



Select Committee on the European Union

EU Internal Market Sub-Committee

Uncorrected oral evidence: Brexit: start-ups and scale-ups

Thursday 21 June 2018

10.20 am

Watch the meeting

Members present: Lord Whitty (Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Baroness Noakes; Baroness Randerson; Lord Russell of Liverpool; Lord Robathan.

Evidence Session No. 1

Heard in Public

Questions 1 - 7

Witnesses

I: Dom Hallas, Executive Director, Coalition for a Digital Economy (Coadec); Carlos Eduardo Espinal, Managing Partner, Seedcamp; Irene Graham, CEO, ScaleUp Institute.

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Examination of witnesses

Dom Hallas, Carlos Eduardo Espinal and Irene Graham.

Q1 The Chairman: Thank you for giving us your time this morning. We are one of the sub-committees of the EU Select Committee that is looking at the various impacts of Brexit, the prospect of Brexit and the process of Brexit on various parts of the economy and society. We used to be the Internal Market Committee and looked at regulations related to that.

We are focused for this period on a short inquiry on start-ups and scale-ups as a key part of our economic future and have focused in particular on the high-tech sector within that. That is why you are all here. We are looking at the difficulties and the opportunities presented by Brexit. We are looking through the prism of Brexit, but if you want to stray a little wider that is fine, because there are some general problems that have a particular manifestation in the Brexit sector.

Can I ask you to introduce yourselves and in the context of your remarks tell us your take on the decisions taken by start-up firms, relatively new firms and scale-up firms on Brexit, on the process of approaching Brexit, on the prospect of Brexit and on how and what difference it has made to their overall approach?

Irene Graham: I am the chief executive officer of the ScaleUp Institute, a private sector-led organisation that is focused on how you make the UK one of the best places to scale a business and not just start one. That is important, because we currently rank 13th in the world for scaling up businesses compared to third for start-ups. We therefore need to make sure that we address the scale-up challenge.

Scale-ups exist across all sectors and all geographies of the UK economy. There are around 35,000 of them, according to ONS data, and they create about 3,000 jobs per week. They are exporters and innovators, more so than the general SME population. We see scale-ups getting on with business, striding out for further growth and looking at new export opportunities across the world.

However, they see significant barriers to scaling up in their growth path, whether that is in talent acquisition, both at home and abroad; in building out leadership capacity, as they are growing fast and need to grow and develop their teams; in access to markets, whether in corporate procurement, corporate collaboration, exporting or more alignment to government procurement; and in finance and patient capital, as well as the infrastructure in place to grow. They also think that there are insufficient public and private resources aligned to their needs.

Although we are focused on Brexit today, it is important that we recognise that these challenges existed pre Brexit. We are 13th in the world overall for growing companies, so we have to address this challenge even more now, as there is a growing sense that perhaps the UK will become harder to grow in.

So what will be important? We need to use our data more effectively. Companies House is one of the leading-edge entities in data use, but we need to use ever more effectively data held by government at HMRC and ONS to be more effective in leading, identifying and working with these businesses and putting them on the map. We need to build on the good policies that we have today in EIS, SEIS, Innovate UK and the British Business Bank. We need to invest further in those as well as investing in local infrastructure.

This work has to happen at a local level, because we need to be much more co-ordinated with these businesses at a local level and to look in particular at the local enterprise partnerships and growth hubs and their role going forward to co-ordinate solutions locally to these businesses in a very proactive way. We need to remain innovative and nimble, and we must build on and break down these barriers in an effective way.

The Chairman: I should have mentioned at the beginning that this is a public session. If there is anything that inhibits you, please remember that.

Dom Hallas: Thank you for holding this short inquiry. It is an important topic. Way beyond the three of us here today, I am sure the whole community will recognise and appreciate what you are doing.

I am the executive director of an organisation called the Coalition for a Digital Economy or Coadec. We seek to represent start-up and scale-up tech businesses to the UK Government and more broadly in Brussels as well. We have therefore been engaged in a detailed way in tech policy debates since we were founded in 2010.

On the latest figures, there are over 220,000 digital businesses in the UK. The vast majority of those—219,000-plus—are not the tech giants that we often see in the news, they are people working away on their own ideas and innovative solutions to different problems around the country, and that is who we seek to represent. It is fascinating to see the shift from 2010, when we were founded, when tech businesses were considered outsiders and often not invited to this kind of forum, to today when it is at the heart of the debate on the future of Britain's economy as we leave the EU, and we appreciate that.

On Brexit and start-ups, there are a few key areas that I hope we will be able to expand on further today, so I will touch on them before we get to the questions. The first is access to talent, which is top of the list for every start-up and scale-up company that I liaise with. It is the number one priority. I always describe myself as the messenger who gets shot on immigration for explaining some of the challenges and politics of it, but for start-ups this is the priority.

The second key area, which Irene touched upon, is access to finance, both at the lower end of the market and the start-up side, and understanding the implications that also has on the scale-ups.

The third is data flow and ensuring that data continues to flow freely between the UK and the EU in a post-Brexit world.

The fourth is, more broadly, the digital single market, the role of regulatory alignment and how that has benefited UK companies.

The fifth is R&D funding.

I hope we will be able to get to a bunch of those things today, but I have just laid them out here.

I have worked on tech policy for the bulk of my career and, pertinent to this discussion, I also worked on diplomatic strategy at the Department for Exiting the European Union until January. I will try not to reveal anything confidential in that regard, but I bring a certain level of knowledge to this.

Carlos Eduardo Espinal: I represent a fund, so it is in some way different. We are based in London. Although my accent is American, I am British. I am managing partner of a company called Seedcamp, which is a seed-stage investment fund for super-early types of company. At the moment we are the leading seed investment fund in Europe, and we have attracted founders from across the continent to be part of our investment portfolio. We have backed over 270 companies since we started in 2007, and as part of that we have created over 4,000 jobs and attracted over £1.5 billion in funding.

One of the things that we have done is create some of the companies that are now called unicorns—companies that have built over a billion dollars' worth of value. It is interesting that today those companies, which include TransferWise, which has Estonian founders, UiPath, which has Romanian founders, and Revolut, which has Russian founders, all have UK offices. You will see a theme in where I am going with this. We have backed founders from all around Europe and have ambitions for global businesses. We have a track record of attracting them and helping them to scale.

