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Communications and Digital Committee

2nd Report of Session 2024–25

AI and creative technology scaleups: less talk, more action

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Communications and Digital Committee

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See Appendix 1.

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Q in footnotes refers to a question in oral evidence.

SUMMARY

The UK has many of the essential ingredients for scaleup success, including our strong reputation for innovation and our vibrant startup scene. Yet we have consistently struggled in enabling our brightest technology startups to transform into significant domestic businesses and potential British world-class companies. Enabling homegrown startups to develop into global competitors will be vital to meeting the Government's ambitions for growth.

The consequences of failure are significant. The UK risks being an 'incubator economy' for other nations, as innovative British technology firms pursue greater growth potential in other markets or seek acquisition by foreign companies. A continuation of this trend could lead to decreased global competitiveness, weaker economic prospects and a 'brain drain' of talented individuals, at a time when technology is rapidly advancing. Our inquiry examined the barriers to domestic growth faced by technology scaleups, focusing in particular on those innovating in AI and creative technology—areas where the UK has existing strengths and significant potential. Many of our recommendations are relevant to all scaleups, whatever sector they are part of, though their urgency and importance are magnified in these two high-potential areas for the UK.

Successive governments have attempted to address scaleup challenges through a series of financial reforms, tax credits, investment incentives, and innovation-focused initiatives. While these interventions have generally been welcomed, the result is an overly complex spaghetti of schemes that may be hindering rather than helping innovation in some areas. Programmes delivered through UK Research and Innovation, the British Business Bank and government departments are piecemeal, and fail to offer a coherent pathway of financial support. Evidence on whether they represent value for money for the taxpayer is unclear. This cannot continue.

AI is not a sector but a technology—one that is likely to drive innovation across each of the high-growth sectors identified in the industrial strategy Green Paper. The Government's response to the recently published AI Opportunities Action Plan highlighted AI's transformative potential. Its ambitious proposals are to be welcomed.

Announcing the plan, the Prime Minister recognised the part that new, innovative companies will play in achieving the plan's objectives. Our evidence suggested, however, that making the UK "the best place to ... scale an AI business" is no easy task.

The scale of change required cannot be underestimated. The Government must remove barriers by ensuring that innovative AI businesses have access to the necessary infrastructure and resources. But delivery of the plan will also demand a mindset shift across the public sector, accompanied by bold policy reforms and robust political commitment in the face of competing priorities. The UK's approach to AI regulation must remain proportionate and focused on real-world applications across sectors. It is homegrown AI companies, not big tech incumbents, that will drive the innovation needed to realise the UK's AI potential. Open markets and open competition are essential to ensure they have a fighting chance.

Novel applications of technology in the creative industries have underpinned innovation in film production, video games and immersive experiences, as well

as providing spillover benefits in other sectors. This is an area of considerable economic potential for the UK. But opportunities for ambitious creative technology scaleups have not been fostered due to investors' unfamiliarity with the sector, scaleups not always understanding investors' motivations, and a confusing public and private funding landscape. These must be addressed if the Government is serious about its commitment to driving growth in the wider sector.

Action is needed to keep the UK competitive in the high growth potential areas of AI and creative technology. We recommend the following:

- **Streamline public support for innovation:** The landscape of Government-funded programmes and grants to support innovation is a hard-to-navigate suite of schemes that needs urgent evaluation. The temptation to introduce further programmes must be resisted. Initiatives should be streamlined to provide innovative companies a clear, comprehensible pathway of support along their growth journey. The tax credits available to companies investing in research and development (R&D) play a vital role in the innovation economy. Stability in the amount of relief available and a simplified application process are needed to ensure maximum benefit for innovative scaleups.
- **Accelerate financial reforms:** Efforts to unlock domestic growth capital and boost institutional investment in UK innovation are welcome, but must be accelerated to keep up with the rate of technological development.
- **Champion entrepreneurial success:** Our culture struggles to celebrate successful wealth creators. Coupled with an attitude of risk aversion and short-term vision, this is limiting the growth trajectory of UK companies. More should be done to celebrate the achievements of successful British entrepreneurs to renew national pride and ambition in innovation.
- **Ensure join-up:** The industrial strategy must provide a coherent, cross-sector vision for how technology scaleups will be supported to drive economic growth.
- **Commit to AI delivery:** The AI Opportunities Action Plan is only the first step to capitalising on the UK's AI growth potential. A plan in itself is not enough. The Government must be laser-focused on removing obstacles to growth for homegrown AI companies. This will require not only immediate action, but a fundamental shift in attitude to drive widespread adoption of the technology across the public and private sectors. There is an urgent need for the Government's long-term compute strategy, which should be published as soon as possible, and certainly by the proposed "spring 2025" deadline. It should set out how the Government will deliver the broad range of computing resources required by AI scaleups, including high-end computing facilities.
- **Sustain investment in the creative industries:** Funding for innovation in the creative industries has been disjointed and temporary. The sector's growth potential, driven by creative technology businesses in particular, is unlikely to be realised without longer-term commitments and increased commercial focus. Ambitious technology scaleups in the creative industries should be afforded the same opportunities as those operating in any other key growth sector. The Government should review its R&D tax credits definition to include more of the creative sector. The issue of data mining and copyright also needs urgent resolution.

AI and creative technology scaleups: less talk, more action

CHAPTER 1: INTRODUCTION

Background to our inquiry

1. In October 2024, the Government published its industrial strategy Green Paper, *Invest 2035*. The document sets out a 10-year plan aimed at supporting investment in eight “high-growth sectors”, as part of the Government’s overall ambition for economic growth.¹ Two of these fall within the remit of this Committee: digital and technologies, and the creative industries.²
2. Our previous reports on the creative industries and large language models recognised the existing economic contribution of domestic creative and artificial intelligence (AI) businesses, as well as the opportunities for further growth they present.³ We concluded that the Government “should take better advantage of the UK’s startup potential”, and remove barriers that limit the ability of these companies to “grow and scale in the UK”.⁴ We launched this current inquiry in September 2024, with the aim of examining in greater detail the barriers faced by UK scaleup companies in the AI and creative industries sectors, and what could be done to address them.⁵

Startups, spinouts and scaleups

3. The term ‘scaleup’ is used to differentiate between ‘startups’—new enterprises that seek to develop novel solutions to market gaps—and more established businesses that are growing at pace.⁶ ‘Spinout’ companies are startups “that are created based on intellectual property (IP) generated through a university’s research.”⁷

1 UK Government, *Invest 2035: The UK’s Modern Industrial Strategy* (October 2024), p 4: <https://assets.publishing.service.gov.uk/media/6711176c386bf0964853d747/industrial-strategy-green-paper.pdf> [accessed 13 January 2025]

2 The remaining sectors are: advanced manufacturing, clean energy industries, defence, financial services, life sciences, and professional and business services. *Ibid.* p 2

3 Communications and Digital Committee, *At risk: our creative future* (2nd Report of Session 2022–23, HL Paper 125); Communications and Digital Committee, *Large language models and generative AI* (1st Report of Session 2023–24, HL Paper 54)

4 *Large language models and generative AI*, para 94

5 Our call for evidence ran from 4 September to 16 October 2024. Communications and Digital Committee, ‘Scaling up—AI and creative tech: Call for evidence’ (September 2024): <https://committees.parliament.uk/call-for-evidence/3438>

6 ‘Scaleup Versus Startup: What’s The Difference?’, *Forbes* (February 2024), <https://www.forbes.com/sites/sap/2024/02/26/scaleup-versus-startup-whats-the-difference/> [accessed 13 January 2025]

7 Professor Irene Tracey and Dr Andrew Williamson, *Independent Review of University Spin-out Companies* (November 2023), p 4: https://assets.publishing.service.gov.uk/media/6549fcb23ff5770013a88131/independent_review_of_university_spin-out_companies.pdf [accessed 13 January 2025]

Box 1: Scaleups and SMEs

While there is no single established definition of a scaleup, the Organisation for Economic Co-operation and Development (OECD) defines these as:

“enterprises with average annualised growth in employees (or in turnover) greater than 20 per cent a year over a three-year period, and with 10 or more employees at the beginning of the observation period.”⁸

The 2014 Coutu report, a large-scale review of the impact of scaleups on the UK economy, argued that this definition is designed to identify the most innovative firms by using rapid growth as a proxy for innovative products or business practices.⁹ The Council for Science and Technology suggested that the term ‘scaleup’ can be used interchangeably with ‘high growth’.¹⁰ Other definitions place greater emphasis on market valuation or company size.¹¹

Some scaleups are small and medium-sized enterprises (SMEs), businesses with fewer than 250 employees. SMEs are further delineated as follows:

- micro businesses: fewer than 10 employees and an annual turnover under £632,000;
- small businesses: fewer than 50 employees and an annual turnover under £10.2 million; and
- medium-sized businesses: fewer than 250 employees and an annual turnover under £36 million.¹²

4. The Confederation of British Industry (CBI) has noted that “scaleups are found in every sector of the economy, in all parts of the UK and can be both young and old companies”.¹³ A 2024 review from the ScaleUp Institute estimated that scaleups contribute £1.45 trillion to the UK economy, despite making up only 0.6 per cent of UK businesses. It also identified that they generate an average of over £449,000 turnover per employee; employ more than 3.2 million workers; and are five times more likely than other firms to export.¹⁴

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- 8 OECD, *OECD Manual on Business Demography Statistics: High Growth Enterprises* (January 2008), p 61: https://www.oecd.org/en/publications/eurostat-oecd-manual-on-business-demography-statistics_9789264041882-en.html [accessed 13 January 2025]; See also British Business Bank, ‘What matters most to growing businesses?’: <https://www.british-business-bank.co.uk/business-guidance/guidance-articles/business-essentials/what-matters-to-most-to-growing-businesses> [accessed 27 January 2025]
 - 9 Sherry Coutu CBE, *The scaleup report on UK economic growth* (November 2014), p 18: https://www.scaleupinstitute.org.uk/wp-content/uploads/2019/12/scaleup-report_2014.pdf [accessed 13 January 2025]
 - 10 Letter from the Council for Science and Technology to the Prime Minister (8 November 2021): <https://www.gov.uk/government/publications/letter-to-the-prime-minister-on-investment-in-innovative-science-and-technology-companies/innovation-finance-definitions-html> [accessed 13 January 2025]
 - 11 See, for example, European Investment Bank, *The scale-up gap* (June 2024), p 4: https://www.eib.org/attachments/lucalli/20240130_the_scale_up_gap_en.pdf [accessed 13 January 2025]
 - 12 Companies Act 2006, sections 382, 384A and 465
 - 13 CBI, *Lifting the trophy: Scaleup insights into the productivity puzzle* (July 2016), p 5: https://www.scaleupinstitute.org.uk/wp-content/uploads/2019/11/Scale-ups_report_final.pdf [accessed 13 January 2025]
 - 14 Written evidence from techUK (ACT0017); Scaleup Institute, ‘Faster, Higher, Stronger: Scaling Together, Annual Review 2024 Highlights’ (November 2024), pp 7, 16 <https://www.scaleupinstitute.org.uk/scaleup-review-2024/annual-review-highlights/> [accessed 13 January 2025]

Areas of focus: AI and creative technology

5. A 2023 report from the Social Market Foundation categorised AI and the creative industries as areas of the UK economy “where the potential of scaleup firms is greatest and growth is most achievable”.¹⁵ The Government’s *Artificial Intelligence Sector Study 2023* identified more than 3,000 AI companies in the UK, of which 96 per cent were SMEs. It found that they generated more than £10 billion in revenues, employed more than 60,000 people in AI-related roles and contributed £5.8 billion in gross value added (GVA).¹⁶ According to Tech Nation, the UK has produced 20 AI unicorns¹⁷ to date, with four new AI unicorns emerging in 2023–24 alone.¹⁸
6. There are, however, indicators in the AI sector study to suggest that AI SMEs looking to scale in the UK face challenges:
 - between 2022 and 2023, while the share of large AI companies remained constant, the number of small and medium-sized companies declined;
 - the share of employment within small and medium-sized AI companies fell in 2023;
 - internationally owned companies accounted for almost half of AI-related revenues (47 per cent) and one third of AI employment.¹⁹
7. In January 2025, the Government published the AI Opportunities Action Plan, produced by tech entrepreneur Matt Clifford, alongside its response accepting (or partially accepting) all 50 of the recommendations outlined in the plan.²⁰ The plan acknowledged the central role that homegrown AI companies will play in positioning the UK as a global leader, but did not provide a detailed assessment of how these startups and scaleups can be supported to achieve their full potential. While the timings of our inquiry meant we were unable to take evidence on the plan itself, we have assessed the extent to which it addresses the barriers faced by AI scaleups against the evidence we had already received.
8. The Government’s response to the action plan described AI as the “defining opportunity of our generation”, and stated its responsibility to “make sure

15 Social Market Foundation, *The scale of the opportunity: How growing firms can contribute to the UK economy* (November 2023), p 11: <https://www.smf.co.uk/wp-content/uploads/2023/11/Scale-of-the-opportunity-Nov-2023.pdf> [accessed 13 January 2025]

16 Department for Science, Innovation and Technology, *Artificial Intelligence sector study 2023* (October 2024): <https://www.gov.uk/government/publications/artificial-intelligence-sector-study-2023/artificial-intelligence-sector-study-2023#investment-in-uk-ai-companies> [accessed 9 January 2025]

17 A privately held company that has reached a valuation of \$1 billion. See Kelly Knickerbocker, Pitchbook blog, ‘What is a Unicorn company? What you need to know’ (6 December 2024): <https://pitchbook.com/blog/what-is-a-unicorn> [accessed 9 January 2025]

18 These are Quantexa, Synthesia, Wayve, and Zyber 365. Tech Nation, *UK tech in the age of AI* (June 2024), pp 2, 17: https://live.ff.co/l/800123/2024-07-08/3614gp/800123/17204293508I8Y8tzt/The_Tech_Nation_Report_2024_UK_Tech_in_the_Age_of_AI.pdf [accessed 13 January 2025]

19 Department for Science, Innovation and Technology, *Artificial Intelligence sector study 2023* (October 2024): <https://www.gov.uk/government/publications/artificial-intelligence-sector-study-2023/artificial-intelligence-sector-study-2023#investment-in-uk-ai-companies> [accessed 9 January 2025]

20 Department for Science, Innovation and Technology, Press Release: *Prime Minister sets out blueprint to turbocharge AI* on 12 January 2025: <https://www.gov.uk/government/news/prime-minister-sets-out-blueprint-to-turbocharge-ai> [accessed 13 January 2025]

that Britain maintains its position as a world leader”.²¹ Evidence to this inquiry characterised AI as “a technology of national importance” that is “sure to underpin growth and prosperity for future generations”.²² We heard that the consequences of falling behind in this area include decreased global competitiveness, weaker economic prospects, a potential “brain drain” of talented individuals and risks to national security.²³

9. AI development is highly relevant to the other area of focus of this inquiry: creative technology, or ‘createch’. Firms working in this area are “creative businesses where the development of new technologies or the adaptation of existing technologies in a novel way is a significant part of their business”.²⁴ Examples of createch include video games, immersive experiences (including virtual and extended reality) and visual effects.²⁵ A 2020 report outlined that createch was “already an important contributor to the economy”, and estimated that it could “account for nearly 40 per cent of employment in the creative industries by 2030”.²⁶
10. Our creative industries report concluded that “much of the growth potential” of the sector “lies in subsectors that combine technology with creativity”.²⁷ We were persuaded that “the UK’s strengths here are particularly striking.” Evidence to this inquiry reiterated this. We heard that createch is increasingly seen as “a new and vital subsector with immense growth potential”.²⁸ In addition, the UK is “well-positioned to capitalise on this emerging field as a world-renowned powerhouse for the creative and technology industries.”²⁹
11. As part of our inquiry, we spoke to a number of CEOs and founders with experience of growing AI and createch businesses. We also heard from witnesses representing venture capitalist firms, trade organisations, funding bodies and the Government, and received more than 60 pieces of written evidence. We are extremely grateful to all who contributed.
12. We heard consistently that while some of the challenges faced by AI and creative technology scaleups are unique to those sectors, most barriers faced by technology companies looking to grow are general and cross-cutting. Indeed, a recent inquiry from the House of Lords Science and Technology Committee identified many of the same barriers discussed in this report, despite focusing on a completely different sector.³⁰ Chapter 2 of this report therefore addresses the broader landscape for scaling up in the UK, and

21 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025): https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_reponse.pdf [accessed 28 January 2025]

22 Written evidence from Oxford Science Enterprises ([ACT0056](#))

23 Written evidence from Surrey Institute for People-Centred AI ([ACT0018](#)) and Oxford Science Enterprises ([ACT0056](#))

24 Creative Industries Policy and Evidence Centre, *Understanding Createch R&D* (December 2022), p 4: <https://pec.ac.uk/wp-content/uploads/2024/11/PEC-Understanding-Createch-RD-December-2022-correction2024.pdf> [accessed 14 January 2025]

25 Written evidence from CoSTAR Foresight Lab ([ACT0023](#))

26 University of the Creative Arts, *Creative Industries Foresight 2030: Sustainability Industry 4.0* (April 2020), p 26: https://research.uca.ac.uk/5687/1/UCA_CI_Foresight2030_RevA.pdf [accessed 14 January 2025]

27 *At risk: our creative future*, para 9

28 Written evidence from Dr Trevor Davis and Professor Martin Charter ([ACT0002](#))

29 Written evidence from Royal College of Art ([ACT0022](#))

30 The report suggested that the engineering biology sector it examined was one example of “a long-standing and severe problem in the UK with the ability of science and technology companies to scale up”. Science and Technology Committee, *Don’t fail to scale: seizing the opportunity of engineering biology* (1st Report of Session 2024–25, HL Paper 55), para 176

how we could remove common obstacles to ensure we do not fall behind in enabling homegrown technology firms to scale. We discuss the specific issues facing AI and creative technology scaleups in Chapters 3 and 4.

