Regional and National Ecosystems: Untapped Potential

An introductory guide to how local policymakers can create the right climatic conditions for tech start-ups

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SHOOSMITHS

COADEC

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About Shoosmiths

Shoosmiths is a major UK law firm operating from 13 locations across the UK including Scotland and Northern Ireland. We deliver deep legal expertise across all core practice areas and industry sectors, placing our focus on our clients and commerciality. Our national venture capital team acts for investors and companies across the entire life cycle of a company's business, from seed investment rounds through Series A, B and later investment rounds, and on to exit. Acting for investors as well as on the company side gives us a 360 degree view of the investment market and translates into quick, intuitive and effective advice for clients.

We also have a dedicated technology sector team striving to help clients harness the power of invention to drive ideas, products or their business forward. As well as supporting Coadec, we are active sponsors of Tech London Advocates and Silicon Valley Comes to the UK, and are heavily involved with a number of well-known incubators and accelerators. Our team of experts work with incubators, early-stage and growth companies and VC funds to help the next generation of disrupters scale their businesses. We also regularly connect our tech clients with different types of funders, from angels and family offices to VC houses and private firms, both here in the UK and also in the US as our clients look to scale in different markets.

To find out more about Shoosmiths, visit www.shoosmiths.co.uk.

About Coadec

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

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

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 3000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem. Our work has seen many successes, from the establishment of the Future Fund and the expansion of the Tier 1 Exceptional Talent Visa, to the delivery of the UK's Patient Capital Fund.

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

Disclaimer

This report highlights views and considerations expressed by stakeholders across tech and local government. Some of these may be more applicable to you than others and local circumstances and local governance structure will vary area to area. Interviewees may disagree with each other and their views are not necessarily the views of Coadec or Shoosmiths, but instead are expressed here to build a picture of viewpoints from those working on the frontline.

Acknowledgements

We're extremely grateful to the members of the startup community, investment community, local government community and other stakeholders for their time in contributing to this report. Ultimately, this report is for you and about you. Please keep the feedback coming.

Foreword

Local government has the potential to play a significant role in developing the tech sector across different regions of the United Kingdom by bringing together all the ingredients of a successful tech ecosystem and providing the right conditions for tech start-ups and scale-ups to thrive in their local areas.

This guide provides local authorities with ideas and policy recommendations for supporting tech start-ups and scale-ups in their area by nurturing a high value ecosystem and attracting (and retaining for the long term) a deeper pool of tech talent and investment. It will also be of interest to tech start-ups, scale-ups and investors in understanding the opportunities and challenges for local authorities in supporting the tech sector across the UK regions.

The key to a successful tech ecosystem is critical mass in terms of access to talent, advice and investment. The tech ecosystem in the South East of England, and particularly London, is recognised as one of the best in the world. London's melting pot of global talent, combined with access to capital and an established advisory and networking infrastructure, makes it a highly attractive place for start-ups, scale-ups and investors alike.

Notwithstanding the draw of London and the South East, the UK tech sector flourishes in other regions, often in clusters of specialist talent – for example, cyber-security in Glasgow, gaming in Brighton, agri-tech in Aberdeen and virtual reality in the North East of England. There is untapped potential to grow these and other regional tech hubs.

Local authorities may hold the key to unlocking some of this potential and this report contains numerous pragmatic suggestions for doing so.

At Shoosmiths, we are pleased to play our part in supporting the growth of regional tech hubs. A law firm with 13 offices spread across the UK, we have extensive experience advising tech start-ups and scale-ups across the UK, as well as the investors in those companies. We would like to take this opportunity to thank Coadec for its work in preparing this guide, as well as the many participants in the wider UK tech ecosystem who agreed to speak with Coadec as part of its research, and hope that you draw inspiration from this guide in untapping the potential of regional tech ecosystems.

Steve Barnett, Partner, Shoosmiths

"I've seen the power of the digital revolution as West Midlands Mayor, and I know that digital is the key for our future economic success. That's why we need all parts of the United Kingdom to fulfil their tech potential, and why I welcome this latest report by Coadec."

- Andy Street - Mayor of the West Midlands

Executive Summary

The UK's tech sector is one of the fastest growing sectors of the economy. Tech SMEs exist nationwide, however the opportunities that can help them develop their potential are primarily found in London, and to a lesser extent the South East. Tech start-ups are more likely to develop and thrive in tech clusters, a critical mass of companies, individuals and institutions within a connected geographic area. To form a cluster, the right climatic conditions include specialisation, access to investment, access to the right employees, and educated and empowered start-up founders.

Local policymakers can play a significant role in helping to convene the necessary factors and climatic conditions for growth of a successful cluster by:

- **Enabling access to markets:** acting as, or supporting an intermediary to act as, a "dating service" between start-ups providing digital solutions and potential customers, which can include the public sector, corporates, or existing traditional businesses.
- **Enabling access to finance:** providing a single point of contact for grant funding; encouraging local non-profit Angel networks; helping to form a critical mass of local start-ups to attract early-stage investors to an area.
- **Linking in with wider town and city centre planning:** incorporating consideration of tech ecosystems into long-term town and city centre planning, whether that's provision of affordable office or co-working spaces, or initiatives that make town and city centres attractive for potential employees.
- **Utilising partnership working:** where initiatives involve financial risk, partnering with the private sector; linking with university and further education providers to match education provision to local jobs; facilitating conversations between local government stakeholders.
- **Forming a long-term vision:** ensuring expectations are set realistically, and ensuring key players are educated in the needs of the tech sector.
- **Finding a key selling point:** identifying a key speciality area for growth or development, and ensuring this is realistic for the existing economic geography.
- **Encouraging networks:** where start-up specific networks do not currently exist, creating and facilitating them, and using these to help provide education, mentorship and investor contact.

This report will point to ways for local government and local policymakers to harness their significant convening power to bring together the key players and ingredients of a successful ecosystem - start-ups, academics, investors, corporate clients, other clients, intermediary organisations - to form a critical mass of people and ideas, to help grow and nurture a high value ecosystem and bring in a wider pool of talent and investment to the geographic area.

Introduction

Glossary

Tech start-up: a company, often starting small, with high growth potential, selling a product or service based around technology. The majority of start-ups will fail: a minority will scale up, some to exit, others to become unicorns (a privately held company with a value of over $1bn).

Tech scale-up: a high-growth tech company. Formally defined as a company growing at more than 20% a year in either headcount or turnover, in practice the most successful tech scaleups are growing much faster than this. These hyper-growth companies become some of the household names you might know today like Monzo or Deliveroo, often relying on capital from venture capitalists as they focus on customer and revenue growth over profitability as they develop.

Tech cluster: a geographic cluster of individuals, companies and institutions with high innovation as a result of connectivity. The biggest-scale example for tech is Silicon Valley in the US. The "cluster" phenomenon is not limited to tech, with the same principle seen for sciences, arts, engineering and other fields. Tech clusters can be supported by accelerators and incubators.

1. The Opportunity - Untapped Potential

> ***"There are things we obviously can't do in London, such as agri-tech or offshore wind...the key regionally is looking for pockets of global excellence"*** **- Founder and Angel Investor, London**

The UK's tech sector is growing six times faster than the rest of the economy, with our start-up and scale-up ecosystem valued at over £585 billion in 2021.[1] Already world leaders, we have huge development potential. London has a total of 75 unicorns and in 2021 London tech firms raised £19bn of VC investment, making the city the world's fourth-largest player. But the potential for clusters of excellence exists across the UK.[2]

Scale and specialisation matter in tech clusters, with a successful cluster attracting the best and the brightest within a wide geographic area. This specialisation means that regions can sell a unique offering that cannot be found elsewhere, such as cyber security in Glasgow, gaming in Brighton, agri- and climate-tech in Aberdeen, virtual reality in the North East, or a world-leading area for semiconductors in South Wales. Growth that has resulted in one or two successful businesses in an area can have a waterfall effect in developing new start-ups, with clusters such as gaming in Leamington Spa developing from the success from one first-mover company.

> ***"[There are] a lot of companies in Teesside who could take the venture capitalist route but haven't considered it"*** **- Founder B, North East**

Start-ups have the potential to hit the big time with angel and then venture capital investment, which allow a speed of acceleration greater than what is offered by steady expansion. Here is the block: investment is disproportionately spread across the country, a dramatic imbalance in the UK's equity picture with the vast majority directed towards London.[3] This has a significant impact on the ability of regional and national start-ups to achieve the growth they might otherwise be capable of, a significant area of untapped potential.

> ***"It is a psycological shift... if people are happy with their current level of renumeration they don't always feel the need to see beyond [the region] to where their company could go"*** **- Corporate Partner C, Shoosmiths**

2. How Local Government Can Help

Tech ecosystems consist of private companies, and are the product of the private sector. They are grown, not manufactured. They are not something that either local or national government can follow a recipe to create, but rather growth can be helped or hindered by different climatic factors.

Ecosystems are big picture, multi-factor, and long term. They require long-term strategic thinking and coordination, joining the dots across talent recruitment, access to investment, place-making and partnerships. This is where local authorities come in.

The private sector is not going to come to the table with a coherent long-term plan for the future of a city or town but local authorities, as the primary political presence on the ground, are in a place to do this through their convening power. Ecosystem development does not need significant capital outlay from local government, but instead requires joined-up thinking, long-term vision and convening of key players. Ecosystem development cannot function in a silo or within the confines of a single local government department, but forms part of a wider strategy encompassing multiple players.

> ***"The key fixable is networks, networks and communities. They are fixable things, soft things, then items like access to finance are fixable once networks exist"*** **- Founder, Northern Ireland**

This guide draws on best practice from councils and intermediary players from across the UK to provide ideas, recommendations, suggestions and considerations for those thinking of looking at tech ecosystem development. This shares ideas and models that have worked elsewhere: good policy is plagiarism!

Economic development is an art not a science and every area is different: there are no hard and fast rules. Reflecting this, the report is a mix of hard policy recommendations and general considerations: there may be policies that work for others that are not the best fit for your area or inapplicable because of differing governance structures or other factors. Equally there may be opportunities you have that others do not have.

At Coadec, we work to create a supportive environment for tech start-ups across the UK. If you have read this report and want to take some points in it further or be linked in with others, please do reach out.

3. Expectation Management

> ***"Everyone loves unicorns, however they form a small part of the broader tech economy. From an economic development angle, the best way to make an impact in regional development is to help traditional businesses grow using technology."*** **– Managing Director, Co-Working Space and Growth Hub**

Most start-ups will fail: creative churn is healthy within an ecosystem and the metric is whether talent stays in the same place.

Don't push for every tech business to be a scaleable start-up: start-ups are businesses with high-growth potential; a healthy tech business can exist and contribute to the wider ecosystem without this.

Not every area will have a tech ecosystem: the nature of innovation clusters is that they aim to attract a specialisation's best and the brightest within a wide geographic area.

Timescale: with supportive initiatives, allow time to grow and build trust from key stakeholders. The return on investment may take longer than two-three years.

KPIs: manage expectation internally on how success will be measured, particularly if it is based on the long-term creation of a tech ecosystem.

The nature of risk and entrepreneurship: means partnership with the private sector is necessary.

Not all opportunities are clear at the outset: as they grow, tech businesses are able to seize on opportunities in the market that may not have been obvious when the business started out.

