

Funding the Founders - A Roadmap of Startup-Driven Reforms to Jumpstart UK Economic Growth



Forward

Walk into any industrial estate, university campus, or coworking space in the UK and you'll find small businesses doing extraordinary things. Our £1.2 trillion tech ecosystem¹ - the world's third largest - proves we're a nation of entrepreneurs and innovators.

Yet we're often losing talent and companies to overseas competitors. Or worse, seeing startups with promising ideas and technologies fail to realise their potential. Access to finance is often a factor when companies relocate. Research recently showed² that despite 64 per cent of startups planning to increase investment and the majority wanting to stay in the UK, 20 per cent of the fastest growing companies could leave the UK in the next three years.

ACT members recently discovered that accessing publicly funded support is about to become even harder as UK Research and Innovation (UKRI) has paused new grants while potentially narrowing future availability, as reported by the BBC³.

While the UK is widely considered a top destination for tech startups, many face an array of issues when trying to scale and grow their business. For example, for small and medium-sized enterprise (SME) tech companies, funding is prohibitively complex and time-consuming. Public money comes wrapped in arbitrary criteria and bureaucratic red tape that eats up valuable time and resources and often takes too long to approve. Private investment comes with its own drawbacks such as loss of control and freedom, pressure to achieve rapid growth, and calls to relocate or geographically split the company.

Additionally, startups grapple with the 'black hole' of funding. This means some are stuck in between funding options as either deemed 'too advanced' for the smaller grants, but not advanced enough for the VCs. This isn't just bad for business, it's bad for our economy, our productivity, and our future.

Small companies across the UK are tackling society's biggest challenges: advancing healthcare with AI and wearables, democratising education, and decarbonising industry. Holding them back disadvantages everyone. It doesn't have to be this way. After extensive consultation with ACT's members—entrepreneurs and micro, small, and medium-sized enterprises (MSMEs) from across the UK—we've developed clear, achievable, and affordable proposals to transform the funding landscape and jumpstart UK innovation.



“The UK is brilliant at growing startups. Now it needs to be brilliant at keeping them.”

Stephen Tulip,
UK Country Manager, ACT

¹ (<https://report.technation.io>)

² <https://www.thefastmode.com/technology-and-solution-trends/45855-85-of-uk-startups-want-to-stay-but-1-in-5-could-move-abroad-virgin-media-o2-finds>

³ <https://www.bbc.co.uk/news/articles/c9e50x1r237o>.

The Problem: Access to Finance

Whether they are solo entrepreneurs with breakthrough ideas or growing companies ready to scale, ACT members all agree accessing capital is the single biggest barrier to growth. Far from supporting startups and small tech companies, the current system actively holds them back, stifling economic growth, job creation, and innovation.

In a series of extensive discussions with members working across multiple sectors, ACT members have identified seven high-priority problems that if addressed will cement the UK's reputation as a home for successful tech startups and drive the economic growth we desperately need.

- 1 Public Money:**
Does the best company win?
- 2 Bureaucracy:**
Death by a thousand forms
- 3 The Black Hole:**
Where UK funding disappears
- 4 The Eligibility Trap:**
'If we had revenue, we wouldn't need funding'
- 5 Private Sector Funding:**
The equity trap
- 6 Personal Funding:**
Punishing founders for backing themselves
- 7 Public Procurement:**
Practice what you preach



For each problem this report identifies one or more affordable reforms the Government should adopt.



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Public Money: Does the Best Company Win?

RECOMMENDATION 1:

The Government should create a standardised, online platform for searching and applying for public sector funding to allow MSMEs to compete on an equal footing.

Funding application processes are byzantine. Funding doesn't go where it's most needed, it goes where the paperwork is best. Those with the knowledge and capacity to navigate complex forms win funding. Talented entrepreneurs without these resources lose out, even when their ideas are superior.