13. The industrial strategy Green Paper sets out the need for the Government to be “clear-eyed about the sectors which offer the highest growth opportunity for the economy and businesses, including where the UK has existing and emerging strengths.”³¹ It is right to identify the technology and creative industries sectors as two such areas. We welcome the statement from the Government that the findings of this inquiry will inform the sector plans that are currently being developed for these.³²
14. The evidence we heard makes clear that, within these sectors, AI and createch firms deserve particular attention. These are areas with huge growth potential and on which the UK has strong foundations to build. We hope that our report will persuade the Government to be ambitious in its approach for these kinds of scaleup, ensuring that the UK’s most innovative AI and createch companies receive the recognition and support they need and deserve.

31 Department for Business and Trade, *Invest 2035: the UK’s modern industrial strategy* (October 2024), p 6: <https://assets.publishing.service.gov.uk/media/6711176c386bf0964853d747/industrial-strategy-green-paper.pdf> [accessed 14 January 2025]

32 Written evidence from HM Government ([ACT0025](#))

CHAPTER 2: THE TECHNOLOGY SCALEUP PROBLEM

From startup to scaleup

15. It is widely acknowledged that the UK provides a world-leading environment for startup companies. London has been described as “New Palo Alto, the alternative place to start a company compared to Silicon Valley”.³³ Indeed, the city currently ranks second, tied with New York City, in Startup Genome’s Startup Ecosystem Ranking.³⁴ The UK as a whole ranks fifth in the World Intellectual Property Organisation’s Global Innovation Index.³⁵ According to the Council for Science and Technology (CST), it has “emerged as one of the top three places in the world to invest in innovation” and its venture capital ecosystem is stronger than that of European comparators.³⁶
16. Witnesses consistently acknowledged the UK’s thriving startup scene, and its well-established early-stage funding system.³⁷ The Government identified strengths in the UK’s scaleup landscape too, stating that since 2000 it has “enabled the creation of 154 unicorns, which is more than France, Germany, and Sweden combined.”³⁸ Erin Platts, Chief Executive Officer, HSBC Innovation Banking, told us that the UK has “all the ingredients of success to help companies to scale”.³⁹ Along with others, she highlighted strengths including our leading universities, depth of commercial and technical talent, stable legal and regulatory systems, and time zone.⁴⁰
17. Matt Clifford’s review of the UK’s AI opportunities presented the UK’s “vibrant ... scaleup scene” as another existing strength.⁴¹ However, shortcomings in enabling startup firms to scale in the UK were raised consistently in our evidence⁴² and are well documented elsewhere.⁴³

33 Q 26 (James Smith)

34 Start-Up Genome, ‘*The Global Startup Ecosystem Report*’ (January 2024): <https://startupgenome.com/report/gser2023> [accessed 9 January 2025]

35 World Intellectual Property Organisation, ‘Global innovation index 2024 results’: <https://www.wipo.int/web-publications/global-innovation-index-2024/en/gii-2024-results.html> [accessed 9 January 2025]

36 Letter from Dame Angela McLean, Co-chair and Lord Browne of Madingley, Co-chair, Council for Science and Technology to the Chancellor of the Exchequer on scaleup finance for innovative science and technology companies (November 2024): <https://www.gov.uk/government/publications/letter-to-the-chancellor-on-scaleup-finance-for-innovative-science-and-technology-companies>

37 QQ 23, 27 (Barney Hussey-Yeo), Q 72 (Louis Taylor); Written evidence from Richard Kiernan (ACT0003), techUK (ACT0017), CBI (ACT0029), Boardwave (ACT0052) and Faculty (ACT0054)

38 Written evidence from HM Government (ACT0025), Council on Geostrategy (ACT0031)

39 Q 2 (Erin Platts)

40 Q 2 (Erin Platts, Alex Kendall), Q 13 (Michael Holmes), Q 23 (Barney Hussey-Yeo); Written evidence from techUK (ACT0017), James Dancer and Professor Lord Tarassenko (ACT0055) and Mati Staniszewski (ACT0057)

41 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), p 5: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_repsonse.pdf [accessed 28 January 2025]

42 Q 2 (Alex Kendall, James Wise, Michael Holmes); Written evidence from CBI (ACT0029) and Boardwave (ACT0052)

43 See for example Science and Technology Committee, “*Science and technology superpower*”: *more than a slogan?* (1st Report of Session 2022–23, HL Paper 47); CBI, *Growth Engines: The UK scale-up playbook* (October 2024): <https://www.cbi.org.uk/media/0dmp1v2j/growth-engine-the-uk-scale-up-playbook.pdf> <https://www.cbi.org.uk/media/0dmp1v2j/growth-engine-the-uk-scale-up-playbook.pdf> [accessed 14 January 2025]; Future Governance Forum, ‘Rebuilding the Nation 04: A Mountain to Scale’ (December 2024): <https://www.futuregovernanceforum.co.uk/resource/rebuilding-the-nation-04/> [accessed 14 January 2025]; ‘Britain is a great place to start a company, but a bad one to scale it up’, *The Economist* (21 June 2022), available at: <https://www.economist.com/britain/2022/06/21/britain-is-a-great-place-to-start-a-company-but-a-bad-one-to-scale-it-up>

18. Barney Hussey-Yeo, founder and CEO of Cleo AI, argued that “the challenge that we have as a country is that we cannot scale these companies, list these companies or capture their tech value”. He described the UK as “a terrible place to scale and list a business”.⁴⁴ Nick Poole, CEO of video games industry body Ukie, reported that the UK is seen as “one of the worst places in the G7” for scaling games businesses.⁴⁵
19. As the CBI emphasised, however, “unless we nurture [scaleups] and create the environment for them to expand, we cannot hope to approach the level of growth and prosperity we need.”⁴⁶ The British Venture Capital and Private Equity Association (BVCA) listed further impacts that result from UK businesses instead pursuing growth in other countries:
- “The UK science, technology and financial innovation sectors lose out on opportunities when companies move overseas, taking intellectual property, quality jobs, and innovation with them.”⁴⁷
20. Oxford Science Enterprises argued that, without urgent action,
- “the future cascade of value from the unicorns we are building—and the creation of the next generation of entrepreneurs from those companies—will continue to benefit other countries, primarily the US.”⁴⁸
21. **While the UK’s vibrant startup environment is lauded, the country has a technology scaleup problem. We risk becoming an ‘incubator economy’ for other nations, which has serious implications for our economic growth and global competitiveness.**
22. *The Government should not be complacent about the health of the UK’s scaleup scene. Creating the conditions that will enable our brightest homegrown businesses to grow in the UK, rather than scaling overseas, should form a key objective in the Government’s ambitions for growth.*

Common barriers to scaling

Access to capital

23. A recent letter to the Chancellor from the CST noted that “the UK innovation economy has started to emerge from its startup phase”. It detailed, however, that:
- “A lack of scale up capital has starved both UK companies and venture capital, and while we are close to Silicon Valley in rounds up to \$15 million (early stage) we are still significantly behind in rounds of \$15–100 million (breakout) and over \$100 million (scale up)”.⁴⁹

44 [Q 23](#) (Barney Hussey-Yeo)

45 [Q 65](#) (Nick Poole)

46 Written evidence from CBI ([ACT0029](#))

47 Written evidence from BVCA ([ACT0050](#))

48 Written evidence from Oxford Science Enterprises ([ACT0056](#))

49 Letter from Dame Angela McLean, Co-chair and Lord Browne of Madingley, Co-chair, Council for Science and Technology, to the Chancellor of the Exchequer on scaleup finance for innovative science and technology companies (November 2024): <https://www.gov.uk/government/publications/letter-to-the-chancellor-on-scaleup-finance-for-innovative-science-and-technology-companies> [accessed 14 January 2025]

24. While some commentators have challenged the notion of a ‘funding gap’ in UK scaleup capital,⁵⁰ many witnesses highlighted access to investment as a key barrier to growth.⁵¹ James Dancer and Professor Lord Tarassenko argued that no other factor was “more important to the success of high-growth companies in the UK.”⁵² James Wise, Partner at Balderton Capital, reported “incredible progress” in improving the availability of capital for technology firms, but emphasised “the scale of the challenge” that remains.⁵³
25. When making comparisons, witnesses acknowledged differences in the size and maturity of the UK and US scaleup finance ecosystems.⁵⁴ Nonetheless, we heard that:
- “Relative to the size of our economies ... venture capital firms in the US have more than twice as much capital to invest into scaling up technology businesses.”⁵⁵
26. The British Business Bank (BBB)⁵⁶ explained that funding shortfalls leave many UK companies “reliant on overseas investors for growth funding”. Its figures showed that those in receipt of overseas investment “were more likely to have exited abroad, representing significant unrealised economic potential for the UK.”⁵⁷ Many of the stakeholders we heard from echoed these points.⁵⁸ The BVCA suggested that some companies had relocated to Europe in order to secure funding from the European Investment Fund (EIF).⁵⁹ Mr Poole warned that this situation risks the UK “becoming either an IP farm for other investing nations with a greater risk appetite or a work-for-hire hub on the outer fringes of Europe”.⁶⁰
27. Several witnesses associated this gap in later-stage funding with the lack of domestic institutional investment in the UK.⁶¹ The BBB’s summary is illustrative:
- “10 per cent of Britain’s venture capital pool comes from pension funds, compared to 72 per cent in the US. In Canada, pension funds invest 15 times what UK pension funds invest in private equity and VC”.⁶²
28. Mr Wise explained that many UK VCs therefore receive their investment from international pension funds and endowments. As a result, the returns

50 Air Street Capital, *Rediscovering the UK’s AI ambition* (August 2024): <https://press.airstreet.com/p/rediscovering-the-uks-ai-ambition> [accessed 6 January 2025]; *The future of news*, Appendix 4

51 Q 2 (James Wise), Q 24 (Barney Hussey-Yeo, James Smith); Written evidence from James Dancer and Professor Lord Tarassenko (ACT0055), HM Government (ACT0025)

52 Written evidence from James Dancer and Professor Lord Tarassenko (ACT0055)

53 Q 2 (James Wise)

54 Q 6 (Erin Platts), Q 28 (Eleanor Lightbody)

55 Written evidence from James Dancer and Professor Lord Tarassenko (ACT0055)

56 See para 56

57 Written evidence from British Business Bank (ACT0027), see also ‘UK should not be ‘incubator economy’ for US, says British Business Bank’, *Financial Times* (28 December 2023), available at: <https://www.ft.com/content/d6e5eb56-e3a5-4542-bf53-19f2b8af401e>

58 Q 66 (Caroline Norbury, David Glick)

59 Written evidence from the BVCA (ACT0050). The European Investment Fund is a provider of risk finance to small and medium-sized enterprises across Europe.

60 Q 66 (Nick Poole)

61 Q 6 (James Wise), Q 27 (Barney Hussey-Yeo); Written evidence from techUK (ACT0017), CBI (ACT0029) and BVCA (ACT0050)

62 Written evidence from British Business Bank (ACT0027)

from their successful investments are mostly “going back to Canadian firemen and German librarians”, rather than UK pension holders.⁶³

Culture and risk appetite

29. Echoing the findings of previous reports,⁶⁴ our evidence suggested that a risk averse approach to investment and the lack of an ingrained, national entrepreneurial culture in the UK is another contributory factor, with witnesses contrasting UK attitudes with those of the US.⁶⁵ According to Richard Kiernan, Global Head of AI Platforms at NatWest, “investors in Silicon Valley are known for their high-risk tolerance, often funding moonshot ideas with the potential for exponential growth.” In contrast, UK investment is “more conservative” and focused on “early returns”.⁶⁶
30. David Glick, Founder and Chief Executive Officer, Edge Investments, noted that this impacts business owners, as well as investors:

“British entrepreneurs tend to get to a certain level and then get a nosebleed. They feel they are too high up on the ladder.”⁶⁷

According to Oxford Science Enterprises:

“UK founders are too often perceived as aiming for smaller-scale operations (particularly by US investors). This mindset can limit the growth trajectory of UK companies, particularly in emerging sectors such as AI, where significant capital and long-term vision are essential to compete globally.”⁶⁸

31. Eleanor Lightbody, CEO of AI firm Luminance, spoke of the need to “do better in the UK” to celebrate the achievements of successful companies and entrepreneurs, in order to inspire others and build a “virtuous cycle of success”.⁶⁹ The CST concluded that the Government has “a key role to play in ensuring a cultural shift within the investment and policy community” and working to “renew a shared pride in the UK’s culture of innovation”.⁷⁰

Market size and conditions for listing

32. Research from the University of Cambridge highlighted that UK firms do not have access to “the dynamic economies of scale available to competitors based in the largest economies”.⁷¹ Many founders see the UK’s medium-

63 Q 6 (James Wise)

64 The Labour Party, ‘Start-Up, Scale-Up: Making Britain the best place to grow a business’ (September 2023), para 117: <https://labour.org.uk/updates/stories/start-up-scale-up-making-britain-the-best-place-to-start-and-grow-a-business/> [accessed 14 January 2025]; “*Science and technology superpower: more than a slogan?*”

65 Q 2 (Michael Holmes), Q 27 (Barney Hussey-Yeo); Written evidence from techUK (ACT0017)

66 Written evidence from Richard Kiernan (ACT0003)

67 Q 66 (David Glick)

68 Written evidence from Oxford Science Enterprises (ACT0056)

69 Q 24 (Eleanor Lightbody)

70 Letter from Dame Angela McLean, Co-chair and Lord Browne of Madingley, Co-chair, Council for Science and Technology, to the Chancellor of the Exchequer on scaleup finance for innovative science and technology companies (November 2024): <https://www.gov.uk/government/publications/letter-to-the-chancellor-on-scaleup-finance-for-innovative-science-and-technology-companies> [accessed 14 January 2025]

71 David Connell and Bobby Reddy, *Selling less of the family silver: Better UK innovation and industrial policies for economic growth*, Cambridge University Judge Business School (July 2024): <https://www.jbs.cam.ac.uk/wp-content/uploads/2024/07/cbr-report-selling-less-of-the-family-silver-2024.pdf> [accessed 14 January 2025]

sized market as less attractive than that of the US.⁷² We heard that companies that do base themselves in the UK “have to be almost global from the start”,⁷³ since they are “serving a smaller market locally”.⁷⁴ Those who target the European market may face challenges due to the way it is fragmented by, for example, language and differing regulatory regimes.⁷⁵

33. Mr Kiernan set out that, in addition, “the UK’s IPO market is smaller, and exit opportunities are often more limited”. This leads startups to “either sell early or relocate to the US for better opportunities”.⁷⁶ Other witnesses raised similar points, calling for action from the Government to make the London Stock Exchange a more attractive place for technology companies to float.⁷⁷
34. Louis Taylor CBE, CEO of the BBB, suggested that unlocking private capital would have a positive effect on the UK’s public market, adding, “if we have healthy private markets ... we stand a chance of rebuilding the capital markets over time”.⁷⁸

Regulation and procurement opportunities

35. Analysis by the Social Market Foundation set out that onerous procurement rules often prevent small and medium sized companies from competing for lucrative state contracts.⁷⁹ Mr Wise agreed that “the procurement process is difficult for startups to navigate; it has been for a long time.” He praised the approach taken by the Advanced Research and Invention Agency (ARIA) in “very proactively reaching out and looking for opportunities” in innovation, suggesting this could be replicated elsewhere.⁸⁰ Several witnesses argued that while government procurement could be a driver of innovation, reform is needed to current processes.⁸¹
36. On regulation, Victor Riparbelli, CEO of AI scaleup Synthesia, indicated that UK policy on mergers and acquisitions may be a barrier to scaling up, by “forcing people to sell earlier”. He told us: “That is something that a lot of people in the tech community are talking about”.⁸² Mr Wise criticised the Competition and Markets Authority (CMA) for being “harsh” in its scrutiny of “internal roll-ups”—in which British companies buy another British

72 *The future of news*, Appendix 4

73 Q 52 (Peadar Coyle)

74 Q 52 (Simon Barratt)

75 Written evidence from Richard Kiernan (ACT0003) and Boardwave (ACT0052)

76 Written evidence from Richard Kiernan (ACT0003)

77 Q 30 (Barney Hussey-Yeo); Written evidence from techUK (ACT0017) and James Dancer and Professor Lord Tarassenko (ACT0055)

78 Q 81 (Louis Taylor)

79 Social Market Foundation, *Full scale: how to ensure more British firms grow to their potential* (September 2023), pp 26–27: <https://www.smf.co.uk/publications/full-scale-british-businesses/> [accessed 14 January 2025]