Strategy will vary place to place: identify first what is in existence within the wider economic geography, look to align with existing initiatives, and identify where opportunity lies locally.

Tech Startups vs Tech Corporates

Within the tech industry, business sizes span from micro-businesses (one to nine staff) to large corporates. An innovative tech start-up of four people is in the tech industry in the same way Microsoft or Apple is, but their needs, contributions to the economy and interactions with government are different. Start-ups are technically small businesses, and have many of the same concerns, but are defined by their potential to scale-up and turn a team of four people into a team of forty, then four hundred.

> ***"[Government] can go to the wrong people about start-ups by talking to the big players, it's like getting Tesco in to talk about how to save high street grocers"*** **- Founder and Angel Investor, London**

A digital marketing consultancy employing four people is a tech small business, in the same way that a bakery or family law firm are small businesses, but the digital marketing consultancy is not a start-up unless it contains the potential to scale. Foreign direct investment, multinational tech businesses, and tech small businesses are outside the scope of this report but hugely important to the regional economy in their own right.

Glossary

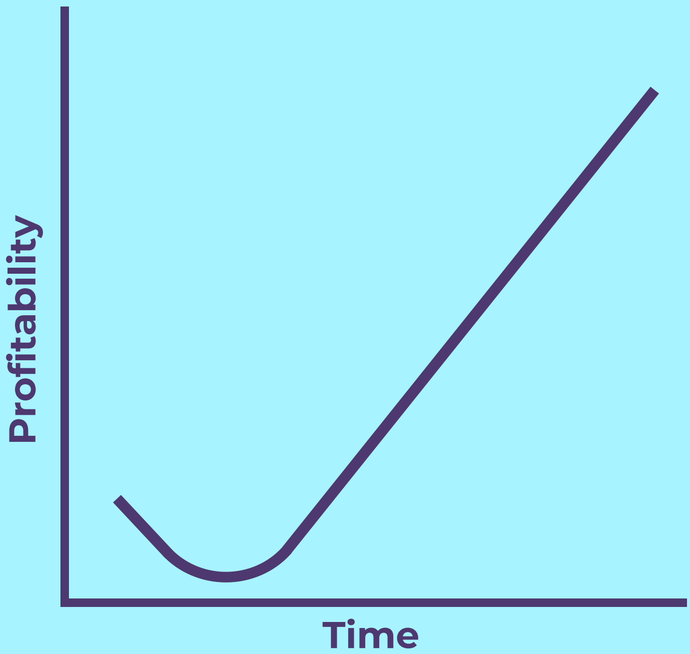
- **Start-up:** a small business with high growth potential.
- **Scale-up:** a rapidly growing start-up moving beyond its initial phase to begin to generate higher revenue and hire more staff.
- **Cluster:** a geographic cluster of individuals, companies and institutions (in any field) with high innovation as a result of connectivity.
- **Accelerator:** an organisation that, for a set timeframe, helps an existing start-up develop through a programme of mentorship, advice, connections and sometimes early stage investment - designed to accelerate an existing business.
- **Incubator:** an on-site programme that helps a potential start-up develop, normally through a deal that involves physical office space and access to services - designed to incubate a business idea.
- **Unicorn:** a privately held startup valued at over $1 billion.
- **Bootstrap:** starting up a company using only privately raised funds (savings; friends and family) and operating revenue.
- **Venture Capital:** a form of equity investment provided by individuals such as Angel investors, or companies like investment funds, into startups. VC is often characterised by its high-risk, high-reward nature and is raised by startups periodically from Pre-Seed, through Seed and then subsequent Series A, B, etc. funding rounds. VC is most commonly monetary, but can also include other forms of support and guidance.
- **Angel investor:** a private individual that invests venture or debt capital in start-ups, often at an early stage. Angels may also play a mentoring role. Investment size will vary; the median for initial investment is c.£25,000.[4]
- **Exit:** usually the point at which a start-up or scale-up's founders and early investors sell their ownership of their company as their profit motive has been met. Routes to exit include acquisition, merger, or floatation on a public stock exchange.

The Start-Up to Scale-Up Journey[4]

Start-up	Start-up / Scale-up	Scale-up		
Seed	**Series A**	**Series B**	**Series C+**	**Exit**
Angel investment; public fund investment, VC investment; grant funding	Angel investment (more likely); VC investment (less likely); Additional funding from a successful company	Angel investment (less likely); VC investment (more likely); Additional funding from a successful company	Angel investment (less likely); VC investment (more likely); Additional funding from a successful company	Merger Acquisition IPO

J-Curve Growth and the start-up business model

The hypothetical ideal for a start-up is "hockey stick" or "J-Curve growth" - relatively linear, if not loss-making, progression as the business refines its product and market, then a rapid growth that forms the shape of a hockey stick.



This phenomenon can be exacerbated in tech.

Traditional product or service based businesses have a total cost per item or service sold, split into fixed and variable costs. For example, if someone starts a local bakery, they may sell cakes at a total cost to the business of £1, 50p of which are overheads that vary with scale, but a raw material cost of 50p that will always remain fixed. They may adapt the recipes slightly as they learn more about their customer base, but the fundamental principle of a cake, doughnut or apple pie remains unchanged: there is no secret formula and a similar product can be found in any other bakery. The cost of one additional unit of output for the bakery is the "marginal cost" - i.e. the total cost of every doughnut produced may decrease with scale, but a fixed cost (e.g. for raw materials) will always remain.

For tech start-ups, such as those providing software-as-a-service (SaaS), the model can look very different. A large amount of time, research and investment will go into creating a basic product and refining it to the market. However, once the basic product is created and is selling, the marginal cost is much smaller as once the technology is created, there can be little or no fixed cost per additional unit of output.

For example, a business offering mapping software may spend months losing money developing and refining their product, which they sell via an app store. But, once that product has found the right customer niche, they can gain thousands of customers in weeks: at minimal or no additional cost per unit of output.

This makes start-ups, and technology start-ups in particular, different to many traditional business models: they can spend a long time creating and refining a unique product, then scale rapidly. The investment cycle, revenue cycle and profit cycle of these companies reflect this model, because they can lose money initially with a view to high margins and exponential growth at a later date.

Key Ingredients of a Successful Ecosystem

1. Building a local tech network

"The best way to help entrepreneurs is to connect them to other entrepreneurs" – **Scale-up advisor, South East**

"The key factor is volume and quality: of talent, of advice, of investment" - **Investment Consultant, London**

"Stick mad people together" - **Founder and Angel Investor, London**

The majority of start-ups will fail, a minority will be incredibly successful. This results in a high turnover of jobs and companies. In a functioning ecosystem, individuals might found a start-up that fails, take that experience to a scale-up that succeeds, leave the scale-up then found another start-up.

Individuals leave and join jobs, companies form, fail and scale, and ideas travel with them. This phenomenon is otherwise known as "creative churn". Getting a healthy creative churn requires this critical mass of individuals, companies and institutions within the same geographic or virtual network, otherwise known as tech clusters.

Clusters can be centred around one physical co-working space or a virtual network in the same geographic area.

2. Making expansion possible through investment

"Investment in Sheffield is mostly by word of mouth and incubators circulating information. We are working on creating a network of Angel investors" - **Researcher; Connector, Business Growth Organisation, UK**

"Venture capital firms are not present in Norfolk and Suffolk - beyond seed stage investment contacts depend on who a founder already knows" – **COO, Business Growth Organisation, East of England**

"[with venture capitalists] a warm introduction is often key" - **Investment Consultant, London**

Start-ups access capital in three major ways: friends/family/business revenue/personal networks (often referred to as "bootstrapping"), individual private investors at an early stage ("Angel investors") and investment from funds (either venture capital (VC) investors or public funds). A business's growth trajectory may involve bootstrapping at the start, followed by a "seed round" of Angel investment then contact with VC investment funds.

Recent research by the British Business Bank shows a dramatic imbalance in the UK's equity picture: whilst the UK business scene is split 55/45 between the top four regions (London, South East, East of England, North West) and everywhere else, 86% of equity investment goes to that 55%. Yorkshire and the Humber received 1.5% of investment in 2021, despite having 7% of SMEs.[6]

And if a start-up wishes to scale-up and turn a business of three into a business of three hundred, the key is often access to capital.

3. Empowered and educated entrepreneurs

"The gap is not so much new start-ups but getting current businesses to scale. The big problem is that good businesses just become lifestyle businesses. Empower people in how to raise money and go to the next level. It's about getting the psychology right" **- Entrepreneur and Founder, West Midlands**

"There is a general lack of talent-sharing as well as reinvention of the wheel, like names of key investors and what stages they invest in, done at micro level across start-ups where information could be shared" **– Investment Consultant, London**

"Our initial venture capital interest came from an award and our initial response was that we were making money and didn't need anything. Then we watched half of YouTube to find out about VC funding, and got in touch with a guy I vaguely remembered meeting in a pub who had a VC fund" **– Founder B, North East**

Sizeable parts of the business journey of a start-up are not intuitive. Information ranging from the opportunity (and risks) of investment funding, how to contact investors and how to pitch, what constitutes reasonable terms and conditions and simple knowledge-sharing from mentors on issues such as HR and business management are sometimes out of scope for very early-stage start-ups but easily accessible through formal or informal business networks.

Whilst a great deal of information is accessible online, the concept of Angel investment can be an "unknown unknown" for a first-time founder.

Additionally, a frequently identified block to growth in the UK is an ambition gap at the scale-up stage: where viable businesses run well at a certain level of turnover but there is not the knowledge or cultural ambition to turn a high-potential SME into a unicorn, or an understanding of what that process would look like.

4. Easy access to skilled talent

> ***"There is a big talent gap in the North-East - people start in the North-East and get jobs in London"*** **– Founder A, North East**

> ***"Access to talent is the #1 driver for business and can be a barrier to growth"*** **– Council Officer, Metropolitan Council, North East**

> ***"Biggest problem is skills and getting people able to do a job at the price you can afford. For a start-up without California-level venture finance the cost is impossible, £50-£60k for a programmer. So people outsource to the Philippines and this isn't helping the UK"*** **- Entrepreneur and Founder, West Midlands**

Across the board, a key factor in business success and particularly successful clusters is ability to access skilled talent. This forms part of a broader conversation about the nature of clustering of skilled workers in the economy, and the convergence of people and companies leading to greater innovation and development.[7]

This is arguably enhanced in tech, which contains rapidly changing and evolving skillsets and a younger than average workforce.

Remote working

Start-ups reported a two-pronged-feedback on COVID: that hiring was easier remotely or with a mixed remote-office solution, but that the level of competition had increased as start-ups regionally were competing with salaries from anywhere.

Building the Right Conditions for Success

This section builds on common themes from different start-up founders, local councils and intermediary organisations. No ecosystem works in exactly the same way; funding structure and structure of local government is different from region to region; and rather than providing a set list of ingredients, this aims to collate ideas and suggestions to help form the building blocks of what may work for **you**.