This disconnect has spawned an entire bid-writing industry. Consultants charge handsomely to secure funding, creating a perverse system where finance flows to those who can afford expert support rather than those with the best ideas. This consolation will only increase as UKRI restricts access to new funding opportunities, a concern also highlighted in the BBC article from earlier this year.

For micro-businesses with limited resources, this is catastrophic. They're talented, but their skills don't extend to decoding grant applications. A founder can't afford to spend time on processes with slim success rates.

The result? Finance goes to the wrong places. Ideas that could transform industries die for lack of paperwork expertise. Tech innovation means venturing into uncharted territory. Funding processes must reflect this reality, not exclude it.



“There is a current disconnect between need and funding in government grant programmes. Companies skilled at applications can dominate the grant space to the detriment of other, equally worthy, businesses. This is not helped by a cadre of service providers who distort things further. For better chances for growth in the SME sector the playing field must be levelled.”

Mike Griffin

Founder of My Print Pod and Augmented Solutions Ltd



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Bureaucracy: Death by a Thousand Forms

RECOMMENDATION 2:

The Government should apply AI technology and refine processes to ensure consistent and speedy reviews of all public funding applications and encourage private sector funders to do the same.

Accessing public and private funding is excessively bureaucratic. For startups who don't have the resources of larger companies, navigating the funding landscape from finding suitable opportunities to successfully completing an application is unfairly difficult. The problem is composed by consistency and speed.

The Consistency Problem

The funding landscape is confusing and inconsistent with several organisations operating in their own ways and even where applicants find the opportunities to begin with.

When it comes to applying the criteria on applications, an ACT member experienced how one out of three judges assessed their public funding application vastly differently. Businesses spend a lot of time and often money completing complex funding applications and they deserve consistent and fair assessments.

The Speed Problem

Grants like those provided by Innovate UK, specifically designed to fund innovative small businesses, can take 14 months to process. By the time decisions arrive, many applicants have already moved beyond the funding stage they applied for, stopped operating, or moved on to foreign sources.

Startups are fast and nimble. If we want them to deliver, funding decisions must be equally swift. No one wants innovation at the speed of government.



“In our experience with innovation funding, the topics are so broad that judges can have wildly different understandings of the material. While that’s understandable given the range of subject matter, there should be some adjustment for outlier marks. For example, when there are only three judges and two score eligibility in the 90th percentiles, a third scoring it as zero is unlikely to reflect the merits. Judges will naturally give different scores, but some form of standard deviation or outlier check should be used to prevent entrants from being penalised by inconsistent interpretation.”

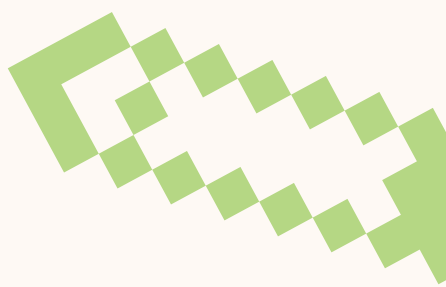
James Hanson

Managing Director of Layers Studios

Does the Best Person Win?

RECOMMENDATION 3:
The Government should ensure transparency on the gender gap and commit to regular reporting and reviews while encouraging more women in tech and entrepreneurial roles. It should listen to women entrepreneurs' experiences and calls for changes that could help close the gender gap. It should also continue to dedicate large growth funds to women tech entrepreneurs.

RECOMMENDATION 4: The Government must ensure that all funding awards come with consistent performance expectations and avoid placing a greater burden on selected groups.



Women tech entrepreneurs remain underrepresented. We know that this isn't about capacity or lack of great ideas, but a structural issue.

In the context of access to finance and funding, the gender gap becomes starker. An OECD report from 2025⁴ found that women are consistently less likely to secure the funding needed for their business compared with their male counterpart. For example, women led or owned businesses receive only about 2 per cent of total venture capital investments. A Harvard Business⁵ study discovered issues of bias in how investors assess founders depending on their gender.

