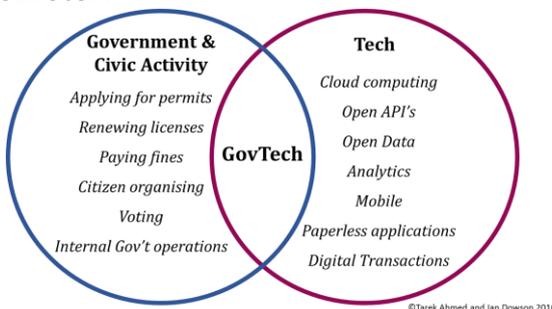


GovTech: The Sector set to Revolutionise Public Services

Government is at the precipice of momentous change according to the report [GovTech: an Emerging Sector Revolutionising Public Services](#), produced by GovTechResearch.com in conjunction with [Craigie Capital](#).

Public services are being redefined and there is a complete culture change occurring both inside and outside of Government relating to digital transformation. The UK is leading this transformation according to two leading international bodies, [United Nations July 2016](#) and [Open Data Barometer](#).



The opportunity

Public sector IT spend is colossal with Global Government spending on technology was projected to be **\$450bn in 2013** and the US and UK Government's annual spending on IT amounts to approximately \$150bn (Federal **\$81.5bn**, State and Local **\$70bn**) and **\$9bn** (excluding NHS), respectively. With citizens accustomed to effective and user-friendly digital services provided by the private sector, the UK's public sector is becoming increasingly demanding of the services purchased and provided to citizens.

Digital transformation

There is a conscious effort to user needs are at the forefront of service design, with the

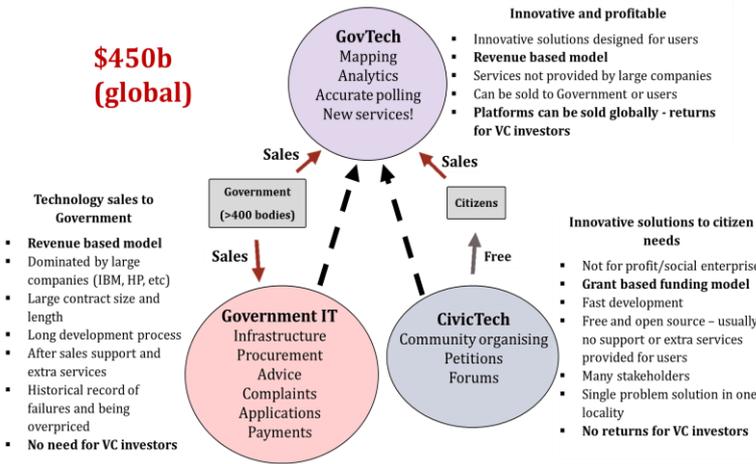
UK's Government Digital Service (GDS) leading the drive to change. Winning multiple [design awards](#), the GDS has provided a framework for best practice for effective digital transformation. A key development within Government is the support for external parties (startups, agencies, etc) to aid in the process of digital transformation by ensuring digital infrastructure and governance is built around user needs rather than ease for Government.

The emergence of GovTech

The domains of Government and Civic activity are no longer mutually exclusive and are beginning to overlap. Technology use within these domains could traditionally be divided into Government IT and CivicTech. Government IT involves selling to Government whilst CivicTech involves producing solutions with social impact (often described as Tech for Good, with a non-profit model). Their respective trajectories however, are moving to a point of coalescence. As Government services become more user-focused, putting the citizen/business at the centre of design, Government IT is becoming more focused on convenience for user rather than Government. CivicTech, previously focussed solely on citizens, is beginning to tackle problems which fall under the remit of Government responsibility (e.g. crowdsourced pothole reporting apps).