In addition to the investment activities we have also been involved with policy initiatives. We have helped to spearhead the entrepreneur visa programme and we are one of the 11 organisations that is allowed to endorse its founders to come here as part of that. We are also part of the DCMS Science Advisory Council led by Matt Hancock. We are part of the EU Leaders' Club, which helps to advise on European web entrepreneurship, and we have been part of other EU initiatives such as the Accelerator Assembly.

As part of this initiative and the fund that we deploy, the British Business Bank has backed us in our recent £60 million fund, which we will invest in over 100 companies. I have had the chance to discuss with our founders—as I mentioned, there are over 270 companies and roughly 800 founders—their issues. This is a collection of all those issues. There are loosely three concerns and there are 10 opportunities.

The three concerns are, first, how reducing the free movement of human resources will affect our ability to track and retain key talent necessary for innovation and intellectual property development. As I mentioned, those three companies, which have built a billion dollars' worth of value, are three of foreign founders. The second is how reducing passporting rights in financial firms will affect financial tech companies that have boomed in the UK, which is the current financial centre. The third is how we guarantee trade and infrastructure agreements such as telecoms, roaming charges, open skies and so on to make sure that we are top tier.

There are 10 opportunities, which I will go through quickly, and we can discuss them more if you would like. They involve clear and progressive data privacy rules, financial passporting, further development of tax incentives in the way that Irene described earlier, and a new type of tax incentive that is similar to SEIS but that perhaps enables corporates to look at the attractiveness of start-ups and to partner with them or potentially to acquire them in a way that America has innovated in.

They also involve progressive immigration, not to just deal with founders coming but to help founders to attract employees—so employee-level immigration reform—and a regulatory framework for securitised crypto assets. We have seen how countries such as Malta and Switzerland are doing amazing work in attracting top talent in blockchain and crypto. That is a unique opportunity that we might have.

There is also remote business management, how to make online payment initiatives such as Estonia has done through its e-residency programme, creating regulatory frameworks to get ready for the autonomous age such as autonomous vehicles and autonomous elder care, training and creating government customer service that equals that of commercial entities, and, lastly, creating a one-stop shop point for all things entrepreneurship and company issues such as HMRC, Home Office and Companies House.

The Chairman: Unless any of my colleagues have immediate follow ups, I will move on to the question from Baroness Randerson.

Q2 **Baroness Randerson:** Is London different? Is Brexit likely to have a differential impact on start-ups and scale-ups based in London compared with the rest of the UK? If so, what action could the Government take to strengthen the ecosystems outside London? Is there a difference in the type of business as well as in the number of businesses? I know, Irene, that your organisation's statistics show that 90% of the capital has gone into London in recent years and there are a worrying number of start-ups outside London when you look at the raw figures. What should the Government be doing in the Brexit situation to strengthen the rest of the country, and will there be a different impact in London?

Irene Graham: We are very focused on local ecosystems across the country. I mentioned 35,000 scale-ups, but 29,000 of them exist outside London. It is therefore vital that we get the environment and the ecosystem right locally across the country, and with private sector

support from Goldman Sachs Foundation and support from Innovate UK we have put intensive training into creating local scale-up ecosystems. We need to remove the barriers everywhere.

We are encouraged that the Government are placing greater emphasis on that through the industrial strategy and the Scale-Up Taskforce, and we must see delivery and implementation on that. This is vital in these coming months. It is also vital that the strategic economic plans of local enterprise partnerships, which are now being requested to target scale-ups, are also getting the investment needed to deliver on that at the local end in growth hubs. On the opportunities for Brexit, therefore, it is important that we focus this across the country.

I mentioned the use of data. We think there is an opportunity to use up-to-date HMRC data more effectively to make sure that in every local area in the country we are proactively engaging with these businesses and effecting and aligning resources to them, whether that be finance or universities or export or procurement. There is work under way at the Cabinet Office and with HMRC on this, but we must see that progress and use innovative technologies which the companies, our colleagues here, represent, such as API Technologies, to drive that.

It also means investing in the infrastructure, and that means investing locally in the infrastructure. There is a lot of investment taking place in London and there is a multiplicity of resources here, but we have to invest more locally and learn from other areas. In that, we see, for example, growth hubs and proactive relationship management with these businesses and co-ordinating all government services to be an essential element of this. That is done to good effect in Denmark and Scotland, and we should learn from them.

The Department for International Trade is currently looking at its export strategy. It is essential that it is right for scale-ups for the resourcing aligned to scale-ups at home, abroad and across the country. We need to make sure that we are using the data to do that effectively but link more effectively our scale-ups to overseas market opportunities and, indeed, to trade missions. One of the things that London and successive mayors have done very well in that regard is the Go to Grow programme, which is specifically a trade mission for scaling up businesses. We would like to see that replicated elsewhere in the country through city mayors and the local environment. We would therefore encourage the DIT strategy to be very focused on intensive support in this area.

On procurement policies, the US Government are very good at anchoring procurement towards scale-ups and start-ups, and we need to see that developing here in the UK more effectively. The Crown Commercial Service has recently made further developments there and we need to see that developing even further, whether it be in meet-the-buyer events, scale-up champions on procurement, supply chain, influencing what the larger corporates are doing in that collaboration space, and building on some of the innovative techniques that we have in the FCA on the sandbox that could be deployed elsewhere. That is vital.

On patient capital and the point you have made about where capital flows, one of the things that we have analysed, and the British Business Bank has undertaken analysis on, is that there are many different forms of capital, VC and others, here in London. Often it is easier to invest in London and south-east businesses. There is regional disparity here that we need to address. The British Business Bank is looking at that strongly through its new vehicles as well as its information hub and it is going to deploy some relationship managers locally. It is important that we get that right and effective.

I would also say that institutional investment and long-term patient capital has been more of a challenge here in the UK from UK institutional investors. We have Japanese, US and Asian investors coming in and we need to see a pool of UK institutional investors. The patient capital review is important for that, but we must see how it delivers overall. Those are some of the key messages that we would give, and outside London is vital.

Dom Hallas: It is important to set it in the context of the fact that hubs outside London generally doing well at the moment. It is important to note that there are 800,000 programmers in the UK now; 300,000 of them are in London but half a million of them are outside London. At the start of this month the government-funded body Tech Nation released a report praising all the work that is being done outside London and highlighting tech towns, which are sprouting around the UK and are in the places you would not necessarily think they would be in, including some of the more interesting parts of the country. There are two specific issues where this could be really important. One is towns and the other is finance, both of which Irene touched on.

