue chip organisations, including Venture and Private Equity investors, Strategy Consultants, Lawyers, Advisors and service providers to the tech community.

About the BVCA

As the industry body and public policy advocate for private equity and venture capital, the British Private Equity & Venture Capital Association (BVCA) has been the voice of private capital in the UK for over four decades. With a membership of over 630 firms, the BVCA represents the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors.

The private equity and venture capital industry has a vital role to play in driving national and regional growth. The BVCA seeks to demonstrate how private capital is uniquely positioned as a partner for growth to the Government and wider stakeholders, while helping inform a policy ecosystem which enables the industry to effectively invest in the economy.

The BVCA engages with decision-makers through roundtables and contributes policy submissions to government, regulators, and international bodies on behalf of the industry.

About the author and acknowledgements

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Executive summary

Seizing the moment

The UK stands at a pivotal juncture. We have a new government that has made raising the overall rate of economic growth its primary mission, we have established strengths in several areas of the technological and green revolutions that are transforming the world economy, and we have a track record of incubating new and exciting businesses. Set against that, the new government inherits an economy that has seen stubbornly low rates of growth ever since the Global Financial Crisis, geopolitical competition - in both economic and security terms - is more heightened than it has been in decades, and the UK is struggling to convert its start-up tech promise into sustainable scale-up success. Seize this moment correctly, and the new government can unleash economic growth via a burgeoning tech sector that goes from strength to strength; get it wrong, and businesses, capital and the innovation and growth that goes with them will ebb away to other jurisdictions.

The conditions are there for success. Our tech sector is valued at over $1 trillion,[1] with trailblazers like DeepMind in artificial intelligence and Starling in fintech leading the charge. The UK is home to 43 tech 'unicorn' companies - privately held start-up companies with a valuation of over £1 billion - underscoring our capacity for innovation and commercial success[2]. The UK remains a very good place to start a business.

Yet despite the UK's strong track record in fostering start-ups, it takes much longer here than in the US for companies to reach significant milestones[3], such as £100 million in revenue, the point at which a company is truly viable to "go global". As a result, founders are increasingly leaving the UK, taking their businesses - and the associated economic value - with them[4]. As Ian Hogarth recently wrote, "for Europe to build its first trillion-dollar company and boost its economy, it must create numerous $100bn companies, foster a culture of experienced entrepreneurial leadership, and resist selling its most innovative firms to US buyers."[5]

Getting this right is important not just for those individual firms, their founders and the people who work for them; it is critical to reviving our economy as a whole. Scale-ups play a crucial role in driving innovation, creating jobs, and enhancing productivity. They represent over 50% of the total output of SMEs, despite comprising less than 0.6% of the SME population, employ over 3 million people and generate £1.4 trillion for the UK economy[6]. To fully capitalise on this momentum, the incoming government must intensify efforts to cultivate and expand our scale-up ecosystem.

1 Tech Nation, UK Tech in the Age of AI: The Tech Nation Report 2024, June 2024.

2 John McRea, UK Unicorn Companies, Beauhurst, 14 March 2024.

3 Phill Robinson, 4 conditions needed to scale your business and the European Software sector: Valencia Keynote, Boardwave, 20 April 2023.

4 Sadia Nowshin, Europe's highest-valued startups that made the move to America, Sifted, 15 November 2023.

5 Ian Hogarth, Can Europe build its first trillion-dollar start-up?, Financial Times, 30 November 2024.

6 ScaleUp Institute, ScaleUp Annual Review 2024 Highlights, November 2024

Embedding a focus on scale-ups in missions and industrial strategy

The Labour Party, both in opposition and now in government, has consistently talked up the role that scale-up businesses can play in its primary ambition to raise the UK's stubbornly low growth rate. As Shadow Chancellor, Rachel Reeves commissioned the crossbench peer Lord (Jim) O'Neill to undertake a review of the barriers blocking start-up and scale-up success and talked of her ambition to "build an institutional ecosystem offering the market the access, finance and skills that new and growing businesses need."[7]

In her foreword to the final report, *Start Up, Scale Up: Making Britain the best place to start and grow a business*, published in December 2022, Reeves reported hearing from businesses "about the stubborn obstacles preventing them from scaling up" and committed to removing them[8]. Now that Labour is in government, and Reeves is the Chancellor of the Exchequer, the challenge comes in showing that it can genuinely make a difference and implement meaningful policy changes to create the conditions for more UK scale-ups to grow and thrive.

At the centre of the incoming government's programme for the country are its five missions: kickstarting economic growth, making Britain a clean energy superpower, taking back our streets, breaking down barriers to opportunity and building an NHS fit for the future[9]. In support of these missions the government is developing a new Industrial Strategy with a primary objective of "enabling the UK's world-leading sectors to adapt and grow, and seizing opportunities to lead in new sectors"[10].

Achieving these ambitious goals will require a thriving scale-up ecosystem that fosters innovation, increases regional economic inclusion, and ensures the UK is competitive globally. Scale-ups are critical to raising overall levels of productivity across the country, which will be essential to delivering the government's primary economic objective, as well as the other national missions. The ScaleUp Institute's Annual Review 2024 highlights that scale-up firms are more productive than their peers, generating an average of £449,000 turnover per employee[11].

7 Richard Partington, Labour launches review of business funding to support startups, The Guardian, 15 June 2022.

8 Lord O'Neill et al, Start Up, Scale Up: Making Britain the best place to start and grow a business, December 2022.

9 Labour Party, Change: Manifesto 2024, June 2024, p.13.

10 Department for Business and Trade (DBT), Invest 2035: The UK's Modern Industrial Strategy, 14 October 2024, p.4.

11 ScaleUp Institute, Faster, Higher, Stronger: Scaling Together - ScaleUp Annual Review, November 2024.

Converting start-up promise into scale-up success

In this report we focus on three categories of challenge – money and markets, place, and people – and, based on interviews and submissions from scale-up leaders and investors, make recommendations as to how the new government might break down barriers in each, unlock scale-up potential and seize the economic opportunity that lies ahead.

In keeping with FGF's focus on renewing progressive governance, we also make recommendations for how scale-up policy could be embedded throughout the new administration's mission-driven government approach, in line with the principles developed via our *Mission Critical* series[12].

This report sets out both the headline challenges that scale-ups face, and our proposed recommendations for government action to tackle them. While some of these recommendations have spending associated with them, others focus on structural or cultural changes that require no significant additional funding or are about leveraging the potential of scale-ups in some of the new ways of governing that have been introduced since July 2024. Together, these interventions will not only drive economic growth but also help achieve broader social and environmental goals.

The following challenges and associated recommendations are covered in the report, and can be summarised as follows:

1. Money and markets

There is an estimated £15bn scale-up funding gap in the UK, with most of that gap occurring at the later stage of a company's funding journey[13]: the so-called "valley of death" between start-up and fully-scaled business. This gap is also especially acute for founders of firms outside London and the South East, and for women founders and those from minority backgrounds.

Securing growth capital therefore remains a major priority for scale-ups, as evidenced in the 2024 Scaleup Annual Review[14]. Recent developments in UK policy such as the 2023 Mansion House Compact, the launch of the British Growth Partnership and the announcement of new consolidated pension 'megafunds', all provide opportunities to increase the flow of institutional capital into scale-up businesses - if the schemes are designed as effectively as possible, and sit alongside a transparent and credible pipeline of investible businesses. Public finance also has a major role to play, be that via tax incentives to encourage investment in high growth firms and expanded employee ownership schemes, through maximising the power of public procurement or through astute use of the mandates of public finance institutions like the British Business Bank or the National Wealth Fund.

12 See Mariana Mazzucato et al, **Mission Critical 01: Statecraft for the 21st century**, FGF, May 2024, and Ram Puvinathan & Grace Wyld, **Mission Critical 02: Governing in partnership with business and trade unions**, FGF, October 2024.

13 ScaleUp Institute, Innovate Finance & Deloitte, **Future of Growth Capital Report**, August 2020

14 ScaleUp Institute, **ScaleUp Annual Review 2024 Highlights**, November 2024

Longer term, more fundamental fiscal policy changes to arrangements such as R&D tax credits or the full expensing arrangements under the corporation tax regime could unlock further scale-up growth, as could an explicit focus on supporting scale-up firms to break into international markets as part of the government's forthcoming trade strategy.

Private finance

The new government should:

1.1. **Maximise the ability of institutional investors - including the proposed new pension 'megafunds' - to finance scale-ups across the UK**

1.2. **Model the new British Growth Partnership on the French 'Tibi' scheme, with high-level political backing and targeted to where it can have the most impact**

1.3. **Create a database of publicly available company growth information to inform investment decisions**

Public investment, procurement and incentives

The new government should:

1.4 **Consider evolving the Enterprise Investment Scheme to include a new Scale-up Investment Scheme option**

1.5 **Extend the Enterprise Management Incentive scheme**

1.6 **Introduce a new public procurement target for scale-ups and streamline the process for securing government contracts**

1.7 **Enhance the role of public institutions such as the British Business Bank, the National Wealth Fund and the National Security Strategic Investment Fund to provide later-stage funding with a sectoral and regional focus**

2. Place

Some areas outside London and the South East often struggle to cultivate strong ecosystems that can support scale-ups effectively. The UK Tech Cluster Group (UKTCG) report *Ecosystems of Innovation* highlights that regions with established tech clusters have seen significant increases in business growth, underlining the importance of fostering local ecosystems to drive scale-up success[15].

A place-based approach to industrial policy is essential to address the long-standing gap in regional economic planning that has persisted since the previous government abandoned the national industrial strategy in 2020, and arguably dating back to the abolition of Regional Development Agencies (RDAs) in 2010. This lack of strategic direction has left many areas without the full set of tools to leverage local strengths or attract targeted investment, exacerbating regional inequalities in funding, infrastructure and other conditions necessary for scale-ups to thrive.

15 UK Tech Cluster Group (UKTCG), Ecosystems of Innovation: Four big ideas to harness tech's potential across the UK, January 2024.