The result is GovTech, the rise of a new, innovative, scalable and highly investable sector. GovTech solutions are innovative services (e.g. Software as a Service, Platform as a Service) that address a pain or need of Government, citizen and business. In this

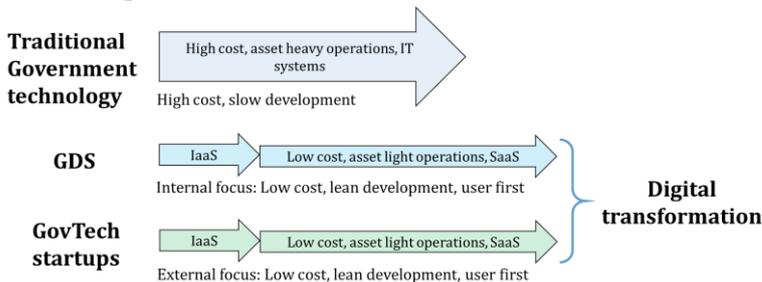
case, Government is often the customer of such a service, in a for-profit model.



Forces shaping UK GovTech

Six Forces highly influenced by UK Government strategy are shaping GovTech.

1) Government strategy: Selling services to Government is easier than ever. There is active promotion of digital transformation, user-centric service design and procurement from small and medium sized businesses. Introducing new framework agreements in place of lengthy tender, and a Digital Marketplace for public sector buyers has sped up the procurement process, allowing direct exposure to a plethora of public sector buyers. The movement to procure cloud-based services lets startups with asset light operations innovate and try new services with relatively little capital expenditure.



- Previously asset heavy activities can now be provided by startups in a scalable way
- Asset heavy part of supply chain covered by IaaS (AWS, etc)
- Compliance with privacy/security/reliability standards is no longer a barrier for startups
- Government is opening up systems for easy integration (open API's, open data)

2) Human capital and a startup infrastructure: The UK's highly developed digital startup ecosystem with its skilled human capital; entrepreneurs, designers, developers, Government domain experience and investors are continuously looking for new sectors to repeat Digital Media and FinTech successes. There exists a rich source of professionals experienced in building and scaling digital startups.

3) Open Data: This is the raw material for startups which use raw data and API feeds along with other sources of data to create a monetised proposition. The UK Government's policy has been heavily in favour of open data its up as a way of increasing citizen participation, improving Government services and stimulating increased economic growth. This has led to the UK developing four global exemplars in the use of government open data; Data.gov.uk, London Data Store (City Government), Transport for London (Public Body, Transport) and the Leeds Data Mill (Local Government).

4) Support from civic institutions: There exists a large and experienced support infrastructure from private institutions and Non-Governmental Organisations for improving citizen engagement through data and digital means (e.g. Digital Leaders, Nesta, Knight Foundation, Microsoft, Govtech Fund, Ekistic Ventures and Omidyar Network).

5) Hubs of activity: There are a number of workspaces and accelerators which are either focussed on or supportive of GovTech startups.

Models vary in terms of accelerator programmes, investment and collaborations. A notable workspace is the [Rain Cloud Victoria](#) due to its close proximity to Government (it is based in Westminster), and its unique approach to overcome the procurement challenges noted in the full report by forming public and private partnerships.

6) External Investment in GovTech

The investment background to GovTech is favourable. Global GovTech investments of (\$1009m) have been identified with UK companies also successfully raising venture capital (\$75m).

The burgeoning UK ecosystem is in a favourable position with US based PE firms likely to invest in successful UK startups for geographic expansion. The progressive Government strategy and regulatory environment make the UK an attractive location to diversify the portfolio for GovTech focussed funds. Major PE investors and selected investments are outlined below;

Investment and M&A Metrics

The Knight Foundation's landscaping of the sector reported [\\$695m investment over 241 companies](#) from 2011-2013. More recently this report found total Private Equity (PE) investment in 42 GovTech companies (spanning the UK and US) of \$1009m (Appendix 1 in full report). ***The increased step up in investment since 2013 shows long term performance and investor commitment to the sector.*** Segments that have attracted invested include government as a platform, mapping, social media and social engagement, open data & analytics, law, voting and governmental process.