1. Enable Access to Markets

***"Digital" is wider than people think - everyone uses digital solutions, and that skillset doesn't need to be in-house. Hence the key point is linking sectors"*– Company Founder, Non Exec Director and Digital Consultant, North East**

***"Great tech businesses can be grown from finding the people with deep sector knowledge of a particular industry or sector, and building them the products and services to solve their problem or open new opportunities. This helps the traditional businesses using those products and service to grow, creating a much larger impact on the wider economy and jobs in areas outside of digital/tech roles"* – Managing Director, Co-Working Space and Growth Hub**

***"A tech start-up does not work with [the Council's] mindset. Corporates know [the Council's] procurement and frameworks, and have people that can do that. Councils take a long time to deal with and corporations have these skills in house"* – Senior Officer, Borough Council, Midlands**

Public Sector Procurement

The public sector accounts for roughly 17% of employment in the UK, and government spending is 40% of GDP.[8] The public sector has a relatively higher presence in areas such as the North East, North West, Yorkshire and the Humber and Scotland, Wales and Northern Ireland as a proportion of total employment.[9] For many start-ups, the government is a significant potential customer and success can be driven through strategic procurement. However, public sector procurement operates with high bureaucratic requirements on a longer-term timescale than is viable for many start-ups.

Digital Transformation

Meanwhile, digital transformation – software solutions enacted in non-technical business, e.g. a traditional manufacturing business using computer-aided design and drafting or a seafood wholesaler using an automated booking system – is a development opportunity for the UK as a whole: in 2017 fewer than 20%

of UK enterprises used software to share information across the organisation, compared to 40% in France and more than 55% in Germany.[10]

SMEs mix with each other across geographic groups such as Chambers of Commerce and horizontal groups such as trade associations. A further area of potential exploration is proactive reach: through methods such as data-driven targeting, businesses can be targeted for digital transformation opportunities in the same way as a business might use data to target potential consumers.

Corporation – Start-up Partnering

Bigger corporates often buy-in innovation from start-ups, sometimes referred to as "division of entrepreneurial labour".[11] However, startups who want to take custom from corporates can struggle in the following ways: a) lack of links between start-ups and potential partners, b) corporate long payment terms and c) difference in language and communication styles between start-ups and corporate partners.

Recommendation:

Incubators can offer a “dating service” or connector role between:

a) start-ups and existing local traditional businesses within the Council area (e.g. manufacturing, hospitality, high street) offering potential cost-saving tech solutions.

b) start-ups offering a service and potential corporate customers, with intermediaries able to play a connector role directing corporates to potential tech solutions and advise start-ups on suitable language and forming a board-ready pitch.

Case Study: We Are Digital

Founded in 2013, We Are Digital is a Coventry-based for-profit social impact company that counters digital exclusion by empowering people with access, training and vocational skills in all things digital and online. Their partners include Lloyds Banking Group, the Department for Education, the Home Office and various local government bodies and housing associations.

CEO Matthew Adam:

"We were a proper start-up, founded from my bedroom. We originally started from Oxfordshire where my family are, then Warwickshire, then Coventry. We fell into the area that we are in – I always wanted to start my own business and had hundreds of ideas. Previously I'd headhunted for private equity firms."

"We started providing digital training for over 70s, initially a B2C model. We then moved to a B2B2C model as we realised it was easier to sell the product to a housing association which cascades it to their thousands of residents rather than us contacting each customer individually. Some see the sector we're in as a bit soft but some of these social housing providers turn over £1bn per year. We realised that these were big complex organisations that needed to do this work and didn't have the time, so outsourced to us."

"A lot of our growth comes from large tender, such as one contract for £13m. We turned over £3m last year, will turn over £7m-£10m next, but we still have cash-flow challenges and this is the challenge that scale-ups face, especially those that market to a small group of large buyers like corporates or the public sector. With the public sector, you have to get everything right to the nth degree but once you do it is stable. We have AAA payers as central government won't go bust and has SME payment standards."

"Our investment started with a £75k seed round from friends and family. I look back and cry as we gave away 45% of equity at that point. Following that, we were based in Warwick and got in touch with [local Angel network] that was linked to the tech park. That's where our first Angels came in, then [a local co-investment fund] matched."

"In April 2019 we raised £1.5m, and this was our first proper round. Half a million went to pay off early investors, the rest into growth. We then got a top-up of £750k during COVID which [as a digital exclusion company] was a growth time for us. [One of our early Angels] became Chair and there's something in this, in having an experienced Chair supporting."

"We found networks talking to other founders in a VC's portfolio through WhatsApp groups or Slack. Otherwise, I learnt through reading and podcasts. There aren't really networks and this is a problem, my personal view is that peer to peer networks are the most valuable. I now know I shot myself in the foot about ten times [in the growth process] but I only recognise these mistakes now through contact with other founders. There is something about regional peer to peer support."

Case Study: C4DI

C4DI, The Centres for Digital Innovation, is a group of privately funded technology incubators helping tech companies grow and traditional businesses innovate. Unique to the C4DI model is the way in which traditional business is brought together with fast tech startups and scaleups through custom innovation programmes and startup incubation. This gives the traditional business access to skills and expertise it never knew it needed, and gives tech companies unrivalled supply chain and mentor access.

The original site is in Hull, with an ongoing expansion to Northallerton, the Midlands and Poland.

C4DI opened in beta in 2013 when a property development company redeveloping parts of Hull saw that incubators had triggered economic development in different parts of the country. The C4DI building is mixed between co-working spaces and office rental, with the ground floor co-working space and small offices managed by C4DI, and the remainder of the management done by the property development company. The whole building is designed to service and support the interactions between large traditional businesses and fast-tech startups and scale ups.

John Connolly, MD, Managing Director and Co-Founder:

"Right in the early days, we realised we were developing a building full of problem solvers, resulting in local traditional businesses asking whether they could solve problems for them? Our work now involves sitting between two worlds - firstly the world of traditional businesses who don't know that technology exists to help them grow their business, and even if they did, they wouldn't know where to find it, and even if they could find it, they would be unable to buy it. The second world is the world of fast tech startups and scale-ups, frequently obsessed with unicorn hunting, disrupting, pitching competitions, or one-size-fits-all accelerator programmes. They simply don't realise you can grow a huge businesses by solving the problems of traditional businesses… and even if they did, they would find it can take a decade just to get in front of one large corporate. Our work is therefore long term, in-depth work to bridge the gaps of those two worlds."

2. Enable Access to Finance

"If I had to identify one thing...it would be co-investment funds and access to risk capital. Funds need to have an appetite for risk when investing in early-stage companies" – **Deputy CEO, Business Growth Organisation, UK-wide**

"We...raised funds from Angel investors in London through friends and contacts" – **Founder A, North East**

"There is a gap in awareness, culturally they are grant-led and selling equity is a dirty word. There is a space for an education piece on investment - good/bad/ugly – how to get to investor readiness" – **Department Lead, Business Growth Organisation and Growth Hub, Tees Valley**

"Investors need an incentive to go somewhere" – **Investment Consultant, London**

"In early stages networking is key: that start-ups get the right advice e.g. from their law firms, accountants, etc to provide warm intros to VCs and advise them how to prep. Location matters less than people think, it's face-to-face conversations that matter" – **Investment Consultant, London**

"All our VC meetings were remote [as a result of COVID]" – **Founder B, North East**

"I am unconvinced on regional VC funds, these can be sub-scale and non-specialised...Silicon Valley is two thirds the size of the UK...[I remember a meeting] with founders in Birmingham saying London was too far away, it is an hour and a half" – **Founder and Angel Investor, London**

"The South West is the third biggest region for Angel funding but 80% of that investment goes to the golden triangle of London, Cambridge and Oxford...anecdotally, it takes seven times longer to invest outside London than it is to invest in London, and finding investors takes 70% of a founder's time over six months" - **Investment Activator and Scout, South West**

"At the moment my sense is that many founders need to look to London-based VCs in order to secure founder-friendly terms. The competition for deals between VCs in London helps to regulate deal terms and keep them in line with what we would consider to be UK and international market standards" - **Corporate Partner B, Shoosmiths**

The investment picture varies significantly based on physical geography. Early-stage investment is frequently possible through bootstrapping or grant funding. Some businesses stop there. In others, Angel investors exist but in networks that are not always accessible to start-ups without existing connections; VC funding often relies on warm introductions and VCs based outside of London are relatively rare.

Physical geography

The British Business Bank 2021 Region and Nation Tracker shows a significant connection between travel time and investor deals: in 82% the investor and business are within two hours of each other; in 61% within one hour of each other; and over 50% are within 30 minutes of each other. These statistics are from within the COVID pandemic and remote working.[12]

Stakeholders highlighted that warm introduction and in-person pitches were key for both VCs and Angels, and also that the barrier was scale: a VC travelling to hear pitches from ten founders in Newcastle was viable, but travelling to hear one was not. Others flagged that lack of warm introductions to investors in London was more of a barrier to regional and national start-ups than the geographic distance.

Remote Communication

> ***"Physical geography has become less important over the last two years, but funds still want to see the whites of people's eyes. This gap has been bridged significantly by the normalising of video calls and indeed those deploying capital benefit from warm intros and personal knowledge. Those working relationships can be started virtually and cemented in person"*** **- Corporate Partner C, Shoosmiths**
>
> ***"There's a lot of noise about investing remotely. Anecdotally, most of the investors I know who said they'd invested remotely during COVID already knew the companies in question anyway"*** **- Managing Director, Angel Network**

Start-ups and investors reported a two-pronged impact of COVID on access to finance. Some had secured finance entirely virtually during the level playing field when all meetings took place virtually due to the pandemic; others emphasised the importance of in-person interactions but added that the initial introductions could take place remotely, negating part of the time and capital requirement for a non-local start-up founder.

Early stage - grants and regional development funds

> ***"I borrowed £250k from Birmingham Finance as we couldn't find equity, then had to pay it back at 10% interest so we couldn't grow. The thing about access to equity funding is that [as a founder] you'll spend all your time trying to find it. And while I've benefited from grants but I haven't had the time to go looking"*** **- Entrepreneur and Founder, West Midlands**

Similar to equity finance, a frequent block with grant funding is lack of easily accessible and centralised information, particularly with the grant funding picture varying widely by geographic area. Once again with grants, access to funding often depends on the start-up founder possessing a relatively high level of knowledge and connections.

Regional funds can provide a valuable source of potential investment locally, but lack the competition of the funding scene in London. This can make it more difficult for founders to negotiate terms as founder-friendly as can be found in London, and the overall outlook of the funds themselves can be more risk-averse.

Early stage - Angel Investment

> *"It's hard for Angels who made their money in areas such as forestry or property to map the lessons they learned to tech"* **- CSO, Accelerator and Co-Working Space, Scotland**
>
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>
> *"According to research conducted by UK Business Angels Association and the British Business Bank, 69% of Angel investment takes place within the Angel's home region. With Angels offering not just investment, but crucial advice and connections, places with fewer visible Angels, like the Midlands, are missing out"* **- Managing Director, Angel Network**

According to 2018 research by the British Business Bank and the UK Business Angel Association, 57% of all Angels are in London and the South East, with 43% of all deals made in this area. 8% are located in Scotland, 7% in the West and East Midlands combined, 1% are in Northern Ireland.[13]

Angel investment can be an "unknown unknown" for business founders and there is no formal method of contact. Contacts are generally made through intermediaries such as lawyers, accountants or colleagues - which requires a start-up to have an existing professional network.