The UK encourages entrepreneurship among women in tech and over the last decade has taken actions to improve the picture, such as initiatives by the British Business Bank, various reviews and taskforces, dedicated capital pools, and mentoring and network programs. However, women still face a large funding gap as entrepreneurs, especially when it comes to VC funding.



⁴ https://www.oecd.org/en/publications/bridging-the-finance-gap-for-women-entrepreneurs_75b52972-en.html
⁵ <https://www.library.hbs.edu/working-knowledge/venture-investors-prefer-funding-handsome-men>



If a woman entrepreneur does secure funding, it could come with a disturbing twist, as some founders shared: because they're a 'minority' asset for funders, investment came with excessive expectations heaped upon them that their male peers didn't have to carry. Or, as in the example above, a female member faced a quid pro quo situation necessary for funding while male founders face no such demands.

This is unacceptable. Funding decisions should continue to factor in other positive benefits like building a diverse entrepreneur community. But after investments are made, all entrepreneurs must be held to the same expectations and requirements.

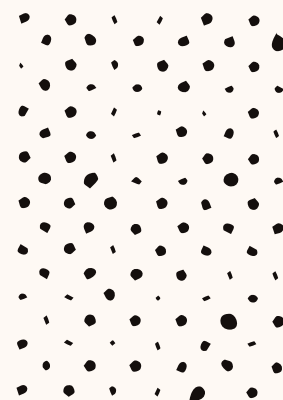


“Many women-focused grants are assessed on our ability to take on mentoring and volunteering responsibilities. This isn't a requirement for other funds or other applicants.

I understand the good intention behind it, as we want to encourage more women into business, but as a founder already wearing many hats, being asked to commit to role model activities feels like we're being held to a different standard. It's as if our business success alone isn't enough - we also need to prove our worth through additional unpaid work.”

Caroline Laursen

Managing Director of TI Tech – Smart Home Solutions



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The Black Hole: Where UK Funding Disappears

RECOMMENDATION 5:

The SEIS/EIS scheme limit should be lifted to £1.5 million to close the funding gap that currently exists in the UK.

RECOMMENDATION 6:

The UK Government should consult with small businesses about options to increase the availability of public and private sector funding for MSMEs between £350,000 and £1.5 million.

Britain has a funding black hole—and it's killing scaleups.

Funding options exist for businesses seeking up to £350,000. That's a useful cap for startups but relatively small for growing tech companies.

Successful startups with a proven innovation and looking to scale need more significant amounts above £350,000. Unfortunately, many private investment options set a minimum threshold of £1.5 million, leaving a black hole, where nothing exists in between.

The Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS) are capped at £350,000—creating much of this black hole.

The impact is devastating. UK MSMEs struggle to become medium and large enterprises. They're disadvantaged compared to international competitors who face no such barrier.



“Everything comes back to one question: can we raise money, or can't we? For UK startups, the funding gap isn't just about the amount of capital available; it's about the rules and processes that make it hard to access at the moment you need to scale.”

James O'Sullivan

Founder of Nuke from Orbit

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The Eligibility Trap: 'If We Had Revenue, We Wouldn't Need Funding'

RECOMMENDATION 7:

Remove recurring revenue requirements as criteria for securing public sector funding

Many funding options available to British startups require recurring revenue in order to be eligible, which excludes the smallest businesses and startups from accessing the finance they need to grow their company, and create more jobs.

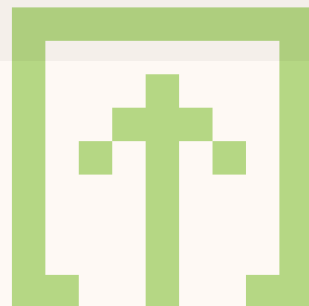
As one startup put it: 'If we had recurring revenue already, we wouldn't need the funding'.



“Not many people know this, but there is a minimum annual turnover threshold for the majority of public sector tenders; in Scotland it's typically £250k. Innovative early-stage startups are in a catch-22; we have the technical expertise and have built a track record on smaller scale, often grant-funded pilots, to then be excluded from the very projects that would not only help to grow our business but also bring fresh thinking and significant cost savings for public services.”