80 Q 17 (James Wise). The UK’s Advanced Research and Invention Agency (ARIA) was formally established as an independent research body in January 2023 with a remit to fund “high risk, high reward” research (see HM Government, Press release: Research agency supporting high risk, high reward research formally established on 23 January 2023: <https://www.gov.uk/government/news/research-agency-supporting-high-risk-high-reward-research-formally-established> [accessed 28 January 2025]). Independent of UKRI, it has autonomy to operate at providing seed funding, a small number of large-grants, and bonuses for accomplishing research goals. See ARIA, ‘About Aria’: <https://www.aria.org.uk/about-aria> [accessed 6 January 2025]

81 Written evidence from techUK (ACT0017), Surrey Institute for People-Centred AI (ACT0018), Boardwave (ACT0052), Faculty (ACT0054) and Oxford Science Enterprises (ACT0056)

82 Q 57 (Victor Riparbelli)

company—explaining that sometimes this is the only viable path for British companies to “get to a competitive level with their international peers”.⁸³

37. The CBI drew attention to the impact of regulation on scaleups bringing products to market, stating:
- “The regulatory process can often be complex, costly and fragmented across regulatory environments, while decision-making can be slow, unresponsive and lack transparency. This misalignment impacts smaller businesses more as they typically do not have the experience, capacity and finances to navigate the regulatory process and absorb delays relative to incumbents.”⁸⁴
38. Speaking in a separate accountability session, Sarah Cardell, CEO of the CMA, highlighted the role that the new competition regime introduced by the Digital Markets, Competition and Consumers Act 2024⁸⁵ will play in supporting smaller scaleups to compete with big tech incumbents in digital markets.⁸⁶ We heard from American venture capital firm Andreessen Horowitz that the ability of large, established companies to “levy extractive rents on small businesses” for their services is a barrier to scaling.⁸⁷ Our report on LLMs called on the Government to “make market competition an explicit policy objective”.⁸⁸
39. Ms Cardell acknowledged that there is a “perception” of UK merger control having a “chilling effect” on innovation, but argued that only a small proportion of potential deals are subjected to in-depth investigations.⁸⁹ Elsewhere, the CMA has said it is working to ensure that enforcement does not have a deterrent effect on pro-competitive collaborations between competitors, which can boost economic activity.⁹⁰ The CMA also recently announced a review of its approach to mergers, which will examine the scope for different types of remedies.⁹¹
40. Our report on large language models highlighted the risk of regulatory capture if public bodies become overly reliant on private sector influence to inform policymaking through lobbying or a lack of technical expertise.⁹² Ms Lightbody said that the Government and regulators could make more of an effort to make sure scaleups “have a share of voice in the room” when

83 [Q 10](#) (James Wise)

84 Written evidence from CBI ([ACT0029](#))

85 The Digital Markets, Competition and Consumers Act 2024 established “a new regime that is designed to boost competition in digital markets” and conferred additional powers and duties on the CMA. It aimed to address “the [then] Government’s view that the unprecedented market power, in relation to certain digital activities, of a small number of businesses, is holding back innovation and growth.” [Explanatory Notes to the Digital Markets, Competition and Consumers Act 2024](#)

86 Oral evidence taken before the Communications and Digital Committee, session on the work of the CMA, 7 January 2025 (Session 2024–25), [Q 4](#)

87 Written evidence from Andreessen Horowitz ([ACT0051](#))

88 [Large language models and generative AI](#), para 41

89 Oral evidence taken before the Communications and Digital Committee, session on the work of the CMA, 7 January 2025 (Session 2024–25), [Q 3](#)

90 Competition and Markets Authority, Speech at King’s College London on UK competition law enforcement: a look ahead, 5 December 2024: <https://www.gov.uk/government/speeches/uk-competition-law-enforcement-a-look-ahead> [accessed 14 January 2025]

91 Competition and Markets Authority, Speech at the Chatham House Competition Policy conference 2024 on Driving growth: how the CMA is rising to the challenge (21 November 2024): <https://www.gov.uk/government/speeches/driving-growth-how-the-cma-is-rising-to-the-challenge> [accessed 14 January 2025]

92 [Large language models and generative AI](#), paras 43–49

regulations are being developed, so that “they are not being made in a vacuum or in isolation”. These conversations are usually held only with big tech companies, she added.⁹³ The CMA told us it was alert to the risk of regulatory capture, and said it was taking several steps to proactively engage with a wide range of stakeholders.⁹⁴

41. **We welcome the Competition and Markets Authority’s decision to review its approach to mergers and acquisitions and to engage with a wider range of stakeholders. Effective implementation of the Digital Markets, Competition and Consumers Act 2024 regime will play a vital role in ensuring innovative technology scaleups can compete with, and provide challenge to, incumbents.**

Access to talent

42. Paul Murphy, Partner at Lightspeed Venture Partners, told us simply:

“If there is one reason that companies struggle to scale, it is talent. If there is one reason that a company is going to leave the UK, it is talent.”⁹⁵

Alex Kendall OBE, Co-founder and CEO of Wayve, agreed: “The biggest thing we could do in the UK to make this a thriving environment is to invest in getting the right talent here”.⁹⁶ A 2023 report from the Social Market Foundation stated that “staff recruitment and skills” was the most widely-cited obstacle to scale among high-growth companies.⁹⁷

43. Michael Holmes, CEO of spinout incubator Scale Space, identified issues with “importing talent” from overseas as a particular challenge.⁹⁸ Some witnesses suggested that Brexit had had a negative impact on the supply of skilled migrants entering the UK.⁹⁹ Several others reported that the administrative processes associated with recruiting international students or specialist workers are slow, laborious and costly.¹⁰⁰ Oxford Science Enterprises called for a “fast(er)-track option for working visas”, since the UK is “in global competition for a small, highly sought-after talent pool”.¹⁰¹
44. Witnesses drew attention to the success of the UK’s universities in attracting and developing technical talent.¹⁰² We heard, however, that improvements could be made to education and training, to ensure a strong domestic skills pipeline.¹⁰³ Some larger scaleups also highlighted skills gaps at senior leadership level, saying those with experience of managing later-stage companies often had to be recruited from overseas. Mr Riparbelli explained

93 [Q 35](#) (Eleanor Lightbody)

94 Oral evidence taken before the Communications and Digital Committee, session on the work of the CMA, 7 January 2025 (Session 2024–25), [Q 5](#)

95 [Q 68](#) (Paul Murphy)

96 [Q 10](#) (Alex Kendall)

97 Social Market Foundation, *Full scale: how to ensure more British firms grow to their potential* (September 2023): <https://www.smf.co.uk/publications/full-scale-british-businesses/> [accessed 14 January 2025]

98 [Q 2](#) (Michael Holmes)

99 [Q 37](#) (Barney Hussey-Yeo); Written evidence from the Surrey Institute for People-Centred AI ([ACT0018](#))

100 [Q 2](#) (Michael Holmes), [Q 37](#) (Eleanor Lightbody, Antony Berg); written evidence from CBI ([ACT0029](#)) and Oxford Science Enterprises ([ACT0056](#))

101 Written evidence from Oxford Science Enterprises ([ACT0056](#))

102 [Q 27](#) (Eleanor Lightbody), [Q 38](#) (Barney Hussey-Yeo), [Q 52](#) (Victor Riparbelli)

103 Written evidence from Surrey Institute for People-Centred AI ([ACT0018](#)), British Film Institute ([ACT0036](#)), Prof Damian Murphy, Emma Brown, Dr Jon Swords and Jay Harrison ([ACT0043](#)), Ukie ([ACT0049](#)) and Boardwave ([ACT0052](#))

that such individuals “are rarer” in this country, “just because there are not that many businesses and thus that many people who have seen that scale in the UK.”¹⁰⁴

45. Baroness Gustafsson CBE, Minister for Investment, Department for Business and Trade and HM Treasury, commented that “when we talk about skills for scaleups, our minds always go to the technical skills”. She stressed that alongside efforts to “mobilise the education system to provide those”, there is a need to develop and retain talent across the “many other things that come with scaling a business”, including finance, legal and marketing.¹⁰⁵

Infrastructure

46. Mr Kendall also told us that the UK has “some really big gaps in infrastructure, compute and power”.¹⁰⁶ Leo Ringer, Founding Partner at Form Ventures, similarly queried “whether we have enough horsepower of infrastructure in the UK data centres and access to low-latency compute” to support any scaleup with significant compute requirements. He argued that the UK is “shockingly bad at building physical infrastructure”, listing data centres and grid connectivity as “unfortunate examples” of this.¹⁰⁷
47. These gaps may widen: the CBI cited statistics from the National Grid predicting a sixfold increase in energy demand from UK data centres over the next decade.¹⁰⁸ In October 2024, the Government announced a £6.3 billion investment by private companies in UK data centre infrastructure, with a further £14 billion announced in January 2025.¹⁰⁹ We heard, however, that this must be accompanied by steps to remove other fundamental barriers, including high energy costs, poor grid connectivity and limited telecoms rollout.¹¹⁰ The UK’s planning system has also previously been cited as a drag on business growth.¹¹¹

Government initiatives

48. Successive UK Governments have taken steps to examine and address the barriers outlined above, and to cultivate an environment in which enterprises can grow successfully. Government reviews focused on scaleups include the 2014 Coutu report,¹¹² the 2017 Patient Capital Review, which “considered how to support innovative firms to access the finance that they need to

104 [Q 3](#) (Alex Kendall), [Q 52](#) (Victor Riparbelli)

105 [Q 121](#) (Baroness Gustafsson)

106 [Q 18](#) (Alex Kendall). AI-specific compute challenges, including access to supercomputing capabilities, are discussed in Chapter 3.

107 [Q 44](#) (Leo Ringer)

108 Written evidence from CBI ([ACT0029](#))

109 Department for Science, Innovation and Technology, ‘Tech Secretary welcomes foreign investment in UK data centres which will spur economic growth and AI innovation in Britain’ (October 2024): <https://www.gov.uk/government/news/tech-secretary-welcomes-foreign-investment-in-uk-data-centres-which-will-spur-economic-growth-and-ai-innovation-in-britain> [accessed 10 January 2024], Department for Science, Innovation and Technology, ‘Prime Minister sets out blueprint to turbocharge AI’ (January 2025): <https://www.gov.uk/government/news/prime-minister-sets-out-blueprint-to-turbocharge-ai>. [accessed 13 January 2025]

110 [Q 41](#) (Susan Bowen); Written evidence from Dr Trevor Davis and Professor Martin Charter ([ACT0002](#)), CBI ([ACT0029](#)), Computer and Communications Industry Association ([ACT0035](#))

111 Social Market Foundation, *Full scale: how to ensure more British firms grow to their potential* (September 2023), p 25: <https://www.smf.co.uk/wp-content/uploads/2023/09/Full-Scale-September-2023.pdf> [accessed 14 January 2025]

112 See Box 1

scale up”;¹¹³ and the 2021 Kalifa Review of the UK’s fintech sector, which made recommendations on how to support the growth and adoption of UK financial technology.¹¹⁴ While in opposition, the Labour Party commissioned the *Start Up, Scale Up* review, which explored how to “make Britain the best place to grow and start a business”. In a foreword to the report, then Shadow Chancellor Rachel Reeves MP emphasised the connection between a successful scaleup environment and Labour’s overarching ambition for economic growth.¹¹⁵

Unlocking private growth capital

49. In July 2023, the then Chancellor Rt. Hon. Jeremy Hunt MP announced a series of measures aimed at unlocking further domestic capital for investment in innovation. These included:
- An agreement known as the Mansion House Compact, under which some of the UK’s largest defined contribution (DC) pension providers committed to allocate at least 5 per cent of their default funds to unlisted equities by 2030;
 - Efforts to encourage smaller DC pension schemes to consolidate into larger, better-performing schemes to improve returns and governance; and
 - Progress on the Long-term Investment for Technology and Science (LIFTS) initiative to crowd institutional investment into innovative science and technology companies.¹¹⁶
50. Since taking office, the Labour Government has announced:
- that the UK Infrastructure Bank would become the National Wealth Fund (NWF) and operate with a broadened investment mandate,¹¹⁷ including targeting “equity investments in earlier-stage projects and technologies looking to scale up”, in partnership with the British Business Bank;¹¹⁸
 - the establishment of the British Growth Partnership (BGP), which will create a new way for institutional investors (particularly pension funds) to invest in the most innovative companies;¹¹⁹ and

113 HM Treasury, *Patient Capital Review* (January 2017): <https://www.gov.uk/government/publications/patient-capital-review> [accessed 14 January 2025]

114 Sherry Coutu CBE, *The scaleup report on UK economic growth* (November 2014): https://www.scaleupinstitute.org.uk/wp-content/uploads/2019/12/scaleup-report_2014.pdf [accessed 14 January 2025]; Ron Kalifa OBE, *The Kalifa Review of UK Fintech* (February 2021): <https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech> [accessed 14 January 2025]

115 The Labour Party, *Start-Up, Scale-up: Making Britain the best place to grow a business* (September 2023): https://labour.org.uk/wp-content/uploads/2022/12/WEB-17247_22-Start-up-review-v12-ALT-2.pdf [accessed 14 January 2025]

116 HM Treasury, ‘Chancellor’s Mansion House Reforms to boost typical pension by over £1,000 a year’ (July 2023): <https://www.gov.uk/government/news/chancellors-mansion-house-reforms-to-boost-typical-pension-by-over-1000-a-year> [accessed 10 January 2025]

117 HM Treasury, ‘Chancellor announces new plans to secure UK investment’ (October 2024): <https://www.gov.uk/government/news/chancellor-announces-new-plans-to-secure-uk-investment> [accessed 10 January 2025]

118 HM Treasury, *National Wealth Fund: Mobilising Private Investment* (October 2024), p 25: <https://www.gov.uk/government/publications/national-wealth-fund-mobilising-private-investment/national-wealth-fund-mobilising-private-investment-accessible#executive-summary> [accessed 14 January 2025]

119 Written evidence from British Business Bank ([ACT0027](#))

- a review into pensions investment,¹²⁰ the interim report of which includes proposals to consolidate UK pensions into Canadian or Australian-style “megafunds” that the Government argues will be “better positioned to invest in productive assets”.¹²¹
51. Stakeholders were positive about these efforts to unlock institutional investment.¹²² However, several witnesses highlighted that it will be several years before pension reforms have a meaningful impact on the UK’s pool of capital.¹²³ In Ms Platts’s view,
- “waiting till 2030 to unlock significant DC pension schemes to invest into UK managers is too long away. We need to find ways to expedite capital going into managers.”
- She added that financial reforms will need to be accompanied by more knowledgeable people managing funds to “help pension funds funnel the money in the right places”.¹²⁴
52. Recent reports by the CBI¹²⁵ and the House of Lords Science and Technology Committee¹²⁶ likewise highlighted a lack of technology expertise among institutional investors as a barrier to science and tech scaleups accessing the necessary growth capital. Ministers highlighted the Science and Technology Venture Capital Fellowship, which aims to upskill mid-career VC investors on investing in UK deeptech and life science companies.¹²⁷
53. The CST reached similar conclusions in its recent letter to the Chancellor, and called on the Government to “accelerate efforts to support pension fund reforms to create more immediate options for scale up capital.” Other recommendations included: “unlocking financing of critical infrastructure for emerging technologies”; creating better connections between private and public markets to make London a more attractive listing destination; supporting the development of the specialist investing, procurement, management and policy-making skills required to scale up science and technology companies; building awareness of investment opportunities; and improving public understanding of the importance of innovation.¹²⁸
54. ***We endorse the recommendations of the Council for Science and Technology’s November 2024 letter to the Chancellor calling for an***

120 Department for Work and Pensions and HM Treasury, ‘Pensions Investment Review: Unlocking the UK pensions market for growth’ (November 2024): <https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth> [accessed 10 January 2025]

121 HM Treasury, *Pensions Investment Review: Interim Report* (November 2024), p 6: <https://www.gov.uk/government/publications/pensions-investment-review-interim-report> [accessed 14 January 2025]; ‘Reeves to force council pensions to consolidate into 8 “megafunds”’, *Financial Times* (November 2024): <https://www.ft.com/content/0b5a0e5f-3474-49bf-8b6a-ee67e7df44c7> [accessed 14 January 2025]

122 Q 6 (Erin Platts); Written evidence from CBI (ACT0029), BVCA (ACT0050) and Boardwave (ACT0052)

123 Q 6 (James Wise); Written evidence from Oxford Science Enterprises (ACT0056)

124 Q 6 (Erin Platts)

125 CBI, *Institutional Investment into Science and Technology Scaleups* (October 2023), p 20: <https://www.cbi.org.uk/media/rnrjzmbg/12837-institutional-investment-for-scale-ups.pdf> [accessed 14 January 2025]

126 “*Science and technology superpower*”: *more than a slogan?*, paras 130–35

127 Written evidence from HM Government (ACT0063)

128 Letter from the Council for Science and Technology to the Chancellor on scaleup finance for innovative science and technology companies (November 2024): <https://www.gov.uk/government/publications/letter-to-the-chancellor-on-scaleup-finance-for-innovative-science-and-technology-companies>

acceleration of efforts to unlock institutional capital; the development of the specialist skills required for investing and supporting innovative technology companies; and the financing and delivery of the critical infrastructure they need.