With the new government's English devolution agenda requiring the production of statutory Local Growth Plans, there is now a unique opportunity to reset the balance for economic development, empowering regions to align their industrial priorities with national goals and unlock their full economic potential.

Local ecosystems

The new government should:

2.1 Build on the examples of the Northern Powerhouse and Midlands Engine to create the cluster conditions for scale-ups to thrive

2.2 Promote the adoption of spin-out best practices across the UK's leading research universities to ensure a steady flow of high-growth, investable scale-ups

Place-based industrial strategy

The new government should:

2.3 Introduce a new 'Scale-up Duty' as part of the new Local Growth Plans

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3. People

The UK's investment and corporate culture is often perceived as risk-averse, discouraging bold investments in innovative scale-ups. This cultural barrier is a significant limitation compared to countries like the US, where risk-taking is more ingrained in investment ethos. Too little attention can also be paid to the evolving role of a start-up founder as their business looks to grow, and the need to support the development of leadership and management skills if the business is to scale effectively.

At the same time, scale-ups face particular challenges in relation to workforce skills, notably in the area of AI, which is increasingly critical for competitiveness. There is a need for targeted training programmes to help employees at all levels adapt to the growing influence of AI in business processes.

Culture and leadership

The new government should:

3.1 Building on existing initiatives, establish a National Scale-Up Leadership Network to enable mentoring, professional development and peer-to-peer learning initiatives for scale-up leaders

Skills

The new government should:

3.2 Make AI and digital upskilling a central element of the new Growth and Skills Levy as part of a greater focus on STEM education

3.3 Introduce a second, larger wave of the Flexible AI Upskilling Fund

4. Governance

The new government has made clear that it wants to pursue not just a different policy agenda to its predecessors, but also to approach the very task of governing differently. This is most apparent in its pursuit of 'mission-driven government', and embedding scale-up policies into both the design of these missions and the manner in which they are evaluated will be critical to their success. Getting these aspects of mission governance right should not only accelerate progress towards the mission goals themselves but also strengthen the UK's global competitiveness and economic resilience.

The new government should:

- **4.1 Make scale-up impact an explicit feature of evaluation frameworks for the five national missions**

- **4.2 Include scale-up voices in new partnership ways of working, such as the Industrial Strategy Council**

Achieving these ambitious goals requires the new government to lead with purpose and govern in partnership[16]. The state, investors, and the wider business ecosystem must work together to unlock the potential of scale-ups. Through targeted support, coherent policy, and a mission-driven approach, scale-ups can not only meet the challenges of today but also transform the UK into a global leader in technology and innovation to drive a new wave of economic growth.

16 Puvinathan and Wyld, Mission Critical 02.

Introduction: The importance of scale-ups to the UK economy

From incubator Britain to scale-up Britain

Scale-ups are a fundamental pillar of the UK economy, playing a vital role in driving innovation, creating jobs, and enhancing productivity across multiple industries. Many of these companies are at the cutting edge of technological breakthroughs in sectors such as sectors such as fintech, green tech and health tech, or cross-cutting technologies like AI. As the UK seeks to maintain its competitive edge globally, nurturing the scale-up ecosystem is essential for economic resilience and growth.

For the purposes of this report, we focus in particular on British tech companies that are currently between £10 million and £100 million in revenue. Despite the UK's strong track record in fostering start-ups (companies of up to £10 million in revenue), it takes much longer here than in the US for companies to reach that significant £100 million milestone. On average it takes 17 years for a UK-based software business to scale from £10m to £100m in revenue, compared to 15.5 years for a similar business based in the EU, and just 8-10 years for one based in the US[17].

"It takes much longer to scale a UK business from $10-100m than it does in the US. Currently a good US software company can scale to $100m revenue in 10-12 years, a great one in 6-8. Shockingly in Europe it takes 15.5 years, and the UK takes even longer at 17 years."

Phill Robinson,
CEO, Boardwave[18]

The UK is effective at being 'incubator Britain', putting in the hard work to help companies get off the ground, but struggles to support them as they grow: we are not (yet) 'scale-up Britain'. The risk here is that as a country we lose these high-potential businesses and the contribution they can make to the economy as a whole: either because they fail to expand to the next level; their leaders develop "founder fatigue" and look to derisk by selling up at the earliest opportunity; or because they relocate altogether to a more promising jurisdiction. And all of those routes lead to a reduction in the overall economic benefits these businesses could bring to the country as a whole.

17 Data from Boardwave members validated by independent analysts TechMarketView. See also: Bessemer Venture Partners, Scaling to $100 Million, September 2023.

18 Phill Robinson, How the UK can become a global software leader, Sifted, 3 July 2024.

> "Without sufficient domestic scale-up capital, the UK science, technology, and financial innovation sectors lose out on opportunities when companies move overseas, taking intellectual property, quality jobs, and innovation with them"
>
> BVCA[19]

This report aims to provide an examination of the challenges facing scale-ups in the UK and to propose practical policy solutions to support their growth: to get from start-up promise to scale-up success.

Persistent barriers to progress

Despite numerous government initiatives over the past decade[20], the scale-up ecosystem still struggles with key barriers including a late-stage funding gap, significant regional imbalances and a shortage of skills, especially in emerging technologies. Addressing these issues is not only critical for the scale-ups themselves but also for the Treasury, as the shortage of scale-up businesses represents a significant missed opportunity for economic growth, productivity gains, and tax revenues.

The new Labour government has articulated a bold vision for transforming the UK through five key missions: kickstarting economic growth, making Britain a clean energy superpower, taking back our streets, breaking down barriers to opportunity and building an NHS fit for the future. Creating the right conditions for promising companies to scale up can make a major contribution to all five of these missions. Scale-ups drive productivity and innovation, contribute to regional economic inclusion, and are at the forefront of tackling the country's most pressing challenges - whether that's advancing clean energy solutions or improving healthcare outcomes through technological innovations.

Early initiatives from the incoming government suggest that it is alive to this opportunity and seeking to realise it. The launch of a new Regulatory Innovation Office (RIO), the publication of an Industrial Strategy green paper and the Chancellor's recent Mansion House speech all indicate an approach aimed at ensuring that high-potential businesses are not just starting but are also growing and thriving within the UK[21]. However, there remains much work to be done to create an ecosystem that supports scale-ups effectively through all stages of their growth journey.

19 British Private Equity & Venture Capital Association (BVCA), Response to Industrial Strategy Green paper, December 2024.

20 See Chapter One for more detail of recent government announcements.

21 See further detail on each of these announcements in Chapter One.

Regaining the initiative

Getting scale-up policy right can have an outsized effect on the government's economic ambitions. Success breeds success: when one company scales successfully, it releases experienced talent and capital into the ecosystem, which in turn helps new ventures to grow. Properly enabled, that initial company can become a "founder factory" of innovation, talent development, and reinvestment. This phenomenon fosters not only innovation but also a culture of mentorship and entrepreneurship, as experienced founders, engineers, and funders reinvest their expertise and resources into the next generation of start-ups.

International examples of this kind of legacy abound. Skype's alumni have gone on to create over 950 new companies, forming a vibrant micro-ecosystem of interconnected ventures. PayPal produced a wave of entrepreneurs and investors who went on to found or fund companies such as Tesla, LinkedIn, YouTube, and Yelp. SAP in Germany became a cornerstone of the country's tech industry, with its alumni involved in numerous subsequent successful ventures, including Celonis and Software AG.

Yet British examples of such a phenomenon are harder to find. There is potential in a company like DeepMind, which has emerged as a world leader in AI innovation and - although it has been acquired by a US giant in the form of Google - DeepMind's presence in London and its contributions to the local AI talent pool and research community can all deliver significant benefits to the UK as a whole. As things stand, though, DeepMind is the exception that proves the rule in the British context.

The UK cannot assume that scale-up success will come automatically, and nor can we rest on our laurels. The UK's position as a leader in tech innovation across Europe is well-established but increasingly under threat. Atomico's *State of European Tech* report, released at the end of November, highlights that while the UK remains at the forefront, having attracted the largest share of tech funding in Europe over the past decade and nearing the $150 billion mark, countries such as France, Germany, and the Netherlands are catching up fast[22].

The UK's exit from the European Union has further accelerated these dynamics, with other European countries stepping up efforts to attract talent, investment, and high-growth companies and UK founders raising concerns around market access size. Competitor countries have introduced significant measures to strengthen their tech ecosystems. For example, France's StatenF Visa and the TIBI initiative have been designed to attract top-tier tech talent and investment[23]. Germany has also introduced similar initiatives, further intensifying competition for the best minds and the most promising companies. The UK must be proactive in maintaining and advancing its lead by ensuring a conducive environment for scale-ups.

22 Atomico, State of European Tech 2024, November 19 2024.

23 See Annex B for lessons the UK can learn from overseas.

Money and markets, place, and people

For this report, we have spoken to a range of expert stakeholders in the field of scale-up policy: from the investors looking to back the most promising businesses of tomorrow, to the entrepreneurs and founders hoping to make the leap from start-up to scale-up, and to the policymakers, politicians and regulators who are hoping to establish an environment that allows both to flourish.

While there are a host of policy issues that affect that environment, from our desk research and interviews over recent months we have identified three broad areas where we would encourage the new government to focus its immediate efforts: getting the money to flow along with access to new markets, ensuring that policy is rooted in place and works for every part of the country, and supporting the people who will determine whether a high-potential company sinks or swims.

Throughout the rest of this report we look briefly at what the new government has done in its first few months in office to advance this agenda, before focusing on the challenges that British scale-ups face and then making recommendations for how those can be overcome. Annexed to the report are a brief history of UK scale-up policy developments over the last ten years and examples from overseas from which the UK government could learn.

Scale-ups are not just about economic growth; they are about resilience, innovation, and building a future that works for everyone. By putting the right support mechanisms in place - whether through unlocking more funding, building a network of local ecosystems, or doing more to attract, retain and train the best talent - the UK can create an ecosystem where scale-ups are empowered to reach their full potential, driving prosperity and ensuring that the UK remains at the forefront of global innovation.

