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Advice paper
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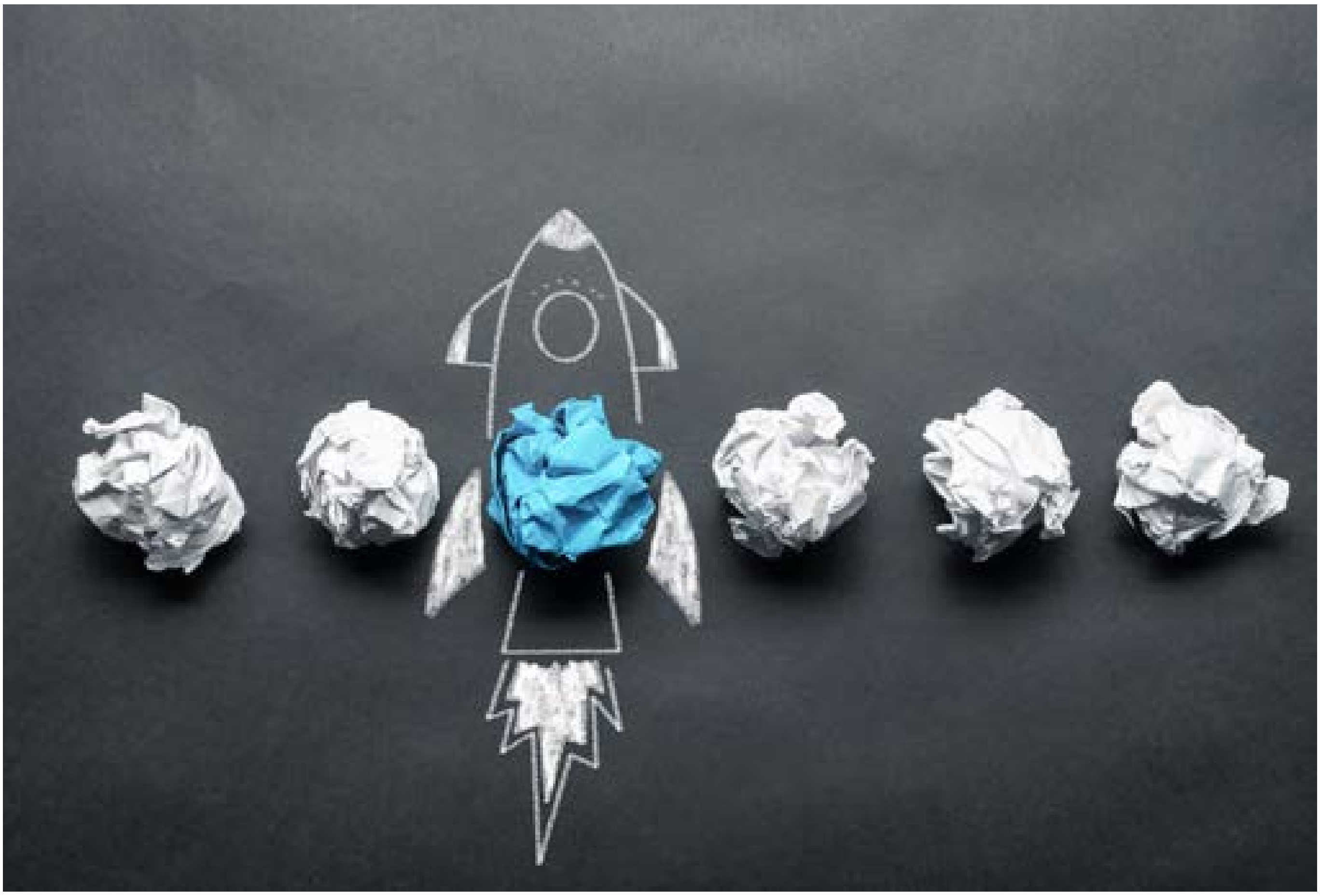
Response to the UK Parliament Treasury Committee inquiry on the venture capital market



Summary

RSE notes the UK’s strong performance in the venture capital (VC) market in comparison to other European nations, largely due to deals >£50m, but acknowledge that this does not translate across all UK regions due to the dominance of the Golden Triangle region (Oxford, Cambridge, and London). In this context, a higher number of larger deals are required to bolster Scotland’s venture capital (VC) market and move Scotland’s investment performance closer to that of the Golden Triangle.