The finance point is crucial, because there was £2.9 billion in VC investment into the UK last year, and over £2.5 billion of that was into London and London-based firms. That is and will continue to be a huge gap, but the important thing in relation to Brexit is that there is already a higher barrier for investing outside London. Companies already find it more difficult. Anything that discourages a VC from making that trip is problematic, and Brexit is a good example of that.

On the skills side, we held a round table in Sheffield a couple of months ago with Dan Jarvis, who is now the Mayor of Sheffield City Region. We had an hour-and-a-half round table with a bunch of great start-up founders in the room, and it was striking that it took an hour and 15 minutes before the word "Brexit" was mentioned. The word "skills", however, was mentioned from minute one. It is important that a lot of these people are not concerned about Brexit as a woolly concept; they are worried that they will not be able to access the skilled people they need to grow their businesses. That is part of the discussion, but it is actually a separate part of the discussion.

There are some important things that the Government can do on the digital skills side, one of which is ramping up and identifying the areas where there are clear skills gaps in different parts of the country and

looking at the hubs that are there and the technologies that are being worked on there, and effectively funding ways in which we can get the skilled workers as well as having the bigger discussion about immigration that I am sure we will get on to.

Carlos Eduardo Espinal: I would say the same: money and people. People has a lot of different angles of attack. You have everything from how to retain students who graduate from universities in different areas and how to make sure that they stay and build in those local ecosystems. Is that through a continued visa of some sort after they graduate in those areas?

With regard to money, how do we start sharing some of the tax relief and incentives that are based in London but maybe increase them in other parts of the country where it makes it more attractive for businesses to start there?

Baroness Randerson: I am a great believer in not reinventing the wheel. Is there a city outside London that is particularly good at supporting and assisting start-ups?

Irene Graham: Certainly from a scale-up point of view we have done a lot of work locally and we are seeing great strides forward in Manchester and the North East and what they are focusing on. In Bristol, the Engine Shed is very good, along with the start-up and scale-up dynamics. We are seeing exemplars around the country and we can share more information on that. We need to migrate that elsewhere.

On your point about building on what exists, it is not uniform across the country, but we need to build on what exists currently in growth hubs and invest in that more, because they are getting recognition. We need to take the best of what is happening elsewhere and migrate it. We seek to do that at the ScaleUp Institute.

Dom Hallas: Building on that point, one of the important things to note is that it is not only about money or government money, it is often about knowledge. A conversation I often have with entrepreneurs who are not in the traditional tech hubs is that there is no shortage of government funding for support, but if it is not the right kind of support or those people cannot offer a classic start-up, such as building a minimum viable product to make sure that you can get going, if people do not understand what that is they are not particularly helpful in today's start-up market. It is therefore about understanding how to migrate that knowledge, as well as the funding.

Irene Graham: The knowledge point is right, whether that is through digital and better online tools or through a relationship management structure. Certainly when it comes to the demand of finance it is important to create that knowledge capital as well.

Carlos Eduardo Espinal: At the other extreme of scale-ups, the super early, there are hubs that are now world-leading in artificial intelligence

research, such as Cambridge. The question is how that continues to be the hub for the world for AI research, perhaps through immigration reform, that allows people who are doing those research projects to stay in that collection of people who feed off each other.

Q3 **Baroness Noakes:** On opportunities that Brexit could bring, as we often talk about the problems that Brexit will bring, I know it is difficult to answer this question without being absolutely clear about what the arrangements will be post Brexit, but assuming we have taken back control and can change anything that the EU at the moment constrains, are there any areas that you would focus on that would be particularly beneficial for the UK Government, free of whatever constraints might exist in the EU, to change in order to benefit start-ups and scale-ups?

Dom Hallas: As a starting point, simplifying the immigration system would be of huge benefit. I note that, because as a post-Brexit opportunity you mentioned the concept of taking control, which is important. For a number of years, frankly, we have seen an intentionally complex system in order to discourage applications. In a system and public discourse in which we have control of immigration policy and can genuinely choose to accept or deny applications for whoever is applying, the concept of taking the bureaucracy out of the system for entrepreneurs who are in very early stage companies is a good one.

The tier 2 system at the moment requires 80-page forms and is completely unviable for most start-ups. You get this bizarre situation, which is unviable for the vast majority of start-ups but is perfectly fine for large corporates who can afford the lawyers who fill in forms. When we have surveyed in the past, seven out of 10 of the start-ups said that bureaucracy is the biggest problem in the visa system.

There is a question of policy. We will continue to advocate on that and I am sure we will get on to that later. The bureaucracy in the system that we could remove because we have lanced the boil of immigration in the public discourse is a real opportunity.

Irene Graham: It is a huge opportunity to have our own control of what we can do, which is why the industrial strategy's focus is important and I keep emphasising that it must be implemented on and delivered on for the long term. I have mentioned data a lot, but if we use the data to fast-track scale-ups into export opportunities and procurement opportunities, linking them to finance, that is all within our control and offers us a huge opportunity.

Baroness Noakes: Is there anything stopping that at the moment?

Irene Graham: The only thing stopping that at the moment is our own internal legislation, so in some ways we are encouraged by the pilot work that we are doing with HMRC and the Cabinet Office, but if it means a shift in our domestic legislation to be more proactive, we should look to do that. That is within our own control.

I also think that we have a great opportunity, with the export strategy that is being looked at now, to get that right. As I mentioned earlier, our scale-up businesses export more and are more innovative than others. We need to be putting resources towards them. We have put a lot into the multinationals and we have put a lot into start-ups and mixes of businesses, but we really need to harness that towards scale-ups. They see huge opportunities in Canada, the US, India, Latin America, Asia and China. There is a lot of opportunity if we get that right.

Baroness Noakes: Those opportunities are there now.

Irene Graham: They are there now. We have to align resources towards them, such as through trade missions. There are people who can help scale-ups access that—our DIT aligning its resources to that and getting the right location overseas environment ready, the FCO and the overseas offices. That is available to us today, but we have not been as focused on our scale-up businesses. There has been a lot of policy on start-ups, and we want to retain that and maintain it, but we are third and we have to get better at growing and shift that dial. A lot of that is in our own control.