Chapter One: The new government's approach to scale-ups so far

The new government has taken several early steps to improve the policy environment for the UK's tech scale-up sector, consistent with the assertion in its election manifesto that "delivering growth and raising productivity depend on fresh thinking and new ideas" and its commitment to "make Britain the best place to start and grow a business". We set out these steps below, before establishing some of the challenges that continue to face high potential companies and recommending what the government could do next to position the UK as a global leader in scaling up new tech firms.

1. Invest 2035: The UK's Modern Industrial Strategy

In October the government published a green paper on its proposed Industrial Strategy, in which the it defined its approach as "one that seeks to place private business, entrepreneurship, and innovation at its heart, supported by governments playing a strategic and coordinating role helping firms to commercialise innovations, scale up, and access finance"[24]. The green paper focuses on eight "growth-driving sectors": advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences and professional and business services.

Alongside this sectoral focus, the industrial strategy will also focus on creating a more favourable business environment - looking at policy areas such as people and skills, innovation, energy and infrastructure, the regulatory environment, crowding in investment, and international partnerships and trade - as well as emphasising the importance of place and of working in partnership with businesses, trade unions, local and devolved leaders, experts, and international partners. As part of this last ambition, the Government will establish a new Industrial Strategy Council on a statutory footing. Following consultation on the green paper, a final Industrial Strategy plus sectoral plans for each of the "growth-driving sectors" will be published in spring 2025[25].

2. British Growth Partnership

The British Growth Partnership (BGP), announced in October 2024, is an initiative housed within the British Business Bank (BBB) and designed to encourage UK pension funds and institutional investors to channel capital into innovative British companies[26]. The BGP aims to mobilise domestic investment to support scale-ups, providing financial backing for expansion and innovation, thereby strengthening the UK's long-term economic resilience.

24 DBT, Invest 2035, p.12.

25 Ibid, p.5.

26 HM Treasury, Chancellor announces new plans to secure UK investment, 14 October 2024.

Since the BGP's launch, Aegon UK has committed to be a cornerstone investor and NatWest Cushon is preparing to contribute to the initial fund alongside the government[27]. The BBB has appointed the BGP's first Managing Partner and is finalising the partnership's design[28].

3. National Wealth Fund

Establishing a National Wealth Fund (NWF) was a signature commitment in Labour's manifesto ahead of the 2024 general election, and plans to launch and capitalise the new fund were announced within days of the party entering office[29].

The NWF, with an initial allocation of £7.3 billion, aims to provide long-term investment in strategic sectors and in recent months further detail has been developed. The NWF - positioned by the government as "the UK's new impact investor" - will build on the existing capabilities and capitalisation of the UK Infrastructure Bank (UKIB), with additional investment and a revised mandate. That mandate will ensure the NWF supports delivery of the Industrial Strategy and invests "in sectors where an undersupply of private finance exists", with greater ability to take more strategic risks than UKIB had previously and a clear instruction to mobilise private investment at scale[30].

These features of the NWF means it has the potential to play a catalytic role in the support of scale-up firms in strategic sectors - especially green technologies, given its objective to support the transition to a low carbon economy.

4. Regulatory Innovation Office

Labour first announced in opposition its intention to create a new 'Regulatory Innovation Office' (RIO), which would have three major responsibilities:

1. Setting and monitoring targets for regulatory approval timelines, benchmarked against international comparators;
2. Providing strategic steers for the activities that regulators should prioritise (drawn from the Industrial Strategy); and
3. Supporting a "beefed-up" Regulatory Horizons Council (RHC) with a requirement to respond to its reports within a set time period[31].

27 HM Treasury, Chancellor fires up financial services sector to drive growth, 14 November 2024.

28 British Business Bank (BBB), British Business Bank responds to the Chancellor's Mansion House speech, 14 November 2024.

29 Kalyeena Makortoff and Julia Kollewe, Rachel Reeves launches £7.3bn national wealth fund, The Guardian, 9 July 2024.

30 HM Treasury, National Wealth Fund: Mobilising private investment, October 2024.

31 Labour Party, Labour will end regulatory backlogs to give the public access to life-saving treatments sooner, 28 October 2023.

The RIO was formally launched in October 2024[32]. It will operate as a new unit within the Department for Science, Innovation and Technology (DSIT), incorporating the existing functions of the RHC as well as the Regulators' Pioneer Fund (RPF), and it will be overseen by the Science Minister. The new unit's stated aim is to "support regulators to update regulation, speeding up approvals, and ensuring different regulatory bodies work together smoothly" and it will initially focus on four fast-growing areas of technology: engineering biology, space, AI and digital in healthcare, and connected and autonomous technology. These are all areas in which accelerated approval timelines and a more innovative approach to regulation could support significant scale-up growth.

5. Devolution deals and Local Growth Plans

Alongside mission-driven government, the new administration's other significant proposed reform to the state is a major wave of new devolution, especially within England. During their first week in power, the Prime Minister and Deputy Prime Minister convened all of England's metro mayors for a cross-party meeting in Downing Street[33], and the King's Speech later that month included proposals for a new English Devolution Bill. That Bill will seek to establish a new framework for English devolution, "widening" the existing settlement by bringing devolution deals to more parts of the country, and "deepening" it by giving local leaders greater powers over strategic planning, local transport networks, skills and employment support[34].

Central to this new framework will be statutory Local Growth Plans: locally owned, ten-year strategies which will set out how Mayoral Combined Authorities (MCAs) will use their expanded devolved powers and funding to drive growth in their region. The government's hope is that these plans - strategic partnerships between central government and the MCAs - will build on each region's unique strengths and opportunities to support sectors, identify wider business environment priorities, and provide a framework to unlock private investment. The Invest 2035 green paper makes clear that Local Growth Plans should identify key priorities for growth and align to the overall national Industrial Strategy[35].

The English Devolution Bill - which will set out the new devolution framework in more detail and place the Local Growth Plan requirements on a statutory footing - is expected in 2025. In the meantime, progress is already being made on 'widening' the devolution settlement, with new deals announced for four more regions in September[36].

32 Department for Science, Innovation and Technology (DSIT), Game-changing tech to reach the public faster as dedicated new unit launched to curb red tape, 8 October 2024.

33 Ministry of Housing, Communities and Local Government (MHCLG), Driving local growth through a "new era" of devolution: No 10 mayoral roundtable, 12 July 2024.

34 Prime Minister's Office, King's Speech 2024: Background briefing, 17 July 2024.

35 DBT, Invest 2035, p.49.

36 MHCLG, Four devolution agreements signed off and others progressing, 21 September 2024.

6. New pension 'megafunds'

In her Mansion House speech on 14 November 2024, the Chancellor announced significant reforms to UK pension scheme arrangements, aiming to unlock substantial investment for infrastructure and high-growth businesses[37]. She proposed consolidation in both the Defined Contribution (DC) and Local Government Pension Scheme (LGPS) markets - setting minimum sizes for DC schemes and accelerating pooling arrangements for LGPS - to produce a series of "megafunds" that have the scale to make transformational investments.

The Chancellor argued that these pension proposals could unlock around £80bn, and she was clear that as well as that money being available for much-needed infrastructure investment, it would also be directed towards "exciting growth businesses". Reeves underscored the importance of supporting scale-ups, stating, "by consolidating our pension funds, we can provide the capital needed for our most promising businesses to grow and thrive." The government is currently consulting on these proposals.

7. Measures in the Autumn Budget

The government's first Budget, while primarily focused on "fixing the foundations" of the UK's public finances, did also include a range of measures aimed at supporting scale-up firms. The Budget documents reiterated the new administration's belief that "it is critical to the growth mission that our most innovative companies are supported to start, scale, and grow in the UK"[38].

Relevant measures in the Budget included extending the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes to 2035, committing over £250 million in funding in 2025-26 for the BBB's small business loans programmes, extending the SME Digital Adoption Taskforce and trailing a forthcoming £4 million pilots package to encourage tech adoption for SMEs. The government also committed to additional funding for the Made Smarter Innovation and Made Smarter Adoption programmes, aimed at supporting more small manufacturing businesses to adopt advanced digital technologies - with the latter programme expanded to all nine English regions.

Elsewhere, the government confirmed it would provide at least £40 million over 5 years for proof-of-concept funding and improvements to support for university researchers spinning out the UK's cutting-edge research into firms of the future. It recommitted to Growth Hubs in England and the 'Help to Grow: Management' scheme, both of which aim to help businesses and entrepreneurs unlock their potential through bespoke support and resources. It will also publish a Small Business Strategy in 2025, which will explicitly include a focus on "boosting scale-ups".

37 HM Treasury, Pension megafunds could unlock £80 billion of investment as Chancellor takes radical action to drive economic growth, 13 November 2024.

38 HM Treasury, Autumn Budget 2024: Fixing the foundations to deliver change, 30 October 2024.

Chapter Two: Challenges facing UK scale-ups

UK scale-ups face a number of challenges that limit their ability to grow, innovate, and compete on the global stage. While these challenges are broad and varied, through our research and discussions for this project we have identified three priority categories of focus for the new government where we believe the challenges are acute and there are opportunities for action to make progress quickly. These are:

1. **Money and markets:** Difficulty securing private and/or public investment, and accessing new markets.
2. **Places:** Limits on the growth of local ecosystems and a lack of meaningful regional industrial policy in recent years .
3. **People:** A culture seen as overly risk averse, a need for more support for scale-up leadership and management, and a shortage of key skills.

1. Money and markets

Private finance

The UK's venture capital landscape exhibits a pronounced disparity between early stage and later stage funding (see box overleaf). Early stage investment has become more accessible in recent years, with a growing number of angel investors and early-stage funds contributing to the ecosystem. However, when it comes to late-stage funding, a significant gap remains. A 2020 Deloitte, Innovate Finance and ScaleUp Institute report estimated the overall scale-up funding gap to be £15bn a year, with most of that impacting those at later stage funding rounds[39]. This is consistent with BVCA analysis that early stage companies have made up around 85% of all venture-backed companies in recent years[40].