M&A and exits

24 sector related trade sales have been identified (20 US trade acquisitions, 4 UK trade acquisitions – see full report for further details); Accela is the main consolidator acquiring 9 companies as it builds a comprehensive GovTech platform. The two largest acquisitions are Maxminus [purchasing Acentia for c\\$300m](#), building up its GovTech process capacity, and Accenture's \$264m purchase of Agilex to increase the US market share of its Government practice. As Govtech and GovTech companies mature, acquisition by existing companies in the market sector will continue as efforts are made to protect market share and to buy in new software technologies.

Acquisition activity by US GovTech companies is starting to enter a geographic expansion phase. An example is [Fiscal Note](#), a US based startup [purchasing MyCandidate](#) for entry into the South Korean and wider Asian market.



© Tarek Ahmed & Ian Dowson 2016

Future Investment

The interest in the sector by Accenture, Microsoft, IBM, Capita and other large technology companies means trade sales are a viable exit option for early stage investors. This is amplified with startups going through accelerator programmes which nurture partnerships with large companies.

External Angel and Private Equity investment into GovTech business models could also become a key element in the strategy of Digital Transformation of UK Government at all levels, further reinforcing UK leadership in open data and government digital transformation.

Summary

The UK can further advance its progressive position and become one of the world's leaders in the supply of GovTech as it has done with FinTech. Startups identified by this study span various segments of GovTech, including local community services, information-sharing about public funding, mapping features for public spaces, productivity platforms for Government, platforms to mobilise voters and platforms allowing the sharing of information about public services. The key feature binding these startups together is their close partnerships with public bodies, who often form their core customer base.

One thing is clear. The UK Government is a major purchaser of digital services and this is not confined to traditional IT products. There are a whole host of public-bodies trialling innovative GovTech products, supporting and nurturing a growing ecosystem. The full report ***“GovTech: An Emerging Sector Revolutionising Public Services”*** can be downloaded [here](#).

The [full report](#) explores in-depth;

- Government strategy
- Public sector spend on IT
- Detailed segmentation of spending on SMEs and large suppliers
- PE funding and exit opportunities
- How startups can sell to Government
- 6 key strategies for nurturing a successful ecosystem

Authors



[Tarek Ahmed](#) is a PhD researcher at University College London and exchange student on the MBA programme at the London Business School.

He is also Cofounder of [RecommendMe](#), a Big Lottery funded platform that provides personalised recommendations of events, activities and services for older adults. Beginning his career as an Engineer, he has consulted for a variety of companies spanning the Tech, Pharma, Food and Beverage and Apparel industries. Tarek interned at [Craigie Capital](#) during which he investigated the emergence of GovTech.

Email: tarek@recommendme.today
Twitter: [@tarekistweeting](#)



[Ian Dowson](#) (FCCA and MBA) is Principal of [William Garrity Associates Ltd](#) a boutique consultancy specialising in the strategic implications of FinTech (Financial Services Innovation) and Corporate Development. Producing original research on London and Global

FinTech and Digital Media Start-ups, he has now applied his deep understanding of global startup ecosystems to investigating the changes GovTech may bring.

Previously he managed Corporate Development at B Elliott Plc, a high to mid tech conglomerate based the UK and USA, covering M&A, strategic alliances, technology licensing, new product and channel development. In his earlier career Ian was Financial Director of an 800 unit retail chain part of Imperial Group Plc, Chief Accountant of Ladbroke Racing Ltd UK and Belgium, starting his career with Glaxo Plc. He speaks regularly on FinTech and Digital Innovation and has presented at Social Media Week, FinTech Week, and the Digital Shoreditch festival.