Carlos Eduardo Espinal: I would probably take the 10 points I made in the opening statement and divide them into two parts. One part is things that we have control over now that are tweaks on EU legislation that we can customise for our needs. I will stay away from those, because we have covered them already.

Then there are new initiatives, which are probably completely out there and unorthodox in some way, and legislation on autonomous vehicles, the stuff about cryptocurrencies and regulation on that, and tax incentives for investors abroad in all different forms. Each one of those poses a new way for attracting capital and talent that would spearhead a new initiative and a new wave of growth for Britain. Those two things in tandem would be great opportunities for us.

Q4 Lord Russell of Liverpool: You have partly answered some of the questions I was about to pose. I will focus on international trade.

Irene, your own institute indicates that about two-thirds of scale-ups are involved in international trade, 62% EU and 58% outside the EU. We were in Cambridge last week and heard a common theme, particularly from many of the high-tech start-ups, that for them probably the two most important markets are China and the USA.

First, thinking about the EU after Brexit, there has been quite a lot of talk about potential restrictions on data sharing. Is this an area of concern, and, if so, could you expand on it?

Dom Hallas: The data policy is huge. It is of critical importance. I would go so far as to say that if we are not able to get adequacy over data and the free flow of data between the UK and the European Union, it would be very damaging and genuinely sound the death knell for a number of start-ups that I work with. Falling back on the standard contractual

clauses for data, which is the alternative, would be incredibly burdensome for start-ups.

More work for lawyers is never necessarily a good thing. We strongly support the UK Government's position on this and what the UK Government have set out. Theresa May has been very clear that she wants a deal on data and has set it out as part of her five pillars for a Brexit deal. We are supportive of the Government but, as you can see from the negotiations thus far, progress is not necessarily being made, so that is important.

On your US and China point, there are opportunities to strike out in the world. It is important, however, to consider the big picture in geopolitics when it comes to data, and there is a risk of the UK being trapped between two models for technology regulation: one a US based model and the other a European based model. How do we ensure that we can sit effectively in the middle?

You saw a piece about three weeks ago in the *Financial Times* by the US Secretary of Commerce Wilbur Ross criticising the GDPR. I worked on the GDPR in Brussels in 2014. I am not the biggest fan in the world of the regulation, but I think we would acknowledge that it is an important step towards making sure that consumers are conscious of how their data is being used and that is the direction of travel for the public discourse which people would welcome. I do not think therefore that the idea of ditching some of those things would go down well with the public.

There is also the question regarding AI discussions. On the China front, there is a separate conversation about how the data ethics and AI questions relate to the Chinese and Russian Governments and the way they do AI differently from how we do it in the West.

Lord Russell of Liverpool: IP as well.

Dom Hallas: Yes, IP as well. There are those bigger questions on the way we engage with trade deals, for example, with countries that might liberalise trade and that we cannot fail to acknowledge when we discuss those looking out into the world.

Irene Graham: Open data is here to stay and is key for any number of sectors. We have led the way in some of that in the open banking and credit data sharing, but we need to see access and alignment and restrictions minimised. Open data and that source of data are vital. I would repeat that we need to use our own data more effectively.

Carlos Eduardo Espinal: I would echo those comments.

Lord Russell of Liverpool: As a backdrop, it is nothing to do with Brexit, but with tariff wars potentially breaking out left, right and centre, are your members worried about that?

Irene Graham: There is concern about what happens on the tariffs. The EU is an important market for importing and exporting, so we need to

make sure that that is managed effectively. Businesses are seeing huge opportunities elsewhere in the world, so making sure we get that as effective as possible for them to trade elsewhere is vital. They want to grow elsewhere.

Dom Hallas: The Wilbur Ross piece in the *Financial Times* was a direct response to the concept of American technology companies being regulated in Europe in a certain way. It is important to note that in any discussions with the US that is the current state of play. That is where we are in the public discourse and we have to be very aware of it.

Q5 **Lord German:** Can I turn to the third leg of the three-legged stool? We have done people, we have done data and you have said that huge amounts of venture capital come into London and not much of it goes further than the Watford Gap. Of the money that is coming in, there is the European Investment Fund and the European structural funds. The European structural funds are used largely outside London whereas the European Investment Fund would come into London.

This is all a bit of a mixture. In the current mix do you see an opportunity for replacement? For example, can the British Business Bank step up to the plate and fulfil the roles which those funds now fulfil across the whole of the United Kingdom? What are the prospects for anybody who is starting up or scaling up to reach and get the sorts of funding which they might need that would currently be funded through European sources?

Carlos Eduardo Espinal: The issue of financing is complex and has multiple different stages. It is almost like a value chain that needs to be addressed in different parts. It starts with the source of funds—you mentioned the EIF and British Business Bank—but it also includes pension funds that classically in the United States have funded a lot of the venture capital industry and it does not do a lot of investing in venture capital in Europe or university endowments in the United States, which are part of the large LP pool for VC funds in the United States.

One of the questions is how you unlock not just the British Business Bank and government funding but pension money and universities to be able to invest into VC funds regionally or in London. That is at the very top of the stack. As you work your way down, there are all sorts of reasons why funds are developed in different stages. We are a very early stage fund and the economics for us work out vis-à-vis Europe and the United States for the types of businesses we back. Since we started in 2007 there has been a huge explosion of great support from the UK in helping that to grow—hence why there is increased discussion around scale-ups and funding for scale-ups.

What made that early stage successful was initiatives such as the seed enterprise investment scheme and other tax incentives, which unlocked all this capital. There was this blossoming of capital for pre-seed and seed stage, which are the two first stages of financing, and as a consequence those types of companies in London have general access to capital equivalent to New York. In the *Tech Nation* report there is a ranking by

number. I would say from anecdotes that it resembles a US-based equivalence. That is very good from where we started in 2007.

As you start going up that stack to later stages, naturally you are going to have a decline, partially, as I mentioned, because of the sources of funding that are coming in to those funds. The bigger the fund gets, the bigger the commitment needs to come from pension funds or others. Scale-up funds, such as series B funds, which are usually rounds in excess of £10 million to £15 million or £20 million, which will have a portfolio of 20 or 30 companies, so their total assets under management might be over £500 million, are less but are increasing.

Generally speaking, the entire UK landscape is increasing, but it has pockets and those pockets can be alleviated through additional incentives to unlock capital at the fund to fund level but also potentially tax incentives, as I mentioned earlier, for those kinds of investments and/or for the corporates that could buy the companies that allow the recycling of that capital back into the ecosystem.