This investment gap impedes companies' abilities to expand domestically and compete internationally, posing a risk to the UK's economic ambitions: without sufficient scale-up capital, emerging successes could be lost to other markets. It is partly attributed to the risk-averse nature of UK pension funds, which have historically, understandably, favoured more cautious investments, limiting their participation in venture capital.

This has created a void that foreign investors, particularly from the US, have filled - especially when it comes to larger deals[41]. Between January 2011 and December 2021, foreign investors participated in 6.5% of all equity deals involving UK companies, yet these deals represented 47.5% of the total £53.2 billion raised during this period[42]. While it is welcome that the UK remains

39 Deloitte, Innovate Finance and ScaleUp Institute, The Future of Growth Capital Report, August 2020.

40 BVCA, Venture Capital in the UK, November 2024.

41 Financial Times, UK start-ups turn to Silicon Valley to fill void left by risk-averse pension funds, July 2024.

42 Lucy Wilson, Top Foreign Investors into UK Companies, Beauhurst, January 2022.

an attractive destination for foreign investment, the shortage of domestic patient capital in this space can place limits on the overall potential for UK businesses to scale up, and also means that British savers are not benefiting from the successes of those UK businesses that do manage to scale up.

Growth and funding stages explained

In the tech and business world, companies are often categorised as early, mid- or late stage, reflecting their development phases and corresponding valuations.

Early stage companies

These businesses are in the initial phases of development, focused on refining their product or service and identifying their target market. They typically seek initial funding through:

- **Pre-seed and seed rounds:** Early investments from founders, networks, family, angel investors, or seed venture capital firms to support product development and market research. In the UK, median pre-money valuations for seed stage startups were approximately £4 million in the third quarter of 2024.[43]

- **Series A funding:** Once a company has a viable product and some market traction, it may pursue Series A funding to optimise its product and business model. Valuations at this stage can vary but are generally higher than seed-stage valuations.

Mid-stage companies

In the UK, **Series B funding** is a pivotal stage for companies that have established product-market fit and consistent revenue streams. This phase focuses on scaling operations, expanding market reach, and enhancing business development, sales, marketing, and talent acquisition. Investments during this round typically range between £10 million and £50 million, with company valuations often between £35 million and £60 million. This stage is crucial for transitioning from a start-up to a more established enterprise, setting the foundation for subsequent funding rounds or potential exit strategies.[44]

Late stage companies

These are more established businesses with proven products and consistent revenue streams. They focus on scaling operations, expanding into new markets, and preparing for significant milestones like public offerings. Funding at this stage includes:

- **Series C and beyond:** Investments aimed at scaling the company, entering new markets, or developing new products. At this point, companies often attract venture capitalists, private equity firms, and investment banks. Internationally - although historically less so in the UK - pension funds and other institutional investors invest in Series C rounds via venture capital[45].

- **Mezzanine financing and pre-IPO rounds:** These funds prepare the company for an initial public offering (IPO) or acquisition, providing the capital needed to support major expansion drives.

The funding challenge is also not consistent across the country. Venture capital investment in the UK remains concentrated in London: in 2023, London attracted £13.6 billion across 1,495 deals, while other regions lagged behind[46]. The BBB's 2024 *Nations and Regions Tracker* shows that UK areas outside London continue to be largely underrepresented in equity investment. London's dominance in equity funding remained stark in 2023, capturing 49% of the UK's deal count (63% of its total investment value) and showing an average concentration of equity deals and investment value per high growth enterprise (0.5 deals and £3.9m between 2021 and 2023) more than double that of the UK as a whole (0.24 deals and £1.4m)[47]. This concentration exacerbates regional disparities, inhibiting overall economic growth: as the Centre for Cities has noted, for the eight largest cities outside London, the combined gap between actual and potential productivity is £47 billion per year.[48]

Interviews with investors and entrepreneurs highlight a pressing need for more patient capital and late stage funding. Such investment would enable scale-ups to formulate long term strategies without the immediate pressure for returns, fostering sustainable growth and enhancing the UK's competitive position in the global market.

The new government's recently announced reforms to the UK pension sector aimed at facilitating the flow of domestic capital into productive assets are encouraging in this context, but the exact design of these reforms will be critical to their success in supporting later stage scale-ups.

Public investment

While private finance will - and should - remain the primary source of funding for scale-up companies, public investment also has a major role to play. The National Wealth Fund (NWF) and British Growth Partnership (BGP) initiatives both demonstrate the extent to which the new government acknowledges the role that the public sector can play in catalysing scale-up success. However, to be impactful, these must be designed in such a way as to maximise their impact on high growth potential firms and to ensure that investment decisions align with long term strategic goals. This is especially true for sectors such as clean tech and life sciences, or technologies such as AI, where patient and sizable capital is essential for growth.

Several of our interviewees also stressed the critical importance of public research and development (R&D) investment in particular, but that it is difficult for scale-up firms to secure this money to develop innovative new products and services. This is borne out by reports from both UK Research and Innovation (UKRI) and the ScaleUp Institute which show that R&D investment is crucial for

43 Oscar Hornstein, Funding round sizes and valuations up, number of deals down, report finds, UKTech News, 22 November 2024.

44 Kaylin Sullivan and Jonny Seaman, Series B funding: guide for startup founders, SeedLegals, 20 December 2022.

45 Oscar Hornstein, Funding round sizes and valuations up, number of deals down, report finds.

46 BVCA, Venture Capital in the UK.

47 BBB, Nations and Regions Tracker: Small Business Finance Markets 2024, October 2024.

48 Paul Swinney, So you want to level up?, Centre for Cities, June 2021, p.11.

scale-up success, yet many founders cite difficulties in accessing funding (from both private and public sources). UKRI's latest annual report underscores the critical role of R&D investment in driving innovation and economic growth. The report also highlights the UK's association with Horizon Europe, the EU's €95.5 billion R&D programme, as a significant boost to international collaboration and a more effective approach to public R&D investment[49].

For sectors like biotech and cleantech, and new technologies like AI, where R&D is critical to scaling, the lack of accessible public funding presents a significant barrier to growth. Furthermore, without sufficient funding, many UK scale-ups are unable to compete with their counterparts in countries like the United States and Germany, where government R&D investment is higher and more readily available. In that context, the announcement at the recent Budget of a record £20.4 billion in R&D investment for 2025-26[50] and the commitment to 10-year funding settlements for certain R&D activities[51] suggest a trend towards increased scale and stability in the public funding landscape.

The NWF, the BGP and R&D funding arrangements are also all proof of the fact that financing for scale-ups is not a binary choice of public or private. The NWF's role in attracting further private investment will be vital for sustaining the scale-up ecosystem over the long term, providing the kind of financial support that takes decades to mature. And public-private partnerships more broadly, leveraging the strengths of both sectors, can help scale-ups overcome key challenges, such as access to funding and navigating complex regulatory environments. The BBB, Innovate UK, and other public institutions have important roles to play in enabling scale-ups to access the resources they need from both public and private sector alike.

Public procurement

One in three pounds of public money - £300bn a year - is spent via public procurement[52], yet this remains an underutilised avenue for scale-ups in the UK. High growth firms are often excluded from public contracts due to the complexities of the bidding process and a preference for larger, more established vendors. Despite various initiatives to open up procurement opportunities to SMEs, scale-ups still face challenges in breaking into this market, particularly in sectors like healthcare, defence, and infrastructure.

Interviewees expressed repeated frustration at the lack of transparency in procurement processes and the tendency for government contracts to favour incumbent suppliers.

49 UK Research and Innovation (UKRI), Corporate Plan 2023 to 2024 Update, 6 October 2023.

50 DSIT, Government backs UK R&D with record £20.4 billion investment at Autumn Budget, 31 October 2024.

51 DSIT, Peter Kyle's speech at the Campaign for Science and Engineering Conference, 11 September 2024.

52 Government Commercial Function policy paper, The Procurement Act - a summary guide to the provisions, 16 June 2022.

techUK and the ScaleUp Institute have both highlighted the importance of reforming procurement processes to support innovative companies[53]. Scale-ups that successfully enter public procurement see significant benefits, but according to a 2018 analysis by Tussell, 397 scale-up companies secured 1,415 public sector contracts between July 2017 and June 2018. Given that there were approximately 35,000 scale-ups in the UK at that time, this suggests that just 1% of scale-ups were winning public sector contracts during that period.[54]

Market access

Scaling beyond the UK is crucial for high growth companies, but many scale-ups face significant barriers in accessing international markets. Interviewees consistently pointed out that complex export regulations, a lack of trade support, and the difficulties in navigating international standards are key obstacles for UK firms looking to grow globally.

Findings from the ScaleUp Institute and the BBB indicate that a significant number of scale-ups are held back by difficulties in navigating export regulations[55]. A 2023 survey by the British Chambers of Commerce found that customs checks, tariffs, and regulations are the top three barriers to exporting, affecting businesses' ability to scale internationally[56].

The uncertainty surrounding trade relations, particularly post-Brexit, has made it more challenging for scale-ups to establish a foothold in overseas markets. Entrepreneurs reported that the process of international expansion often lacks the necessary government support and that existing programmes, such as UK Export Finance, are often poorly tailored to the needs of tech businesses.

2. Place

Local ecosystems

The strength of local ecosystems plays a crucial role in supporting scale-ups, but regional disparities remain a significant challenge. London and a few other cities have developed strong, interconnected ecosystems that include investors, universities, talent pools, and support services. However, many regions, particularly in the North East, the East Midlands, and parts of the South West, lack the same level of support and connectivity.

Entrepreneurs interviewed for this report frequently cited the challenges of accessing mentors, investors, and other support services outside of London. Regional disparities in access to resources not only limit the growth potential of scale-ups in those areas but also exacerbate economic inequality across the UK.

53 techUK, Seven Tech Priorities for the next government, 21 March 2024; and ScaleUp Institute, ScaleUp Annual Review 2022, Chapter Two: Access to Markets, November 2022.