55. *We also support its recommendation that the Government work to “renew a shared pride in the UK’s culture of innovation”. The Government has a leadership responsibility to promote and celebrate British entrepreneurial success in order to shift cultural attitudes towards risk and innovation.*

The British Business Bank

56. In 2014, the British Business Bank (BBB) was established to improve access to finance for smaller businesses.¹²⁹ In response to the findings of the Patient Capital Review, in 2018 the BBB established a commercial subsidiary, British Patient Capital (BPC).¹³⁰ In October 2024, the Government announced reforms to the BBB. These included putting its £7.9 billion BPC-administered commercial programmes on a permanent footing, by enabling it to reinvest its investment returns.¹³¹
57. The BBB has played an active role in financing scaleups and has provided some form of financial support for a majority of the UK’s unicorns.¹³² Several contributors were positive about growth-focused initiatives administered by the BBB.¹³³
58. On the other hand, critical views about the bank’s poor returns on previous investments have been reported in the media.¹³⁴ Barney Hussey-Yeo, founder of AI fintech Cleo, told us that direct state intervention in venture capital “does not work”. He added:
- “When the Government try to fund these companies directly, they pick the bad companies and, therefore, the returns are awful. The returns for the British Business Bank are negative to dismal.”¹³⁵
59. In its submission to the AI Opportunities Action Plan, VC fund Air Street Capital argued that if a technology company “needs a government vehicle as a direct shareholder, it has likely failed to find product-market fit”, and “should be allowed to either fail or be acquired”.¹³⁶ In a similar vein, a 2024

129 Written evidence from British Business Bank ([ACT0027](#))

130 BPC is the UK’s largest domestic investor in venture and venture growth opportunities. It focuses on equity financing for high-growth, innovation-driven businesses that are scaling up. It invests directly in venture capital and growth funds, which then invest in high-growth businesses. Written evidence from British Business Bank ([ACT0027](#))

131 HM Treasury, ‘Chancellor announces new plans to secure UK investment’ (14 October 2024): <https://www.gov.uk/government/news/chancellor-announces-new-plans-to-secure-uk-investment> [accessed 15 January 2025]

132 Social Market Foundation, ‘Full scale: how to ensure more British firms grow to their potential’ (September 2023): <https://www.smf.co.uk/publications/full-scale-british-businesses/> [accessed 15 January 2025]

133 [Q 6](#) (Erin Platts), [Q 29](#) (Antony Berg); Written evidence from techUK ([ACT0017](#))

134 ‘Dozens of UK start-ups helped by taxpayer-funded loans in pandemic face closure’, *Financial Times* (11 August 2024): <https://www.ft.com/content/6a84f874-fef8-45b4-901c-ffed8e149392> [accessed 15 January 2025]; “‘The returns are awful’: why taxpayers are racking up losses on British start-ups”, *The Daily Telegraph* (5 January 2025), available at: <https://www.telegraph.co.uk/business/2025/01/05/why-state-funded-start-ups-now-want-ministers-stop-meddling/>

135 [Q 29](#) (Barney Hussey-Yeo)

136 Air Street Press, ‘Rediscovering the UK’s AI ambition’ (August 2024): <https://press.airstreet.com/p/rediscovering-the-uks-ai-ambition> [accessed 13 January 2025]

impact assessment commissioned by the BBB of its ongoing Future Fund: Breakthrough (FF:B) scheme noted:

“The extent to which financing provided by the scheme was additional to what would have otherwise been provided by commercial investors was sometimes not clear, with some firms suggesting they could have closed rounds at similar sizes without FF:B support.”¹³⁷

60. Mr Taylor defended the Bank’s investment record, adding that the Bank generates “about £8.4 billion of gross value add—so £2.40 for every £1 we put out”.¹³⁸ He argued that investment from the BBB served as a “kitemark of quality” for future private investors who rely on the BBB’s due diligence and expressed confidence that the bank is “performing in a way that is absolutely value for money”.¹³⁹ Baroness Gustafsson said that the BPC was providing “good accountability for public money and making sure that that money is put into places that are driving sufficient economic return”.¹⁴⁰
61. However, Mr Taylor highlighted room for improvement in the delivery of its services, noting that SMEs found it difficult to keep track of the BBB’s 21 different programmes. He said that the Bank was re-structuring its offering to “create simplicity, scalability and flexibility”.¹⁴¹

Other sources of funding

62. Innovate UK, a non-departmental public body founded in 2007 as part of UK Research and Innovation (UKRI), has developed a scaleup programme that provides support for rapidly growing businesses.¹⁴² It offers a number of other initiatives, including business innovation grants, Investor Partnerships, Business Growth services, BridgeAI, Innovation Networks, Innovation Exchange, Contracts for Innovation, nine sector-focused Catapults, and 11 regional Launchpads.¹⁴³
63. UKRI’s seven research councils also provide funding targeted at supporting innovation.¹⁴⁴ For example, the Engineering and Physical Sciences Research Council (EPSRC) funds the XR Network+ at the University of York, which aims to develop innovations in the virtual production subsector.¹⁴⁵ Government departments also provide innovation funding through other means, for example DSIT’s £12.2 million Digital Growth Grant, currently administered by Barclays Eagle Labs to support startups and scaleups.¹⁴⁶
64. Mr Kendall told us that Innovate UK’s grant funding system is “severely broken”. He described the way funds are allocated as “largely random, not well

137 Available at British Business Bank, ‘Future Fund: Breakthrough Process Evaluation and Early Impact Assessment’: <https://www.british-business-bank.co.uk/about/research-and-publications/future-fund-breakthrough-process-evaluation-and-early-impact-assessment> [accessed 14 January 2025]

138 Q 71 (Louis Taylor)

139 QQ 73, 75 (Louis Taylor)

140 Q 114 (Baroness Gustafsson)

141 Q 83 (Louis Taylor)

142 Innovate UK, ‘The Scaleup Programme: for high potential scaleup businesses’: <https://iuk-business-connect.org.uk/programme/scaleup/> [accessed 10 January 2025]

143 QQ 93, 96, 99, 100 (Esra Kasapoglu); Written evidence from UKRI (ACT0045). See also UKRI, ‘Programmes’: <https://iuk-business-connect.org.uk/programme/> [accessed 15 January 2025]

144 Q 94 (Prof Christopher Smith)

145 Written evidence from Prof Damian Murphy, Emma Brown, Dr Jon Swords and Jay Harrison (ACT0043)

146 Written evidence from HM Government (ACT0025)

formulated on the venture capital-style approach or on viability of business”.¹⁴⁷ In Mr Ringer’s view, “there does not seem to be a huge connection” between the “pots of money” available from the organisation and “an overarching sense of strategy” for different sectors and technologies.¹⁴⁸ Reporting in the *Telegraph* described an “alphabet soup” of schemes offering support to startups and scaleups.¹⁴⁹

65. Many witnesses acknowledged that public grants and programmes had brought benefits for individual companies.¹⁵⁰ However, the challenge of “navigating the complexities of the Government funding ecosystem”¹⁵¹ was a consistent theme in our evidence. The process of applying for grants from bodies such as Innovate UK was described in terms including “cumbersome”, “overwhelming”¹⁵² and even “infeasible”.¹⁵³ Peadar Coyle, Founder of AI audio scaleup AudioStack, said that it is “difficult sometimes even to figure out which government body you are interacting with”.¹⁵⁴ Mr Dancer and Prof Lord Tarassenko told us:

“Experience in running high-growth companies shows that it can take a great deal of time to apply for and secure support from any one of these initiatives, for which the capital benefit might only be a tiny proportion of the amount available from a large venture capital investor.”¹⁵⁵

66. Stakeholders repeatedly called for greater alignment between programmes and simplified application processes, particularly for earlier-stage funding.¹⁵⁶ Simon Barratt, Chief Executive Officer of gaming studio Cooperative Innovations, told us: “At each point you seem to be validating what you are doing again and answering very basic questions about your business”. He called for “a runway in terms of the levelling up of funding available”, that would enable firms to progress through programmes once their credentials and performance had been verified.¹⁵⁷
67. Others called for a more streamlined suite of support initiatives. Mr Dancer and Prof Lord Tarassenko stated:

“There may already be too many such schemes, and many or most are probably underfunded and unlikely to have impact. We should guard against fragmentation of effort and concentrate time and resources on a smaller number of high-impact initiatives.”¹⁵⁸

Oxford Science Enterprises stated:

147 Q 11 (Alex Kendall)

148 Q 43 (Leo Ringer)

149 “‘The returns are awful’: why taxpayers are racking up losses on British start-ups”, *The Daily Telegraph* (5 January 2025): <https://www.telegraph.co.uk/business/2025/01/05/why-state-funded-start-ups-now-want-ministers-stop-meddling/> [accessed 15 January 2025]

150 Q 58 (Victor Riparbelli); Written evidence from techUK (ACT0017), Professor Oli Buckley (ACT0008)

151 Written evidence from the Surrey Institute for People-Centred AI (ACT0018)

152 Written evidence from Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras (ACT0024)

153 Written evidence from Dr Michael Cook (ACT0034)

154 Q 58 (Peadar Coyle)

155 Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055)

156 Written evidence from the Surrey Institute for People-Centred AI (ACT0018), Effa Ettah, Prof John McAuliffe and Liz Scott (ACT0026), Dean Williams (ACT0030), Council on Geostrategy (ACT0031) and Institute for Chartered Accountants in England and Wales (ACT0046)

157 Q 58 (Simon Barratt)

158 Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055)

“When you get to a certain stage of development, the amount of effort to access the grant outweighs the amount received. It could be more useful to consolidate available funds into a smaller number of large grants that could ‘move the needle’ further.”¹⁵⁹

68. The CST’s letter recommended that the Treasury, the Department for Business and Trade (DBT) and the Department for Science, Innovation and Technology (DSIT) should work together to “create greater scale by driving stronger integration in public pools of capital”. This should include “simplifying and joining up the landscape of government financial support”, it argued.¹⁶⁰
69. UKRI advised that it has already introduced a streamlined application process for grants valued at less than £50,000, which it argued has been “particularly effective in the creative industries”.¹⁶¹ Mr Taylor and Baroness Gustafsson also drew attention to the memorandum of understanding which has been agreed between UKRI and the BBB, with the aim of improving “the baton handovers for companies” as they progress through the support schemes offered by the two organisations. Baroness Gustafsson acknowledged, however, that “we are yet to be tested on whether those procedures and what we have laid out will be sufficient”.¹⁶²
70. Professor Christopher Smith, Executive Chair of the Arts and Humanities Research Council (AHRC), said that UKRI would “welcome from the committee the pull towards cohesion” across its programmes, as this was “a direction in which we are trying to progress”.¹⁶³ Feryal Clark MP, Parliamentary Under-Secretary of State for AI and Digital Government, acknowledged that navigating various government schemes was “a complete minefield”, and said that DSIT was working with DBT to “streamline ... and make it easier for businesses to access” existing initiatives.¹⁶⁴ Sir Chris Bryant MP, Minister for Creative Industries, Arts and Tourism and for Data Protection and Telecoms, Department for Culture, Media and Sport and Department for Science, Innovation and Technology, recognised the tendency of new Ministers to “come up with a new scheme” and advocated instead for consolidation and continuity.¹⁶⁵
71. **There has been a proliferation of individual grants and programmes targeted towards scaleups, which are difficult for SMEs to navigate and apply for. This includes programmes run by UKRI, the British Business Bank and government departments. Witnesses made a strong case for consolidating existing initiatives to maximise their impact, rather than adding further to an already complex suite of programmes and funding pots.**
72. *The Government must ensure that its initiatives aimed at enabling technology companies to grow make a material improvement to the*

159 Written evidence from Oxford Science Enterprises ([ACT0056](#))

160 Letter from the Council for Science and Technology to the Chancellor on scaleup finance for innovative science and technology companies (November 2024): <https://www.gov.uk/government/publications/letter-to-the-chancellor-on-scaleup-finance-for-innovative-science-and-technology-companies> [accessed 28 January 2025]

161 Written evidence from UKRI ([ACT0045](#))

162 [Q 76](#) (Louis Taylor), [Q 114](#) (Baroness Gustafsson)

163 [Q 104](#) (Prof Christopher Smith)

164 [Q 117](#) (Feryal Clark MP)

165 [Q 119](#) (Sir Chris Bryant MP)

UK's innovation ecosystem, as well as providing value for money for the taxpayer. Schemes that are duplicative, or fail to achieve desired outcomes, should be wound down. We caution strongly against the introduction of further schemes or interventions, which have the potential to slow companies' growth by making the system of scaleup support even harder to navigate.

73. *Government programmes should also provide scaleups with a clear, comprehensible pathway of support along their growth journey. Consideration should be given to how to minimise administrative hurdles, for example by streamlining application processes for subsequent funding for companies that have already passed rigorous checks as part of earlier successful public funding bids.*
74. *The Government should set out the steps it is taking to evaluate the impact and join-up of existing initiatives, including those administered by the British Business Bank, to ensure they offer a clear route for companies to progress through, address genuine gaps in the private markets and represent a sound use of government funds.*

Tax credits

75. A number of witnesses said the UK's research and development (R&D) tax credit regime, which allows companies undertaking qualifying R&D to claim relief at a rate of 20 per cent,¹⁶⁶ was beneficial. However, they voiced similar frustrations with complexity and bureaucracy.¹⁶⁷ Mr Kendall said there were "stories of companies going bust because of the amount of time taken for approvals to get through the process".¹⁶⁸
76. We heard too that repeated changes to the amount of credit available had created uncertainty and cashflow difficulties.¹⁶⁹ The Synthetic Media Research Network stated that HMRC had created a "hostile environment" for companies claiming the relief, while others described instances of HMRC demanding money be returned by SMEs.¹⁷⁰
77. We also heard that the scheme is complex for firms to navigate, meaning many require specialist support, which comes at a cost. As Mr Riparbelli explained:
- "There is a cottage industry around it that is fairly big ... It does not feel like you should have to give up a certain percentage of whatever you get in relief to third-party consultants for doing what seems like paperwork."¹⁷¹

166 Written evidence from HM Government ([ACT0025](#))

167 [Q 8](#) (Alex Kendall), [Q 43](#) (Leo Ringer), [Q 56](#) (Victor Riparbelli); Written evidence from Synthetic Media Research Network ([ACT0011](#)), techUK ([ACT0017](#)), Creative UK ([ACT0019](#)) and Market Research Society ([ACT0037](#))

168 [Q 2](#) (Alex Kendall)

169 [Q 56](#) (Peadar Coyle), [Q 35](#) (Antony Berg)

170 [Q 43](#) (Leo Ringer); Written evidence from Creative UK ([ACT0019](#))

171 [Q 56](#) (Victor Riparbelli)

Tax incentives for investors

78. Governments have also sought to incentivise investment into innovative firms through vehicles such as the Enterprise Investment Scheme (EIS),¹⁷² Seed Enterprise Investment Scheme (SEIS)¹⁷³ and Venture Capital Trust (VCT).¹⁷⁴ Some have argued that the schemes are used primarily for tax efficiency purposes, rather than as a means of supporting innovative startups.¹⁷⁵ Yet we heard strong support for EIS and SEIS, which were seen as vital to the UK's thriving early-stage startup landscape.¹⁷⁶
79. Some stakeholders advocated for these to be extended to support later stage companies and those with longer R&D cycles.¹⁷⁷ The Labour Party's scaleup review recommended reviewing "the scope, scale and design of both EIS and SEIS".¹⁷⁸ However, Baroness Gustafsson told us that she had not looked at making changes to the schemes. She added:

"I acknowledge that they are a real asset to us ... This is a great example of where we sometimes feel that we should have another initiative and unlock a different pool of capital, but actually there are some schemes here that work really well, are really valued and make a big difference. We just have to keep them going."¹⁷⁹

Other new government policies

80. Relevant to the barriers discussed above, the Government has also proposed reforms to the planning system¹⁸⁰ and the establishment of Skills England.¹⁸¹ On planning, Baroness Gustafsson told us that frustration about the planning barriers to building more UK data centres was "being heard quite loudly and clearly".¹⁸²

172 This is designed to support entrepreneurs to grow their businesses by offering tax relief to individual investors who purchase new shares in firms that are up to seven years old. Under the scheme, businesses can raise up to £5 million a year, and a maximum of £12 million over the company's lifetime. See HM Revenue and Customs, 'Apply to use the Enterprise Investment Scheme to raise money for your company' (January 2016): <https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme> [accessed 15 January 2025]

173 This offers tax relief to investors when they invest in small and early-stage startups. See HM Revenue and Customs, 'Apply to use the Seed Enterprise Investment Scheme to raise money for your company' (January 2016): <https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme> [accessed 15 January 2025]

174 A VCT is "a company that has been approved by HMRC and invests in, or lends money to, unlisted companies." It can invest in companies that are up to seven years old and have no more than £15 million in gross assets. See HM Revenue and Customs, 'Use a venture capital scheme to raise money for your company' (January 2016): <https://www.gov.uk/guidance/venture-capital-schemes-raise-money-by-offering-tax-reliefs-to-investors#venture-capital-trust-vct> [accessed 15 January 2025]