Irene Graham: I will just build on those points. I absolutely agree about that value chain. The European Investment Bank and investment facility has been a cornerstone of a range of funding. It was important that the Treasury had the patient capital review last year and took insight from the review led by Sir Damon Buffini in the private sector. We have done well with seed capital in this country in particular, and we need to continue those measures and to make sure that the right angel investment and other aspects occur across the country.

Growth capital is where we have had a traditional issue. Multiple reports have looked at this and there has been some level of redress. The Business Growth Fund was set up to look at that growth capital piece. We see Woodford and other investors coming into that scale-up capital piece. We do not have sufficient at scale, which is why we need what the British Business Bank is now doing with the patient capital vehicle and to crowd in the institutional investors—I completely agree with Carlos on that point—and the UK institutional investors into that framework. That scale of growth capital is vital.

Alongside that is a knowledge gap and how we increase awareness. The British Business Bank launched an information hub recently and will be doing more on that, and we all need to get behind it. The private sector is working on that, too. That co-investment with public and private sector is going to be vital.

There are other European monies that go into our support mechanism for start-ups and scale-ups—the ERDF funding. We should not ignore that. ERDF is playing a huge role in some of the support mechanisms, the non-financial support mechanisms happening around the country. We need to understand that better and work through what the shared prosperity fund will do within that space. There is also work that could be done on that with the British Business Bank.

Innovate UK is playing a vital role in scale-ups. When we have analysed our scale-up investment, Innovate UK has been a core factor, so we need to maintain what it is doing. COSME and Horizon 2020 play into the growth capital and the support to growth firms. There is no silver bullet. We have to work on multiple dynamics for this.

Dom Hallas: As has been articulately put, the EIF has been important traditionally as a source of funding for British companies that are in the VC market. About 30% to 40% of the money in the UK VC market traditionally comes from the EIF, and that will change. The EIF has turned off the taps. There are a couple of funds that have had some EIF money in the past year, but they are focused more on European investments than on the UK market. As has been said, there is a whole range of different areas that different places will have to look to to plug that gap.

There are two separate questions related specifically to the BBB. One is the funding. In the short term the UK Government are committed to continuing the funding, which is important. There is a question of longer-term funding of something very similar. The second is in implementation and is more in the nitty-gritty, which is that the EIB is an organisation that has been set up at this scale for a long time and the BBB is being scaled up to that level. We see this across the board in relation to Brexit. These institutions have not traditionally operated at that scale and are having to do so. My main concern is that, as we transition from one system to another, things slip through the cracks. The priority lies in making sure that the BBB is up to speed and we are functioning at 100% as we roll off the European money.

Lord German: I want to tie together some of the conversation that we have had already in this discussion but also what you have just said. I am interested in timescales. If this tap turns off in March next year, how prepared are we for the future? You said that £2.5 billion of venture capital goes into London and £2.9 billion comes into the country as a whole. That means that a very small difference goes outside. You said that we must be wary about the ERDF. The ERDF is used mostly for outside London, and we know from the data that the business birth rate is at its lowest in Scotland, Northern Ireland and Wales, where ERDF is particularly important and the powers have been frozen by the Government's Bill we have just passed.

There is an immediacy to making sure that we can fill that gap and build upon it. The ideas about getting other investors in are going to take time, as is everything else, so it is a question of what we are doing now and whether we are prepared for it. Will that funding be available as from now for companies that are in the two fields we are discussing today?

Irene Graham: That plays to the point I made about the Treasury doing the patient capital review last year. That vital piece of work was done with the private sector and has led in the Budget to further investment in the British Business Bank and further strategies to deploy across this year.

On 13 June, we saw the British Business Bank establish the patient capital vehicle. We have also seen further deployment into funds of funds vehicles. They are out there in the market now seeking to work using that additional capital to deploy with the private sector. An immediate action has been taken. That is now being implemented, and it will be critical that this is a long-term vehicle in the British Business Bank and that continues to exist and get further capital, because what they already have will not be sufficient to work with the private sector on this issue. It is important that we build on that now. Work has been done to seek to address that in the short term. We can provide further figures and more information on that subsequent to this.

The Chairman: I have two quick questions. I believe Mr Hallas said that the EIF funding was already being switched off. We have heard this story on Galileo and in other areas. How serious is that at the moment, and is there any immediate comeback on that?

Dom Hallas: There is no rules-based reason why this funding has been switched off. It is fair to say that it is a political process. Dawn Capital has been the first fund to raise money from the EIF in a long time, in April I believe. That is an EU-centric fund focusing on investments in Europe as well as some in the UK.

It is a worry, and one of the things that we have been impressing on the Government to do, and where we have perhaps fallen down, is that we wanted to engage with the European Investment Bank about this, but it has been unwilling to do so because the UK Government do not have a formal position in relation to the European Investment Bank and looking forward to a future relationship.

Understandably, the EIB is not willing to have a discussion with us as a third party. It cuts to a broader conversation, which is that there is a lot of uncertainty in these discussions as we move towards exit, and the more uncertainty we have the less ability we have. People who want to have that discussion will be largely supportive of the UK Government position. It is harder for us to do so.

The Chairman: My other question refers to tax incentives. From what we read, the Chancellor is not falling over himself to give away many tax incentives at the moment. Have you formulated your specific request to the Treasury? Are you confident that that is in the system building up to this November for the Budget?

Irene Graham: We input into it as part of last year's patient capital review and the importance of maintaining what exists today as support to this ecosystem, which we have seen maintained. I can share more details on what we fed in.

On the other point made earlier, we have not talked about the R&D environment. That is very important to maintain. It is vital to our growing businesses and how that is maintained and perhaps enhanced. We will be

looking at that in these coming months. We can share with you some of the details behind that.

The other, less clear, issue is what is happening with the shared prosperity fund and how that links with ERDF. More clarity is needed there as well.

Q6 **Baroness Donaghy:** Going back to attracting skills and talent, you will be aware that there have been two recent announcements by the Government: one on a new start-up visa route, and the other on the removal of doctors and nurses from the tier 2 cap, which it is estimated might affect about 8,000 places. To what extent are those two announcements helpful, and what suggestions would you make to build on those?

