

# Investing in the ideas of the North: Innovation has no geographical boundaries

The UK punches above its weight when it comes to innovation and pioneering technologies in Europe. Yet, there is a stark contrast between the split of private investment in London and other regions of the UK - the North of England is £6B underfunded compared to the capital. Limited venture capital (VC) activity and a relative lack of a startup ecosystem and expertise is hindering the potential for growth in the regions and underscores the pressing need for a more robust investment framework and a concerted effort to break investment barriers.

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Regional investment by VC funds is being put under the microscope, now more than ever, to balance out their funding allocation. A recent 'Ecosystems of Innovation' *report*, calls out for tax credit enhancements to incentivise tech

growth and VC investment outside of London and proposes the Government implement an annual progress report to track the UK's tech ecosystem.

Of course, this isn't strictly a VC problem; it's a UK funding problem. The think tank, IPPR's *analysis* of UK funding reveals England would score the second worst for investment – if it were ranked by Organisation for Economic Co-operation and Development – with only Greece ranking lower. The stark reality of just how challenging the situation has become.

## Limited ecosystem support

Regional investment inequality is a problem that starts at the very beginning – investors are more commonly than not, more comfortable doing business in the South of England where most of the activity is and, even when transactions are on the table, there are few advisors who specialise in VC transactions (and closely related matters like the SEIS / EIS tax reliefs – which encourage private investment into emerging UK small or medium sized businesses through offering tax breaks to investors) to assist. Unfortunately, this leaves the North at a disadvantage for investment opportunities and highlights how the battle for VC investment is intensified by a glaring absence of ecosystem expertise.

Let's look at the Northeast region as an example. Although the Northeast boasts a robust community of advisors and VCs, it falls short in providing access to this ecosystem when compared to London. The *North East Local Enterprise Partnership* is determined to improve the economic future of this region with an aim of creating 100,000 more specialised jobs in 2024, recognising that there needs to be a more solid ecosystem of professionals to help facilitate innovation outside of the capital; legal advisors, tax specialists, accountants, and private investors need to collaborate too.

## Overlooking innovation

To date, the split in private investment is woeful. A recent *study* has revealed that if the North had received the same amount of funding per person for infrastructure as London has, it would have had over £59B across the last 10 years. In 2022, London's VC investment single handedly fuelled 70% of the entire UK investment landscape. While regional and foreign investment is not a new concept, something needs to shift to bridge the current and long-standing funding gap in the UK.

In 2020, 57.8% of all foreign direct investment was directed towards London and the Southeast; a disproportionate allocation of funding, which has been propping up the rest of the UK. London hosts a staggering, yet unsurprising, 79% of all of the UK's VC firms. The concentration of investors and VC funds

based in London has acted as a formidable barrier for funds to fully tap into diverse hubs of innovation across the UK.

## What is shifting historic investment inequality

It is not all doom and gloom.

Since COVID – which broke down some geographical barriers as investors could speak with founders and conduct due diligence virtually – the regions have seen a rise in investment from funds and private angels.

*Data* reveals that in Newcastle alone, tech firms brought in a combined turnover of £2B across around 3,500 businesses. There are specific funds in place focused on rebalancing investment away from the capital such as Mercia EIS Funds, that invest into early-stage technology startups, with a particular interest in the Midlands and the Northeast. Investment funds like Par Equity – an EIS fund focused on rebalancing investment away from the capital and redistributing it to the North of England and Scotland – highlights a growing recognition of innovation and startup culture outside of London. Mercia EIS Funds and Par Equity. Sunderland recently received £2B in funding from Nissan to help build three electric car models, preserving around 6,000 jobs. However, while large investment from giants like Nissan is important, smaller investment opportunities should not be overlooked in the North, as there is a plethora of innovative businesses looking to scale.

When it comes to the backing of women led businesses, the UK as a whole has a poor track record. The British Business Bank's latest figures show that the share of total equity investment by value for all-female founder teams remained stagnant over the last decade, only receiving 2% of funding. Despite this, there are initiatives in play to change this such as Fund Her North, a Northern-based volunteer collective of over 40 women, with a combined investment power of over £1.2B and a combined investment track record of over £200M invested in female-led startup businesses. This kind of initiative not only breaks down the geographical barriers when it comes to investment but plays a key role in addressing the woeful diversity figures within VC.

The UK's Levelling Up policy – that sets out to reduce regional inequalities through investing in local infrastructure – has made it very clear that the Government is committed to generating stable growth and innovation across all parts of the UK. This was reiterated in the Spring Budget last year (although it faced criticism for bringing too little investment to overlooked parts of the UK).

While these developments mark a positive shift, the question remains: will this address historical disparities and fully tap into the innovation potential outside of London?

## What does the future hold?

To achieve fairer investment distribution, we must focus on specialised ecosystems in traditionally overlooked areas and promote a much fairer distribution of private investment. London cannot continue to be the only focus for big tech companies and VC investment – it simply doesn't have the space. Hopefully, investors will realise the potential for returns extends far beyond the capital and shift away from an exclusive focus on metropolitan areas like the 'Golden Triangle'. There is an abundance of untapped opportunities lying at our fingertips – with the tech, talent and potential already in place. Let's amplify the UK's startup ecosystem and shape a future where innovation breaks through all geographical barriers.

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