175 Chalmermagne, 'A parody of venture' (November 2024): <https://chalmermagne.substack.com/p/a-parody-of-venture> [accessed on 7 January 2024]

176 [Q 55](#) (Simon Barratt), [Q 58](#) (Peadar Coyle), [Q 61](#) (Victor Riparbelli)

177 Written evidence from Professor Oli Buckley ([ACT0008](#)), Wayve ([ACT0047](#)), techUK ([ACT0017](#)), Dr Amr Al Khateeb, Dr Rajab Ghandour, Michael Drummond ([ACT0021](#))

178 The Labour Party, *Start-Up, Scale-up: Making Britain the best place to grow a business* (September 2023), p 11: https://labour.org.uk/wp-content/uploads/2022/12/WEB-17247_22-Start-up-review-v12-ALT-2.pdf [accessed 14 January 2025]

179 [Q 119](#) (Baroness Gustafsson)

180 Ministry of Housing, Communities Local Government, *Proposed reforms to the National Planning Policy Framework and other changes to the planning system* (December 2024): <https://www.gov.uk/government/consultations/proposed-reforms-to-the-national-planning-policy-framework-and-other-changes-to-the-planning-system/proposed-reforms-to-the-national-planning-policy-framework-and-other-changes-to-the-planning-system> [accessed 17 January 2025]

181 Department for Education, 'Skills England' (September 2024): <https://www.gov.uk/government/collections/skills-england> [accessed 17 January 2025]

182 [Q 125](#) (Baroness Gustafsson)

81. As part of the AI Opportunities Action Plan, the Government announced the creation of AI growth zones, “areas with enhanced access to power and support for planning approvals”. It argued these would accelerate the building of data centres through public-private partnerships.¹⁸³ In his speech launching the plan, the Prime Minister also promised to provide grid connections “at speed” to those looking to build in AI.¹⁸⁴ However, some commentators expressed concerns about the feasibility of funding these data centres and meeting their energy demands, particularly in light of net zero ambitions.¹⁸⁵
82. On skills and talent, the decision to raise employer contributions to National Insurance in the 2024 Autumn Budget¹⁸⁶ has been cited as a policy that could negatively impact businesses.¹⁸⁷ The RCA reported concerns from createch businesses that the changes to zero-hours contracts proposed by the Employment Rights Bill “may inadvertently affect their agile working practices.”¹⁸⁸ Mr Glick told us that the costs of hiring and firing are much higher in the UK than elsewhere, putting UK businesses at a disadvantage.¹⁸⁹
83. On the alignment of scaleup support more broadly, Oxford Science Enterprises spoke of the need to “align all relevant arms of government in support of the highest-potential companies in the areas where the UK has the potential to lead globally”.¹⁹⁰ Mr Poole suggested efforts might be aligned under “an industrial strategy ... that has that north star of a much greater ambition about our positioning in a global digital revolution.”¹⁹¹
84. **We have the right ingredients to build world-leading tech companies, including in the high-growth potential areas of AI and creative technology. However, fundamental barriers to scaling in the UK’s technology sector, such as poor infrastructure, a culture of risk aversion, and comparatively limited domestic growth capital, are well documented and longstanding.**
85. **Some of these barriers do not have straightforward policy solutions, for example the relative size of the UK market, or cultural attitudes**

183 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), p 5: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_response.pdf [accessed 28 January 2025]

184 The Rt Hon Sir Keir Starmer KCB KC MP, PM speech on AI Opportunities Action Plan, 13 January 2025: https://www.gov.uk/government/speeches/pm-speech-on-ai-opportunities-action-plan-13-january-2025?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=3b15fe64-0e5c-4572-8d91-f0ef75b2860d&utm_content=immediately [accessed 15 January 2025]

185 ‘What are the challenges facing the government’s AI action plan?’, *BBC News* (13 January 2025): <https://www.bbc.co.uk/news/articles/c04nl711r0qo>; ‘Startups Welcome UK AI Action Plan, But With Caveats’, *Forbes* (15 January 2025): <https://www.forbes.com/sites/trevorclawson/2025/01/14/startups-welcome-uk-ai-action-plan-but-with-caveats/> [accessed 15 January 2025]

186 HM Treasury, *Autumn Budget 2024* (October 2024): https://assets.publishing.service.gov.uk/media/672b9695fbd69e1861921c63/Autumn_Budget_2024_Accessible.pdf [accessed 28 January 2024]

187 [Q 19](#) (Michael Holmes); Institute for Government, ‘Is Rachel Reeves’ budget bad—or good—for business?’ (November 2024): <https://www.instituteforgovernment.org.uk/comment/rachel-reeves-budget-bad-or-good-business> [accessed 15 January 2025]

188 Written evidence from Royal College of Art ([ACT0022](#)). Changes proposed by the Bill include introducing a new right to guaranteed hours. See [Explanatory Notes to the Employment Rights Bill](#), [Bill 11 (2024–25)-EN]

189 [Q 70](#) (David Glick)

190 Written evidence from Oxford Science Enterprises ([ACT0056](#))

191 [Q 69](#) (Nick Poole), see also written evidence from the Council on Geostrategy ([ACT0031](#))

towards entrepreneurship. It is positive that solutions initiated by the previous Government to address challenges are being built upon by the current Government. However, these initiatives will not succeed without a consistent and determined focus on enabling British startups to scale.

86. *The Government's industrial strategy must provide a coherent, cross-government vision for the role of innovative technology scaleups in delivering the Government's growth ambitions across its eight key sectors. It should serve as an opportunity to critically review the existing landscape of support for scaleups, and be underpinned by a resolute focus on removing barriers to growth. In its response to this report, the Government should outline how it will reconcile this with competing policy priorities, for example its commitments on net zero and employment rights.*

CHAPTER 3: SCALING UP: AI

The UK AI landscape

87. Evidence to our inquiry was clear about the strategic importance and transformational potential of AI in driving innovation and growth across multiple sectors.¹⁹² Michael Holmes, CEO of spinout incubator Scale Space, warned against talking about AI as a “completely separate sector”. Instead, “the reality is that across any industry sector AI is becoming increasingly prevalent”.¹⁹³ James Wise, General Partner at Balderton Capital, said that “we are at the foundations of an industrial revolution underpinned by these new technologies”.¹⁹⁴ Mr Dancer and Prof Lord Tarassenko described the current period as “a transformational moment in technology, of the sort which only comes about once or twice in a century.”¹⁹⁵
88. In our report on large language models, we found that the previous Government had strayed from the ambitions set out in its 2021 National AI Strategy¹⁹⁶ towards a “narrow view of high-stakes AI safety”. We called for a rebalancing of priorities towards a greater focus on opportunity.¹⁹⁷ During this inquiry, witnesses emphasised the need to act swiftly to take advantage of such opportunities. Erin Platts, CEO of HSBC Innovation Banking, spoke of a “two to three-year window” for action.¹⁹⁸ Mr Wise warned that “Britain is at real risk of being an also-ran if we do not find ways to keep up”.¹⁹⁹
89. Witnesses also raised concerns about the withdrawal by the current Government of £1.3 billion of funding for AI infrastructure, including £800 million for an exascale supercomputer in Edinburgh.²⁰⁰ We heard that this decision left the entrepreneurial community “deeply unimpressed” and sent the wrong signal about the UK’s commitment to AI and other emerging technologies.²⁰¹
90. Contrasts were drawn between the UK Government’s approach and that of some of its European counterparts.²⁰² Policies delivered in France, in particular, were credited with giving the country an advantage in AI development. These include: the Tibi investment scheme;²⁰³ the Station F incubator;²⁰⁴ the La French Tech initiative to promote French startups abroad;²⁰⁵ public-private partnerships allowing PhD students to work in a private company while completing their research at a public institution;²⁰⁶ and

192 [Q 43](#) (Leo Ringer), [Q 95](#) (Professor Christopher Smith); Written evidence from the Institute for Chartered Accountants in England and Wales ([ACT0046](#))

193 [Q 8](#) (Michael Holmes)

194 [Q 2](#) (James Wise)

195 Written evidence from James Dancer and Prof Lord Tarassenko ([ACT0055](#))

196 HM Government, *National AI Strategy* (September 2021): <https://www.gov.uk/government/publications/national-ai-strategy> [28 January 2025]

197 *Large language models and generative AI*, para 81

198 [Q 6](#) (Erin Platts)

199 [Q 2](#) (James Wise)

200 ‘Government shelves £1.3bn UK tech and AI plans’, *BBC News* (2 August 2024): <https://www.bbc.co.uk/news/articles/cyx5x44vnyeo> [accessed 28 January 2025]

201 [Q 44](#) (Gerard Grech CBE, Leo Ringer); Written evidence from Oxford Science Enterprises ([ACT0056](#))

202 Written evidence from Oxford Science Enterprises ([ACT0056](#))

203 Written evidence from BVCA ([ACT0050](#))

204 Written evidence from Creative UK ([ACT0019](#))

205 Written evidence from Surrey Institute for People-Centred AI ([ACT0018](#))

206 *The future of news*, Appendix 4. For more information, see Agence Française de Développement, ‘Cifre PhD: A Specific Mechanism for Doctoral Students’: <https://www.afd.fr/en/cifre-phd-specific-mechanism-doctoral-students> [accessed 20 January 2025]

the IA-Booster programme, which focuses on integrating AI technologies into SMEs.²⁰⁷

Box 2: France’s pro-AI-policies

France’s five-year National AI strategy launched in 2018, with an initial budget of €800 million over three years, and a significant focus on advancing research. One-third of the funding supported initiatives such as establishing interdisciplinary institutes, funding an additional 180 PhD positions, and opening a petascale supercomputing facility. The second phase of the strategy in 2021–22 prioritised expanding education and training, advancing embedded AI, and promoting trustworthy AI in critical systems.²⁰⁸ The French National AI Commission recently drew up a further action plan representing an annual public investment of €5 billion over five years.²⁰⁹

Tortoise Media reported that the French Government had invested a total of €7.2 billion in AI since 2018—60 per cent more than the UK. Its largest supercomputer is three times more powerful than the UK’s equivalent.²¹⁰ France is also home to Mistral, an open-source large language model competing with ChatGPT, Claude and Gemini, that is valued at \$6 billion.²¹¹ However, reporting by the Financial Times suggests that promising French AI startups are also attracted to the bigger market and greater resources offered by moving to the US.²¹²

91. The UK is ranked higher than France in the number of AI scientists, the number of academic papers published on AI, and the total amount of private investment,²¹³ but we heard that this advantage is not guaranteed. As Mr Dancer and Prof Lord Tarassenko put it:

“If we fail to act, UK companies will not be able to play a full role in the development of applied AI, in which we have so many advantages ... There are very few other such beneficial productivity or growth levers available to us; if we do not use them soon, we are likely to remain on the current trajectory of falling relative wealth.”²¹⁴

The AI Opportunities Action Plan

92. Matt Clifford’s AI Opportunities Action Plan similarly characterised AI as “the Government’s single biggest lever to deliver its five missions, especially the goal of kickstarting broad-based economic growth.” The plan’s recommendations centred around three areas of focus:

207 Written evidence from HM Government (ACT0025)

208 European Commission, ‘France AI Strategy Report’: https://ai-watch.ec.europa.eu/countries/france/france-ai-strategy-report_en [accessed 20 January 2025]

209 Comité de l’intelligence artificielle générative, ‘AI: our ambition for France’ (March 2024), p 5: <https://www.info.gouv.fr/actualite/25-recommandations-pour-lia-en-france> [accessed 28 January 2025]

210 ‘AI: the French connection’, *Tortoise Media* (19 September 2024): <https://www.tortoisemedia.com/2024/09/19/ai-the-french-connection> [accessed 20 January 2025]

211 ‘How French start-up Mistral AI is planning to take on Silicon Valley’, *Euronews* (26 November 2024): <https://www.euronews.com/business/2024/11/26/how-french-start-up-mistral-ai-is-planning-to-take-on-silicon-valley> [accessed 20 January 2025]

212 ‘Can France become a global AI powerhouse?’, *Financial Times* (2 January 2025): <https://www.ft.com/content/11cb5217-9c2a-4128-b257-7cb6a63b2ba1> [accessed 20 January 2025]

213 ‘AI: the French connection’, *Tortoise Media* (19 September 2024): <https://www.tortoisemedia.com/2024/09/19/ai-the-french-connection> [accessed 20 January 2025]

214 Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055)

- investment in the “foundations of AI”, such as talent and computing infrastructure;
 - AI adoption across the public and private sectors; and
 - positioning the UK “to be an AI maker, not an AI taker”, by ensuring we have “national champions at the frontier of AI capabilities” by 2030.²¹⁵
93. The Prime Minister stated his ambition for the UK to become “the best place to start and scale an AI business”.²¹⁶ Matt Clifford recognised that this would take “bold, concerted and coherent action, using all the levers of the state”. He argued that the “lead the current frontier firms enjoy” meant the Government would have to take a “more activist approach” to supporting new challenger AI companies to grow in the UK.²¹⁷ Elsewhere, he urged the Government to “be on the side of innovators” and consider how the plan can benefit those “trying to do new and ambitious things in the UK”.²¹⁸
94. The plan, and the Government’s response, were viewed as “a clear statement of intent to put AI at the heart” of the Government’s programme,²¹⁹ as well as a demonstration of its “belief in the UK’s tech sector”.²²⁰ Commentators generally welcomed the ambitious objectives they set out,²²¹ though some claimed these were overly geared towards benefitting the largest tech firms.²²²
95. Industry body techUK stressed that “the success of this plan depends on swift and coordinated action”.²²³ Sustained political will was also seen as vital, to ensure the plan is backed by the necessary funding, and that conflicting

215 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 22: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

216 The Rt Hon Sir Keir Starmer KCB KC MP, PM speech on AI Opportunities Action Plan, 13 January 2025: https://www.gov.uk/government/speeches/pm-speech-on-ai-opportunities-action-plan-13-january-2025?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=3b15fe64-0e5c-4572-8d91-f0ef75b2860d&utm_content=immediately [accessed 20 January 2025]

217 *Ibid.*

218 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 6: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

219 techUK, ‘The UK’s AI moment: An ambitious new plan for innovation and growth’ (January 2025): <https://www.techuk.org/resource/the-uk-s-ai-moment-an-ambitious-new-plan-for-innovation-and-growth.html> [accessed 20 January 2025]

220 The Chartered Institute for IT, ‘AI Opportunities Action Plan—a summary’ (January 2025): <https://www.bcs.org/articles-opinion-and-research/ai-opportunities-action-plan-a-summary/> [accessed 20 January 2025]

221 See for example, ‘Tony Blair and William Hague: Our focus on AI must be relentless’, *The Times* (12 January 2025), available at: https://www.thetimes.com/uk/politics/article/tony-blair-and-william-hague-our-focus-on-ai-must-be-relentless-37fjgbzhv?srsltid=AfmBOorQ37M0F_9mqL00roGuQrTSPiV_iKR5agyFssnwdzOzzYO-2BPj; Barney Hussey-Yeo (@Barney_H_Y), tweet on 13 January 2025: https://x.com/Barney_H_Y/status/1878660795317555690. See also Department for Science, Innovation and Technology, ‘Prime Minister sets out blueprint to turbocharge AI’ (January 2025): <https://www.gov.uk/government/news/prime-minister-sets-out-blueprint-to-turbocharge-ai> [accessed 16 January 2025]

222 ‘Startups Welcome UK AI Action Plan, But With Caveats’, *Forbes* (14 January 2025): <https://www.forbes.com/sites/trevorclawson/2025/01/14/startups-welcome-uk-ai-action-plan-but-with-caveats/> [accessed 28 January 2025]; Minderoo Centre for Technology and Democracy, ‘AI Opportunities Action Plan falls short of challenges of tech and the UK economy’ (January 2025): <https://www.mctd.ac.uk/ai-opportunities-action-plan-falls-short-of-challenges-of-tech-and-the-uk-economy/> [accessed 15 January 2025]

223 techUK, ‘The UK’s AI moment: An ambitious new plan for innovation and growth’ (January 2025): <https://www.techuk.org/resource/the-uk-s-ai-moment-an-ambitious-new-plan-for-innovation-and-growth.html> [accessed 20 January 2025]

government priorities do not hinder implementation.²²⁴ Matt Clifford himself acknowledged that delivery of the plan “will require a whole of government commitment, with senior and visible leadership and a relentless focus on driving progress.”²²⁵

96. **AI is not a sector but a technology, with the potential to drive innovation across all eight of the Government’s key growth sectors. Yet the window of opportunity for capitalising on the UK’s strengths is limited and diminishing.**
97. **The AI Opportunities Action Plan is a positive step towards seizing opportunities in this transformational technology, and the Government’s response to it is encouraging. However, achieving these goals will demand a mindset shift across the public sector, accompanied by bold policy reforms and robust political commitment. The Government should not underestimate the scale of the challenge.**
98. *The Government must take immediate action to deliver the AI Opportunities Action Plan. Delivery of the plan must be supported by sustained political commitment and a laser focus on delivering growth. Implementation must be joined-up and pragmatic, and focus on solving immediate challenges.*

Delivering homegrown AI

General purpose vs fine-tuned models

99. Our evidence suggested that the UK’s existing strengths in university research and early-stage venture, alongside its limitations in market size and available capital, make some areas of focus for AI development more attractive than others.²²⁶ In his review, Matt Clifford set out that “our goal should be a thriving domestic AI ecosystem, with serious players at multiple layers of the ‘AI stack’”.²²⁷
100. We heard, however, that the development of a UK-based general purpose foundation model to compete with OpenAI’s GPT or Google’s Gemini is unlikely.²²⁸ Some witnesses cited DeepMind, which was acquired by Google in 2014, as emblematic of the UK’s capacity to build foundation model capabilities, but not to nurture their growth domestically.²²⁹ Barney Hussey-Yeo, founder and CEO of AI-fintech Cleo, said the UK had “missed the boat” on foundation models, adding “there is no chance that we will ...