Scotland’s ‘underlying market’ (comprising deals <£10m) performed well in 2020, but smaller investments <£2m, which should provide the pipeline of future potential high growth ‘Unicorns’ (start-up companies worth over $1billion), require greater support.

Scotland’s VC market performs well, when compared with other countries and regions of the UK, in relation to companies that originated as university spinouts that raised equity finance in 2021. However, Scotland’s average deal size is smaller (which in part could be explained by larger outlier deals in other areas). We suggest that there is a need to improve access to early-stage finance for companies looking to secure equity for the first time. Limited access often results in businesses spending a disproportionate amount of time competing for several smaller investment rounds, which enable them to continue to operate. But this focus on survival constrains the ability of some such start-ups to scale up and increases pressure to exit early; whilst others are bought by larger corporations, leading to businesses moving their HQ, operations, and intellectual property out of Scotland.

More generally, Scotland’s VC market could be improved by enhancing its capacity for commercialisation in the context of the full sequence, from fundamental research to post-commercialisation, noting that there is no one panacea to either spinning out or scaling up. Such progress depends upon factors such as (1) a supportive education system at various levels; (2) the availability and support of business and managerial expertise; (3) Government policy wrap around; (4) an improved research-industry interface characterised by co-located academic and industry HQs; and (5) a competitive technology sector.

RSE notes the success of initiatives such as CivTech, the Scottish Co-Investment Fund, the Converge Challenge, and Scotland Can Do, which have improved access to the provision of early-stage finance to businesses and entrepreneurs in Scotland, and suggest that similar initiatives might be of value if established across the rest of the United Kingdom.

Summary (continued)

RSE is pleased to note increasing levels of cooperation and interconnectivity between public sector funding partners operating within Scotland, such as the British Business Bank, the Scottish National Investment Bank and the Enterprise agencies. This cooperation is essential to the functioning of a cost-efficient VC market. However, more can be done to improve access to finance, avoid duplication, shift risk appetites by overcoming an institutional aversion to pre-revenue deals for untested technologies, and enhance business growth across Scotland.

In addition to creating a supporting environment for spinouts and early-stage financing, Government has a key role to play as a market maker by opening up public policy challenges and public procurement to innovators in early-stage companies, and as a cornerstone investor in, for example, funds targeted at infrastructure-scale projects, such as regulated asset bases. Close coordination will make the most of these powerful roles to support new and growing UK businesses.

RSE contends that the enhanced provision of mentorship, business management support and skills development services from those with experience and expertise of early-stage business development would be a positive and practicable step towards enabling more Scottish firms to achieve scale. To this end, RSE would be pleased to discuss the possible provision of mentorship services with the Treasury Committee.

Introduction

1. The Royal Society of Edinburgh (RSE), Scotland's National Academy, welcomes the opportunity to provide its views on the UK Parliament Treasury Committee inquiry on the venture capital market. This response was facilitated through an RSE working group which included RSE Fellows and members of the Young Academy of Scotland with a range of expertise, experience, connections, and interests with the Scottish investment landscape and ecosystem, as well as significant practitioner, investment, and research experience in the venture capital sector. In doing so, our response builds on previous RSE policy advice papers:

- Written evidence submitted by RSE to UK Parliament Science and Technology Committee (February 2012)[1]
- The Financing of Business Innovation in Scotland (October 2012)[2]
- Access to Early Stage Finance in Scotland (May 2021)[3]

The current state of the venture capital industry in the United Kingdom, including opportunities and threats, such as the availability of domestic capital to allow firms to scale up in the UK.