> *"Angel groups need to be run by individuals with both a strong network and reputation within their local community - this can be stimulated with funding and support from those most likely to gain locally, often the universities or the local government"* **- Managing Director, Angel Network**

There are 88 local Angel Associations linked to a specific geographical area. In addition, there are an increasing number of sector-specific Angel groups. Groups can provide a "shop window" and local point of contact between local Angels and local start-ups.

This is often vital, as Angels do not only provide access to equity finance, but also often provide contacts, connections, and advice to early stage start-ups.

Case Study: Milton Keynes Investor Group (MKIG)

MKIG is a not-for-profit angel network, founded in 2015 and run since 2020 by local entrepreneurs Amar Chauhan and Georgina Hollis. The group holds quarterly pitching events, funded via sponsorship, and is voluntarily run on a peer-to-peer basis and takes no success fees. Initially, start-ups were found by word of mouth and warm introductions, but the group now runs a "shop window" website where start-ups can apply to attend a pitch event. More details can be found at www.themkig.com.

Case Study: Opportuni

Founded 10 days before the first lockdown, Opportuni matches SMEs with public procurement opportunities. One founder, Tim Ward, has a procurement background; the other, Bill McGregor, has a background in AI. Their mission is to ensure that 5% of government spending goes to SMEs.

Making money initially by bootstrapping (building off personal finances and operating revenues), Opportuni won a TechNation Rising Star award in their first year after someone in their office applied on the off chance. This led to VC interest and the expansion from a team of 2 to a team of 30, expected to grow to 57, over two years.

Case Study: Minerva Angel Network

Originally founded in 1994 and relaunched in 2009 Minerva, part of the University of Warwick Science Park, is a Midlands-based Business Angel network with subset investor groups based from London to the North West, collaborating extensively with local universities, with £16m invested to date.

Tim Powell, leader of the network from 2009-2017:

"Back in 2009, when the world was still reeling from the effects of the banking crisis, access to finance for early-stage enterprises was a struggle, with very few Angel/Investment networks of any kind available outside London. I knew the University of Warwick Science Park (UWSP) well. The Director of the Science Park had always recognised the value of business angels in supporting innovation and early-stage technology and created Minerva in 1994, but it had never managed to fully exploit its potential. Given my background I was recruited to head up an ambitious series of Access to Finance initiatives, included in which was Minerva."

"The hardest thing I found in my former role with a Co-Investment fund was finding investors, finding good opportunities and persuading them both that a world exists outside London and the South-East. I also realised that there were a lot of potential investors interested in this sector who had no structured platform to view opportunities. One of my first tasks was to find neutral venues – not hosted by the professional community – where the sole purpose was to create an environment for investors to meet and investee companies to present. Being a part of the University of Warwick opened up venues that otherwise may not have been available such as Keele, Loughborough and Gloucester Universities whilst Science Park had sites in Solihull, Warwick and Coventry alongside an innovation centre in Malvern."

"Once venues were identified It was a case of knocking doors, banging the drum, flying the flag, finding the influencers in the region and getting them involved and getting interested investors to do the same."

"Serious investors expected entrepreneurs to be as serious in their proposal and presentation – we ensured opportunities were well prepared and good quality. Each investment meeting ideally never had more than 3 presentations of 30 minutes each comprising fifteen minutes presentation, fifteen minutes Q&A. The meetings were deliberately set in daytime, avoiding any comparison to breakfast and evening wine and nibbles events – I took the view that this was serious, serious money for serious people but whilst we needed to reflect that we also tried to ensure the ambience was as relaxed as it could be for both parties."

"We had created a micro ecosystem in the area where each group met and a regional larger one with all the groups together – the combination led us to having 7 groups operating. That has now been further extended by the current Head of Minerva. "

"Success breeds interest and we were both unique at that time and successful and quickly built up a reputation that brought people knocking on our door and VCs talking to us."

"Most networks of this kind are loss making and need support whilst it becomes established - from the perspective of the Science Park and the University, you have to show why you're an asset. In this case, it is not a financial one but a reputational one because the presence of the brand links to high net worth individuals and corporates and is clearly visible in the local community. But there is a need to recognise that this doesn't happen overnight."

The funding gap

> ***"There is a thriving tech community in Northern Ireland and startups are increasing looking outside of the region for investment. We have local Government backed VC funds for early seed investments and from there a funding gap"*** **– Corporate Partner A, Shoosmiths**
>
> ***"There is a funding gap between Angel and VC"*** **- Leader of Angel Investor Network, South East**

A significant item of feedback was the existence of the funding gap between Angel investment and Series A and Series B funding . At this stage, the differential is not between success and failure, but between a good mid-level company and a potential unicorn. Local business Angels invest in a wide variety of businesses at early stages, not just tech; when a business looks towards Series A funding onwards, this involves larger sums and more sophisticated tech investors which can take the business further in its growth journey.

Recommendations:

- **There are often a variety of grant funding opportunities available to start-ups from a variety of sources, but these are not always easy to find. Start-ups either spend large amounts of time finding grant funding or miss available opportunities. One centralised grants portal, at Combined Authority or NUTS2 level, would be a simple fix to resolve this.**
- **Where a local Angel group does not already exist, use the Council's convening power to explore whether a local intermediary organisation (such as a Further Education provider) could create one, but ensure respected figures in the investment community are involved and in leadership roles. If a low level of funding is needed for running costs, consider helping to source this.**
- **Utilise an intermediary (either a co-working space or network) to create a critical mass of start-ups at the relevant expansion stage to attract investors for a pitch day.**
- **Utilise individual facilitator(s) to form warm introductions between start-ups and Angels/VCs and act as "talent scouts".**
- **Through intermediary or facilitators, run education programmes (either introductory single sessions or a longer programme) for start-ups on routes to scaling up, pitching techniques, and fair investment terms.**
- **Advertise existing national initiatives such as Help to Grow Management.**
- **Where individuals from a town or city have formed successful careers in business or investment, consider leveraging this network - particularly in terms of creation of Angel or VC networks.**
- **Where public sector backed funds exist, ensure that the boards contain representation from the private sector and the start-up/small business side as well as multinational companies.**

A VC's View: Managing Director, Investment Firm

"The funding scene is very different place to place, and parts of that are influenced by what the British Business Bank has on the ground. Funds such as the North East and Northern Powerhouse have good elements but a criticism of it is that the businesses that develop from them can be the image of those managers, rather than a free market. Scotland has a co-investment model and that brings a lot of benefits which is maybe something from which we can take the best bits."

"If you sat and talked to a fund manager in the UK, they would say that there was enough capital but not enough entrepreneurs; with entrepreneurs saying that they don't know where to find the capital and how best to pitch for it. The speed and frequency of raising in the UK is an issue. Entrepreneurs can easily spend 60% of their time on fundraising when they should be growing the business. It does help to have an advisor to act as "marriage counsellor" sometimes to ease transactional friction."

"There is still a phenomenon where companies get stuck at a few million turnover and don't or aren't allowed to think bigger. In the UK, it's better than it was ten years ago but is much poorer compared to the US. The thing I would change is to stop the British being afraid of success, a cultural shift is needed on growth. This manifests all the way up the food chain – you can often hear the phrase "burning cash", which is the fundamental idea that if a business is not profitable today it's not valuable, you can look across the world and see places that aren't adopting that approach and doing much better."

"Regionally, when you have clusters, feed the clusters. That's how Silicon Valley got started."

An Angel's View: Investor and Company Director, West Midlands

"[Connections to Angel networks] are all pretty much by chance to be honest, all very ad hoc. I got involved when I was considering investing in early-stage companies, spoke to a friend who said to come and meet a contact in [nearby town], then from there I got involved in [Network] a network linked to the university business school. Then from there you get to know and hear things. Then I became a reasonable player investing in multiple companies, but if I hadn't mentioned it to a friend at the beginning I wouldn't have started."

"What would be a lot better in terms of attracting investors is knowledge that these networks exist. With [network], it involves people you get to know, camaraderie, and they bring along companies four to five at a time to pitch. One of the things that Angel networks can play a good role in is offering companies some advice in how to present, though the quality of pitch still varies. I tend to put in quite a bit of contact with the companies I invest in. It can be a big weakness of companies that [investors] hear very little from them until they need more money, and by then it's too late."

"Personally I'm sector-agnostic. My philosophy is to look at the people. I am not exactly risk-averse, and was early into Apple and Google, but tech can be difficult as it's difficult to put into context. An idea can be brilliant but it's up against global players such as AirBnb."

"Traditionally you'd have had a bank manager and they'd have known someone. The challenge for a start-up company now, is how do you know where to go? Where you do start to get networking is via accountants and lawyers, and they pop up in the Angel network too."

"With these [early-stage investments] you've got to be prepared to write off the money. The bulk of these companies will fail. The MD founder of a successful company that I invested a six-figure sum in said later that to invest when I did, you'd have to be incredibly wealthy or incredibly stupid. It's risky but has big returns. It's an aside but if you couldn't get SEIS, that would really make it different for early stage investing."

"My question about funds is that they've got a pot of money from the government that they need to invest, need to get rid of, and they need to find the entrepreneurs for it. And that to me is the wrong way round."

3. Link in with wider town and city centre vision

> *"[Of our junior staff], half are local to the North East, the other half came to university and stayed around to get jobs. We've never hired anyone who came to Newcastle for a job"* **– Founder A, North East**
>
> *"The best thing Liverpool could do as a city region to stop talent flight is buy every student a Bumble or Tinder subscription – this sounds strange but it is the strength of personal relationships that is a vital part of talent committing long-term to an area, in the same way that a key part of attracting talent is ensuring that when someone moves for a job, it is possible for their partner to be able to find a job in the region"* **- Member, Tech Group, North West**
>
> *"[Access to talent] could become less of an issue than sometimes presented as: regional companies when hiring can put ads up without a location and work out a solution when they find the right candidate"* **– CEO, Business Growth Organisation and Growth Hub, Sunderland**
>
> *"We locate loads [of Government initiatives] where planning and land costs are really restrictive, so project money goes to some landlord in Oxfordshire rather than towards science"* **- Research Director, Think Tank**

Digital policy and SME policy do not operate in isolation, but intersect with all other items of public policy across the board. As a result, policy on tech clusters cannot be formed in a silo, but needs to be part of a wider vision encompassing education, inward investment, town centre strategy, and corporate-SME partnership.

> *"There needs to be a local and regional narrative developed to help education, public and private sector see where the opportunities are. When looking at tech based ecosystems, the word tech/digital gets in the way when the sector is so much deeper and broader than this. What's needed is an innovation/services/media/data/security/immersive ethos that develops a narrative that shows career opportunities and progression, investment and support streams and opportunities for local and regional businesses to become more aligned"* **- Company Founder, Non Exec Director and Digital Consultant, North East**

Access to talent is aided by a company being located in, or in commutable distance to, a place where people want to live. Access to markets is aided by a company being located in, or near, a place where other companies, customers and corporates can be found. Access to investment is aided by critical mass.

These are indirect relationships, but significant ones.