54 ScaleUp Institute and Tussell, UK 'Scaleups' - An Important Presence in Public Procurement, 28 November 2018.

55 BBB, Importing and exporting goods and services, accessed 3 December 2024.

56 British Chambers of Commerce (BCC), Red tape, regulation and costs holding back exports, 3 December 2023.

Findings from the UK Tech Cluster Group Ecosystems of Innovation report further reinforce this perspective[57]. The report highlights that effective tech ecosystems are built through grassroots institutions that understand how to engage businesses, educational partners, and academic expertise effectively. These ecosystems thrive when local partnerships, rather than centralised, top-down approaches, drive innovation.

Place-based industrial strategy

The UK has lacked a sense of strategic direction for regional economic planning at least since the mothballing of the previous Industrial Strategy in 2020, and arguably since the abolition of the Regional Development Agencies (RDAs) in 2010. This has left many areas without the full set of tools to leverage local strengths or attract targeted investment, exacerbating regional inequalities.

With the new government having reintroduced a national Industrial Strategy (with a heavy emphasis on the notion of 'place'), and coupled it with an ambitious English devolution agenda that includes a statutory requirement for regions to come forward with their own Local Growth Plans, there is now a unique opportunity to reset the balance for economic development, empowering regions to align their industrial priorities with national goals and unlock their full economic potential.

Relatedly, scale-ups rely on strong digital infrastructure to scale effectively. However, many regions of the UK still lack the broadband infrastructure and co-working spaces needed to foster innovation, particularly in rural and underserved areas. While cities like London, Manchester, and Bristol have developed strong ecosystems for scale-ups, regions like the East Midlands, parts of the South West and Wales continue to face infrastructure gaps that limit their ability to attract and retain high growth businesses. techUK and other organisations have repeatedly highlighted the need for improved digital infrastructure and better access to co-working facilities, particularly in rural areas[58].

3. People

Culture and leadership

A recurring theme in interviews and discussions with entrepreneurs and investors is the perception that the UK has a risk-averse culture that impacts on the ability of companies to scale up and reach their full potential.

This cultural attitude impacts both investors and entrepreneurs. Compared to the United States, where the culture of celebrating entrepreneurial risk-taking is stronger, the UK's investment and corporate culture is often seen as cautious, particularly when it comes to funding high growth, high risk ventures.
Many founders feel that they are penalised for taking risks, particularly if they have experienced previous failures, which can make it difficult to secure follow-

57 UKTCG, Ecosystems of Innovation.

58 See techUK, Levelling Up - Digital, Rural and Economic Recovery, 29 July 2020; National Innovation Centre for Rural Enterprise, Coworking in Rural Pubs, June 2024; and Federation of Small Businesses (FSB), FSB report reveals struggles of rural small businesses, 25 April 2023.

on funding. Similarly, Boardwave has highlighted the need to shift cultural attitudes towards entrepreneurial risk[59]. The ScaleUp Institute reports that more than 30% of scale-up founders believe that changing the perception of risk could positively impact their ability to raise funding and scale[60].

Leadership and management are often overlooked challenges in scaling up businesses, yet they are critical to sustained growth and success. As businesses expand, founders frequently transition from hands-on technical or operational roles to leading increasingly complex organisations. This shift demands new skills in strategic decision-making, operational oversight, and team management; areas where many entrepreneurs lack prior experience.

The attributes and experience required to build a successful start-up are different to those it takes to run and grow a larger business, and there is no guarantee that an entrepreneurial founder will automatically have both skill sets without any external support or training - yet too often the wider ecosystem around scale-up companies assumes that they will. Tackling this assumption and providing the necessary support to founders was the rationale behind the creation of the Boardwave network. Without it, these leadership and management skills gaps can hinder growth, creating bottlenecks in decision-making and operational inefficiencies that limit a firm's potential.

Skills

In addition to infrastructure, scale-ups face skills shortages, particularly in technical fields like AI, machine learning, engineering, and data science. Many scale-ups struggle to find the talent needed to drive their growth, and this problem is exacerbated outside of London. Similarly, the UK faces the ongoing problem of 'challenge-flight', with UK founders taking their businesses abroad. As Phill Robinson, Boardwave CEO, has commented: "The UK may do well at attracting migrant tech talent, but overall we are a net exporter of entrepreneurs - we lose more entrepreneurs than we gain to other countries - especially the US."

The shortage of AI skills, in particular, poses a significant barrier to growth for many UK scale-ups. According to recent analysis from Boardwave, the UK and European software sectors lag behind their US counterparts in leveraging AI effectively, largely due to a shortage of skills and resources. According to the Office for National Statistics, 84% of UK businesses were not using AI as of September 2023, and 81% had no plans to adopt AI within the following three months[61]. This indicates a lack of readiness and capability to harness AI for innovation and competitiveness. Additionally, only 20% of UK businesses reported having a strong understanding of how AI could benefit their operations according to recent YouGov polling for NetApp[62]. This skills gap is limiting the ability of scale-ups to leverage AI technologies for internal efficiency and product innovation, further hindering their ability to compete on a global scale.

59 Phill Robinson, 4 Conditions Needed to Scale Your Business and the European Software Sector: Valencia Keynote.

60 ScaleUp Institute, ScaleUp Annual Review 2022, Chapter One: Access to Finance.

61 Office for National Statistics (ONS), Business insights and impact on the UK economy, 5 October 2023.

62 Sarah Brady, Only half of UK businesses understand AI benefits, Verdict, 12 March 2024.

Conclusion

UK scale-ups are at the heart of innovation and economic growth, yet they face a range of challenges that hinder their ability to scale and compete globally. Addressing these challenges - from improving access to funding to strengthening regional ecosystems and shifting cultural attitudes towards risk - will require coordinated action from both government and the private sector. By tackling these issues head-on, the UK can unlock the potential of its scale-ups, ensuring that they play a central role in driving the economy forward in the years to come.

Chapter Three: Recommendations for building a thriving scale-up ecosystem

To unlock the potential of UK scale-up companies, a robust support framework is essential - one that combines unlocking access to both private and public investment, building strong ties to regional and international markets, encouraging a more entrepreneurial culture all round and developing a pipeline of skills and talent.

Scale-ups have the potential to be key drivers in achieving the new government's five missions. And consistent with the breadth of those missions themselves, this is not just about economic growth; it's about addressing regional inequality, fostering innovation, and creating a society where everyone has the opportunity to succeed. By ensuring the success of scale-up companies is embedded in both its overarching missions and its industrial strategy, the new government can unlock the potential of high-growth companies to deliver real, tangible benefits to the UK economy and society.

The following recommendations aim to establish steps the government can take in relation to money and markets, people and place to establish a supportive ecosystem for UK tech firms to scale up and fulfil their potential, both individually and in terms of the outsize contribution they can make to the country as a whole.

1. Money and markets

Private finance

1.1 Maximise the ability of institutional investors - including the proposed new pension 'megafunds' - to finance scale-ups across the UK

The new pension 'megafunds' announced by the Chancellor in her Mansion House speech present a critical opportunity to channel substantial investment into scale-up businesses in every region, driving economic growth and innovation. To achieve this, these new funds must be designed such that they maintain the benefits of consolidation in both the DC and LGPS markets while enabling highgrowth businesses in all parts of the country to access the capital they need to thrive.

This means ensuring the governance framework for the new funds is well designed, that there is sufficient expertise and capacity within their investment teams, and that the emphasis is on value for money and achieving the best long-term returns for savers, rather than prioritising ultra-low management costs. Consolidation in these sectors is welcome and overdue - FGF called for this arrangement in our 2023 report *Rebuilding the Nation 02*[63] - but it should not be seen as a means of cutting costs (by assuming the same

63 Andrew Dyson and JP Spencer, Rebuilding the Nation 02: Pension reform that delivers for savers and strengthens the economy, November 2023.

number of people can manage a new megafund as previously managed one of its constituent parts) and nor should it raise the 'ticket size' of minimum investments to such an extent that it inadvertently shuts out access for smaller, regionally-focused funds who can be an excellent source of scale-up financing across the country.

An emphasis on the active ownership of investments, with a particular focus on growing businesses, which is ultimately more beneficial for UK economic resilience - fostering a culture of ambitious but sustainable growth - will hopefully deliver higher returns for savers over time, even if short-run costs are higher.

If executed effectively, these reforms could substantially improve the funding landscape for domestic scale-up businesses. More UK institutional investment flowing into UK-based private capital funds should result in greater investment in UK firms: UK-based private capital investors already demonstrate a home bias, with around half of the capital they manage being invested domestically. The size of the prize here is significant, too: as things stand, 16 times more capital from pensions around the world goes into UK private capital than from British pension funds[64].

The new megafunds are also not the only route for greater institutional investment to fund scale-up businesses. The new government should look to build on the 'Mansion House Compact' announced by former Chancellor Jeremy Hunt, under which some of the UK's largest DC pension schemes committed to allocating at least 5% of their default funds to unlisted equities by 2030[65]. This target is a stretch based on current trends - at present signatories to the Compact hold just 0.36% of the total value of their DC default funds in unlisted equities[66] - and the new government indicating that it retains the ambition would hopefully drive further action, while demonstrating that the UK remains a reliable and supportive environment for long-term investment in innovation and growth.

1.2 Model the new British Growth Partnership on the French 'Tibi' scheme, with high-level political backing and targeted to where it can have the most impact

The BGP announced in October is a welcome attempt to leverage in greater institutional investment, under the auspices of the BBB, to channel more capital into innovative British companies. In its ambition and scope it echoes the successful French 'Tibi' scheme[67], and in doing so it starts to deliver on a Labour commitment in opposition to establish just such a scheme in the UK - originally recommended in Lord O'Neill's *Start Up, Scale Up* report[68].

64 BVCA, Pensions and Private Capital Expert Panel: Interim report, September 2024.

65 Chancellor of the Exchequer Jeremy Hunt, Mansion House speech, 10 July 2023.

66 Association of British Insurers (ABI), The Mansion House Compact: Year one progress update, 30 July 2024.

67 For more information on the French scheme, see Annex B.

68 O'Neill et al, Start Up, Scale Up, p.6.

For the BGP to be as effective as possible, it should seek to replicate those elements of the French scheme which have made it a success:

- **High-profile political ownership:** Endorsements from the Prime Minister and Chancellor, framing the BGP as a national economic priority - in line with the personal commitment that President Macron made to the Tibi scheme - can attract institutional investors to get involved.