2. The RSE notes the effectiveness of historical initiatives such as Scottish Enterprise's Business Birth Rate Strategy (est.1995) in fostering Scotland's flourishing start-up culture but notes the lack of comparable growth in Scotland's scale-up landscape, which is largely caused by a lack of substantive corporate management experience as opposed to the availability of domestic capital in Scotland.[4]

3. We believe that, in Scotland, businesses are more likely to encounter challenges when scaling up as opposed to securing early-stage finance, a problem which stems from a lack of high calibre business leadership, knowledge of the investment ecosystem, and lack of larger-scale funding opportunities.[5] The limited size of deals means businesses often spend a disproportionate amount of time competing for several smaller investment rounds, which enables them to continue to operate, but ultimately constrains their ability to scale up. This lack of significant investment rounds results in many Scottish businesses prioritising early revenues (as opposed to longer-term innovation or R&D-led business opportunities). As a result, businesses experience pressure to exit early, whilst others are bought by larger corporations, leading to businesses moving their HQ, operations, and intellectual property out of Scotland.

4. Scotland is underperforming in comparison to London, and the wider Golden Triangle region more generally (consisting of Oxford, Cambridge, and London), which takes up 84% of investment and 71% of deals.[6]

5. Scotland is, however, notably increasing the amount of money going into deals >£10m, but the overall number of deals is not increasing in line with this (with a rise from just nine to ten deals in 2020). More capital per deal is required to bolster Scotland's VC market.[7]

6. Nonetheless, Scotland's 'underlying market' (comprising deals <£10m) performed well in 2021, with the majority of growth taking place through deals of £2-10m, which experienced a 40% increase. A 'Bootstrap Fund' offering convertible debt may provide a partial solution to securing a pipeline of future scale-ups. Similarly, the Scottish Enterprise Early Stage Growth Challenge Fund, which provided convertible loan notes to early stage companies impacted by the pandemic, is an example of an initiative

[1] Royal Society of Edinburgh (2012) *Written evidence submitted by The Royal Society of Edinburgh*. [online] Available at: https://publications.parliament.uk/pa/cm201213/cmselect/cmsctech/348/348vw21.htm.
[2] Royal Society of Edinburgh (2012) *The Financing of Business Innovation in Scotland*. [online] Available at: https://lincscot.co.uk/wp-content/uploads/2016/12/rse_report.pdf.
[3] Royal Society of Edinburgh (2021) *Access to Early Stage Finance in Scotland.* [online] Available at: https://rse.org.uk/expert-advice/advice-paper/access-to-early-stage-finance-in-scotland/.
[4] See for example: Talbot, S. and Reeves, A. (1997) Boosting the business birth rate in Scotland: evidence from the Lanarkshire development agency's entrepreneurship programme, *Quarterly Economic Commentary*, 22(2): pp.26-35. Available online here: https://strathprints.strath.ac.uk/52544/.
[5] Indeed, a range of programmes and initiatives, such as the Converge Challenge, Scotland Can Do, Scottish Enterprise Co-Investment Fund, and CivTech, have improved the provision of early-stage finance to business and entrepreneurs in Scotland.
[6] For more information on this, see Scottish Enterprise (2021) *Investing in Ambition: Scotland's Risk Capital Market in Context*. [online] Available at: https://www.scottish-enterprise.com/media/4012/investing-in-ambition-risk-capital-market-report-2021.pdf.
[7] For more information on this, see Scottish Enterprise (2021) *Investing in Ambition: Scotland's Risk Capital Market in Context.* [online] Available at: https://www.scottish-enterprise.com/media/4012/investing-in-ambition-risk-capital-market-report-2021.pdf.

which, alongside the Scottish Co-Investment Funds, supports increased investment in the early stages of the market where it is harder to raise finance. It is, however, essential that the terms of any convertible debt should be compatible with the EIS scheme.

7. The RSE contends that the area of greatest concern across all UK regions outside the Golden Triangle pertains to investments <£2m, and in particular early-stage companies looking to secure equity investments for the first time. These smaller investments are crucial for the longevity of a vibrant investment ecosystem, and more should be done to facilitate the emergence of these companies. Crucially, however, spinouts should not be positioned as a panacea to future scale ups, but rather as one option to achieving scale.[8]

8. RSE notes the success of the British Business Bank's (BBB) ECFs, whereby BBB provides up to 70% of capital required with a prioritised return, and private investors who supply the remaining 30% receive the majority of profits. However, whilst BBB has now backed >30 ECFs, including the first investor in the challenger bank Monzo, little ECF capital has been invested in Scotland.[9]

9. More generally, RSE acknowledge that the VC market is operating within a constrained fiscal landscape as a consequence of Brexit, the Covid-19 pandemic, and inflationary pressures. Any potential (and sadly highly likely) further tightening of public finances caused by economic circumstances and for example, a possible future independence referendum, would further limit the potential for enterprise development in Scotland through introduction of increasingly rigid fiscal policies and limited availability of public sector funds.