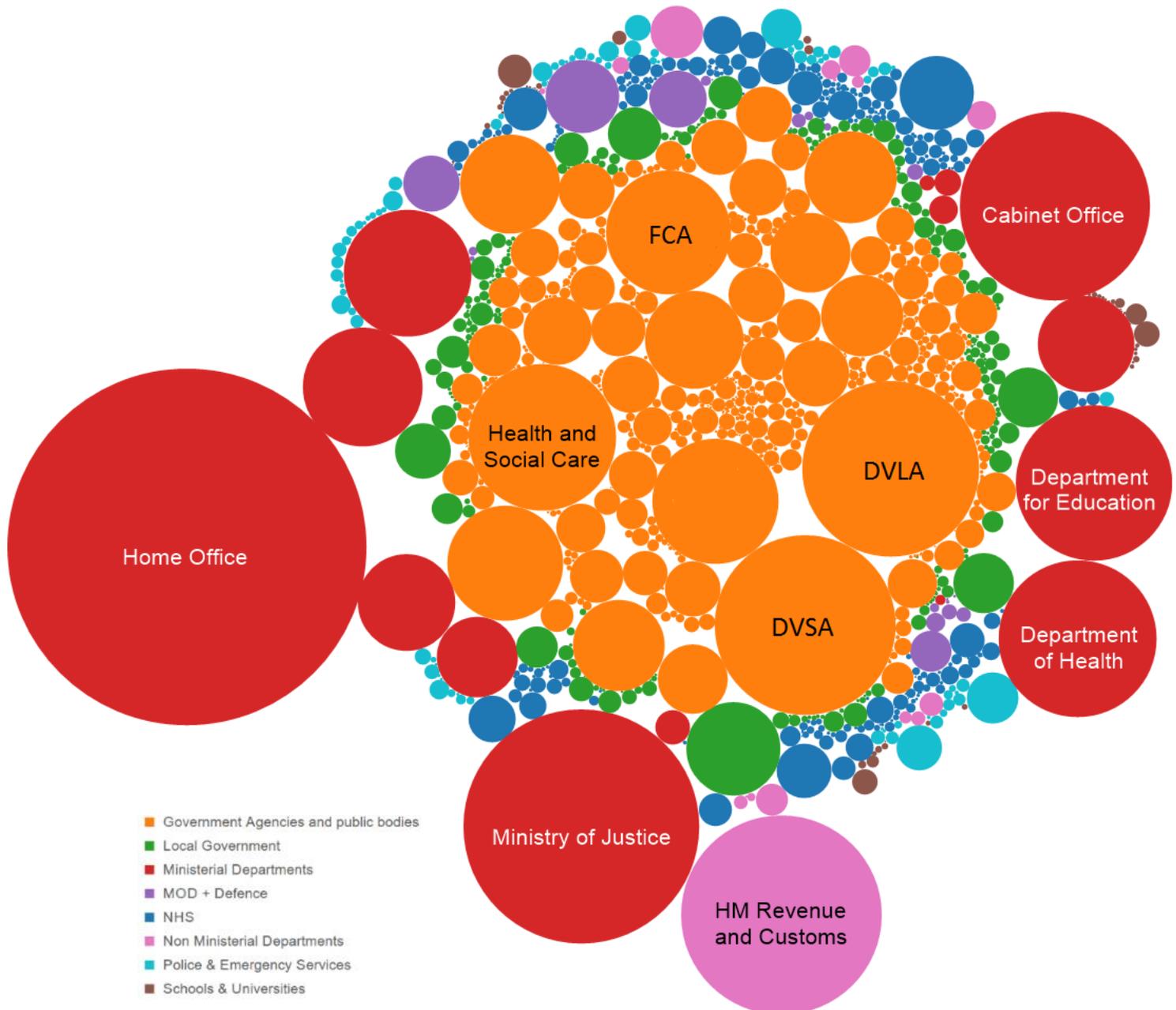
Email: icdowson@aol.com
Twitter: [@iand47](#)

Acknowledgements

The authors would like to thank Timothy Barnes for his invaluable guidance on the sector, Alasdair McPherson, Natasha Jacobs and Matt Roberts from Craigie Capital for their support and introductions to their networks, Glen Ockso, Josh Russell, Sandy Forster, Tom Bates, Joshua Moudley, Iffah Ahmed, Lucy Knights and LocalGovDigital.

Contact

If you have any queries and would like to contact the authors, please email contact@GovTechresearch.com



£1.263 billion spent via G-Cloud (until June 2016) segmented in terms of public sector body. Further detailed analysis is included in the [full report](#).