

First-time funding rounds in the UK fall for the second consecutive year

The number of first-time funding rounds into UK seed-stage startups has declined in 2020, for the second consecutive year. The data, commissioned by the UK's most active seed-stage investor, SFC Capital, has revealed that the number is now 36% below the 2018 peak for such rounds.

The number of first-time seed-stage deals completed in 2020 has also fallen by a further 17% from 2019 to a total of 1,427.

The data also points to reductions in both the amount of money available for first-time rounds and the number of funds equipped to make such investments. SFC Capital is now calling for urgent action to reinvigorate seed-stage investment and secure the future of the next generation of companies that will drive the UK Government's "levelling up" and "science superpower" economic agendas.

The Seed Enterprise Investment Scheme

The data also revealed the Seed Enterprise Investment Scheme to be both a vital incentive and limiting factor in the growth of seed-stage funding.

The scheme has transformed the landscape of seed-stage funding, incentivising individuals to turn themselves into early-stage investors. SEIS has helped a total of 14,921 businesses raise £5.8B since its inception in 2012.

But the data suggests that changes to the scheme in 2018 introducing stricter requirements for applicants, combined with the impact of COVID-19, is responsible for the initial decline in first-time seed-stage deal volume.

While an effective incentive for investors, the scheme has also had an unintended limiting effect on the size and timing of first-time seed-stage deals. Since its introduction, both the average size of a first-time seed round and the average time taken to raise it have hovered just below the limits imposed by the scheme.

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Responding to the data, SFC Capital, the UK's most active seed-stage investor has now issued a call to arms to the Government, focused on SEIS reform, increasing the amount of public money allocated to seed-stage funds, and simplifying bureaucracy for early-stage fund managers.

Stephen Page, founder and CEO of SFC Capital said, "Some of this decline can be attributed to the impact of COVID-19 in 2020, from dented confidence to changes to the investment landscape and founders' priorities caused by the Government's introduction of the Future Fund and other financial relief programmes. But only some."

"The biggest shock is the low number of early-stage businesses seeking SEIS funding."

"More needs to be done to incentivise angels to take the risk of investing in innovative early-stage companies, in greater numbers and at larger volumes."