The level of co-operation/ integration between start-ups and established industry

10. In terms of the level of co-operation/integration between start-ups and established industry, there is a need to improve the interface between academia and industry. This might be achieved through, for example, more supportive education policy and industry/HE co-location to tackle a lack of trading between early stage start-ups and established institutions, enable knowledge transfer, and develop more integrated supply chains.[10]

11. In addition to relationships between start-ups and established industry, RSE contends that the relationships between start-ups, academic institutions, and their related funding bodies should be carefully considered.

The operation and effectiveness of the current tax incentives (such as the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs)) in the venture capital market, including any options for change.

12. RSE contends that the EIS and SEIS schemes have worked well for many years, but notes that these schemes tend to attract a relatively small pool of wealthy investors. Only a small number of these investors go on to achieve success with their first investment. For the majority, success depends on building up a portfolio of ten or more investments over a sustained period of time, being prepared to invest in follow-on rounds of investment, and accepting limited return on their investments over for sustained period of time in order to achieve a broad spread of investments. The EIS and SEIS Funds have gone some way to address this issue, but they are artificial constructs. In response, RSE calls for more funds to be raised from smaller investors looking for some exposure to this market through a pooled fund structure. If such a fund was available, perhaps supported by BBB or SNIB, it may be possible to attract a larger pool of funds from a wider group of investors who are attracted to the idea of this type of investment, but do not have the funds to become Business Angels.

[8] Particularly given the time taken for high-risk Deep Tech initiatives using unproven technologies to reach the market.
[9] This ECF investment model, adopted by bodies such as the UK Investor Fund cornerstoned by BBB which will invest in new life science companies via Epidarex Capital III UK LP, is something other Scottish public sector. funding partners, such as SNIB could consider adopting. For more information on this see: https://epidarex.com/epidarex-capital-closes-new-102-million-uk-venture-fund-to-build-successful-life-science-companies/.
[10] Royal Society of Edinburgh (2021) *Scotland's Supply Chain* [online] Available at: https://rse.org.uk/expert-advice/advice-paper/rse-response-to-scottish-parliament-call-for-views-on-scotlands-supply-chain/.

13. RSE suggests that there is a largely unexploited opportunity to promote VCTs on a regional basis to enable investors in local regions to invest in companies in the region in which they are based. To this end, it may be worthwhile for the Treasury Committee to explore the possibility of locally or regionally based VCTs with the VCT management community. Such an initiative might help to promote local investment in local areas and investors might feel incentivised to trade with the companies in which they are invested.

14. RSE calls for clarity on the extent to which recommendations outlined in the UK Innovation Strategy on how to increase the pool of venture capital investment in the UK, particularly from pension funds and the investment industry, have been implemented.[11]

The operation and effectiveness of the regulatory regime(s) concerning venture capital.

The role of other key bodies, such as the British Business Bank and the programmes which it oversees (including the Future Fund and British Patient Capital), and the Advanced Research and Invention Agency, and how they can support the venture capital market.

15. RSE is pleased to note increasing levels of cooperation and interconnectivity between public sector funding partners operating within Scotland, which is essential to the functioning of a cost-efficient VC market. However, more can be done to improve access to finance, avoid duplication, shift risk appetites (by overcoming an institutional aversion to pre-revenue deals for untested technologies), and enhance business growth across Scotland.[12] To this end, the Scottish Government (which funds the Foresight Scottish Growth Fund and Techstart Ventures which in turn funds the Scottish Growth Scheme), Scottish National Investment Bank (SNIB), British Business Bank (BBB), Scottish Enterprise (through the Scottish Co-Investment and Venture Funds), and the UK Infrastructure Bank operate within a relatively fragmented economic policy landscape. As such, it is important to not position the establishment of any one public sector funding partner as a panacea to economic development challenges (e.g., delivering net zero by 2045, tackling regional inequalities, or resolving productivity issues), but rather to work to ensure they are interconnected at different stages of the commercialisation process, and have suitable investment criteria which maximise access to, and use of, available venture capital.