224 ‘At last, a growth plan—let’s hope they seize it’, *The Times* (13 January 2025), available at: <https://www.thetimes.com/article/3b8b0b2a-34c0-4a56-893b-c81c0c4fc618?shareToken=08e63e38b4424b30c65decfac6f47cd6>

225 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 24: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

226 Q 22 (Antony Berg), QQ 23–27 (Barney Hussey-Yeo), Q 27 (Eleanor Lightbody), Q 61 (Victor Riparbelli, Peadar Coyle); Written evidence from Dr Mercedes Bunz (ACT0009) and Mati Staniszewski (ACT0057)

227 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 6: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

228 Q 45 (Gerard Grech). See also written evidence from the Royal Academy of Engineering to the Communications and Digital Committee’s inquiry ‘Large language models’ (LLM0036); *The future of news*, Appendix 4

229 Q 24 (Barney Hussey-Yeo); Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055)

be able to build these companies now”.²³⁰ Reporting on the AI action plan agreed that “trying to beat superpowers like China and the US at their own game is a recipe for misallocating capital—both financial and political”, and warned against the “far-fetched” idea of building a homegrown competitor to the biggest AI models.²³¹

101. Witnesses made the case for the UK to focus instead on the development of fine-tuned models designed for specific uses in sectors where the UK demonstrates existing strengths. Antony Berg, CFO of AI speech scaleup Speechmatics, argued that “going specialised will be the way forward”, identifying an opportunity for the UK to “fine tune” large language models and “make them specialist for different sectors”.²³² AI scaleup Luminance, for example, has built “a specialist AI that can help businesses with any interactions they have with their legal contracts”, using legal data.²³³ Other witnesses echoed Mr Berg’s assessment, suggesting that the UK’s success in financial services, gaming, media and advertising creates potential for fine-tuned models designed to solve specific issues in these industries.²³⁴
102. Our report on LLMs also highlighted the importance of open source development for ensuring fair competition and warned against regulatory interventions that might “stifle low-risk open access model providers”.²³⁵ Written evidence submitted to this inquiry by Andreessen Horowitz emphasised the benefits of open source technology as the “great equaliser for startups”, enabling them to innovate using tools freely available online.²³⁶

Talent

103. The Government told us that 62 per cent of UK AI firms identified skills shortages as a growth barrier, with SMEs struggling to match big tech salaries and facing global competition, particularly from the US.²³⁷ Witnesses agreed that competition for talent for AI-related roles is particularly fierce.²³⁸ Wayve cited estimates suggesting that there are only 300,000 AI engineers globally, with 80 per cent of them working for Google or Meta. As a consequence, “all companies, including scaleups, are competing for the other 20 per cent”.²³⁹
104. Witnesses drew attention to the success of the UK’s universities in attracting and developing technical talent, suggesting that this provided a competitive advantage for AI companies based here.²⁴⁰ However, not all of these skilled workers are British citizens.²⁴¹ Stakeholders advocated for improvements to visa schemes and better incentives for working in scaleups, such as an expansion of the Enterprise Management Scheme, to ease recruitment

230 [Q 23](#) (Barney Hussey-Yeo)

231 ‘UK has half of what it needs to be an AI hub’, *Financial Times* (14 January 2025): <https://www.ft.com/content/657a490c-a044-49ad-851d-e69a4294046f> [accessed 20 January 2025]

232 [Q 22](#) (Antony Berg)

233 [Q 21](#) (Eleanor Lightbody)

234 [Q 22](#) (Eleanor Lightbody); Written evidence from Faculty ([ACT0054](#)); *The future of news*, Appendix 4

235 *Large language models and generative AI*, para 41

236 Written evidence from Andreessen Horowitz ([ACT0051](#))

237 Written evidence from HM Government ([ACT0025](#))

238 Written evidence from Oxford Science Enterprises ([ACT0056](#))

239 Written evidence from Wayve ([ACT0047](#))

240 [Q 27](#) (Eleanor Lightbody), [Q 38](#) (Barney Hussey-Yeo), [Q 52](#) (Victor Riparbelli)

241 [Q 37](#) (Eleanor Lightbody, Antony Berg)

pressures.²⁴² Matt Clifford’s review similarly asserted that the “cost and complexity” of the existing immigration system creates “obstacles for startups”.²⁴³ The Government said improvements would be explored as part of the industrial strategy.²⁴⁴

Access to compute

105. Training and running AI models demands significant amounts of computing power. According to Mr Berg, “Google, Meta, Amazon and Microsoft are spending £250 billion a year” on compute, creating a “huge” disparity between the tech giants and smaller companies.²⁴⁵ The Government told us that some AI SMEs reported “spending up to 80 per cent of their budgets on compute capabilities”.²⁴⁶ Mr Wise suggested that this creates a tension for those conducting AI-related research, citing the case of a graduate researcher based at Oxford University:

“He is in a queue to access CPU compute with the Brunel infrastructure around Bristol. Were he at Google DeepMind now, he would have access to almost unlimited compute power as it builds that model ... As an individual, he has to make that trade-off. Does he want to stay with the wonderful peers he has and the wonderful tutor he has at Oxford, or does he want to get paid significant sums of money and have access to all the resources he needs to build that model?”²⁴⁷

106. Stakeholders from the University of Edinburgh noted that supercomputing will be the key driver of economic impact from modern large-scale AI over the next decade, but acknowledged that the UK “should consider how we meet the need of the long tail of users who have more modest computational needs”.²⁴⁸ Others also highlighted the breadth of the UK’s compute demands.²⁴⁹
107. Matt Clifford’s review echoed our evidence in outlining the importance of building up ‘sovereign compute’, which is owned and/or allocated by the public sector, while recognising that it will “almost certainly be the smallest

242 Q 2 (Michael Holmes), Q 3 (Alex Kendall), Q 37 (Eleanor Lightbody, Antony Berg); Written evidence from techUK (ACT0017), CBI (ACT0029), Dean Williams (ACT0030), Wayve (ACT0047), Boardwave (ACT0052) and Oxford Science Enterprises (ACT0056)

243 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 13: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

244 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), pp 11–13: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_reponse.pdf [accessed 28 January 2025]

245 Q 24 (Antony Berg)

246 Written evidence from HM Government (ACT0025)

247 Q 12 (James Wise); Written evidence from the Council on Geostrategy (ACT0031)

248 Letter from Professor Sir Peter Mathieson, Principal and Vice-Chancellor, The University of Edinburgh and Professor Mark Parsons, EPCC Director and Dean of Research Computing, The University of Edinburgh to the Chair (December 2024): <https://committees.parliament.uk/publications/46107/documents/229577/default/>

249 Q 44 (Leo Ringer); Written evidence from Gerard Grech CBE (ACT0053); See also Department for Science, Innovation and Technology, ‘Independent Review of The Future of Compute: Final report and recommendations’ (March 2023): <https://www.gov.uk/government/publications/future-of-compute-review/the-future-of-compute-report-of-the-review-of-independent-panel-of-experts#chap3> [accessed 8 January 2025]

component of the UK’s overall compute portfolio”.²⁵⁰ The Government accepted his recommendation to expand the capacity of the UK’s AI Research Resource (AIRR) by at least 20 times by 2030. In addition, it announced the delivery of a new “state of the art supercomputing facility that will at least double” current AIRR capacity. Details of the location and funding for this project are outstanding, awaiting the publication of a long-term compute strategy and 10-year delivery roadmap this spring.²⁵¹

108. ***The Government’s long-term compute strategy should set out as soon as possible, and certainly by the proposed “spring 2025” deadline, how it will deliver the broad range of computing resources required by AI scaleups, including high-end computing facilities. AI scaleups should be granted access to these facilities to catalyse commercial opportunities for UK companies. Startups and universities should also be provided access to ensure a healthy pipeline of innovation.***

Finance

109. Some witnesses argued that issues with access to compute and talent were in fact a question of insufficient access to capital.²⁵² Mr Dancer and Prof Lord Tarassenko told us:

“A company with a credible proposition should be able to attract investment to fund the right talent and compute, if that investment is available”.²⁵³

110. The capital demands of AI scaleups vary depending on the level and intensity of AI development.²⁵⁴ We heard that deeptech²⁵⁵ AI companies need larger amounts of money over longer time periods before they can commercialise their research.²⁵⁶ For example, autonomous vehicle software firm Wayve has not yet taken a product to market, despite being founded in 2017.²⁵⁷ Oxford Science Enterprises said that the issue was “a lack of growth capital that is willing to take the risk and be patient”.²⁵⁸ Stakeholders suggested that efforts to increase the availability of domestic, patient capital would be important for AI growth.²⁵⁹
111. We heard that public grants and programmes were also of insufficient scale and duration to be meaningful for AI scaleups.²⁶⁰ While Victor Riparbelli, CEO of AI scaleup Synthesia told us he was “very grateful” for the two Innovate UK grants the company received “when no one else believed in us”,

250 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 7: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

251 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response* (January 2025), p 8: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_reponse.pdf [accessed 28 January 2025]

252 [Q 24](#) (James Smith)

253 Written evidence from James Dancer and Prof Lord Tarassenko ([ACT0055](#))

254 [Q 2](#) (James Wise)

255 Deeptech companies are technology firms whose core businesses rely on significant scientific or engineering research. AI firms are frequently categorised as deeptech companies, including by the BBB in its evidence to our inquiry.

256 Written evidence from the British Business Bank ([ACT0027](#))

257 Written evidence from Wayve ([ACT0047](#))

258 Written evidence from Oxford Science Enterprises ([ACT0056](#))

259 [Q 6](#) (Erin Platts), [Q 29](#) (Antony Berg); Written evidence from Surrey Institute for People-Centred AI ([ACT0018](#))

260 [Q 35](#) (James Smith), [Q 43](#) (Susan Bowen)

he noted that accessing the grants required “a lot of paperwork ... almost a full-time employee for a year to do all the reporting”.²⁶¹ The British Business Bank told us it had invested in a number of leading UK AI companies, including Wayve and Quantexa.²⁶² Challenges relating to the complexity, bureaucracy and efficacy of public grants and programmes were discussed in the previous chapter.²⁶³

Data

112. Some estimates suggest that by 2028, developers of large language models will require data sets as big as the total amount of available text on the internet.²⁶⁴ Three-quarters of respondents to the Government’s 2023 AI sector study reported needing more training data.²⁶⁵

113. According to AI firm Faculty, however, data is a “precision game—more is not always better”. It explained:

“A specific AI model, with a specific objective, will need specific data to achieve that. You need to understand what problem you’re solving and work back from that to the exact data you need.”²⁶⁶

Gerard Grech CBE, Managing Director at Founders, Cambridge Enterprise, noted that the Government has access to proprietary datasets that could be used to train small language models. He argued that “if we are serious about transforming public services”, these should be made available to developers.²⁶⁷

114. Ms Clark agreed that the UK has a “wealth of really high-quality data”, but acknowledged that access was a challenge for scaleups. She said that the Government was exploring ways to improve availability, including through the creation of a “national data library”, that will provide “simple, secure and ethical access to our key public data assets for researchers, policy makers and businesses”.²⁶⁸

115. The Government previously indicated that this would take “beyond one Parliament” to deliver.²⁶⁹ Leo Ringer, Founding Partner at Form Ventures, told us that “a five-year window to gather data and curate it properly is unacceptably long” for AI founders.²⁷⁰ Susan Bowen advocated for the Government to take a staggered approach to forming the library, by focusing on:

“curated datasets and [identifying] the social and economic challenges that we are trying to address. If we start from the problem that we are

261 [Q 55](#) (Victor Riparbelli)

262 [Q 82](#) (Louis Taylor)

263 See paras 61–74.

264 Nature, “The AI revolution is running out of data. What can researchers do?” (December 2024), available at: <https://www.nature.com/articles/d41586-024-03990-2> [accessed 20 January 2025]

265 Department for Science, Innovation and Technology, *Artificial Intelligence sector study 2023* (October 2024): <https://www.gov.uk/government/publications/artificial-intelligence-sector-study-2023/artificial-intelligence-sector-study-2023#investment-in-uk-ai-companies> [accessed 9 January 2025]

266 Written evidence from Faculty ([ACT0054](#))

267 [Q 45](#) (Gerard Grech)

268 [Q 127](#) (Feryal Clark MP); Written evidence from HM Government ([ACT0063](#))

269 Oral evidence taken before the Science and Technology Committee on 5 November 2024 (Session 2024–25) [Q 8](#)

270 [Q 45](#) (Leo Ringer)

trying to solve and identify the datasets that we need to solve it, we will go a lot faster”.²⁷¹

116. This approach was also championed by Matt Clifford, who called on Government to “rapidly identify at least five high-impact public data sets” to be made available to AI researchers and innovators.²⁷² However, the Government committed only to “explore” how to “take forward this recommendation” as part of DSIT’s work to develop the national data library.²⁷³
117. ***The Government should quickly make available high-quality, curated data sources linked to specific objectives. A mission-led, incremental approach that builds public confidence should be adopted in work to deliver the complete national data library.***

Regulation

118. During our recent visit to San Francisco, we heard that countries looking to be so-called “AI hyper-centres” require forward-looking regulation to attract researchers and give them a “safe harbour” to experiment without fear of personal legal liability.²⁷⁴ Oxford Science Enterprises emphasised the importance of “certainty on the Government’s plans for AI safety regulation and approach to regulatory alignment with other key markets” in enabling businesses to “scale confidently”.²⁷⁵
119. Many stakeholders voiced support for the UK’s sector-led approach to AI regulation,²⁷⁶ introduced by the previous administration, as opposed to a ‘one-size-fits-all’ approach.²⁷⁷ Some were cautious about the strict regulations introduced by the EU AI Act.²⁷⁸ Mr Grech said that “now that we have left the European Union ... the UK has a great opportunity to be between the US, which is known to be very pro-innovation, and the EU, which is known to be very pro-regulation”. He added that equipping regulators to “really understand the needs and wants of the innovators ... could be an edge for the UK”.²⁷⁹ Wayve told us that regulators could help high-growth UK tech companies expand in overseas markets by facilitating connections with foreign regulators.²⁸⁰

271 [Q 45](#) (Susan Bowen)

272 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 6: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

273 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), p 9: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_reponse.pdf [accessed 28 January 2025]

274 *The future of news*, Appendix 4

275 Written evidence from Oxford Science Enterprises ([ACT0056](#))

276 The UK currently has no general statutory regulation of AI. In March 2023 the previous Government published its “proinnovation approach to AI regulation” White Paper, which envisioned existing regulators overseeing AI in their respective sectors. The current Government has committed to maintaining this approach. In contrast, the EU’s AI Act, which came into force in August 2024, has assigned legal obligations to different risk-based tiers of AI use. See Parliamentary Office of Science and Technology, ‘Artificial intelligence: ethics, governance and regulation’ (October 2024): <https://post.parliament.uk/artificial-intelligence-ethics-governance-and-regulation/> [accessed 16 January 2025]

277 [Q 8](#) (James Wise, Alex Kendall); Written evidence from CBI ([ACT0029](#)) and Wayve ([ACT0047](#))

278 Written evidence from Surrey Institute for People-Centred AI ([ACT0018](#)) and James Dancer and Prof Lord Tarassenko ([ACT0055](#))

279 [QQ 50–51](#) (Gerard Grech)

280 Written evidence from Wayve ([ACT0047](#))

120. The risk aversion of regulators was raised as a significant challenge for AI scaleups. Mr Ringer suggested this is true across sectors:
- “We see all the time in startups—whether in drone technology, medical devices or financial services ... An innovation is brought to market using all the funding and talent that we talked about, and then it hits a regulator that does not have either the incentives or the resources to understand and enable it and instead has the incentives to be risk-averse.”²⁸¹
121. Our report on large language models noted the importance of regulators being “properly resourced and empowered” in order to ensure good outcomes from AI, and highlighted an internal lack of technical expertise as a “recurring theme” across regulators.²⁸² The AI Opportunities Action Plan noted that some regulators’ AI capabilities need “urgent addressing”, and called for more funding and a focus on safe AI innovation from sponsor departments.²⁸³ Matt Clifford’s recommendation to implement pro-innovation initiatives, for example through the use of regulatory sandboxes, echoed evidence from our current inquiry. He also indicated that more “radical changes” might be necessary, including through the establishment of a central body with powers to override sector regulators.²⁸⁴
122. The previous Government said in February 2024 that it had started developing a “central function to support effective risk monitoring, regulator coordination, and knowledge exchange”.²⁸⁵ Current Government Ministers appeared to have little awareness of this function. They later referenced the Central AI Risk Function (CAIRF), which coordinates a cross-government approach to AI risk, and suggested that regulatory coordination was the responsibility of the newly established Regulatory Innovation Office (RIO).²⁸⁶
123. Ms Clark acknowledged that at present “it can be a minefield for businesses trying to navigate the regulatory world” and stated that the RIO would “remove barriers to opportunity and to increase the speed at which transformative technologies and innovation can get safely to market”.²⁸⁷ The Government’s response to the AI Opportunities Action Plan said that the RIO will be empowered “to drive regulatory innovation for technologies