- **Pooled funds:** Use pooled investment vehicles for flexibility and diversification, encouraging broad participation while focusing on UK-based venture and growth equity funds.

- **Investment targeted at scale-ups in particular:** Use the BGP to consciously address the funding gap at Series B+ stages to mitigate "founder fatigue" and prevent high potential British companies from relocating overseas.

- **Cornerstone government investments:** The government should lead the way, investing alongside private capital to reduce perceived risks and catalyse institutional investments in sectors like clean tech and technologies like AI.

- **Streamlined accreditation:** Simplify fund manager accreditation to accelerate the process while ensuring quality and investor confidence.

1.3 Create a database of publicly available company growth information to inform investment decisions

Unlocking new pools of capital for scale-up companies is only one piece of the puzzle; it is essential that those investors have a credible, clear pipeline of companies and opportunities for them to consider. The government should therefore make anonymised data on company growth publicly accessible to assist investors in identifying high-potential scale-ups. This approach should build on the Innovation Clusters Map produced by the Department of Science, Innovation and Technology under the last government[69]. By publishing data on revenues, employee growth, and tax filings, the government can provide valuable insights that enhance the effectiveness of initiatives like the new megafunds, the Mansion House Compact and the BGP. Detailed, regular reports performance by sector and technology (e.g., green tech, AI, health tech) and by regional clusters (e.g., Northern Powerhouse, Midlands Engine) would guide investment decisions, maximise the impact of new capital and keep policymakers informed as to overall performance and where future interventions might be required.

69 Department for Science, Innovation and Technology, Innovation Clusters Map, February 2024.

Public investment, procurement and incentives

1.4 Consider evolving the Enterprise Investment Scheme to include a new Scale-up Investment Scheme option

To drive private investment in scale-ups, the government should consider a Scale-up Investment Scheme (SUIS) to help companies - and promising tech firms in particular - make the leap from start-up to scale up. This would involve expanding the scope of the existing Enterprise Investment Scheme (EIS) to better address the needs of scale-ups.

The EIS is designed to stimulate investment in early stage businesses through angel investment and venture capital. It provides tax benefits to individual investors who purchase new shares in a company, and under the scheme eligible businesses - which includes having been trading for less than 7 years, and with fewer than 250 employees - can raise up to £5 million annually, with a lifetime limit of £12 million[70]. There is an extension to the scheme for "knowledge-intensive companies", under which years trading is raised to 10 years, the number of employees is raised to 500 and the lifetime cap is set at £20 million[71].

A sister scheme - the Seed Enterprise Investment Scheme (SEIS) - is targeted at start-up firms, and incentivises investments of up to £250,000 into small firms who have been trading for less than three years[72].

At present, there is a gap in these schemes at the point at which companies begin to scale. A new variant - SUIS - could increase the annual investment cap of EIS to £10 million per company and the lifetime cap to £20 million (maintaining the current upper limits around years trading and number of employees), filling that gap and enabling scale-ups to secure the capital needed for growth. To give a particular boost to promising tech companies, the lifetime cap for knowledge-intensive companies could be extended to £30 million. By expanding eligibility, with strategic targeting, and enabling institutional co-investment along normal investment terms, a new SUIS could provide help firms take the next step towards scaling up, fostering innovation and resilience in the UK economy.

1.5 Extend the Enterprise Management Incentive scheme

The Enterprise Management Incentive (EMI) scheme enables companies to offer share options to employees. Firms are eligible for EMI if they have assets of £30 million or less and fewer than 250 employees, and the scheme allows them to offer their employees share options up to the value of £250,000 in a three-year period[73].

70 BBB, What is the Enterprise Investment Scheme (EIS)?, accessed 3 December 2024.

71 A knowledge intensive company is defined as one which (a) carries out work to create intellectual property and expects the majority of its business to come from this within 10 years, and (b) has 20% of employees carrying out research for at least three years from the date of investment. See HM Revenue and Customs (HMRC), Guidance: Use a venture capital scheme to raise money for your knowledge intensive company, accessed 6 December 2024.

72 BBB, What is the Seed Enterprise Investment Scheme (SEIS)?, accessed 3 December 2024.

73 UK Government, Tax and Employee Share Schemes: Enterprise Management Incentives, accessed 3 December 2024.

The scheme is considered especially valuable for scale-ups competing for top talent. Broadening the EMI's eligibility by raising the assets threshold would allow more high growth firms to offer share-based incentives, boosting recruitment and retention without the need for cash-heavy compensation.

1.6 Introduce a new public procurement target for scale-ups and streamline the process for securing government contracts

Analysis by the ScaleUp Institute has shown that just 4% of all public sector contracts are awarded to scale-ups, and these businesses constitute just 3.54% of government suppliers[74]. The government could make much greater use of its purchasing power to encourage scale-up growth and support domestic innovation, by seeking to raise those percentages. It should establish a new procurement target for scale-ups in public sector contracts, perhaps starting at 5% immediately with the ambition of raising to 10% over time. Alongside such a target it should also look again at procurement processes to remove barriers that are preventing scale-up companies from bidding for and ultimately winning public sector contracts.

This new approach would give scale-ups a stable revenue source and help build credibility as they scale. There is a forthcoming opportunity to consider these changes, given that the new government has delayed the implementation of the 2023 Procurement Act while it revises the National Procurement Policy Statement[75].

1.7 Enhance the role of public institutions such as the British Business Bank, the National Wealth Fund and the National Security Strategic Investment Fund to provide later stage funding with a sectoral and regional focus

The UK has a range of public finance institutions - such as the BBB, NWF, and National Security Strategy Investment Fund (NSSIF) - which between them have considerable power to shape markets towards public policy objectives. Ensuring that the mandates of each institution are designed to be in line with the government's five missions, its Industrial Strategy and its regional economic development objectives is a powerful tool. As part of this, the Government should consider including specific ambitions around investment in scale-up firms.

This could involve establishing sector- or region-specific funds that target scale-ups moving from £10m to £100m in revenue. The BBB has already introduced six new Nations and Regions Investment Funds[76]. The NWF could be a vehicle for greater growth of clean energy scale-up firms, for instance, and the NSSIF could play a similar role for tech firms specialising in cybersecurity.

74 ScaleUp Institute, Faster, Higher, Stronger: Scaling Together - ScaleUp Annual Review, November 2024.

75 UK Parliament, Written Ministerial Statement: Procurement Act 2023 update, 12 September 2024.

76 BBB, Nations and Regions Investment Funds, accessed 3 December 2024.

Longer-term, the government should also look at ways in which both tax incentives and export finance schemes could support scale-up firms to grow domestically and expand internationally. The new government has made clear that it will not change the R&D tax credit scheme for the duration of this parliament, for instance, but has said that it will begin considering reform options for the future - starting with a review of the arrangements for the life sciences sector[77]. This review should explicitly consider how R&D tax arrangements could work more effectively for high growth potential firms in strategic sectors. Similarly, expansion of the 'full expensing' scheme to include intangible investments like AI and cloud computing - perhaps targeted at smaller firms to support them to grow - could act as a further stimulus.

Likewise, the forthcoming trade strategy is an opportunity to consider how best to support high growth UK businesses to access new, global markets: a critical step on the path to scaling up given the limited size of the domestic UK market. Supporting UK businesses to access American and European markets in particular should be a high priority. The Prime Minister has been clear that he rejects a binary choice between those two jurisdictions ("the national interest demands that we work with both"[78]) but for firms just starting to scale up in particular, then the proximity of Europe alone means that prioritising that trading bloc initially offers the most strategic path for rapid growth and international success. It is important that the UK position seeks in both the forthcoming trade strategy and the individual negotiations that follow it to secure access for tech companies to both the EU and US markets.

2. Place

Local ecosystems

2.1 Build on the examples of the Northern Powerhouse and Midlands Engine to create the cluster conditions for scale-ups to thrive

Strengthening place-based ecosystems would make a major difference in supporting scale-ups in underdeveloped areas. The ScaleUp Institute's most recent annual review indicates that regions with well-developed ecosystems see higher growth rates among scale-ups, suggesting that more balanced regional support could significantly boost national economic performance[79].

UKTCG has rightly called for more emphasis on mobilising these local ecosystems, recognising that place-based innovation, driven by regional stakeholders, creates stronger network effects and opportunities for growth. Their report, *Ecosystems of Innovation*, underscores the importance of integrating skills policy with industry needs through partnerships between grassroots organisations, education providers, and local leadership, ensuring that talent development aligns with the demands of regional tech ecosystems[80].

77 Labour Party, Labour's Business Partnership for Growth, February 2024, p.12.

78 Prime Minister Keir Starmer, Speech at Lord Mayor's Banquet, 2 December 2024.

79 ScaleUp Institute, Faster, Higher, Stronger: Scaling Together - ScaleUp Annual Review, November 2024.

80 UKTCG, Ecosystems of Innovation.

The government should look to encourage the development of more regional clusters across the country, modelled on the success of the Northern Powerhouse and Midlands Engine, to provide critical resources for high-growth businesses. Various interviewees spoken to for this report highlighted that the Northern Powerhouse and Midlands Engine have achieved success through a clear focus on sectoral strengths, a long-term vision, and aligning skills development with growth needs, particularly in areas like advanced manufacturing and digital technologies. By emulating these partnerships, other regions can unlock similar growth potential by creating tailored ecosystems that address the unique needs of their local industries, ensuring that scale-ups have access to the resources, talent, and infrastructure necessary for sustained growth.