16. The RSE commends the establishment of the Advanced Research and Invention Agency (ARIA). This ARIA is an interesting concept of blending Government funding (paying for things – e.g., through research grants) and financing (lending/investing for a return). Having a single entity able to do both, and not be judged separately on its ability to fund (i.e., spend) and finance (i.e., make a return) is potentially exciting. But RSE further suggests that, drawing from examples in the USA, increased investment is required earlier on in academic research (e.g. through increased UKRI R&D funding). This would provide a potential route towards increasing the number of commercially viable and scalable technology spinouts, and achieving substantial follow-on funding from the VC market.[13] Crucially, RSE suggests that this approach should be underlain by a shared set of missions to unify institutions working across the academia-industry interface.

[11] UK Government (2021) *UK Innovation Strategy: Leading the future by creating it* [online] Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1009577/uk-innovation-strategy.pdf.

[12] For example, when the UK Green Investment Bank (GIB) was established (now Macquarie Green Investment Group: https://www.greeninvestmentgroup.com/en.html), offshore wind technology was not a proven technology, and was as such deemed to be a high-risk investment proposition for the private sector. The GIB pioneered investment into this technology, which is now widespread, illustrating the change in risk appetite that is possible as technologies become proven.

[13] For more information on the role of initiatives such as the NIF in leading to substantive follow-on VC funding, see: US House of Representatives (2021) *Committee on Science, Space, and Technology Subcommittee on Energy: Hearing Charter* [online] Available at: https://science.house.gov/imo/media/doc/energy_hearing_charter_1117.21.pdf; and GFCC (2018) *Leveraging Extreme Innovation.* [online] Available at: https://www.cforc.org/assets/gfcc-leveraging-extreme-innovation.pdf.

The merits of policy proposals for strengthening the venture capital industry in the United Kingdom, such as:

- *Opening new pools of capital for venture capital investment, such as pension funds, retail products (e.g. investment through ISAs)*
- *Generating home-grown talent through the education system*
- *Attracting international talent through the visa system*
- *Any other possible Government or public sector intervention*
- *The effectiveness of any other government or public sector intervention in the venture capital industry.*

17. RSE supports the Treasury Committee's proposal to strengthen the venture capital industry in the United Kingdom by opening new pools of capital for venture capital investment, such as pension funds and retail products (e.g., investment through ISAs), noting that ~£75bn was invested in Adult ISAs in 2019/20 alone.[14] Whilst RSE does not know the allocation of ISA funds between managed funds and single company ISAs, we note that ISAs are essentially a retail savings product, one of whose key features is that investors can access their cash at any time. While it may be possible to design an ISA for a VC Fund, there would be significant issues around the distribution of such a fund because of the regulatory and compliance restrictions on IFAs and Wealth Managers. It would have to be clear to the investors in any such Fund that they would not have immediate access to their cash and that it would have to be regarded as a long-term savings product with a relatively high-risk profile.

18. To enlarge the pool of VC capital available, and thereby strengthen the UK's venture capital industry, RSE suggests that Self-Invested Personal Pensions (SIPPs) represent the best option (e.g., by putting 10% of annual SIPP contributions into the VC asset class) but notes that this would require a number of alterations to be made to the current arrangement. Indeed, it is possible, in theory, for SIPP holders to hold shares in individual private companies but, in practice, this is difficult to do, and many SIPP providers are not willing to commit to the administrative cost or take on the perceived investment risk. However, some younger SIPP investors may be attracted to the prospect of higher long-term returns from allocating a portion of their annual SIPP contributions into a VC Fund. Such a fund might not be realised for ten years or more, but this would be well within the time horizon of younger SIPP investors. It might be prudent to place some restriction, possibly 10%, on the portion of annual SIPP contributions which could be invested in this way, but it could still add up to a very substantial pool of additional capital available for investment. There would still be a regulatory issue to be addressed to enable IFAs and Wealth Managers to distribute such a product to their clients. However, if it was restricted to a proportion of annual contributions the risk would be well managed and investors would be given the opportunity to invest in an asset class with the possibility of higher returns albeit with a higher degree of risk. Such a scheme would not only enable a much wider pool of investors to invest in this asset class, it would also give them some insight into the world of high growth companies in which such funds invest.