281 Q 50 (Leo Ringer)

282 *Large language models and generative AI*, paras 198, 201

283 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 6: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

284 Q 45 (Gerard Grech), QQ 50–51 (Susan Bowen); Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055). Regulatory sandboxes allow innovative businesses to trial new products and services in a real-world environment without the need for full regulatory compliance. See for example Medicines and Healthcare products Regulatory Agency, ‘AI Airlock: the regulatory sandbox for AIaMD’ (May 2024): <https://www.gov.uk/government/collections/ai-airlock-the-regulatory-sandbox-for-aiamd> [accessed 20 January 2025]

285 Department for Science, Innovation and Technology, *A pro-innovation approach to AI regulation: government response*, Cm 1019 (February 2024), p 7: <https://assets.publishing.service.gov.uk/media/65c1e399c43191000d1a45f4/a-pro-innovation-approach-to-ai-regulation-amended-governement-response-web-ready.pdf> [accessed 28 January 2025]

286 Q 122 (Feryal Clark MP); Written evidence from HM Government (ACT0063)

287 Q 121 (Feryal Clark MP)

and innovation through behavioural changes within regulators” by issuing strategic guidance and identifying priority sectors.²⁸⁸

124. Witnesses to our inquiry were cautiously optimistic about the RIO, but noted its infancy and cautioned against the introduction of further complexity.²⁸⁹ Speaking in a separate hearing, Sarah Cardell, CEO of the Competition and Markets Authority, said the regulator had “no detailed insights into” how its work would interact with that of the RIO, and was “waiting to hear from DSIT more detail”.²⁹⁰
125. The King’s Speech announced the intention by the Government to “establish the appropriate legislation to place requirements on those working to develop the most powerful artificial intelligence models”.²⁹¹ The Government stated that this future legislation will:
- “support growth and innovation by ending current regulatory uncertainty for AI developers, strengthening public trust and boosting business confidence”.²⁹²
126. Mr Ringer warned that preoccupation with the contents of an AI Bill without sufficient focus on regulators’ capacity for implementation risks “missing the wood for the trees”. He explained:
- “The companies that we see building and succeeding are not doing so while wondering about an overarching AI Bill. They are thinking about ... how the food regulator will determine whether the AI they used in devising how to grow meat at scale in a lab is acceptable. That is not a question of an AI Bill but of a set of people at the FSA who are empowered and well-resourced to do the work to understand it.”²⁹³
127. **We heard strong support for the UK’s sector-led, outcomes-based approach to AI regulation. However, this relies heavily on existing regulators’ ability to navigate complex and evolving technologies. The Government has frequently referenced the potential benefits of the Regulatory Innovation Office (RIO), but its remit remains unclear.**
128. *The Government must continue to ensure that regulators are properly resourced to deliver a sector-led approach to AI. In its response to this report, the Government should clarify the RIO’s priorities and set out in detail how it will engage with existing regulators to harmonise approaches, share best practice and drive behavioural change. Future AI legislation must not create further regulatory uncertainty or barriers to entry.*
129. *The Government should also consider setting up dedicated teams specialising in key markets to help fast-growing UK AI companies*

288 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), p 14: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_response.pdf [accessed 28 January 2025]

289 [Q 18](#) (Alex Kendall), [Q 19](#) (Erin Platts), [Q 50](#) (Susan Bowen); Written evidence from Yoti ([ACT0014](#)) and CBI ([ACT0029](#))

290 Oral evidence taken before the Communications and Digital Committee, session on the work of the CMA, 7 January 2025 (Session 2024–25), [Q 7](#)

291 HL Deb, 17 July 2024, [col 7](#) [Lords Chamber]

292 Written evidence from HM Government ([ACT0025](#))

293 [Q 50](#) (Leo Ringer)

expand internationally by facilitating connections overseas, including with foreign regulators.

Adoption

130. The Government’s written submission suggests that public adoption of AI in the UK is “lower than many international counterparts”.²⁹⁴ Faculty highlighted comparatively low levels of AI adoption as a challenge for AI scaleups developing models and tools for business use. It explained: “some companies are not yet convinced by the technology and how to get value from it”.²⁹⁵
131. High operational costs, a lack of technical skills, poor data governance and regulatory uncertainty were cited as reasons for low enterprise adoption of AI.²⁹⁶ Our report on digital exclusion highlighted significant gaps in digital skills across the UK population.²⁹⁷ In his review, Matt Clifford called on the Government to “push hard on cross-economy AI adoption”, arguing that the public sector should lead by example to “rapidly pilot and scale AI products and services and encourage the private sector to do the same”.²⁹⁸
132. In its response to the AI Opportunities Action Plan, the Government accepted a number of recommendations on improving procurement to boost public sector AI uptake, and said that measures to boost private sector AI adoption will be outlined in the upcoming industrial strategy.²⁹⁹ Commentators have questioned whether these ambitions can be realised without first addressing structural issues in public services, including outdated IT systems, limited digital skills and rigid delivery models.³⁰⁰
133. We note the Government’s support for a domestic AI assurance³⁰¹ market, which it claims will unlock “widespread adoption in both the private and public sectors”.³⁰² Evidence to our large language models inquiry supported the view that progress on AI assurance could boost business confidence and public trust, and thereby adoption of AI technologies.³⁰³

294 Written evidence from HM Government ([ACT0025](#))

295 Written evidence from Effa Ettah, Prof John McAuliffe and Liz Scott ([ACT0026](#)) and Faculty ([ACT0054](#))

296 Capital Economics, *AI activity in UK businesses* (January 2022): https://assets.publishing.service.gov.uk/media/61d87355e90e07037668e1bd/AI_Activity_in_UK_Businesses_Report_Capital_Economics_and_DCMS_January_2022_Web_accessible.pdf [accessed 20 January 2025]

297 Communications and Digital Committee, *Digital exclusion* (3rd Report of Session 2022–23, HL Paper 219), paras 137–48

298 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 5: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

299 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), p 19: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_response.pdf [accessed 28 January 2025]

300 Public Digital, ‘New Tech, Old State: Are we ready for an AI Revolution?’ (January 2025): <https://public.digital/pd-insights/blog/2025/01/new-tech-old-state-are-we-ready-for-an-ai-revolution> [accessed 15 January 2025]

301 AI assurance provides the tools and techniques required to measure, evaluate, and communicate the trustworthiness of AI systems.

302 Department for Science, Innovation and Technology, *Assuring a responsible future for AI* (November 2024), p 3: https://assets.publishing.service.gov.uk/media/672a2ca440f7da695c921b7c/Assuring_a_Responsible_Future_for_AI.pdf [accessed 28 January 2025]

303 *Large language models and generative AI*, paras 221–27

134. **The UK has comparatively low levels of AI adoption and public trust in AI technologies. Supporting innovation in AI will not lead to economic growth unless adoption is promoted in parallel.**
135. *The Government is right to identify adoption as a key factor in enabling its AI growth ambitions, but should not play down the level of change this represents for both the public and private sectors. In its industrial strategy, the Government should outline the specific steps it will take to drive AI adoption across its key high-growth sectors, including how it will overcome barriers such as low trust, outdated infrastructure, and lagging digital skills.*

University spinouts

136. The UK's top universities were cited by many as a core strength in the UK's AI arsenal.³⁰⁴ Examples of successful AI spinouts that originated from UK universities include Wayve and Synthesia, who provided evidence to this inquiry, both of which have achieved unicorn status. However, stakeholders argued that the high equity stakes universities have demanded have been a deterrent to other investors and therefore an impediment to further growth.³⁰⁵
137. In November 2023, the Government published the final conclusions of the *Independent Review of University Spin-out Companies*.³⁰⁶ Mr Grech told us that “over 50 universities” were in the process of implementing its recommendations.³⁰⁷ The review encouraged universities to adopt a set of best practice guidelines, the University Spin-out Investment Terms (USIT), developed by TenU, an international collaboration of universities.³⁰⁸ These propose a market norm for 10–25 per cent equity taken by universities for life sciences spinouts, and 5–10 per cent for software companies.³⁰⁹ Several witnesses advocated for the review's recommendations on equity stakes to be taken up more widely.³¹⁰
138. Strong links between industry and academia were cited as contributing factors to AI scaleup success in California and France.³¹¹ Matt Clifford similarly championed co-designed courses in Canada, Germany and France in his AI action plan.³¹² Ms Platts said that giving PhD students “access to not just working in established companies but seeing how it feels to work in a

304 Q 2 (Erin Platts), Q 22 (Anthony Berg), Q 27 (Eleanor Lightbody); Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055) and Mati Staniszewski (ACT0057)

305 Q 11 (Alex Kendall), Q 47 (Leo Ringer); Written evidence from James Dancer and Prof Lord Tarassenko (ACT0055), *The future of news*, Appendix 4

306 HM Government, *Independent Review of University Spin-out Companies: Final report and recommendations* (November 2023): https://assets.publishing.service.gov.uk/media/6549fcb23ff5770013a88131/independent_review_of_university_spin-out_companies.pdf [accessed 15 January 2024]

307 Q 47 (Gerard Grech)

308 TenU, ‘The USIT Guide: Leading Universities and Investors Launch Set of Recommendations for the Innovation Sector’: <https://ten-u.org/news/the-usit-guide> [accessed 15 January 2024]

309 Available at TenU, ‘Essential Resources for Innovation: Download the USIT and USIT for Software Guides’: <https://ten-u.org/news/essential-resources-for-innovation-download-the-usit-and-usit-for-software-guides> [accessed 15 January 2024]

310 Written evidence from BVCA (ACT0050), James Dancer and Prof Lord Tarassenko (ACT0055) and Oxford Science Enterprises (ACT0056)

311 Q 12 (Erin Platts); Written evidence from Gerard Grech CBE (ACT0053); Professor Oli Buckley (ACT0008), *The future of news*, Appendix 4

312 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 11: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

startup” would be “very welcome”.³¹³ Mr Kendall described how conducting part of his PhD research at an early-stage robotics company allowed him to benefit from commercial resources while also learning to build a venture-backed business.³¹⁴

139. Oxford Science Enterprises argued that universities could better support AI scaleups by “embracing part-time roles, encouraging internships in spinout companies and entrepreneurship sabbaticals”.³¹⁵ In San Francisco, we heard that California’s lack of non-compete clauses were a key driver of local spinout success.³¹⁶ The 2023 spinout review recommended that the Government take steps to improve “porosity” between industry and academia, including “buying out” academic time to focus on commercial partnerships, or introducing “academic returner” fellowships for those who have spent time in the private sector.³¹⁷ The previous Government accepted all the recommendations of the review, and committed to working with UKRI and the National Academies to improve fellowship options for commercialisation.³¹⁸
140. **Witnesses were clear that the UK’s universities are one of its strengths, and that universities will continue to play an important role in UK AI development and leadership. Steps taken to implement the recommendations of the 2023 *Independent Review of University Spin-out Companies* should help innovative AI spinout companies be better positioned for future growth. However, more can be done to improve links between academia and industry and to ensure we remain competitive in the provision of supercomputing capacity.**
141. *We recognise the progress made in the adoption of TenU’s University Spin-out Investment Terms best practice guidance. The Government should continue to implement the recommendations of the independent spinout review, including options to improve collaboration between academia and industry.*

313 Q 14 (Erin Platts)

314 Q 14 (Alex Kendall)

315 Written evidence from Oxford Science Enterprises (ACT0056)

316 *The future of news*, Appendix 4

317 HM Government, *Independent Review of University Spin-out Companies: Final report and recommendations* (November 2023): https://assets.publishing.service.gov.uk/media/6549fcb23ff5770013a88131/independent_review_of_university_spin-out_companies.pdf [accessed 28 January 2025]

318 HM Government, *Government Response: Independent Review of University Spin-outs* (November 2023), p 22: https://assets.publishing.service.gov.uk/media/655e0bf7046ed400148b9e34/independent_review_of_university_spin-out_companies_government_response.pdf [accessed 15 January 2024]

CHAPTER 4: SCALING UP: CREATIVE TECHNOLOGY

The economic potential of creattech

142. The economic contribution of the UK’s creative industries is well documented. Figures suggest that the sector contributed £126 billion in gross value added to the UK economy in 2022 and accounted for 2.4 million jobs.³¹⁹ The previous Government’s *Creative Industries Sector Vision* document stated that the sector’s output was growing more than 1.5 times faster than the rest of the economy, and that its workforce was growing at five times the UK rate.³²⁰ The sector also exports over £45 billion in services and over £9 billion in goods, with a total trade surplus of almost £20 billion.³²¹
143. The UK is a global leader in this sector.³²² Maxime Saada, CEO of French media company Canal+, which recently listed on the London Stock Exchange, said that “London is the best location for Canal+, as a global media and entertainment powerhouse, to list as a publicly traded company”.³²³
144. The Government’s industrial strategy Green Paper noted that the sector as a whole is “highly innovative”.³²⁴ Creattech, when businesses develop or adapt technologies in novel ways to enhance cultural experiences, artistic outputs, and creative processes, is seen as providing particular opportunities for advancements. As Nick Poole, CEO of video game trade body Ukie, explained:
- “Very often you set out with a creative vision and the technologies do not exist to deliver it, so you have to innovate along the way. It is less driven by what is available off the shelf and more by the art of the possible.”³²⁵
145. CoSTAR, a government funded creative innovation network, cited video games, extended reality technologies and virtual environments as examples of creative technology that have already led to “significant growth and investment” in the UK.³²⁶ Research by Data City suggests the annual turnover of the ‘digital creative industries’ sector is £32.6 billion, with average company growth at 8.3 per cent annually.³²⁷ In 2023, the UK video game industry was valued at £7.82 billion, bigger than music, film or TV.³²⁸ ABBA Voyage, a virtual concert experience featuring digital avatars of the

319 House of Lords Library, *Contribution of the arts to society and the economy* (January 2024): <https://lordslibrary.parliament.uk/contribution-of-the-arts-to-society-and-the-economy/>

320 Department for Culture, Media and Sport, *Creative Industries Sector Vision*, CP 863 (June 2023), p 3: https://assets.publishing.service.gov.uk/media/64898de2b32b9e000ca96712/Creative_Industries_Sector_Vision_accessible_version_.pdf [accessed 20 January 2025]

321 Creative Industries Council, ‘Creative Industries Add Almost £25bn To UK Trade Balance’: <https://www.thecreativeindustries.co.uk/facts-figures/creative-industries-add-almost-ps25bn-to-uk-trade-balance> [accessed 16 January 2025]

322 University of Arts London and Erskine Analysis, *Keeping the UK’s creative industries globally competitive: a playbook to protect our future prosperity and security* (May 2024): https://www.arts.ac.uk/_data/assets/pdf_file/0024/436047/UAL_EA_Fullreport.pdf [accessed 28 January 2025]

323 ‘Canal+ launches shares on London market in major boost for City’, *The Independent* (16 December 2024): <https://www.independent.co.uk/business/canal-launches-shares-on-london-market-in-major-boost-for-city-b2665007.html> [accessed 28 January 2025]

324 UK Government, *Invest 2035: The UK’s Modern Industrial Strategy*, p 23

325 Q 64 (Nick Poole)

326 Written evidence from CoSTAR Foresight Lab (ACT0023)

327 The Data City, ‘UK Digital Creative Industry’: <https://thedatacity.com/rtics/digital-creative-industries-rtic0064/> [accessed 22 January 2025]

328 Written evidence from Dr Michael Cook (ACT0034)

Swedish pop group created by visual effects artists,³²⁹ is estimated to have contributed £1.4 billion to the UK economy since opening in 2022.³³⁰

146. Innovation in the creative industries has “produced spillover benefits across the wider economy in diverse areas such as defence, agriculture, healthcare and education”.³³¹ Caroline Norbury OBE, CEO of Creative UK, characterised the sector as “a petri dish for innovation”, noting for example that game engine technology is now used in the automotive and aerospace industries.³³² Paul Murphy, Partner at Lightspeed Ventures, cited AI, 3D drones and motion capture as technologies that originated in the creative sector.³³³
147. Ms Norbury told us that, despite this, there is a political and public perception that “the creative industries are not proper, grown-up, serious places”.³³⁴ Estimates suggest that between 2016 and 2021, around 1 per cent of UKRI spending was invested in the creative industries,³³⁵ which witnesses told us was significantly below the sector’s share of the economy.³³⁶
148. The Council for Science and Technology (CST) recommended in 2023 that:
- “public investment in R&D in the creative industries should reflect the size, economic contribution, and future growth potential of the sector ... Government should look to grow our creative industries companies on a similar scale to how France has grown its luxury goods market. This would help ensure creative businesses capitalise on the tech opportunities of the fourth industrial revolution and scale up to become global leaders.”³³⁷
149. Mr Poole told us that more could be done to champion the sector, to combat the trend of successful firms moving their operations overseas:
- “There are countries where there is very overt public, political support for their creative industries. We do not have that. If we are genuinely going to interrupt this cycle of offshoring the value of our creative industries, we need a visible, above the line display of that support.”³³⁸