Dom Hallas: It is encouraging. We will have to see the details on the start-ups of these different things and how they affect our visa policy. We welcome the acknowledgement of the role that the sector plays and its importance. As a starting point, there was a study in April that suggested that 800,000 tech jobs will be unfilled in the UK by 2020. That is the scale of the skills gap. An immigration system where we are talking under six figures of migrants is not going to cut it.

As I said earlier, there is a genuine opportunity now to rethink the system from the ground up, both the tier 2 and the tier 1 system. We have specific concerns about the tier 2 system in relation to start-ups, because it is based on salaries, when often with start-ups a preferable system would be to encourage equity involvement in the businesses, which does not count towards salary. The tier 1 system has exceptional talent visas that in certain cases discourage women, who are less likely to see themselves as exceptional, from applying.

On the bureaucracy of the system, which I touched on earlier, there are ways in which we can completely rejig the system in a post-Brexit world. Having said that, we welcome the direction of travel. We appreciate that these are difficult issues and we welcome the step towards the start-up visa and the incentives.

Irene Graham: We are very supportive of the start-up visa announcement and the announcement about doctors and nurses. None of those helps our scale-up companies, however, and that is where we need to put extra work and focus. If we can fast track skilled workers, because scale-ups need them, and make sure we have opportunities to bring in PhD students from abroad to study life sciences, for example, that will have a knock-on effect on export opportunities and alignment. We would like to see a fast-track scale-up visa to build on what is there for the start-up community and the medical profession. We will be pressing further on this. We see the opportunity to link data to that and scale-up and fast track them through the system.

Carlos Eduardo Espinal: I would echo that. It is a subject that I am personally interested in, having come here myself. CognitionX is a leading

conference in Europe for artificial intelligence, and it recently published a report that showcases that 43% of artificial intelligence is developed by foreigners in the UK, in London. There are initiatives such as the new start-up visa for employees that Irene mentioned. The marriage of those two things is acknowledging that development comes not just from the top of the organisation but all ranks of the organisation, and the issue is how you attract that capital and keep it.

Another interesting thing about keeping it is that the report showed that openness and diversity was the key reason for anybody to come to any city. London has clearly done that. It is international, diverse and open, and as we explore the issue of visas, especially in other cities around the nation, the question is how to foster across the country the environment that exists in London.

Dom Hallas: You are absolutely right. In many ways the mood music of this is as important as the system. Between 2016 and 2017 we saw an increase of 3,000 programmers in London and 50,000 in Paris. That is partly a Brexit thing and it is also a mood music thing. That is important.

One point that has not been touched on yet but which is crucial is the difference in a post-Brexit world of the pace of hiring. At the moment, a start-up can sign someone up from Berlin on a Friday and they can be working at their desk in London on a Monday. In a system that is more complicated than that, how do we make sure that our start-ups are able to access that talent as quickly as they are able to now? This is just as important as the volume. I should have added scale-ups as well.

Lord Robathan: May I tease this out a little further? Mr Hallas, you spoke earlier about the 80-page visa application, and we have just heard, if we did not know already, about the Government's announcements on the start-up visa route. Do you detect in your dealings—you all express concern about the talent—that the Government wish to get to grips with this and make a much speedier, much less confused and bureaucratic route to get people through? Apart from this announcement, is there anything concrete that we can see?

Dom Hallas: According to the news, we should hopefully hear more details today of the post-Brexit system for European citizens. It is interesting when you look at the settled status system that the UK Government is setting out that a key part of that is an app that European citizens will use to get access to their status. There are problems with this app, as with many Home Office IT projects, but we have to acknowledge that it will be a gigantic step forward and a huge boon.

The bureaucracy in the system is the low-hanging fruit of this question. In a system where we have control, we can avoid that hostile environment and bureaucracy for bureaucracy's sake and tackle the questions that all the start-ups have, as well as frustrate a lot of the civil servants who deal with this.

Irene Graham: The data that is already held in government to fast track a scale-up business hiring in a skilled worker is in our control now, and we should try to do that more effectively.

The Chairman: May I ask an awkward political question? Whatever line any of us took on Brexit at the time, everybody recognises that one of the reasons the vote went the way that it did was because people wanted to reduce migration. Every group of industrial and business representatives who come to talk to us say that one of the key things that has to happen is that we have better rather than less access to talent than we had previously. This varies, from you and the doctors at the high end through to horticultural workers and so on. As politicians, how do we square those two things?

[[**Dom Hallas:** It is the big question that makes me glad I am not sitting on the other side of this desk. It is interesting that in some of the polling coming out now on this question there is a genuine shift in public perceptions in this world where, for want of a better phrase, we have taken back control of the immigration system. We are now able to actively approve or disapprove applications in a post-Brexit system, regardless of where in the world those people are from.

I would argue—we see this in the polling and we saw it in the polling at the time—that people did not have a particular issue with software developers or doctors coming in to fill unfilled jobs. It is important to take note of that in all the discussions but also to be aware. The industry is aware of this and conscious of that discussion. We do not want to sit here in our ivory tower having this conversation. It is important to engage in it. I do not think that is what people were driving at.

Lord Russell of Liverpool: Talent is talent, regardless of the geography or ethnicity it comes from. I have been a head hunter for 32 years. We have a fairly large population in this benighted kingdom of ours. Would it be fair to say that one of the results of being an integrated part of the EU and having a somewhat confused immigration policy has been to allow businesses like yours to access talent internationally fairly easily at the expense of Her Majesty's Government and us focusing on our own educational system, training and apprenticeship system?

Given the new world that we are moving into, it should be an absolute priority for all of us to get our head around how to grow and nurture our own talent. Listening to you and all the people we have heard from, we do not appear to have done a very good job on this. What lessons would you give all parties and both Houses about what we should be doing to try to fast track and force-feed domestic talent to fill some of those roles?

Irene Graham: Domestic local talent is also vital to our growing businesses. They are employing interns and apprentices across the scale-up community, and we can give you some figures on that. They are very focused on nurturing that talent. We have to invest in the Careers and Enterprise Company and it is important to link education and educational establishments, universities and schools into our scale-up community. If

you cannot find those businesses and do not know where they are and who they are it is much more difficult to align that.