19. In response, the UK Government Treasury should establish a simple way for SIPP investors to put a percentage of their pension pot into the VC asset class on a portfolio basis (e.g., a pooled SIPP fund which could be co-invested alongside the Business Angel Syndicates in Scotland or other selected VCFs, such as the British Business Banks' Enterprise Capital Fund Programme across the UK). We note that, within Scottish Enterprise's Scottish Co-Investment Fund, angel syndicate partners claim healthy portfolio returns highlighting the potential of long-term co-investment on a portfolio basis (alongside an angel syndicate) to produce high returns.[15]

20. Indeed, the British Business Bank's (BBB) Enterprise Capital Fund (ECF) Programme, which looks to address the equity gap by increasing the availability of early stage equity finance to high potential UK companies, has supported 28 fund managers to raise 36 funds, with total investment capacity of £1.72bn and £984.4m of commitments supporting 665 companies across 701 equity deals.[16] However, there is a notable lack of ECF capital in Scotland. We believe that enhancing the commitment of ECF funds in Scotland represents another co-investment vehicle that could be drawn from to increase the pool of available VC capital.

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[14] UK Government (2021) *Commentary for Annual savings statistics: June 2021* [online] Available here: https://www.gov.uk/government/statistics/annual-savings-statistics/commentary-for-annual-savings-statistics-june-2021#:~:text=1.2%20Amounts%20subscribed%20(chart%20uses,increased%20by%20%C2%A34.8%20billion.

[15] The only issue with this is in relation to a lack of liquidity, which is addressed over the long-term by exits.

[16] For more information see British Business Bank (2021) *Enterprise Capital Funds interim evaluation report 2021*. [online] Available at: https://www.british-business-bank.co.uk/enterprise-capital-funds-interim-evaluation-report-2021/.

21. RSE notes that the merits of strengthening the venture capital industry in the United Kingdom are not purely quantitative (i.e., improving/increasing the availability of funds), but would also assist in identifying deals, undertaking due diligence, negotiating deals, and providing follow-up mentoring services.[17] Indeed, successful commercialisation depends on being able to draw from the requisite management and business development expertise (including approaches to accessing capital) which some see as lacking across Scotland. As such, a concerted effort should be made to enhance mentoring, cultivate leadership, entrepreneurial spirit and generally to encourage individuals to take well identified and assessed risks, with an understanding that there are other opportunities should their ventures achieve limited success.

22. We note that the average age of high-growth UK founders at incorporation is 36.[18] Achieving more involvement in start-ups from younger folk could be achieved through placing greater emphasis on this possibility at universities and colleges. This might include more industry placements as part of university courses, to provide individuals with business experience and hence be better placed to identify gaps in the market for commercially investable ventures.[19]

23. Similarly, RSE contends that the provision of adequate mentorship and skills development services from those with experience and expertise of early-stage business development would be a positive and practicable step towards enabling more Scottish firms to achieve scale,[20] To this end, RSE would be pleased to discuss with interested parties the possible provision of mentorship services, drawing from the convening power of the RSE Fellowship to bring together individuals and organisations with relevant experience and provide a means of enhancing the commercial viability of intellectual capital. Indeed, the RSE Enterprise Fellowship programme (which is currently paused) provided access to early-stage finance and enhanced business development support through mentoring from RSE Fellows with substantive business and investment experience. The programme demonstrated clear economic impact – an external evaluation suggested that for every £1 invested the programme generated £10 and £6 in the UK and Scottish economies, respectively.[21]

24. Similarly, RSE calls for the more equitable dispersion of incremental funds across the entirety of the UK, to for example, revive the Saltire Foundation Fellowship Programme, an entrepreneurial leadership programme designed to create a global and entrepreneurial mind-set in Scotland's future business leaders, which had a demonstrable positive impact.[22]

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[17] For example, in the commercialisation process (which is usually follows a process of graduating from bootstrapping-angel investors-venture capitalist-private equity group funding), at the venture capital level due diligence is often outsourced as more funding is available, businesses are more complex and require a greater level of diligence to ensure investors have confidence about the future, and more favourable terms can be negotiated). In Scotland, firms often experience difficulties transitioning along the commercialisation process.