Research such as Logan's ***Scottish technology ecosystem: review*** highlights the need for critical mass of available jobs for migration into an area: this is because a mid- to high-level employee needs not just a job offer but the option of alternative jobs when relocating to an area, otherwise relocation is too high a risk to take for home and family if the first location does not work out and it is likely that partners/spouses need to find high-quality employment too. Other research highlights place-making and critical mass of community and "like-minded people" considering the age demographic of tech innovators, pointing to clusters such as the Midland's "Silicon Spa" - Leamington Spa - where initial start-ups in gaming coincided with employment from neighbouring manufacturing communities and students from the nearby university.[14] The academic theory on this point can be summarised to one simple heuristic: people settle in places where they will meet, work with, make friends with and marry other people like them.

Similarly, other interviewees saw the brain drain of students to London as inevitable but highlighted the opportunity at "boomerang point" (age 30+) of regional opportunities of home-ownership. Across age brackets, the cluster phenomenon matters.

This presents a significant opportunity for regional and national development compared to London. If critical mass is reached, when an area makes enough of a "base-line" offer in terms of employment prospects and a critical mass of like-minded people, London will not be able to compete with the regions on affordable housing, disposable income and quality of life.

> ***"[This] offers a type of specialization that can attract a separate set of weird, ambitious young people that will form the backbone of a cluster. The conversations in the bars and social scenes of San Francisco feel very different from those in the financial district of NYC because the types of people attracted to those cities are very different"*** **- Caleb Watney, Clusters Rule Everything Around Me[15]**

Planning

A critical requirement for start-ups is affordable office space for two-three people. The same phenomenon applies to scale-ups: if a scale-up can't find office space for over two hundred people its opportunities for staying within the area are limited.

In integrating an economic development solution with planning, significant power is in the hands of local government. Significant convening power is also held across local government in terms of intersection between physical development, economic development (i.e. business support) and necessary infrastructure such as highways.

> ***"Because of the [ultra-low emissions zone] policy, people physically can't get to my city centre office. If you go by car it costs £8 a day"*** **- Entrepreneur and Founder, West Midlands**

Highlighted in interviews was the missed opportunity for town centres when large developments, particularly involving inward investment, are built on arterial roads outside of towns or cities. These raise an area's overall GDP significantly but do not engage meaningfully with the economy within a particular area.

> ***"The main problem is access to office space. You cannot find offices for two to four people because under permitted development landlords have converted them to flats."* - Leader of Angel Investor Network, South East**
>
> ***Because of the cost of property, when the government relaxed permitted development it was easier to convert unused office space into homes in the town centre. And this undermined a lot of anchor town centre stores, because they had one-off visitors on a weekend but relied on the lunchtime sandwich trade in the week. But by the time we'd worked that out the horse had bolted"* - Former Portfolio Holder for Economic Development, Unitary Authority, South East**

Here, there is an opportunity in respect to start-ups, and particularly accelerators and co-working spaces, where critical mass can be multiple working spaces of two to three people. Given the often-younger-than-average age demographic of tech employees, tech SMEs are slightly more likely to be staffed by those reliant on public transport living in city or town centres. There can be a significant opportunity for development with town or city centres in regards to provision of co-working spaces or conversion of vacant town or city centre buildings or shopfronts into small affordable office space.

> ***"Part of the problem is that the planning system incentivises the wrong thing, dense developments and business parks on main roads that have no link to the town centre. The alternative is multiple layers of density and integration to get co-located economic activity. And integrate with universities, because otherwise you get pockets of prosperity and excellence but they are islands, not linked to the city. When you think about planning, ask - to what end?"* - Head of Policy, UK Think Tank**

Section 106 money can be used for community and social infrastructure provided the new development has, at least in part, contributed to the need for the facilities. In some cases, this can be inclusive of aspects of wider town or city centre development which in turn contribute to the wider climatic conditions for a successful ecosystem. The Community Infrastructure Levy can be used more widely on items, inclusive of cultural development, related to the delivery of the Council's strategic plan.

It should be noted that there is not yet conformity of view on remote working. Interviewees varied in their perspectives on shared spaces, some considering them vital, some considering them vital for a portion of the time, others considering them entirely unnecessary.

Case Study: Sunderland Software City

Sunderland Software City (SSC) is an organisation based in North East England which fuels the growth of the digital technology sector. Launched thirteen years ago, SSC addresses the changing needs of the sector through a range of business support programmes for digital tech startups and SMEs. Since its inception, the organisation has grown to deliver a number of skills programmes across the North East and creates opportunities for tech sector companies through its work with traditionally non digital industries looking to innovate.

> ***"Tech companies can work from home. Forget it. It is more about regional space for meetings and having access to conference rooms. If council offices are sitting empty from remote working, let businesses rent them"*** **- Entrepreneur and Founder, West Midlands**

Recommendations:

- **Where a council has access to a potential shared space in a hub location that can be rented, consider co-working space for start-ups on a membership model where organisations pay a fee to join and then are able to rent rooms on a one-off basis. This can be inclusive of Council-owned buildings.**
- **In considering ecosystem development, intersect initiatives with wider economic development - inclusive of town/city centre development - and planning.**

Comment: Business Rates

Though it is an item of national policy and therefore out of scope, this report notes that councils, under ever-increasing financial pressure, have no immediate financial incentive to invest in economic development.

If a council builds new homes, there is a direct financial return in the form of Council Tax. This does not exist in the same way for Business Rates. In simple terms, once these are collected 50% are passed immediately to central government for reallocation. 50% is retained by the local authority where a top-up/tariff system applies: each Council is set an allocation, and if a council receives business rate income above the allocation, it pays the surplus into a central pool; if it is below the allocation, it receives a top-up.[16]

Interviewees noted that this significantly limits the financial incentive for councils to engage in economic development, which is a discretionary service.

Many councils interviewed in the course of this report advocated economic development on its own merits, particularly those in areas where this is a high political priority because of historic or potential deprivation. Other councils highlight the lack of direct financial incentive for local authorities to engage in economic development when there are multiple other pressures on budgets.

Areas that have less political incentive to engage in economic development are often those in more "prosperous" areas: their wider economy and talent base are good already, any surplus the council raises through increased Business Rates will go over the tariff, and they are often ineligible for grant funding. But these areas, because of the cluster phenomenon, are also the ones that may provide some of the UK's best prospects for growth and innovation.

Significant power for the UK's regional and national opportunities and economic growth rests in the hands of local councils through economic development. But, at present, councils are under multiple pressures and there is no reward system in place for them to undertake it.

Community Wealth Building

Community Wealth Building is an approach to economic development which aims to create fair and resilient local and regional economies by ensuring wealth and prosperity is generated and contained locally. It uses the economic levers available to local and regional institutions: including progressive procurement, fair employment, maximising the use of land and assets for the benefit of communities and supporting the development of a more diverse business base. This can mean a use of a council's procurement powers to encourage a local business base, maximising council-owned land and assets through alternative uses for community and business benefit, and encouragement of local investment.

Councils undertaking or exploring the community wealth building model include Preston, Manchester and North Ayrshire. Whilst this will not be suitable for every political leadership, the community wealth building model has interesting interlink with some of the actions helpful to build a start-up ecosystem, particularly internal procurement and connectivity with businesses.

Case Study: North Ayrshire

Located in west central Scotland, North Ayrshire Council covers Irvine, Largs, Garnock Valley and the Isles of Arran and Great Cumbrae. A post-industrial area, a 2020 report ranked it the least resilient economy in Scotland. In May 2020 North Ayrshire Council launched Scotland's first Community Wealth Building strategy. More details on the strategy can be found at North Ayrshire Council - Community Wealth Building.

A portfolio holder's view #1 - Cabinet Member for Finance, district authority, West Midlands

"We don't get as much in Business Rates as you would think. We get four times as much in Council Tax: of an £11m budget, £8m of that is from Council Tax. With Business Rates, they are trying to create a new system where we get 70% of what we raise, but it keeps getting kicked down the road."

"With economic development, if we don't do it, we won't survive. That's why some councils have done extreme things. But if there's a downturn who does it hit? The taxpayer. We did a report and saw that in our district, if you included people who commute out of the district to work, we had one of the wealthiest populations in the area. If you limited it to people working within the district, we were one of the poorest. We want to change that to attract more modern businesses and get living standards up and we've changed the council priorities to be housebuilding and economic development but it's a struggle."

"When we try and bid for space in the high street for co-working we get outbid by [the private sector] which can move faster. We're now trying to build on our own spec. The bottom line is that more skilled jobs and more businesses increases prosperity and increases money spent locally. It's a tenuous link but it's the link we've got."

4. Utilise Partnership Working

Public-private sector partnership

"Things can be started with government funding to get off the ground and gain traction, then they should wash their own face and stand on their own two feet" **– Director, Digital Skills Hub, South East**

"You just can't workably have people who've never run a business telling you how to run one...but councils can build up stuff out of the public sector and let the private sector run it" **- Entrepreneur and Founder, West Midlands**

"The public sector is the great instigator but cannot take it forward" **– Department Lead, Business Growth Organisation and Growth Hub, Tees Valley**

"Councils can be any of these things but they should not be Landlord+Agent+Mentor simultaneously" **– Company Founder, Non Exec Director and Digital Consultant, North East**

"All [the Council's] key business facing team had private sector experience" **– Council Officer and Manager, Co-working Space, Yorkshire and Humber**

Across the UK, different regions operate different local government models and different public-private sector partnerships. There is no "right way", but the partnership between the two is key and an initiative that relies on the private sector, as tech ecosystems do, cannot be built by the public sector alone.

Equally, where risk exists it is often inappropriate for this to be borne by the public sector: it is inappropriate to risk public money while the safeguards necessary to manage the risk acceptably would kill many private sector initiatives outright.

However, the public sector is able to operate on the basis of long term goals rather than immediate return on investment, and can step in where the market is nonexistent to provide an initial starting point, before handing the torch to the private sector.

Recommendations:

- **For business models that rely on significant investment with the aim of recoupment, such as co-investment funds or tenancy/co-working spaces, deploy the private sector on delivery.**
- **Where business models exist that rely on a significant element of risk, such as funds and some joint ventures, this risk - and the potential benefits - is taken by the private sector.**
- **Networks, advice and mentorship are peer-to-peer or on a mentoring model from the same industry. When bodies are interacting with the start-up community, the public sector can instigate and the private sector delivers.**

Case Study: Treadmills, Northallerton

A former prison, the Treadmills site is in the town of Northallerton in Hambleton District in North Yorkshire. The site, in the heart of Northallerton town centre, included listed buildings with restraints on development. Northallerton town itself has high employment but low productivity, with residents in the 18-35 year old age bracket currently under-represented.

In 2014, Hambleton Council purchased the site after it was sold by the Ministry of Justice and put out to tender. The result was the proposal for a managed workspace in the town centre: while the Council maintains ownership of the building, the Central Northallerton Development Company was formed with the District Council as a partner to deliver a mixed used development including C4DI Northallerton, a commercial incubator provider, and the Campus at Northallerton project which plans to provide a local study of digital, as currently Hambleton has longest travel to learn times of anywhere in Yorkshire. Once critical mass develops, the Council plans to integrate training programmes for high street businesses on digital engagement.

A portfolio holder's view - former Cabinet Member for Economic Development, unitary authority, South East

"The difficulty is the way councils are funded, if you are a unitary authority also balancing the books on adult social care. The commercial property portfolio has very little scope to do stuff because it needs to maximise the revenue in-year. Councils don't believe that economic development throws down to the bottom line financially and they don't get political credit for it either."