Caroline Laurenson

Managing Director of TI Tech – Smart Home Solutions



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Private Sector Funding: The Equity Trap

RECOMMENDATION 8:

The UK Government should provide tools, including using AI, for startups to go through the process of applying for funding from private sector investors. Providing access to things like boilerplate legal documents and template due diligence forms could reduce costs and make the process much quicker and easier for hard-pressed MSMEs.

RECOMMENDATION 9:

Government should create a database of private sector funding sources and schemes as well as VCs and angel investors who are looking to invest in UK businesses, on the [business.gov.uk](https://www.business.gov.uk) website.

Startup funding doesn't just come from government. Many seek private sector funding—either through choice or necessity.

But while private finance has benefits over public options, it brings its own challenges. Due diligence costs for venture capitalist investment can run at least £70,000 which is prohibitively high for many small businesses. VC funding also typically starts at £2 million, a threshold beyond what many startup businesses seek.

Angel investors are an alternative to VC and tend to take more risks with smaller businesses. Angels, however, recognise only around three in 20 investments will be profitable, and their terms reflect this.

Unlike public funding, private finance often requires companies to relinquish equity. There are many cases where this quid pro quo makes business sense, but for many startups the experience has been exploitative and far from ideal. Entrepreneurs succeed by having good ideas and building businesses around them. Being forced to surrender large equity stakes to access growth capital is a catch-22 many face against their will.

Private funding also too often comes from overseas. Many ACT members express disappointment at the lack of British-based private sector investment options.

Not all startups want to be unicorns. In fact, this is an unrealistic outcome for many businesses, especially those working in areas like social care and charities. Such businesses are capable of making positive contributions to UK society and seek to address many of the societal issues that are central to the Government's core values. These businesses hire and upskill people, contribute to local economies, and create innovative products. These businesses exist all around the UK and must not be forgotten in the race to find the next unicorn.



“Political shifts over the last decade have made startup funding extremely volatile. Early-stage institutional capital is particularly scarce; founders are frequently offered coaching or office space instead of the actual funding needed to commercialise technical ideas. Consequently, UK founders are looking outward. A friend with a Northern England AI startup recently had to seek capital in the United States after exhausting local options, and I am increasingly turning to the European Innovation Council (EIC) for R&D funding.”

William Fish
Founder of Manalytica



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Personal Funding: Punishing Founders for Backing Themselves

RECOMMENDATION 10:

HMRC should update SEIS rules to enable both entrepreneurs and their family and friends who invest in their businesses to benefit from SEIS tax relief.

Many entrepreneurs prefer retaining full control in the early stages of their business, ensuring critical early decisions are the right ones.

As a result, they utilise a bootstrapping funding approach. They dip into their own pockets for initial capital. Some sell treasured possessions. Others remortgage homes or draw down on retirement savings. Some turn to family and friends.

Such commitment deserves applause and support. Taking personal financial risks to grow a business is admirable.

But the tax system punishes it.

Currently, neither founders nor their immediate relatives can claim SEIS tax relief on such investments. His Majesty's Revenue and Customs (HMRC) define 'associates' under SEIS as including 'spouses, civil partners, parents, grandparents, children, and grandchildren' making all of them ineligible for relief.

This is hugely counter-productive. Far from encouraging investment in startups, it actively deters it.



“SEIS is a fantastic programme, so who thought it was a good idea to add strings that punish founders for backing themselves and their businesses? Early-stage capital often comes from personal savings and family support, especially in patent-led startups where the people closest to the technology are, by necessity, so as not to stall the patent grant, a nuclear family. Treating that as “nepotism” under the rules is backwards and it deters exactly the kind of British innovation SEIS is meant to unlock”.

