# UK start-ups face decline in investment, prompting relocation to US



Investment in UK start-ups has experienced a significant decline, reaching its lowest point since the onset of the COVID-19 pandemic. In 2024, British start-ups managed to secure only £16.2 billion, a stark contrast to the more than £65 billion raised by their counterparts in Silicon Valley, which has seen a resurgence, achieving a 71 per cent increase from the previous year. This decline is prompting many UK-based technology firms to contemplate relocating their operations to the United States in pursuit of greater access to capital.

According to data from research company Dealroom, the trend of UK start-ups moving their headquarters to the US is gaining traction, with several chief executives expressing concerns over the difficulties of obtaining funding in the UK market. Mati Staniszewski, co-founder of the AI firm ElevenLabs, which was valued at $3.3 billion at the start of 2024, noted, "Recognising that most venture funding comes from the US, we set up as a Delaware corporation — the preferred and familiar structure for US investors."

Currently, there are around 70 UK-founded, venture-backed tech start-ups that have elected to incorporate in the US, with nearly one-fifth of these relocations occurring after 2020. This migration is occurring as the government, led by Sir Keir Starmer, identifies the burgeoning artificial intelligence sector as a potential avenue for economic growth. Many start-up founders and investors maintain that the competencies of British engineers and tech professionals equate to or surpass those in the US.

However, the challenge of securing investment is proving to be a substantial barrier. Barney Hussey-Yeo, founder of the AI start-up Cleo, has raised $140 million since its inception in 2016. He is contemplating a move from the UK, citing a "stronger and stronger every year" pull towards the US, which he attributes to a more favourable investor mindset and recent increases in capital gains tax in the UK. He expressed a grim outlook, stating, “Honestly, the UK is kinda f**\*** if it doesn’t address [the problem].”

In a similar vein, Alex Macdonald, who has recently launched his second venture, Sequel, opted to base the company in Miami while maintaining a subsidiary in the UK. This structural decision was made to facilitate future growth without the need for relocation. Macdonald advises fellow entrepreneurs to incorporate in the US to benefit from superior access to capital while still capitalising on UK talent, which he described as being top-notch and more economical in terms of hiring costs.

“There’s no capital in the UK for larger companies,” Macdonald added, reinforcing the sense of urgency for more substantial changes to stimulate investment. Historically, UK pension schemes have shown reluctance to invest in private markets, contributing to the decline in available funding. Research from New Financial highlighted that these pension funds invest merely 5 per cent in private equity, a figure significantly lower than their US counterparts.

In an effort to address this disparity, UK pensions minister Torsten Bell noted last month that he is advocating for retirement funds to funnel more investments into private markets as part of a broader strategy to consolidate £1.3 trillion of UK pension assets.

Young entrepreneurs Timon Gregg and Kylin Shaw, both in their twenties and educated in the UK, have opted to incorporate their companies in the US due to perceived advantages in investor and customer attitudes. “US customers and investors are quicker and more willing to try things — the level of ambition is just different,” remarked Gregg, who set up his AI insurance firm, Strala, in San Francisco. Shaw, who founded a health-tech company called Hippos Exoskeleton, echoed this sentiment, noting that "the mentality is different — people are willing to take risks."

Dealroom’s findings reveal that, in the preceding year, US start-ups attracted 57 per cent of global venture capital, marking a significant milestone as it surpassed 50 per cent for the first time in a decade, reflecting a 30 per cent increase from the previous year. In contrast, UK start-ups garnered a mere 4.8 per cent of global venture funding, with their total investment down by 11 per cent over the same timeframe.

Antony Walker, deputy chief executive at TechUK, warned that the UK faces the danger of losing its most promising companies to overseas markets if the growing "investment gap" with the US remains unaddressed. “Without action, many high-potential SMEs will consider relocating overseas, costing the UK jobs, tax revenue, and economic growth,” he stated.

Dom Hallas, a founder of the StartUp Coalition, termed the UK a victim of its own "partial success," pointing to the advanced tech ecosystem that has attracted international investors. “We need a real plan to incentivise them to stay,” he concluded, highlighting the urgent need for strategic initiatives to retain burgeoning tech companies within the UK.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://britishbusinessexcellenceawards.co.uk/content/funding-for-uk-start-ups-falls-to-six-year-low-as-investment-slows> - This article supports claims about the decline in funding for UK start-ups, highlighting a six-year low in investment and concerns about economic growth. It also discusses the need for substantial new capital to support innovative businesses.
* <https://www.vestd.com/blog/the-global-investment-report-2024> - The Global Investment Report 2024 details the sharp downturn in global funding, with a significant decline in the UK's startup funding, reinforcing the challenges faced by UK companies compared to their global counterparts.
* <https://sifted.eu/articles/uk-tech-2024> - This article discusses the challenging year for UK tech, with funding declines and increased tax burdens affecting businesses. It also touches on government actions and their impact on the tech sector, reflecting concerns about competitiveness and growth.
* <https://www.thetimes.co.uk/article/uk-startup-investment-hits-six-year-low-as-funding-dries-up-5wfdbdhv7> - This article provides additional context on the decline in UK start-up investments, emphasizing the challenges these companies face due to reduced funding opportunities and the effects on economic prospects.
* <https://www.cnbc.com/2024/10/13/uk-tech-startups-facing-challenges-raise-funding-after-government-hikes.html> - This CNBC article highlights the challenges UK tech startups face in raising capital, especially after tax hikes and funding cuts, which aligns with the concerns about UK companies relocating to the US for better investment opportunities.