"Under funding pressure, industrial space is often the first to go, because if a council owns this it gets a low revenue stream compared to the big capital boost of a five storey development of flats. More broadly, new homes bring in pure profit, because you get council tax then you get new homes bonus. Compare that to businesses, when a business is paying business rates, it goes straight through to central government. So what's the benefit to the council? You've got to understand this because the whole policy space is formed in this way."

"This means economic development doesn't always figure."

"Thinking about risk, local government isn't equipped politically to deal with risk. You can get revenue generators from tender to private market, but you need to be very careful because economic conditions change. Think what happened to Spelthorne Council and its office space. Take public car parks - if we move to autonomous vehicles and as a council you jointly own a car park, you've got a stranded worthless asset. But politically you can't close it. Take shopping centres - would you invest in one now? No-one in the private sector would. But if the council owned one in the town centre, politically you couldn't shut it down, it would be too unpopular. What councils can't do, in joint ventures, is start to feel political pressure. Say you've got a memorandum of understanding for a nine storey building, and you get political pressure to move it down to six. Your partner will say fine, but that third of the cost is your problem. If councils have stakes in ventures and they end up getting taken to task over political pressure, they can end up getting bled and the victim in the end is the public. So getting too intimately involved in the structure is a danger."

Further Education partnership

> ***"Not a lot of people at university in Scotland have awareness of careers they could have in digital and tech"*** **– Head of Policy, Business Growth Organisation, Scotland**
>
> ***"Start-ups say they can't find talent; grads say they can't find jobs. How true this is? Difficult to measure"*** **– Researcher; Connector, Business Growth Organisation, UK**
>
> ***"Applications for digital courses are actually going down – education is where the talent pipeline starts"*** **– Company Founder, Non Exec Director and Digital Consultant, North East**
>
> ***"Our biggest challenge as a sector is the lack of talent coming through, and so we need to inspire young children for a career in tech. We are generally rubbish as a sector at engaging with kids and inspiring them while young. We could do so much more"*** **- Tech Education Innovator, Yorkshire and Humber**
>
> ***"Currently, we have the longest travel to learn times of anywhere in Yorkshire and no local study of digital beyond Level 1. Alongside the digital co-working space the new training facility allows a complementary project of a place in the area to study digital, a partnership campus on site"*** **- Project Manager, District Council, Yorkshire and Humber**

A consistent item of feedback from start-ups is that they cannot find talent.

A consistent item of feedback from new graduates is that they cannot find jobs.

Where future employability sits within a council's education portfolio, there is an intersection between the sphere of influence of the council and the tech sector.

Alignment between education provision and hiring needs

Connections with nearby universities and colleges are key. The opportunity is often present for institutions – particularly local colleges providing short-term courses to local students – to facilitate an alignment between the further education provision and the hiring needs of the local sector.

A proposal in the Government's Net Zero strategy is to incentivise colleges to align course provision with employer demand in the green economy. Where this takes place, a similar course of action could take place in respect to the wider tech ecosystem.

Awareness of the sector

Despite increasing participation in the digital community, for many teenagers key influencers remain parents and teachers. The digital sector is one of the fastest growing - and highly paid - sections of the economy.

However, if careers advice is given primarily by those with no understanding of careers in the digital sector, who prioritise traditional university degrees or traditional careers, this will affect the pipeline of talent into digital. Proposals that take a three-pronged approach to young people and educators and parents are key.

Digital is unique in this sense. It is one of the fastest growing segments of the economy, provides highly-paid jobs, and is currently under-staffed. But the historic understanding of the career path isn't there amongst parents and teachers in the same way as for accountancy, law or medicine, largely due to the relative newness of the sector.

Initiatives such as the rollout of Institutes of Technology (IoTs) that partner between Higher Education, Further Education with involvement from local councils, businesses and the LEPs on their board are to be welcomed, including initiatives such as targeting schools with a higher proportion than average of free school meals. Whilst IoTs are only two to three years old, they provide a potential model for partnership in the future.

Recommendations:

- **Where a facilitator model exists, include formal links to local Further Education providers and proactive monitoring of local hiring needs at a granular level.**
- **Where employability, skills or careers service sits within a council or combined authority's education portfolio, include representatives of the tech sector in decision making.**
- **Where career services exist, include not only students but teachers in opportunities in the digital sector, with options including teacher "work experience" with tech companies or face-to-face meetings.**
- **Where local careers advisors do not have the necessary knowledge, link in facilitators to provide players from the tech sector to advertise the skillset in person.**

Case Study: Bristol Engine Shed and Nick Sturge

A joint collaboration between the University of Bristol, Bristol City Council and the West of England Local Enterprise Partnership (LEP), Engine Shed is a hub and co-working space in the centre of Bristol. Initially the business model involved profits paid back to the Council, to the University, and some invested into Engine Shed's own initiatives. Following work with The SETsquared Incubator, which moved into Engine Shed in 2013, Nick Sturge MBE, a former start-up co-founder and Bristol resident, started to look ahead to what it was like for start-ups when they left the Incubator. This led to the formation of Bristol Technology Festival, and three further programmes through Engine Shed: a Quarterly Investment Briefing in partnership with Beauhurst, and a full-time investment 'activator' to nurture the investment community and a full-time 'scaleup enabler; to nurture the broader city ecosystem.

Nick Sturge:

"I began with a lot of connections across the ecosystem, and was trying to apply what I'd learnt about incubating companies and apply it at city level - fill gaps in areas the City Council didn't necessarily know about. Key is leadership of institutions like the university and the councils and collaboration between them. Another thing is incubators collaborating not competing with each other - in Bristol & Bath we meet up once per month to share best practice and find ways to collaborate."

Case Study: Digital City

Formed in 2001, Digital City is an organisation that supports digital start-ups, scale-ups, and showcases digital businesses in the Tees Valley. More recently, it has focussed on the huge opportunities that digital transformation in the wider sectors present. Initially run in collaboration with Middlesbrough Council, from 2015 Digital City has been operated solely by Teesside University in partnership with Tees Valley Combined Authority, Tees Valley Business Compass, and all other Local Authorities in the Tees Valley along with support from ERDF funding.

David Dixon, Head of Digitalisation, Scale and Investment

“The trigger was losing a great swathe of graduates to other parts of the UK (and the world). Teesside University was one of the world’s best in many aspects of computing and games design, but people didn’t naturally think of staying beyond their education. We were ahead of the game in many ways, Teesside created graduate focussed start-up business centres, accelerator programmes and indeed the wider DigitalCity support programmes in order to encourage people to stay….and it worked!”

“We also created a real hidden gem with the Animex festival (attracting some of the world’s best animators and designers to Teesside). The VR centre was one of the first globally , to an extent we were too far ahead of the game with this, but there is still huge impact to this day.”

“Our business ecosystem is roughly one thousand digital, tech and creative companies. We engage with a large number of what can be described as traditional businesses in the digital transformation arena and crucially we really see focus on selling digital as an being an enabler . But this has to involve person to person relationships and discussions to have the necessary impact to create a mindset shift, a move from old habits, and perhaps crucially the prod people need to move out of their comfort zone. For someone to change their business model you just have to build relationships and there are few (if any) shortcuts to this.”

“There can be a gap in awareness of equity. We run demo day style pitching events to help clients gain understanding, but selling equity is a big thing and people need to be certain that it is right for them. Added to this lots of early stage funders are hidden away and usually on accessed via indirect routes.”

Council-Council partnership working

> *"With development of Treadmills there was a lot of overlap between the District Council initiative and Local Enterprise Partnership. I am employed by both, and it is invaluable as it allows early identification of opportunities"* - **Project Manager, District Council, Yorkshire and Humber**

> *"I had three junior staff and they were basically running farmer's markets on the high street. It's good stuff but it's not about stuff like tech start-ups, not about stuff that really adds value. We were small but a unitary authority and we didn't have the scale to engage properly. The LEP (Local Enterprise Partnership) has this scale. What the six councils in our LEP should have done was send their three economic development people to the LEP, to make one good team of nine. But councils won't give up money or control. You've got a challenge there, because the idea that something of district size can do economic development is nonsense"* - **Former Portfolio Holder for Economic Development, Unitary Authority, South East**

Depending on the local government structure, key items in the formation of ecosystems - economic development, education and skills provision, planning, and in some cases highways and infrastructure - sit across different tiers of local government, a LEP, a Combined Authority or a devolved administration.

Recommendations:

- **Ownership given to key point-person at a council – either an elected representative or an officer – with time to build the relevant skillset and knowledge, who can act as a "tech ambassador" both within the council (across departments) and between different tiers of local government and other intermediaries, providing one key point of contact between the tech community and the whole public sector.**
- **Exploration of partnership economic development working cross-council.**

5. Form a long term vision

> *"Longer-term horizons would help, rather than perpetuating the three-year long cycles of ERDF funding, which assumed that the world stays the same and is focused on outputs rather than capacity building. This is key for start-ups who may not create jobs in their first 3 years but may well lead to hockey stick growth thereafter"* **– Senior Council Officer, City Council, Yorkshire and Humber**
>
> *"Meaningful change can happen, just not over 2 years"* **– CEO, Business Growth Organisation and Growth Hub, Sunderland**
>
> *"The key metric for a start-up is where it is going, not the number of short-term jobs it creates"* **- Co-Founder, start-up and scale-up business growth company**
>
> *"Building ecosystems, particularly as they emerge is more of an art than a science. Setting KPIs is hard and you'll have more trailing indicators than leading ones"* **- CSO, Accelerator and Co-Working Space, Scotland**
>
> *"There is a big confusion between output and outcomes. How can you quantify the value of outreach work (an output) with twelve year old school kids when the outcome is much longer term? You can't measure it. KPIs can be a problem, not only in distorting behaviour but setting out the wrong measures. But it is a rock and a hard place with public resource"* **- Former Director, accelerator and co-working space**

A "digital ecosystem" has no closed definition and does not operate in a silo, but is multi-faceted, organic, and spans all areas of policy from place-making to further education. Ecosystem development cannot be encompassed into one department, but should play a part in a wider narrative of economic development.

KPIs and reporting structure

Digital is not a quick win; a successful ecosystem will involve multiple start-ups with a high fail rate, where the overall metric of success is the health of the wider ecosystem rather than individual companies.

Interviewees reported that reliance on short-term one-off grant funding could hinder the building of a long-term strategy because of a reliance on short-term funding cycles, and that a grant funding model was in some cases unhelpful in causing neighbouring councils to compete for the same pot of money rather than collaborate.

Initiatives operating on a co-working or tenancy model (where companies buy-in a service) have a clearer opportunity to measure return on investment.