[18] See for example: Beauhurst (2021) *The average age of UK Start-up Founders by Region.* [online] Available at: https://www.beauhurst.com/blog/age-uk-startup-founders/; Meanwhile, the Harvard Business Review estimates that the average age of a successful start-up founder is 45: https://hbr.org/2018/07/research-the-average-age-of-a-successful-startup-founder-is-45.

[19] In focusing on talent and ambition, the Government could draw from the example of the Schmidt Family Foundation, which actively seeks out talented individuals and then nurtures their talent. For more information on the Schmidt Family Foundation, see: https://tsffoundation.org/.

[20] This interlinks with a number of recommendations outlined in the Scottish Government's *Scottish Technology Ecosystem Review*, including the establishment of an international market square for the sharing of international best practice. For more information on this see: https://www.gov.scot/publications/scottish-technology-ecosystem-review/.

[21] For more information on this see: Biggar Economics (2019) *Royal Society of Edinburgh Enterprise Fellowships: Evaluation and Economic Impact Assessment.* [online] Available at: https://rse.org.uk/rse-enterprise-fellowship-scheme-is-boosting-the-economy-and-society/.

[22] For insight into the impact of the Saltire Foundation Fellowship Programme see: Sloan, P. (2013) *An Evaluation of the Scottish Government's Participation in the Saltire Foundation Fellowship Programme*. [online] Available at: https://www.gov.scot/publications/research-findings-evaluation-scottish-governments-participation-saltire-foundation-fellowship-programme/documents/; For more information on the intensive courses on entrepreneurship offered by Babson College, see here: https://www.babson.edu/academics/executive-education/expanding-entrepreneurship/client-testimonials/saltire-fellowship/.

25. In addition to spin-outs and other early stage initiatives, UK Government policy should also focus on how to make projects, places, and companies investable, as opposed to solely intervening in the financial marketplace. To this end, Government has a key role to play as a 'market maker' through initiatives whereby Government and other public sector entities can open up their own challenges to innovators in early-stage companies, effectively creating revenue streams for innovative companies which can play a substantial part in facilitating a company to become financeable.[23] Developing public procurement processes which support innovation should be a focus of the Procurement Bill, to facilitate relationships between public sector needs and local, innovative companies, as has been achieved through the CivTech initiative.[24]

26. Government also has a pivotal role to play in some sectors to set out the pathway for innovative start-up companies to mature quickly into the infrastructure-scale entities needed to address national and global challenges such as climate change. This pathway includes market-making to create clearly identifiable revenue streams for innovative businesses and thereby providing a bridge such companies to grow to a sustainable scale. An example of these policies working together was in offshore wind, where the UK government Contract for Differences gave a fixed price for the power generated, making the market suitable for new investments. The Green Investment Bank was an influential player in providing financing to the sector when it was seen as too risky to go into at the necessary scale by commercial finance markets.[25]

27. Alongside the development of organisations such as the Green Investment Bank, Government can make other financing interventions such as taking cornerstone investments in funds where it has a strong policy interest. We note two examples here. The UK Infrastructure and Projects Authority procured a fund manager for a £400m investment (matched by private sector investors) in full fibre broadband through the Digital Infrastructure Investment Fund (DIIF); while a £200m investment in the Charging Infrastructure Investment Fund (CIIF) aimed at increasing the uptake of electric vehicles in accordance with the UK Government Electric Vehicle Infrastructure Strategy.

28. The RSE calls for improved alignment between the Government's role as a market maker for new technology needed to address national and global challenges, a procurer of innovative products and services to meet its own needs, and a financier or co-financier of innovative businesses. Such alignment should help to make the most of these powerful roles to support new and growing UK businesses.