Paul Croall

Founder of Undisclosed DNA

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Public Procurement: Practice What you Preach

RECOMMENDATION 11: Government should reform public sector procurement rules to open up all contracts to MSMEs. Contracts should be awarded on the basis of assessed ability to deliver rather than on arbitrary criteria that preferences large companies and excludes small businesses by design.

Despite the Procurement Act 2023's laudable objectives, reality bites: public procurement platforms have arbitrary requirements to qualify, especially around turnover and insurance, that are far too high for most MSMEs to meet.

This is why public contracts circulate through the same handful of large companies because they are the only ones meeting arbitrary eligibility criteria (and the ones who have built up or can afford to hire paperwork experts as detailed in Problem 1).

The mixed message is stark: government urges private sector support for small businesses whilst refusing to support them themselves.

If government is serious about getting MSMEs into the public supply chain and encouraging innovation, these prohibitive requirements must be reduced. Britain has numerous exciting small tech companies who could deliver significant efficiencies to the public sector—but they're currently excluded.



“As the founder of a world-leading SME developing textile sensors, I find it extraordinary how hard it is to sell innovation into the NHS. Two barriers keep showing up: risk aversion that treats new tech as a patient-safety threat, and procurement processes that routinely favour large incumbents over smaller innovators. The result is an environment that not only stifles innovation but also raises costs for UK startups and SMEs every single year.”

Simon McMaster
Founder of Footfalls and Heartbeats



Conclusion

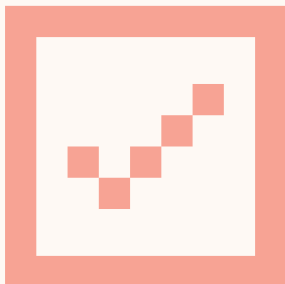
The UK is a tremendous place to start a tech business evidenced by the volume of businesses launched here. ACT members want to build their ideas into successful British businesses.

Government has shown it's keen to deliver for small businesses. The Industrial Strategy has been welcomed, as has the renewed Small Business Strategy. However, worrying steps like the pausing of UKRI grants and narrowing future access to funding will make it harder for our MSME ecosystem to flourish. Picking future unicorns is an impossible task. The best way to grow businesses is to create conditions where more startups can launch and scale.

If Britain is to remain home to world-leading tech innovation, we need a business environment where companies can thrive. Addressing MSME finance issues is critical.

In this report, we've highlighted significant issues our members face and made recommendations that will:

- Cost little
- Involve minimal legislation
- Deliver massively for every small UK business



We urge Government to act now to help British MSMEs deliver the economic growth and thriving domestic tech sector we all want to see.

Summary of Recommendations

- 1** The Government should create a standardised, online platform for searching and applying for public sector funding to allow MSMEs to compete on an equal footing.
- 2** The Government should apply AI technology and refine processes to ensure consistent and speedy reviews of all public funding applications and encourage private sector funders to do the same.
- 3** The Government should ensure transparency on the gender gap and commit to regular reporting and reviews while encouraging more women in tech and entrepreneurial roles. It should listen to women entrepreneurs' experiences and calls for change and continue to dedicate large growth funds to women tech entrepreneurs.
- 4** The Government must ensure that all funding awards come with consistent performance expectations and avoid placing a greater burden on selected groups.
- 5** The SEIS/EIS scheme limit should be lifted to £1.5 million to close the funding gap that currently exists in the UK.
- 6** The UK Government should consult with small businesses about options to increase the availability of public and private sector funding for MSMEs between £350,000 and £1.5 million.

Summary of Recommendations

7

Recurring revenue requirements should be removed as criteria for public sector funding.

8

The UK Government should provide tools, including AI-enabled support, to help startups apply for private sector investment. This should include access to boilerplate legal documents and template due diligence forms to reduce costs and speed up the process for MSMEs.

9

Government should create a database of private sector funding sources, schemes, venture capital firms and angel investors seeking to invest in UK businesses, hosted on business.gov.uk.

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HMRC should update SEIS rules to enable both entrepreneurs and their family and friends who invest in their businesses to benefit from SEIS tax relief.

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