There is a significant amount of scepticism regarding job creation as success criteria for early-stage start-ups, as they can expand their potential market and product with a small team and then scale very rapidly from there. The 2020 Logan Report suggests using KPIs based on health of the ecosystem or a start-up creation rate, or looking at wealth creation rather than job creation as a KPI, while other stakeholders advise a focus on trailing indicators or wider talent retention. Some academic studies (e.g. academics Michael Fritsch and Pamela Mueller in 2004) argue for a varied effect, that a large number of new businesses create a large jobs in the first instance, which is then followed by a decline as many businesses fail, then after a time lag the number of jobs increases again as the remaining businesses increase and expand.[17]

Recommendations:

- **Where metrics are put in place for a digital ecosystem project, set expectations clearly at the outset on what the metrics are and what the overall goal is - e.g. health of the ecosystem, wealth creation, quality of participation. If job creation is not a metric, explain why not.**
- **Where projects are set in motion, set clear expectations at the outset on timeframe, and that this is an initiative that will outlast an four-year election cycle or three-year funding term.**

Coordination

A key area where the Council or other third party can add value is in coordination and provision of a central point of contact between existing initiatives. Where private sector or voluntary initiatives exist - such as accelerators, co-working spaces, entrepreneur networks, Angel networks - forming a structure to convene players once every quarter is a relatively simple task but can add significant value. Grassroots projects such as the Sheffield Incubator Accelerator Network (SIAN) provide one single point of coordination for accelerators over a particular geographic area.

Where organic networks exist, it is a relatively quick win to identify and form a central list. A good case study is Digital Nottingham.

Recommendations:

- **A significant value add is creation of a centralised list of available resources.**
- **Where private sector or voluntary-run initiatives exist, encouragement of a quarterly liaison meeting or other form of coordination can be a simple way for a council to add value.**

Stakeholder buy-in and education

> ***"Progress was made once we had buy-in from senior leaders in the LEP and with regional stakeholders - it made things a lot easier. A key challenge is language. What does start-up or innovation mean? Some people are much closer to the subject matter than others. When we were talking about startups we realised that we all had different definitions."*** **– Deputy CEO, Business Growth Organisation, UK-wide**

Successful initiatives repeatedly point to involvement from a key individual who for whatever reason had an interest in tech: a lead officer with a background in the private sector, a council leader with children who worked in the tech industry, a chair of a LEP with an interest in the topic. Negative feedback points to "portfolio roundabouts" where responsibility passes between multiple individuals within a short space of time, and confusion between tech start-ups, tech small businesses and the wider tech sector.

Meanwhile, councils often need long lead times to secure funding for projects outside of statutory obligations or business-as-usual, and need clear justification for use of scarce financial resources.

Recommendations:

- **The key point person measures and reports on return on investment as measured by the strength of the ecosystem over time, rather than one-off KPIs on metrics such as job creation.**
- **If local government engages with the start-up tech sector, nominate a key employee or team to engage with local community figures in the tech and entrepreneurial sector for a basic overview of the sector and lay of the land. Coadec is happy to help link stakeholders.**

Recognition of the sector

> ***"Large businesses swallow universities and political ownership. If leaders of large companies are the only presence on boards, they will speak for their interests not others"*** **– Company Founder, Non Exec Director and Digital Consultant, North East**

Whilst tech start-ups and large corporates such as Microsoft and mobile infrastructure all belong to the tech sector, they have significantly different business needs. Some concerns of start-ups on a day-to-day basis - for example payment terms for large contracts - are more closely linked to their nature as small businesses, while the entrepreneurial nature of the ecosystem and fail rate make KPIs difficult to assess from a local government perspective.

Recommendations:

- **When governance or advisory boards exist, ensure that start-ups and scale-ups are recognised as having different natures and needs to multi-national organisations.**

Case Study: Catalyst NI

Formed in 1999 and initially government-funded under the Good Friday agreement to establish Northern Ireland as a globally significant destination for technology innovation, Catalyst is now self-sustaining.

The epicentre of Northern Ireland's tech sector, they provide a home, business support, connected networks and much more besides. Catalyst invests, pro bono, all surplus profits from their property portfolio into nurturing a community-led innovation ecosystem that supports over 900 startups, entrepreneurs and innovators so they can grow, scale and flourish.

They work with various partners on their mission to establish Northern Ireland as a globally significant destination for technology innovation, and partners with universities, corporates and local government. Catalyst is based across three sites in Northern Ireland, with programmes supporting education, early stage concepts, start-ups, scale-ups and facilitating R&D, including access to finance and the wider innovation community. It has recently created a new role, Head of Scaling, to target high growth potential companies to scale beyond £10m annual revenue.

6. Find your key selling point

"Mini-clusters do work, like offshore wind in Grimsby" – Founder and Angel Investor, London

"Unique helps...in 2014 we had a virtual reality games industry conference in Gateshead and realised a large number of speakers and delegates were virtual reality specialists from Gateshead itself...this led to creation of co-working space and cluster support programme. The response from the cluster give us the confidence to invest in permanent workspace and open access specialist equipment in 2018"– Council Officer, Metropolitan Council, North East

"Some cities and regions have a smaller pool of entrepreneurs than others. This can lead to an over-saturation of business support provision" - Researcher; Connector, Business Growth Organisation, UK

"It's the convenience and affordability of transport links that determines economic geography" - Member, Tech Group, North West

"For tech, economic units are the distance people may travel for hybrid working...for London that should include Kent - at least!" – Founder and Angel Investor, London

"I get the train straight to Newcastle city centre - it crosses five local authorities in around half an hour. But this is a functional economic geography" – Policy Lead, Business Growth Organisation

"If you are in fintech, realistically, go to London or Leeds. But if you're in agritech, think Northallerton. In consumer healthcare, think Hull, & we'll help accelerate your business" - Managing Director, Co-Working Space and Growth Hub

Agglomeration and the unique selling point matters in terms of clusters: clusters are built of the best in a commutable area, and with remote working a commutable area can be as wide as within two hours travel (i.e. in some areas spanning a quarter to a third of the UK).

Realistically, within the United Kingdom there will be a limited number of truly high-quality clusters for any specific area: e.g. gaming, fintech, agri-tech. But where smaller cities and towns can form competitive advantage is through specialisation: being the best in the pack at one niche.

Where universities or other specialist areas exist, e.g. a specialist industry, these are the building blocks of clusters, where the markets exist for tech solutions, the critical mass for innovation and creative churn, and the ecosystem "glue" of sector support. Where clusters exist, they are frequently built around existing areas of speciality.

From a local government perspective, look at where your opportunity lies regionally.

Recommendations:

- **In partnership with the FE sector and existing business presence, look for current speciality areas and identify where the opportunities exist for tech solutions: e.g. the tech intersection on current manufacturing capability or long-term specialities within universities. Draw up a plan first, and be aware that it is not possible to be all things to all people.**
- **Define your economic geography in consideration to functional commuting geography. Particularly with hybrid working, a functional economic geography for tech is generally much wider than the traditional travel to work areas. Where a cluster/speciality crosses multiple council areas, nominate a key point person to liaise between councils.**
- **When proposing strategies - e.g. building a co-working space, setting up a tech festival - identify first what is already in existence within the economic geography, ask what is needed locally, and align with local needs.**

7. Encourage Networks

> ***“[What we need is] understanding from start-ups on what is fair and unfair terms so they know the latter when offered it…we started dinners for founders in Newcastle and when someone came in with a term sheet we could say if it wasn’t normal”*** **– Founder A, North East**

> ***“One recommendation would be a link to other businesses that had been through the process, we had no regional mentors plus found that locally there was a small-town mentality”*** **– Founder B, North East**

> ***“Where self-forming groups exist: leave them alone! The best thing local government can do is buy them a pizza and a beer and then listen to what they say”*** **– CEO, Business Growth Organisation and Growth Hub, Sunderland**

> ***“A start-up moves to a scale-up fast and business skills don’t necessarily move at this trajectory”*** **– Co-Founder, start-up and scale-up business growth company**

> ***"In the area we have a lot of start-ups and much fewer scale-ups, with no unicorns before Gymshark. Access to finance is only part of the problem, what is needed is a cultural shift. It is about leverage, insight and support: historically people have been happy running a lifestyle business, now we have a younger generation that wants to do more alongside those who have been in the sector ten-fifteen years wanting to level up"*** **- Entrepreneur A, West Midlands**

The journey for a start-up moving to a scale-up can take place fast, and pitching for investment, pitching for contracts, hiring staff and managing a company may or may not have been within an individual founder’s previous experience. Successful start-ups often identify mentorship as a key factor for founder success.

Where equity investment is an “unknown unknown”, the education journey is two-fold: encouraging the knowledge from start-up founders on how to make a successful pitch to investors, and encouraging the knowledge amongst founders on what constitutes reasonable terms of investment, particularly in areas where competition amongst investment providers is limited.

Where a scale-up block exists - i.e. where start-ups form and run successfully but do not expand further - interviewees again highlight mentorship and contact with businesses that had been through the scale-up process as a key ingredient of change.

At a more basic level, academic studies cite connections as a factor in increasing entrepreneurship: people are more likely to start a small business if they know other small business owners personally or professionally, or if they are connected to the idea through school, university or a business network.

Additionally, many of the challenges faced by tech start-ups are unique to their sphere: the challenges inherent in scale-ups and investment will not be faced by the majority of small businesses within a local Chamber of Commerce, dominated by small businesses who have their own concerns, such as high street footfall, unrelated to tech. Start-ups realistically are not represented by these groups, as they are a different kind of business model, run by a different kind of people. Equally tech start-ups, which are small businesses at the beginning, have a different nature to tech corporations.

Recommendations:

- **Where no organic networks specific to start-ups currently exist, look to start one. There are a variety of different models that can be explored, from initial boost of funding from the public sector then a move to self-sufficiency, a public-private sector partnership, or entirely private sector. Networks should be led or have the involvement of a trusted individual within the local tech or investor community. Networks can potentially include:**
  - **“speed dating” investor events**
  - **education pieces in how to pitch**
  - **education pieces in scaling up**
- **mentorship between successful scale-up founders and potential scale-up founders**
- **forums for C-Level start-up employees**
- **Where organic networks exist already, utilise an intermediary to maintain and update one central list of different networks (i.e. a list of networks based on physical geography such as a city or town, or networks based on a particular sector or specialism such as Internet of Things). A good case study is Digital Nottingham.**

Case Study: SoPost

A product sampling company, SoPost is headquartered and was founded in Newcastle, with offshoots now in locations such as London, Paris, New York and Berlin. SoPost began in 2012 when founder Jonny Grubin began investigating the concept of ‘social post’, a way to send items to recipients with an unknown address.

SoPost did not receive major investment, initially raising from Angels in London found through friends and family members and from ERDF-funded Northstar Ventures.

Jonny Grubin, Founder:

“Physical space is the most important factor. The second is access to investment, but you need that physical space first for critical mass. A few years ago Newcastle had a physical space, Campus North, and when this closed it caused VCs and community to disappear. SoPost were never in Campus North but it provided a network. When it existed we knew the community – now we are not sure what other start-ups operate in Newcastle. We began founder dinners to help knowledge-share”

Case Study: Birmingham Tech Week

Birmingham Tech is a not-for-profit tech cluster that was set up in 2019 to help foster collaboration between the public and private sector, support tech startups and scaleups, provide a platform to celebrate tech success across the region and inspire people from all walks of life to consider careers in technology.

Since its inception, the organisation has delivered a number of strategic initiatives, including Birmingham Tech Week - the UK's largest regional tech festival - which over the course of 3 years has engaged over 10,000 people and had senior execs from the likes of Google, Microsoft, Amazon and IBM delivering keynote speeches.