2.2 Promote the adoption of spin-out best practices across the UK's leading research universities to ensure a steady flow of high-growth, investable scale-ups

Higher education institutions can and should sit as 'anchors' at the heart of successful local innovation ecosystems, and as part of that an effective university spin-out framework can serve as a robust pipeline for commercialised innovations. Adopting recommendations from the Independent Review of the UK's University Spin-out Ecosystem, including the rapid adoption of best practices by all university stakeholders, would strengthen this pipeline, helping scale-ups benefit from cutting-edge research and innovation[81]. In particular, the government should consider incentives to reduce the size of equity stakes universities take in spin-outs. This would allow entrepreneurs to retain more ownership, making these ventures more attractive to private investors and enhancing their potential for high-growth development.

Place-based industrial strategy

2.3 Introduce a 'Scale-Up Duty' as part of the new Local Growth Plans

A meaningful place-based industrial strategy must build on local strengths, developed through collaboration between local, regional, and national government. As FGF's report *Impactful Devolution 01* highlights, the new statutory Local Growth Plans should provide a framework to align regional ambitions with national priorities[82]. These plans should focus on fostering high-value clusters, such as green technology and advanced manufacturing, while integrating strategies for housing, skills, transport and digital infrastructure to provide the foundations on which local economic growth can be built. By acting as pipelines for investable projects, they can unlock private sector investment and drive inclusive, sustainable growth.

81 Professor Irene Tracey and Dr Andrew Williamson, Independent Review of University Spin-out Companies: Final report and recommendations, November 2023.

82 Ben Lucas and Elizabeth Hopkins, Impactful Devolution 01: A new framework for inclusive local growth and national renewal, Future Governance Forum, July 2024.

Incorporating a ‘Scale-Up Duty’ into all Local Growth Plans and Devolution Deals would establish high growth business support as a key priority across local authorities and make supporting scale-up businesses an explicit aspect of these new arrangements.

This duty could involve requiring MCAs and local authorities to identify and prioritise scale-up businesses within their jurisdictions when designing Local Growth Plans in the first place, mapping and tailoring local infrastructure projects and business support services against scale-up needs to encourage the development of a thriving ecosystem, aligning local skills training programmes to scale-up needs and then monitoring the impact of these and other initiatives within the plan on the growth of scale-up businesses within the region. This process could start with conducting a local ‘scale-up audit’ to identify businesses with high growth potential and their specific needs, and move on to ensuring scale-up representation on any new board or structures created as part of the implementation of Local Growth Plans alongside a clear connection to bodies like the BBB and Innovate UK to ensure coordination with national scale-up initiatives and the overall Industrial Strategy.

By embedding a Scale-Up Duty in Local Growth Plans, regional economies can capitalise on the transformative potential of scale-ups, fostering job creation, innovation, and sustainable growth. This approach would ensure that local strategies are actively designed to meet the needs of businesses that drive regional and national prosperity.

3. People

Culture and leadership

3.1 Building on existing initiatives, establish a National Scale-Up Leadership Network to enable mentoring, professional development and peer-to-peer learning initiatives for scale-up leaders

Encouraging a cultural shift among investors and corporates in the UK towards celebrating entrepreneurial risk and making second chances more acceptable would go a long way towards creating a more vibrant scale-up ecosystem. So too would recognising that as start-up founders become leaders of larger, scale-up businesses they will require different skills, expertise and support as they take on new and different roles and responsibilities.

Active support for founders to become effective leaders is essential for enabling scale-ups to thrive. Developing these skills requires a holistic approach encompassing leadership training, mentoring, professional development initiatives, and peer-to-peer learning networks, all of which can help entrepreneurs navigate the complexities of managing high growth firms. Tailored programmes and initiatives can empower founders to lead their businesses effectively, fostering the skills and confidence needed to scale successfully.

Such an approach should also recognise that the leader of a scale-up firm in one region may not have access to that peer network nearby, but could benefit enormously from making contact, and exchanging lessons and best practice, with similar leaders in the same sector elsewhere in the country (or beyond). Government should therefore consider establishing a publicly-supported network of scale-up leaders from across the country, linked in to the development of Local Growth Plans: each Combined Authority area could begin by identifying local scale-up champions to engage in and promote the network, which over time would serve to mentor scale-ups, promote success stories, and foster a culture of ambition and growth by showcasing the societal and economic benefits of scaling businesses.

Skills

3.2 Make AI and digital upskilling a central element of the new Growth and Skills Levy as part of a greater focus on STEM education

At the heart of the government's skills agenda is the introduction of a new Growth and Skills Levy to replace the existing Apprenticeships Levy[83]. The aim of the new levy is to give learners and employers greater flexibility over their training, by allowing shorter apprenticeships and for levy funds to be spent on a wider range of training courses. The exact design of the new levy will be informed by the work of Skills England, a new body announced in July and which currently exists in shadow form within the Department of Education ahead of its formal launch next year[84].

One of Skills England's core aims will be to shape technical education so that it responds to skills needs, and as part of that it will identify the specific training that will be accessible via the Growth and Skills Levy. The new body is currently consulting employers and other organisations to gain initial views on what this priority training should be, and will publish its findings in early 2025 - including skills needs assessments for each of the Industrial Strategy's eight "growth-driving sectors" plus construction and health and social care.

Given the Industrial Strategy's focus on unlocking innovation and growth, Skills England should ensure that a range of AI and digital upskilling training courses are eligible for funding under the new levy, which will enable scale-ups to adapt to and benefit from rapid technological advances. In a similar vein, the new body - and England's MCAs, who will gain further powers over skills policy as part of the English Devolution Bill - should emphasise the importance of science, technology, engineering and maths (STEM) as it determines the skills needs of the country as a whole. This same focus on STEM should form a core part of the Government's Curriculum and Assessment review, commissioned in July and due to issue its interim report in the new year ahead of a final report later in 2025[85].

83 Prime Minister's Office and Department for Education (DfE), Prime Minister overhauls apprenticeships to support opportunity, 24 September 2024.

84 DfE, Skills England, accessed 3 December 2024.

85 DfE, Government launches Curriculum and Assessment Review, 19 July 2024.

3.3 Introduce a second, larger wave of the Flexible AI Upskilling Fund

In March of this year, the previous government announced a £7.4 million pilot scheme - the Flexible AI Upskilling Fund - to subsidise the cost of AI skills training for SMEs in the professional business services sector[86]. Eligible businesses were able to apply for funding for up to 50% of the cost of AI skills training and other AI upskilling activities. The pilot, which is ongoing, aims to stimulate employer investment in AI training, address skills gaps in the UK workforce that are limiting AI adoption and measure the impact of AI upskilling on business productivity and outcomes.

Subject to evaluation of the impact of this first wave, the new government should consider rolling out a second, larger wave of the fund to achieve a step change in the adoption of AI across scale-up firms, boosting productivity and helping them to grow. A second phase of the fund could look to streamline the application process while supporting a wider range of training programmes, from foundational courses to advanced specialisations.

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4. Governance

4.1 Make scale-up impact an explicit feature of evaluation frameworks for the Government's five missions

FGF has previously argued for the government to adopt new dynamic evaluation frameworks as it looks to monitor the success of its five national missions, taking into account indirect impacts of the state's action - such as spillovers, ecosystem-wide transformation and public value creation - rather than relying on traditional, narrow and static Key Performance Indicators (KPIs). We recommend that these frameworks ask not just "is this working?" but "who is it working for, where and why?" in order to build a greater understanding of the government's role and its impact on other actors and the system[87].

Given all that we have set out above regarding the critical role that scale-ups can play in delivery of all five of the Government's missions and its Industrial Strategy, it will be important to ensure that outcomes for high growth firms and the ecosystems that enable them to flourish are factored into these evaluation frameworks.

Trackable mission outcomes relating to scale-up development could include looking at levels of job creation and productivity growth attributable to scale-up firms specifically (with a particular focus on regional distribution), levels of domestic and international investment attracted, export performance, public procurement contracts won and wider innovation metrics such as patent registrations. Taken together these could help to ascertain a picture of the health of the UK's scale-up ecosystems over time, and their particular contribution to mission delivery. The 'test and iterate', 'learning by doing' approach that is characteristic of the best scale-up firms should also be a feature of the way in which the government itself approaches mission delivery.

86 DSIT, Guidance: AI Upskilling fund, 12 March 2024.

87 Mazzucato et al, Mission Critical 01, p.35.

4.2 Include scale-up voices in new partnership ways of working, such as the Industrial Strategy Council

The government has made clear that its five national missions can only be achieved through a whole-of-society effort and not by the state alone, and has committed to working in partnership with businesses, unions, civil society and all levels of government to deliver on its ambitions. This is made explicit in the Industrial Strategy which dedicates a whole section to the concept of partnerships and which seeks to establish a new Business Partnership Framework as well as establishing the Industrial Strategy Council (ISC) on a statutory basis[88].

Critical to the success of this new approach, and to new institutional arrangements like the ISC, will be ensuring a diversity of voices are represented on them and that the government is hearing from a range of stakeholders with different experiences and insights to bring to the table. The unique perspective of scale-up firms will be vital to ensuring the government has the best possible understanding of how to nurture domestic champions, encourage innovation and enable greater entrepreneurialism throughout the country. Involving scale-up representatives in these structures will also ensure their unique needs are considered early in policy development, consistent with the government's commitment to "convene and co-design" its emerging Industrial Strategy.

Conclusion

Scale-ups are fundamental to the new UK government's ambitions for economic transformation, technological leadership, and regional inclusion. By embedding scale-ups at the centre of its five missions the government can drive both national economic performance and social progress.

Targeted, well-structured support for scale-ups can address persistent barriers in funding and market access, regional economic development, talent and skills. Getting the design right for the new pension 'megafunds' and the Tibi-style BGP, for instance, could channel much-needed late stage private capital into scale-ups across sectors, especially those with strategic relevance to national missions. On the public finance side, emphasising scale-up considerations in the mandates of the BBB, NWF and NSSIF and establishing a dedicated public procurement target for scale-ups could create dependable revenue streams and demonstrate that the government is a committed partner in fostering high growth enterprises.