29. RSE notes the effectiveness of LINC, the national association for business angels in Scotland which was created as part of the Scottish Business Birth Rate Strategy. LINC does not act as an investment adviser to any party but rather plays a 'soft infrastructure' role in supporting the development of the supply-side investment market in Scotland (with Scottish Enterprise taking responsibility for the demand-side of the market). The RSE contends that this model, which has exhibited demonstrable success in Scotland, might be adopted by the UK Government.[26]

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[23] Indeed, the role for public procurement to support innovation was recognised in the *2020 Annual Report of the Industrial Strategy Council: Industrial Strategy Council (2020)* [online] Available at: https://industrialstrategycouncil.org/sites/default/files/attachments/ISC%20Annual%20Report%202020.pdf; and UKRI has recently published an evaluation of the Small Business Research Initiative, see here: https://www.ukri.org/publications/an-evaluation-of-the-small-business-research-initiative-sbri-report/.

[24] Catapult (2022) *Procurement Bill 2022 – Initial Assessment.* [online]
Available at: https://cp.catapult.org.uk/article/procurement-bill-2022-initial-assessment/
For more information on CivTech's work in Scotland see: https://www.civtech.scot/.

[25] UK Government (2021) Evaluation of the Contracts for Difference scheme. [online] Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1076185/CfD_evaluation_phase_3_final_report.pdf.

[26] In 2021, deals led by angel syndicate members of LINC Scotland secured in total £146 million funding for young companies with high growth potential, almost double the amount raised in 2020, and 70% higher than the record set in 2019. For more information on this see: UKBAA (2022) *Angel investment in Scotland almost doubled in 2021.* [online] Available here: https://ukbaa.org.uk/blog/2022/02/03/angel-investment-in-scotland-almost-doubled-in-2021/; Gray, N. (2018) *A Briefing Paper on Angel Investing in Scotland.* [online] Available at: https://lincscot.co.uk/wp-content/uploads/2018/10/000111191018.pdf.

The effectiveness of government policy around venture capital in meeting wider government objectives (for example: around "levelling-up" and tackling regional inequality, the aim for the UK to be a science and technology "superpower", net zero).

30. In accordance with the UK Government's Levelling up agenda, the Government could adopt a pilot project which incentivises more people to establish businesses outside of the UK's 'Golden Triangle' to tackle the 'brain drain' which so often sees talented graduates depart to pursue corporate careers in the South East of England. This project could draw upon examples such as tax reliefs for returning nationals with high-growth firms (as adopted by Ireland, New Zealand, and the Netherlands) to incentivise individuals with management experience to return to, or indeed stay in, Scotland and other UK regions.

31. One notable difference within the investment ecosystem in Scotland and the rest of the UK is the limited number of prominent venture capital investors within Scotland. Consequently, early-stage finance is often dominated by smaller angel syndicate groups. Lack of consideration of particular regional contexts can lead to UK-wide funds failing to reach Scotland or not having the impact they were aiming for. This was particularly true of the British Business Bank's Future Fund, which was successful in the South East of England but not in Scotland, possibly because of the difficulties associated with the EIS scheme.[27] The UK Government's Levelling Up agenda should take account of regional contexts when introducing new funds or initiatives across devolved administrations.

32. Finally, the RSE suggests that - inspired by the Young Academy of Scotland-MSP Pairing Scheme and the Royal Society's Pairing Scheme - the Government could adopt an industry-MP/MSP pairing programme to build bridges between industries and politicians within their local constituencies, inform the creation, scrutiny, and revision of policy, and establish more favourable government-industry relationships.[28]

Additional information

33. Any enquiries about this advice paper should be addressed to Alfie Gaffney, Policy Advice Officer, at agaffney@theRSE.org.uk.

[27] British Business Bank (2020) *Future Fund* [online] Available here: https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/future-fund/.
[28] For more information on the YAS-MSP Pairing Scheme see here: https://www.youngacademyofscotland.org.uk/our-work/smarter/msp-pairing/; for more information on the Royal Society's Pairing Scheme see here: https://royalsociety.org/grants-schemes-awards/pairing-scheme/.

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