As well as supporting tech startups, Birmingham Tech also works closely with local government to help narrow the digital skills gap and ensure digital inclusion across the entire region. It supports the Digital Skills Partnership in promoting opportunities such as the free digital bootcamps and highlights how businesses can benefit from digital talent and transformation.

***"There has recently been a resurgence in confidence arising from Birmingham Tech Week and the growth in collaboration across the community. This has led to a perceived upward swing in optimism and confidence with Birmingham Tech acting as a catalyst"* - West Midlands FinTech Ecosystem Report 2020, GBSLEP, Whitecap Consulting**

8. Using your power to convene

***"Ecosystem" is a hugely general term of what could develop, it covers lots of different styles, approaches, needs, entrepreneurs, investors, universities, other stakeholders and everything else. There are no clear boundaries and every player has feet in multiple camps"* - Founder and Angel Investor, London**

A successful ecosystem contains multiple players: companies from start-ups to scale-ups, incubators, accelerators, universities, local government, and more. Within the economic geography, these are often spread across different local government boundaries.

Key players in successful ecosystems cite integration between these key individuals, start-ups and potential markets, academia and the tech sector, and local government. By contrast, others describe lack of coordination as a frequent blocker: universities and local government in competition for the same grant funding, different accelerators competing for the same pool of start-ups, different layers of local government in competition with each other or a key economic area split between two different local councils.

Where a central connector exists, it helps answer the problem of how to achieve critical mass for potential investors, potential clients, or training and networking: one intermediary can have knowledge of the companies and services in the building and match opportunity to opportunity.

This linchpin can take varying forms: a person, a place, or a combination of both.

The facilitator

"To change a business model, gotta look at humans...need to cajole and see the whites of their eyes" – **Department Lead, Business Growth Organisation and Growth Hub, Tees Valley**

"A high degree of collaboration between different incubators and accelerators is needed – a co-ordinator role is vital as otherwise it risks flooding the market" – **Researcher; Connector, Business Growth Organisation, UK**

"Part of our work was unpicking what solutions there were already - and how companies could find them" - **Investment Activator and Scout, South West**

A facilitator, employed through national or local government or academic funding (examples below), can form connections between key players and provide a central point for co-ordination of initiatives, linking start-ups with potential markets, and start-ups with each other.

The co-working space

"The best thing is getting good people into the same space" – **Founder A, North East**

"Buildings are just bricks and mortar, the value is in what they enable and the businesses that occupy them. If we hadn't had an authentic cluster and just built a building, we'd be wondering why it was empty" – **Council Officer, Metropolitan Council, North East**

"Tech ecosystems successfully develop around accelerators" – **Corporate Partner A, Shoosmiths**

"Our shared space gets people out of their spare bedrooms two to three days a week to go to a vibrant place created by our ecosystem of colleagues, investors/VCs, other partner businesses and support services etc. there is real human value in making connections and relationships, and to make the experience and place of 'work' as something that is different and fun" – **Tech Education Innovator, Yorkshire and Humber**

"The innovation environment created by our community of tenants creates a draw for like-minded companies" - **Department Head, Business Growth Organisation and Growth Hub, Northern Ireland**

Alongside that, [we] work with the startups and scale ups to build their capability to service those larger businesses as well as provide board level reassurance that the support exists to help the technology businesses scale" – **Managing Director, Co-Working Space and Growth Hub**

The co-working model takes forms from a tenancy+ model (where businesses of varying size rent space in a building with additional benefits) to traditional accelerators and incubators. The legal structure can take a variety of forms: private ownership, local government ownership, intermediary ownership or joint venture. Places offer office or working space for rent, meeting rooms, shared convening spaces, and an extra offer (either membership buy-in or inclusive in package) of training sessions, demo days, meet-ups and company speed-dating. Whatever form it takes, a single shared space, either on a tenancy model or inclusive of an incubator/accelerator or both, provides a nexus for companies, employees, potential investors and potential clients.

Case Study: DMC (Digital Media Centre), Barnsley MBC

Barnsley Council owns and operates two tech hubs and co-working spaces, DMC 01 and DMC 02. The initiative began in 2007, as part of the Renaissance Towns programme, then the financial crash in 2008 prevented further expansion. The delivery was initially contracted out by the Council then brought in under Council management overseen by a Barnsley Council employee, Tracey Johnson.

In 2019, the initiative expanded to DMC 02 after DMC 01 reached capacity, thanks in part to investment from Sheffield City Region and also the Local Growth Fund. Both DMC 01 and DMC 02 provide office space, co-working space, programmes to support ecosystem growth, regular events and, in DMC 02, a technology lab.

Case Study: Codebase Edinburgh

"We realised over time that through one lens the customer of CodeBase is not so much the tenants, but rather the city" **- Steven Drost, CSO**

The largest tech incubator in the UK, CodeBase Edinburgh is now one of three CodeBases, with further locations in Stirling and Aberdeen. A private enterprise, CodeBase has thus far not received any Government funding, and has partnered with large players like Barclays and PwC.

Initially founded in 2014, CodeBase came about from the bottom up after founders saw a gap in the market for a working space suitable for startups. With - in hindsight - some boldness, the founders set about creating a home for these companies. Initially a tenancy business, CodeBase added educational programmes and events hosting to create a wider offering. Current tiered options of hotdesking, co-working, office space, meeting rooms, events, mentorship, and more are offered.

Steven Drost: ***"We realised that reliance on tenancy income was not enough, and added programmes created around all the business building playbooks we had been exposed to. We work closely with Barclays and provide support and mentorship to all of their Eagle Labs in the UK. We have also built several programmes that expose startups and large incumbents to each other"***

Recommendations

Access to Markets

- Incubators can offer a "dating service" or connector role between:
  - start-ups and existing local traditional businesses within the Council area (e.g. manufacturing, hospitality, high street) offering potential cost-saving tech solutions.
  - start-ups offering a service and potential corporate customers, with intermediaries able to play a connector role directing corporates to potential tech solutions and advise start-ups on suitable language and forming a board-ready pitch.

Access to Finance

- There are often a variety of grant funding opportunities available to start-ups from a variety of sources, but these are not always easy to find. Start-ups either spend large amounts of time finding grant funding or miss available opportunities. One centralised grants portal, at Combined Authority or NUTS2 level, would be a simple fix to resolve this.
- Where a local Angel group does not already exist, use the Council's convening power to explore whether a local intermediary organisation (such as a Further Education provider) could create one, but ensure respected figures in the investment community are involved and in leadership roles. If a low level of funding is needed for running costs, consider helping to source this.
- Utilise an intermediary (either a co-working space or network) to create a critical mass of start-ups at the relevant expansion stage to attract investors for a pitch day.
- Utilise individual facilitator(s) to form warm introductions between start-ups and Angels/VCs and act as "talent scouts".
- Through intermediary or facilitators, run education programmes (either introductory single sessions or a longer programme) for start-ups on routes to scaling up, pitching techniques, and fair investment terms.
- Advertise existing national initiatives such as Help to Grow Management.
- Where individuals from a town or city have formed successful careers in business or investment, consider leveraging this network - particularly in terms of creation of Angel or VC networks.
- Where public sector backed funds exist, ensure that the boards contain representation from the private sector and the start-up/small business side as well as multinational companies.

Link in with wider town and city centre planning

- Where a council has access to a potential shared space in a hub location that can be rented, consider co-working space for start-ups on a membership model where organisations pay a fee to join and then are able to rent rooms on a one-off basis. This can be inclusive of Council-owned buildings.
- In considering ecosystem development, intersect initiatives with wider economic development - inclusive of town/city centre development - and planning.

Utilise partnership working

- For business models that rely on significant investment with the aim of recoupment, such as co-investment funds or tenancy/co-working spaces, deploy the private sector on delivery.
- Where business models exist that rely on a significant element of risk, such as funds and some joint ventures, this risk - and the potential benefits - is taken by the private sector.
- Networks, advice and mentorship are peer-to-peer or on a mentoring model from the same industry. When bodies are interacting with the start-up community, the public sector can instigate and the private sector delivers.
- Where a facilitator model exists, include formal links to local Further Education providers and proactive monitoring of local hiring needs at a granular level.
- Where employability, skills or careers service sits within a council or combined authority's education portfolio, include representatives of the tech sector in decision making.
- Where career services exist, include not only students but teachers in opportunities in the digital sector, with options including teacher "work experience" with tech companies or face-to-face meetings.
- Where local careers advisors do not have the necessary knowledge, link in facilitators to provide players from the tech sector to advertise the skillset in person.
- Ownership given to key person at a council – either an elected representative or an officer – with time to build the relevant skillset and knowledge, who can act as a "tech ambassador" both within the council (across departments) and between different tiers of local government and other intermediaries, providing one key point of contact between the tech community and the whole public sector.
- Exploration of partnership economic development working cross council.

Form a long term vision

- Where metrics are put in place for a digital ecosystem project, set expectations clearly at the outset on what the metrics are and what the overall goal is - e.g. health of the ecosystem, wealth creation, quality of participation. If job creation is not a metric, explain why not.
- Where projects are set in motion, set clear expectations at the outset on timeframe, and that this is an initiative that will outlast an four-year election cycle or three-year funding term.
- A significant value add is creation of a centralised list of available resources.
- Where private sector or voluntary-run initiatives exist, encouragement of a quarterly liaison meeting or other form of coordination can be a simple way for a council to add value.
- The key point person measures and reports on return on investment as measured by the strength of the ecosystem over time, rather than one-off KPIs on metrics such as job creation.
- If local government engages with the start-up tech sector, nominate a key employee or team to engage with local community figures in the tech and entrepreneurial sector for a basic overview of the sector and lay of the land. Coadec is happy to help link stakeholders.
- When governance or advisory boards exist, ensure that start-ups and scale-ups are recognised as having different natures and needs to multi-national organisations.

Find your key selling point

- In partnership with the FE sector and existing business presence, look for current speciality areas and identify where the opportunities exist for tech solutions: e.g. the tech intersection on current manufacturing capability or long-term specialities within universities. Draw up a plan first, and be aware that it is not possible to be all things to all people.
- Define your economic geography in consideration to functional commuting geography. Particularly with hybrid working, a functional economic geography for tech is generally much wider than the traditional travel to work areas. Where a cluster/speciality crosses multiple council areas, nominate a key point person to liaise between councils.
- When proposing strategies - e.g. building a co-working space, setting up a tech festival - identify first what is already in existence within the economic geography, ask what is needed locally, and align with local needs.

Encourage Networks

- Where no organic networks specific to start-ups currently exist, look to start one. There are a variety of different models that can be explored, from initial boost of funding from the public sector then a move to self-sufficiency, a public-private sector partnership, or entirely private sector. Networks should be led or have the involvement of a trusted individual within the local tech or investor community. Networks can potentially include:
  - “speed dating” investor events
  - education pieces in how to pitch
  - education pieces in scaling up
  - mentorship between successful scale-up founders and potential scale-up founders
- forums for C-Level start-up employees
- Where organic networks exist already, utilise an intermediary to maintain and update one central list of different networks (i.e. a list of networks based on physical geography such as a city or town, or networks based on a particular sector or specialism such as Internet of Things). A good case study is Digital Nottingham.

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Shoosmiths and Coadec again thank the stakeholders across the tech industry, investment community and local government who have given up their time to contribute their thoughts and ideas to this report.

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