That is why we are so focused on the use of data, pinpointing and putting businesses and scale-ups on the map, getting them more aligned into the school and university environment and for the universities to work with them further. They employ many UK citizens. Let me be clear about that. They are vastly employing UK citizens and they want to develop that base. We need to look at the data and how we harness that better. We need to build on initiatives such as the Careers and Enterprise Company and what it is doing and invest through that, and we need to look at how business and incentives for teachers and universities are aligned to engaging with the local business community and how that is measured more effectively, building on the Small Business Charter and other initiatives to make sure that alignment and engagement is strong. Those are the areas we need to focus more on.

Dom Hallas: Digital skills are a critical priority for the UK. We heard the Education Secretary Damian Hinds say in his first speech, which was trailed and in all the news stories, that digital skills are the priority. The sad thing is that I have heard the past six Education Secretaries give that same line in their first speech and we have not quite got there yet. It is vital.

The apprenticeship system related to digital is incredibly confusing and convoluted and means that a lot of the start-ups that I work with are not able to hire apprentices even if they wanted to. There is a lot of discussion about how to make sure that the kind of training that we want people to have is subsidised and funded by the Government and that it ties with the way industry is using these skills.

Ultimately, we are talking about businesses that are often scaling and then selling in a five-year period. This is a 10 or 15-year problem. That is the reality. If you were taking a kid who is 10 today and giving them the skills to succeed in the industry, you are looking at 15 years. A lot of the start-ups and scale-ups that we are talking about will have set scales and sold three companies by then.

Irene Graham: Sorry, I disagree, and I will come back on that.

Dom Hallas: Please do. It is important to note that the pace that we are talking about and the timeframes for a lot of these start-ups is one week and one month, not 15 years.

Irene Graham: I want to emphasise that when we talk about scale-ups we see them across all sizes, sectors and lengths of time in which businesses operate. We have many 20-year-old companies that are scaling and others that have scaled for multiple years. We need to look at how those are continuing to be invested in and continue on that growth journey.

Not all of them are looking for an exit. That is exactly what we do not want. We are seeing a lot of companies that wish to scale up. It is important to say that they are not all tech companies and we need to recognise that they are across all sectors. That is why we have to get it right across all geographies as well.

Carlos Eduardo Espinal: We work closely with Coadec on trying to figure out how to get more talent from within the UK and abroad. The tech industry as a whole has also spearheaded initiatives in an effort to engage more with the community. One of them is called Code First: Girls, which helps to empower women who want to enter into the coding area. There are definitely things that we are doing in the industry; we do not rely entirely on the Government.

Irene Graham: I agree. Google Digital Garage is also doing great things in upskilling businesses with the skills needed on the digital side.

Lord Robathan: We discussed early monetisation before. A lot of start-ups do not want to go into scale-ups. Is that the case?

Irene Graham: We have a terrific diversity of businesses across the country. We want to make sure that we are segmenting and targeting businesses more effectively. We need to encourage and foster start-ups and micros, some of which may not want to scale, but we also need to put intensive energy towards those that are scaling.

Lord Robathan: Does that explain the disparity between the number of start-ups that we have internationally and the number of scale-ups?

Irene Graham: There is lots of research, including some undertaken by David Storey over the period 1988 to 2008, which we can share with you. We had about 200,000 start-ups there. As they go through that journey, many start-ups fail after three years. You get about 80,000 surviving after three years and a very small number continuing to grow and survive beyond that.

In that landscape we need to make sure that we are getting intensive levels of support when they are growing in order to foster that further. There are some other economic aspects that say you gain greater economic growth and certainty through focusing on the growing and growth companies. We can share that with you, but there is a need to make sure that we are focusing on those growing businesses.

The Chairman: What lies behind part of Lord Robathan's question, which goes to the investment side as well, is that it may be the motivation or it may be that there is no alternative for people who have had a successful start-up and developed new technology, but they cannot get the investment elsewhere and the only way that they can make the money is to sell up. In the FinTech area we have big organisations swallowing up these entrepreneurial, innovative companies.

Irene Graham: I think it is a virtuous circle.

The Chairman: That is one outcome.

Irene Graham: It goes to the virtuous circle of talent, leadership and market access being key elements of policy, which we need to focus on before they start growing.

The Chairman: One of our earlier inquiries, which had nothing to do with Brexit, looked at digital platforms. One of the difficulties is that when the smaller companies have reached a certain level their only way to grow is to be swallowed by a large company, and the market structure and the competition is somewhat subsumed in that process. It may not be the aim of the founder to do that, but it is the only alternative that they have.

Irene Graham: There are ranges of ways in which the marketplace and the business owner will look at that. Having the right infrastructure around talent, investment, market access and collaboration, including corporate collaboration, to allow the company to continue to grow is vital.

Q7 **Lord Aberdare:** I want to focus on that issue. My main question is on engagement with government and how you get your views and priorities across to government given that, as we found in Cambridge last week, the start-up sector and indeed the scale-up sector is incredibly broad and largely small-scale and that both you and government in that sense have a difficulty getting a picture across the waterfront.

I also want to get into the area that Lord Robathan has raised, because the other thing that came across last week was that most people we talked to said that there were more start-ups than scale-ups. Most of them were entrepreneurs and/or serial entrepreneurs. It struck me that the area that we are very good at is the start-up area and we are perhaps less good in the scale-up area.

My supplementary question is this. Is that a problem? Maybe we can have the strategy that we just fire off start-ups, sell them and fire off some more.

Secondly, looking at start-ups and scale-ups, are there differences in perspective and needs between the two categories that we need to be aware of and to make different recommendations about how you move from one to the other and how you increase the ability in the scale-up area to match the start-up strength that we evidently have? Part of that is directed principally at Irene.

Dom Hallas: On your second question, it is about giving people the choice to grow in the way they want to. Irene and the ScaleUp Institute are doing fantastic work in addressing that question, which is how you make sure that people are able to do that. Irene knows an awful lot more about this than I do.

On engaging with government, I sit on the Digital Economy Council with the managing directors of Facebook and Google. We have a good relationship and continue to engage with the Government an awful lot. I am also instinctively defensive of the role that civil servants are playing

in the process on the engagement side, partly because I was doing that less than six months ago, but also because generally speaking they are in an impossible position of relatively limited information as to what is going on and very full inboxes. This is the same problem with a whole range of issues. I will often describe myself and my job as being a translator between two completely different worlds—the start-up technology industry and government.