To encourage scale-up growth outside London, a proposed Scale-Up Duty could put high potential firms at the heart of Combined Authorities' new Local Growth Plans. A new national network of scale-up leaders and a focus within the government's new skills architecture on digital and AI training would cultivate a diverse and skilled workforce while creating high-quality jobs nationwide, tackling regional disparities and fostering inclusion.

88 DBT, Invest 2035, pp.51-53.

The government's mission-led approach creates a unique opportunity to integrate scale-ups into broader national objectives. By incorporating scale-up metrics into dynamic evaluation frameworks for its five missions, the government can ensure that scale-ups are consistently contributing to mission outcomes, supporting its vision of sustainable, long-term growth.

Scale-ups are essential to building an economy that is not only competitive but also inclusive, sustainable, and innovative. By enacting policies that bridge the funding gap, support talent recruitment and retention, and encourage the development of regional ecosystems, the government can create an environment in which scale-ups flourish. This commitment would position the UK as a global leader in technology and clean energy, unlocking economic potential across the nation and empowering scale-ups to drive forward a vision of prosperity that works for everyone.

Annex A: A recent history of UK scale-up policy

Over the past decade, the policy landscape for high-growth companies has evolved, reflecting the changing priorities of the governments of the day as they increasingly recognised the value of nurturing scale-ups to drive innovation, productivity and economic growth.

The early 2010s saw a significant push to make the UK an attractive destination for entrepreneurs and new businesses. Policies such as tax relief for start-ups, support for early stage financing through the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), and a growing number of incubators and accelerators, helped create an environment conducive to the establishment of new tech firms. The Coalition Government sought to position London as a global hub for technology, symbolised by the development of the Tech City initiative in East London, which aimed to attract tech talent and foster a start-up-friendly atmosphere.

However, while these initiatives were deemed successful in encouraging the creation of start-ups, the support for companies attempting to scale remained limited, with a perception of less attention on what happens after a start-up gains traction and needs to grow beyond its early phase. That began to change in the following decade, as the focus shifted towards enabling the firms in Britain's vibrant start-up ecosystem to scale successfully.

Over the page we set out the main policy initiatives from 2014 to 2024 that sought to encourage the growth of scale-ups in the UK. These developments mean the incoming government does have some foundations to build upon, though as the rest of this report makes clear, significant barriers to scaling up remain and it will require a concerted effort from policymakers to remove them.

Developments in scale-up policy, 2014-2024

1. The Scale-Up Report (2014)

The *Scale-Up Report*, published in 2014 by Sherry Coutu CBE for then Prime Minister David Cameron and the Digital Economy Council, was a key moment in UK scale-up policy[89]. It identified the key barriers preventing UK start-ups from scaling, including access to talent, markets, finance, and leadership capacity. The report called for targeted interventions to help growing companies overcome the specific challenges they faced, and helped to shift the government's focus from enabling the creation of start-ups to ensuring that these businesses could scale and contribute meaningfully to the economy.

2. Tech Nation (2014-2023)

Tech Nation, founded in 2014, also became a significant institution in supporting UK tech companies through their scaling journeys. Originally established to accelerate the growth of digital businesses, Tech Nation provided mentorship, growth programmes, and a supportive community for tech entrepreneurs. For nearly a decade, it played an instrumental role in helping UK companies navigate the complex scaling process, offering support that complemented government initiatives until its central government funding ceased in 2023. In April 2023, Tech Nation became part of the Founders Forum (FF) Group, a global community supporting entrepreneurs. Under FF Group, Tech Nation continues to process the Global Talent Visa for the Home Office.

89 Sherry Coutou CBE, The Scale Up Report on UK Economic Growth, November 2014.

90 DBT, HM Treasury and Department for Business, Energy and Industrial Strategy (BEIS), Patient Capital Review, November 2017.

91 HM Treasury, The Kalifa Review of UK FinTech, 26 February 2021

3. Creation of the ScaleUp Institute (2015)

Following the recommendations of the Scale-Up Report, the ScaleUp Institute was established by the private sector in 2015 as a research and education body to provide data, analysis and insights on how to build and evolve local, national, and international scale-up ecosystems. It monitors and evaluates initiatives that seek to address scaling challenges as to their impact and provides an economic development course for academic, private and public sector actors. It works across the country with policymakers, financiers, corporates, local authorities and educational establishments on areas such as improving access to markets, finance, talent, enhancing leadership skills, and strengthening local ecosystems. The Institute's research and annual reviews have highlighted both the progress made and the ongoing challenges facing high growth businesses in the UK and makes recommendations as to how to further address these."

4. Patient Capital Review (2017)

The *Patient Capital Review*, led by Sir Damon Buffini in 2017, was aimed at addressing the need for long-term investment in high growth businesses.[90] The review identified the gap in patient capital: the type of investment needed for companies that require longer periods to mature, such as those in deep tech and life sciences. Recommendations from the review led to the expansion of British Patient Capital under the British Business Bank, aimed at ensuring businesses had access to the type of capital necessary for sustained growth beyond the start-up phase.

5. Scale-Up Visa (2022)

In 2022, the government introduced the Scale-Up Visa to address one of the most critical barriers to growth: access to skilled talent, borne out of the Kalifa FinTech Review for HM Treasury in 2021[91]. This visa was designed to make it easier for high growth UK companies to hire the best talent from around the world, acknowledging that access to human capital is one of the most significant challenges for scale-ups.

Annex B: Learning from overseas

As the UK looks to solidify its position as a global leader in technology and innovation, there are valuable lessons to be learned from other nations that have successfully built and nurtured scale-up ecosystems. Israel, Singapore, South Korea and France provide compelling case studies of the role that the state can play in developing supportive ecosystems, backing core sectors and helping them to internationalise, driving growth through targeted R&D investment and mobilising patient capital towards high potential tech firms. Each of their experiences can inform the UK's approach to creating a thriving scale-up environment of our own.

1. France: Mobilising private capital

Launched in 2019, the French 'Tibi' scheme was designed to address a funding gap in domestic technology by mobilising institutional investors, particularly pension funds, to increase their commitments to growth equity and venture capital focused on high potential sectors. The scheme is named after Philippe Tibi, a French economist and professor at École Polytechnique. In 2019, he authored a report, *Financing the Fourth Industrial Revolution*, which highlighted the challenges French technology companies faced in securing sufficient funding during their growth phases.

This report led to the establishment of the Tibi initiative, aiming to mobilise private capital for the technology sector by encouraging institutional investors, such as pension funds and insurance companies, to allocate a portion of their funds to tech scale-ups. The French government, recognising that a lack of access to late stage capital was holding back the country's scale-up ecosystem, acted as a convenor, bringing together private sector investors and tech firms to create new funding opportunities.

The Tibi scheme is significant because it addresses a key challenge faced by many high-growth companies: the so-called "valley of death" that occurs when firms need to secure substantial investment to scale but struggle to access sufficient funding. By facilitating connections between institutional investors and the tech sector, the French government has helped to unlock much-needed capital for late stage growth, allowing promising companies to reach their full potential.

2. Israel: The 'start-up nation'

Israel's reputation as the 'start-up nation' is not accidental. The country has developed a thriving ecosystem for technology companies, with a particular emphasis on cybersecurity, AI and biotechnology. This success is largely attributable to the role of the Israel Innovation Authority, which actively provides grants, R&D funding and mentorship to high-growth businesses.

The Israeli government's support is multifaceted. There is strong collaboration between the state and the private sector, which has been instrumental in nurturing the country's tech sector and enabling it to succeed in global markets. The involvement of academia further strengthens this ecosystem by providing a steady pipeline of talent and facilitating tech transfer initiatives. The result is a unique network effect where ideas flow seamlessly between research, practical application, and the marketplace. Another key takeaway from Israel is the strategic role that government grants and R&D funding can play in boosting innovation.

3. Singapore: Government-led innovation

Singapore offers another compelling example of how a government-led approach can foster a thriving scale-up environment. Over the past two decades, Singapore has built one of the most successful innovation ecosystems in the world, focusing on sectors such as fintech, medtech, and clean energy. The Government plays a central role in driving innovation through agencies like Enterprise Singapore, which provides funding, mentorship, and internationalisation support to high growth companies.

Enterprise Singapore's approach is notable for its emphasis on supporting the internationalisation of domestic companies. Singapore recognises that for companies to grow and achieve scale beyond the country's own (small) internal market, they need to access international markets. As a result, the Government actively helps businesses navigate the complexities of expanding abroad, providing grants for market research, support for international business development, and assistance with forming overseas partnerships.

Another key component of Singapore's success is its ability to identify and prioritise strategic sectors. Through targeted investment, Singapore has become a leader in areas like digital health and clean energy, which are also critical to the UK's future economic competitiveness.

4. South Korea: Heavy investment in R&D

South Korea offers a powerful example of the impact that significant R&D investment can have on a country's economic competitiveness. Korean R&D expenditure stood at 5.2% of GDP in 2022[92] - one of the highest rates globally (with a roughly 75/25 split between private and public investment[93]). This level of investment has been critical in driving innovation and helping South Korean firms compete on the global stage. As a result, South Korea has developed world-class capabilities in areas such as electronics, AI, and automotive technology.

The South Korean government's approach to R&D is underpinned by significant financial support for high growth businesses. The Government collaborates closely with private sector actors to identify critical areas for investment, in line with its overall industrial strategy, and to co-fund projects that have the potential to deliver transformative impacts. This proactive approach has allowed South Korea to maintain its position at the forefront of technological innovation, particularly in sectors that are essential for the country's future economic resilience.

92 Statista, Research and development spending as a share of GDP in South Korea from 2015 to 2022, 20 September 2024.

93 Korea-EU Research Centre, S. Korea's R&D spending 5th largest among OECD members in 2019, 31 December 2020.

Conclusion

While the UK's context is unique, the experiences of France, Israel, Singapore and South Korea and can nevertheless provide valuable lessons. Consistent across all four nations is the importance of a proactive, hands-on role for government in fostering innovation and supporting high growth businesses. The new UK government, with its stated aim to be an active, strategic state, should look to take on a similar role, creating a framework that brings together the best of international experience while leveraging the unique strengths of the UK economy.

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