The reality is that government in general, Brexit or no Brexit, is much better at engaging with big companies than small companies. Part of my job is to help tackle that gap, but at the moment we have too many meetings with the 10 biggest technology companies in the world and me sitting in a room. The idea is that they will discuss the start-ups or scale-ups and everyone instinctively turns to me and says, “Make your contribution and then we will move on”.

It is important that we do now recognise the growing importance of start-up and scale-up tech businesses in the space and we are able to think coherently about doing that engagement a lot more. To the credit of DCMS and various other government departments, they are making a strong outreach effort to do exactly that. It is a question of building on that.

Lord Aberdare: Are there any structures at the moment that are good models to build on and improve?

Dom Hallas: That is a good question. I had a meeting at DCMS the other day talking about this in relation to the announcements last week and the ability to reach out to companies that would not necessarily engage with this. There are certain ways in which the government disseminates the message within the tech industry through either government-funded bodies or various other ways.

One of the things that has been lacking is that often with particularly very early stage start-ups these people are based in co-working spaces or different organisations that are generally run by people who collaborate and co-ordinate and it is a genuine community. It is quite easy to tap into these communities and for the Government to fire out information as things are developing to the leaders of those communities who can then disseminate it down. That would be an easy fix, particularly in relation to Brexit, as there are ongoing concerns and, frankly, a lot of confusion and misapprehension.

A lot of my job is correcting things that are not necessarily true that people have misunderstood. The more effectively the Government can communicate exactly what the situation is will be important. Finding the avenues to do that is a priority.

Lord Aberdare: I was hoping that Irene was going to comment on the scale-up challenge.

Irene Graham: One of the reasons why we are successful in start-ups is that we have put a lot of effort into start-up policy since the financial crisis. We are now third in the world and should be retaining those policies to make sure that we retain that position and go higher. Given that we are 13th in the world for growing a company compared to other international parties in Europe and the US and Canada and elsewhere, we need to be more ambitious than that.

We have all the ingredients here to be ambitious for that. We are growing our scale-up base as we speak, but there are simple things which I outlined earlier—we can share more of our detailed recommendations with you—that we have in our control to become even better at being able to scale the companies that want to grow. They are hungry to grow. They are doing the good things that we want them to do. They are exporters. They are innovators. They are adding value to the corporate and supply chain and communities that we are in. They are also adding billions to the UK economy, 3,000 jobs a week as well as the overall international dynamics for the country. It is important that we harness our resourcing towards this.

Other countries, such as Denmark, have done that effectively through the way they operate their growth hubs and align resources to them as well as through relationship management. The US is another in the way it has aligned its procurement rules at national and local areas of government towards that, and we see a role in supply chains in corporates as well.

We have a huge opportunity. We have a whole mix of the right ingredients. We have very ambitious companies. We need to do better at delivering on that. That is why we think it is important that government has set up the ScaleUp Taskforce. It met last year and it engaged strongly with them as part of the industrial strategy. It is vital that the recommendations from the task force, which we can share with you separately, are implemented. It is also vital that the industrial strategy is implemented, as well as what we talked about earlier on finance and talent as well as the local infrastructures.

On that engagement point, the ScaleUp Taskforce is a good way of convening input. There have been lots of different advisory groups and round tables around the country. As we move further forward in looking at investment in the local infrastructure, at the local go-to points, growth hubs and others on this agenda such as how one looks at the use of digital tools, as well as central resourcing perhaps, we must recognise that many larger companies have resources that can handle Brexit. We will probably need to support some of our smaller companies more intensively as well as our scale-up companies.

Overall, on the scale-up point, we have a real opportunity that we can focus on and we have the ingredients to make this the leading country for scale-ups.

Lord Aberdare: It perhaps needs to be reflected in the skills system and the education system, because it strikes me that there is an awful lot

more focus on entrepreneurship and building something new than on building something great.

Irene Graham: That is why we have looked at the dynamics. First, do any of our students know about these businesses, because there is still recognition of law firms and banks, but do they know who their local scale-up is? If your local environment, university or school does not, how do they know? That is why we are so focused on this data point. I have emphasised that a lot. The private sector can put these businesses on the map, celebrate them, champion them, connect them more into the school environment, but the public sector also has a role here, particularly with regard to the use of data and encouraging that.

When we poll our scale-up businesses, we see that critical thinking and service orientation will be important skills for them. Connecting that and creating that opportunity is vital. We can share other ideas that we have on that.

Carlos Eduardo Espinal: I just wanted to add to the point you made when you were asking why we do not just accept the fact that we are really good at start-ups. It was insightful. We have to accept that to some extent, because in our experience it takes six years for a company that is starting out to become a scale-up.

Irene has said that we do not want to get rid of those initiatives. Those things are great. We also have to be patient in the sense that there is a high mortality rate of over 50%, and the best companies on average take about six years. There is always an exception. One of our companies, Revolut, has scaled now to hundreds of employees in three years, but that is the exception. One of the things that we need to consider is that scale-ups are not just companies that we can import or that we need to cater to. We need to retain them with initiatives that benefit them as they go through that process of maturation.

Irene Graham: I agree.

Baroness Donaghy: Is there analysis of the barriers from start-up to scale-up? For instance, are we great with the ideas but do not want the hassle of the manufacturing aspects or being employers and managers? What are the known factors?

Irene Graham: Known factors are exemplified in our 2017 review and the original scale-up report of 2014. They are aspects of building leadership capacity. If you are growing really fast, how do you get the right leadership capacity? Access to local leadership development programmes is important.

We have analysed some of the leading programmes that are available, but we do not have sufficient numbers of those. We can share information on that. Building that leadership capacity, access to peer networks at a local level of like-minded scaling businesses, access to universities and R&D aspects are all vital in this space. It is about people,

leadership and opportunities collaborating even more effectively, including through government procurement or corporate collaborations.

There is a role to play in corporate supply chains, working with their scale-up community and leaning in towards their leadership and talent needs as well as their export needs. We can share that more detailed analysis with you. I have gone to a fairly high level because of the nature of the discussion today, but we can share those details with you.

The Chairman: Thank you very much. We are coming to the end of our time. Is there anything that you came into this room hoping to tell us that you have not told us?

Dom Hallas: I do not think so.

The Chairman: Any remaining questions from my colleagues? In that case, we have reached a successful conclusion almost on time. Thank you very much again for your time and for the promise of further material, particularly from Irene. If anyone else wants to write in that would be helpful. Thank you very much.