329 Culture, Media and Sport Committee, *Connected tech: AI and creative technology* (Eleventh Report of Session 2022–23, HC 1643)

330 ‘ABBA Voyage contributes £1.4 billion to UK economy’, *NME* (9 December 2024): <https://www.nme.com/news/music/abba-voyage-contributes-1billion-to-uk-economy-3820407> [accessed 20 January 2025]

331 Council for Science and Technology, *Harnessing Research and Development in the UK Creative Industries* (5 October 2023): https://assets.publishing.service.gov.uk/media/652fc7ac92895c0010dcb980/Harnessing_Research_and_Development_in_the_UK_Creative_Industries.pdf [accessed 15 January 2025]

332 [Q 64](#) (Caroline Norbury)

333 [Q 63](#) (Paul Murphy)

334 [Q 65](#) (Caroline Norbury)

335 Creative Research and Innovation Centre, ‘How much does the UK invest in publicly supported R&D in the Creative Industries? And how does this compare to other sectors?’ (October 2023): <https://craic.lboro.ac.uk/essays/how-much-does-the-uk-invest-in-publicly-supported-rd-in-the-creative-industries-and-how-does-this-compare-to-other-sectors/> [accessed 7 January 2024]

336 [Q 65](#) (Caroline Norbury); Written evidence from Dr Martin Smith ([ACT0001](#)) and CoSTAR Foresight Lab ([ACT0023](#))

337 Council for Science and Technology, *Harnessing Research and Development in the UK Creative Industries* (5 October 2023): https://assets.publishing.service.gov.uk/media/652fc7ac92895c0010dcb980/Harnessing_Research_and_Development_in_the_UK_Creative_Industries.pdf [accessed 28 January 2025]

338 [Q 66](#) (Nick Poole)

150. Sir Chris acknowledged that the Government needs to provide “a degree of education about how valuable the creative industries are in general to our economy”, and take further steps to champion the sector.³³⁹ Launching the Creative Industries Growth Summit in January 2025, the Chancellor noted that the “creative industries are a British success story with a big part to play” in delivering the Government’s growth ambitions. The Government announced a “£60 million package of support to drive growth”, and said that UKRI would prioritise the sector in response to the CST’s recommendation.³⁴⁰
151. **Createch is an important growth driver in the creative industries, which in turn is one of the key sectors identified in the Government’s industrial strategy Green Paper. The innovative products and services it generates also provide spillover benefits in other areas of the economy.**
152. **It is vital that the Government’s industrial strategy, its creative industries sector vision, and its innovation investment priorities reflect the economic value and true growth potential of createch, and the creative industries more broadly. We welcome the Government’s recognition at the Creative Industries Growth Summit that the creative industries will play an important role in meeting its ambitions for growth.**
153. *We urge the Government to remain steadfast in championing the creative industries sector and supporting its innovative businesses to scale. It should not underestimate the role of creative technology scaleups in helping the creative industries realise their full growth potential, and should remain alert to the needs of these businesses in its wider efforts to “turbocharge growth” in the sector.*

Challenges to scaling for createch companies

154. We were consistently reminded that the creative industries sector is almost entirely made up of SMEs, of which a high proportion are micro businesses.³⁴¹ According to UKRI, “this suggests there is significant potential for creative businesses to scale up.”³⁴²
155. Some have done so on a trajectory comparable to other high-growth technology startups. Mr Taylor cited Improbable, a British company building metaverse software, as an example of a UK unicorn.³⁴³ Stakeholders emphasised, however, that there are “vastly different perceptions and levels of understanding of what scaleup looks like across the creative industry subsectors”,³⁴⁴ and many businesses are not aiming for this kind of growth.³⁴⁵ Witnesses from the University of York set out that “in our six-plus years of working with regional creative companies, less than 2 per cent demonstrated

339 [QQ 110, 123](#) (Sir Chris Bryant MP)

340 Department for Culture, Media and Sport, ‘£60 million boost for creative industries to turbocharge growth’ (17 January 2025): <https://www.gov.uk/government/news/60-million-boost-for-creative-industries-to-turbocharge-growth> [accessed 20 January 2025]

341 Written evidence from Dr Martin Smith ([ACT0001](#)), Creative UK ([ACT0019](#)), Royal College of Art ([ACT0022](#)), HM Government ([ACT0025](#)) and Creative Industries Policy and Evidence Centre ([ACT0028](#))

342 Written evidence from UKRI ([ACT0045](#))

343 [Q 82](#) (Louis Taylor)

344 Written evidence from UKRI ([ACT0045](#))

345 [Q 54](#) (Simon Barratt), [Q 123](#) (Sir Chris Bryant MP)

scaleup activity”.³⁴⁶ Mr Glick told us that there are “some subsets of the creative industries that just will not ever scale”, and identified “businesses that are creating or developing new technologies” as “the real drivers of the economy”.³⁴⁷

156. Sir Chris warned, however, that “it is quite dangerous when you start splitting up the individual sectors”. He proposed that the creative industries should still be considered as a “single ecosystem”, but taking the different business models and growth trajectories of subsectors into account.³⁴⁸
157. **The creative industries are fragmented and have a high proportion of micro- and small businesses. Some creative technology SMEs are not looking to scale in the traditional venture capital model. But it is important that those with ambitions for high growth are supported to pursue this goal. High-growth tech scaleups in the creative industries should be afforded the same opportunities as those operating in any other key growth sector.**

Finance

158. Our previous report on the creative industries reported that creattech companies raised between 22 and 34 per cent less later-stage funding than other types of businesses.³⁴⁹ Peadar Coyle, Founder of AI audio scaleup AudioStack, suggested this stems from the way creative ventures are viewed by investors:

“Creative businesses are perceived as less IPO-able, less valuable, et cetera. Whether that perception is true is separate from the fact that it exists”.³⁵⁰

159. Stakeholders argued that creative sector companies are also considered “riskier” than other investment opportunities.³⁵¹ Contributing factors include their ‘hit-driven’ nature; the fact that creative assets are often intangible; and a lack of available data to demonstrate that creative industries businesses are sound investments.³⁵² Relatedly, witnesses told us that the creative technology firms that “most closely resemble ‘traditional’ tech business models, structures or growth journeys” are those most able to attract growth investment.³⁵³ A 2024 report from the Creative Industries Policy and Evidence Centre (Creative PEC) noted that more data on returns and exits is needed to boost investor confidence.³⁵⁴

346 Written evidence from Prof Damian Murphy, Emma Brown, Dr Jon Swords and Jay Harrison ([ACT0043](#))

347 [Q 63](#) (David Glick)

348 [Q 123](#) (Sir Chris Bryant MP)

349 *At risk: our creative future*, para 83

350 [Q 52](#) (Peadar Coyle)

351 Written evidence from Richard Kiernan ([ACT0003](#)), CoSTAR National Lab ([ACT0013](#)) and Creative UK ([ACT0019](#))

352 [Q 57](#) (Victor Riparbelli), [Q 67](#) (Nick Poole); Written evidence from Dr Martin Smith ([ACT0001](#)), Dr Trevor Davis and Prof Martin Charter ([ACT0002](#)) and Creative Industries Policy and Evidence Centre ([ACT0028](#)). See also written evidence from Dr Martin Smith to the Communications and Digital Committee’s inquiry ‘At risk: our creative future’ ([CRF0069](#))

353 Written evidence from Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#))

354 Creative Industries Policy and Evidence Centre, *Growth Finance for the Creative Industries* (October 2024), p 39: <https://pec.ac.uk/wp-content/uploads/2024/10/PEC-Growth-Finance-for-Creative-Industries.pdf> [accessed 20 January 2025]

160. Responding to this inquiry, the Creative PEC suggested that perceptions among business owners themselves regarding “investors’ understanding of the creative industries” can deter them from even applying for finance.³⁵⁵ This may apply to public funding too: UKRI told us that “creative businesses historically haven’t been funded, so they stop applying for finance as they don’t feel relevant”.³⁵⁶
161. Our evidence highlighted some examples of progress since our 2023 report. Creative UK explained that certain banks are developing products to assess the value of intangible assets more effectively, and called on the Treasury to remain engaged.³⁵⁷ According to the Creative PEC, “recent years have seen financial innovations” that provided new ways to support creative sector businesses to grow.³⁵⁸
162. The Creative PEC noted that the “forthcoming changes” to the British Business Bank (BBB)³⁵⁹ would provide further opportunity for “innovation in financial services” for the sector.³⁶⁰ The CBI recommended that it establish a “dedicated” fund for creative tech scaleups, “modelled on its successful Life Sciences Investment Programme”.³⁶¹ The call for a specialised financial vehicle aimed at unlocking additional private sector investment was echoed by others.³⁶²
163. Mr Taylor agreed that its new British Growth Partnership (BGP) would create a “regulatory umbrella under which we could, if the new Government choose, seek other sectoral focused funds” aimed at catalysing private sector investment.³⁶³ In January 2025, the Government announced that the British Business Bank would “increase its support for the sector to help the UK’s Creative Industries realise their full growth potential”, although details of how this support will be delivered are not yet available.³⁶⁴
164. Mr Poole stressed that any interventions must be designed in collaboration with the relevant industries, warning that “otherwise, we are inheriting models of innovation and growth that simply do not really apply”. He said that a recent roundtable with the BBB, while valuable, had been “like two indigenous tribes meeting in the forest for the first time, speaking entirely different languages with very different cultures.”³⁶⁵
165. ***The Government is right to explore options for improving access to finance for creative businesses. This could involve a specialised financial vehicle aimed at catalysing investment into innovative creative technology businesses. Any interventions should be co-designed with industry and accompanied by work to track***

355 Written evidence from Creative Industries Policy and Evidence Centre ([ACT0028](#))

356 Written evidence from UKRI ([ACT0045](#))

357 Written evidence from Creative UK ([ACT0019](#))

358 Written evidence from Creative Industries Policy and Evidence Centre ([ACT0028](#))

359 See para 50

360 Written evidence from Creative Industries Policy and Evidence Centre ([ACT0028](#))

361 Written evidence from CBI ([ACT0029](#))

362 [Q 66](#) (Caroline Norbury); Written evidence from Dr Trevor Davis and Professor Martin Charter ([ACT0002](#))

363 [Q 85](#) (Louis Taylor)

364 Department for Culture, Media and Sport, ‘£60 million boost for creative industries to turbocharge growth’ (17 January 2025): <https://www.gov.uk/government/news/60-million-boost-for-creative-industries-to-turbocharge-growth> [accessed 20 January 2025]

365 [Q 67](#) (Nick Poole)

the performance of creative investments to improve investor understanding of and confidence in the sector.

Research and development (R&D) tax credits

166. Issues with R&D tax credits were raised as another financial barrier for creative businesses, as HMRC’s definition of R&D excludes arts and humanities research.³⁶⁶ Dr Martin Smith argued that the “long-running saga of R&D tax credits” speaks to an “underlying conceptual bias as to what constitutes ‘innovation’”.³⁶⁷ The Government suggested that creative businesses “do not recognise that what they are doing is R&D/innovation” and therefore do not apply for credits.³⁶⁸ Some stakeholders argued that expanding eligibility would incentivise more investment in cutting-edge creative projects.³⁶⁹
167. Our report on the creative industries recommended broadening the definition, as did the Council for Science and Technology’s 2023 letter on creative R&D.³⁷⁰ Sir Chris Bryant said that the Treasury had “closed down” the conversation about expanding its definition of R&D, but acknowledged that this was “still very live among the creative industries”. He said the topic would form part of discussions relating to the development of the Government’s industrial strategy.³⁷¹
168. ***We reiterate our previous recommendation that the Government should change the definition of R&D for the purpose of tax relief to include more of the creative sector.***

Access to talent and resources

169. We heard that createch companies are competing with other technology and AI firms for the same limited supply of talent and specialised computing resources. Mr Barratt said scaleups face challenges holding onto employees who want to be solving “more interesting problems” in other areas, such as AI or automotive, where they can also earn higher salaries.³⁷² In addition, individuals whose education and experience combines both the creative skills and technical knowledge that createch firms need are rare.³⁷³
170. Stakeholders argued that better integration of STEM and arts subjects was needed to create a talent pipeline with the right blend of technical skills and creativity.³⁷⁴ However, we were warned that the “extraordinary pace of

366 *At risk: our creative future*, paras 69–76

367 Written evidence from Dr Martin Smith ([ACT0001](#))

368 Written evidence from HM Government ([ACT0025](#))

369 [Q 68](#) (Caroline Norbury); Written evidence from Creative UK ([ACT0019](#)), Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#)) and Creative Industries Policy and Evidence Centre ([ACT0028](#))

370 *At risk: our creative future*, para 9; Council for Science and Technology, *Harnessing Research and Development in the UK Creative Industries* (5 October 2023), pp 8–9: https://assets.publishing.service.gov.uk/media/652fc7ac92895c0010dcb980/Harnessing_Research_and_Development_in_the_UK_Creative_Industries.pdf [accessed 28 January 2025]

371 [Q 124](#) (Sir Chris Bryant MP)

372 [Q 52](#) (Simon Barratt)

373 Written evidence from Synthetic Media Research Network ([ACT0011](#)) and Surrey Institute for People-Centred AI ([ACT0018](#))

374 [Q 61](#) (Caroline Norbury), [Q 70](#) (Nick Poole); Written evidence from Dr Trevor Davis and Professor Martin Charter ([ACT0002](#)), Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#)) and Royal College of Art ([ACT0022](#))

change” in both sectors meant that “curricula quickly become out of date”.³⁷⁵ Mr Poole added that “by the time you have come through a syllabus-driven course, the industry is five years on from where you have been trained”.³⁷⁶ In January 2025, the Government identified skills shortage as a growth barrier in the sector, and said it would make changes to apprenticeships “recognising the particular needs of the creative industries”.³⁷⁷

171. Dr Trevor Davis commented that access to specialised facilities, such as motion capture studios and VR labs, was limited due to high costs and weak academia-industry partnerships.³⁷⁸ Evidence from the CoSTAR National Lab explained that creative technology firms tend to require “a different kind of compute configuration than foundational research work”.³⁷⁹ Prof Smith warned that “you will not get the innovation challenges that the creative industries offer to foundational technologies unless they have access to that compute”, and emphasised the “necessity for creative industries to be considered in the demands for compute capacity”.³⁸⁰

Intellectual property and copyright

172. We heard from Dr Aislinn O’Connell that creative technology companies, which are often “boundary-crossing, genre-busting and disruptive”, face particular challenges in understanding how intellectual property law applies to their activities and assets. In immersive storytelling, for example,

“while rights and assets are likely generated, it is unclear whether these things are protectable by trade mark, patent, or copyright”.

This can restrict scaling since the need to seek specialist technical or legal advice takes time and “comes with inevitable cost barriers”.³⁸¹

173. According to Dr O’Connell, such issues are “likely to be exacerbated as AI use increases, as there is still a broad lack of clarity on copyright subsistence in AI-generated and AI-assisted works”.³⁸² Other witnesses raised similar points.³⁸³ We heard that although AI has recognised benefits for the sector, and has been adopted in areas such as post-production, it remains “a controversial topic”, primarily due to concerns relating to copyright infringement and the potential for job losses.³⁸⁴
174. Stakeholders from the University of Edinburgh explained that the regulatory and legal issues surrounding AI technologies have implications for not just creators but

“those whose creative technology innovations are dependent on larger scale AI models as a foundation ... as well as those attempting to deliver

375 Written evidence from Surrey Institute for People-Centred AI ([ACT0018](#))

376 [Q 65](#) (Nick Poole)

377 Department for Culture, Media and Sport, ‘£60 million boost for creative industries to turbocharge growth’ (17 January 2025): <https://www.gov.uk/government/news/60-million-boost-for-creative-industries-to-turbocharge-growth> [accessed 20 January 2025]

378 Written evidence from Dr Trevor Davis and Professor Martin Charter ([ACT0002](#))

379 Written evidence from CoSTAR National Lab ([ACT0013](#))

380 [QQ 97–98](#) (Prof Christopher Smith)

381 Written evidence from Dr Aislinn O’Connell ([ACT0038](#))

382 *Ibid.*

383 Written evidence from Dr Trevor Davis and Professor Martin Charter ([ACT0002](#)) and Synthetic Media Research Network ([ACT0011](#))

384 Written evidence from Pact ([ACT0005](#)) and Dr Michael Cook ([ACT0034](#))

an original technical solution that is vulnerable to scraping, replication, or absorption into an AI model without permissions.”³⁸⁵

175. The ambiguity of the UK’s current position on the application of copyright in relation to AI was consistently cited as a factor limiting growth and innovation.³⁸⁶ Our reports on large language models³⁸⁷ and the future of news³⁸⁸ highlighted the need for a clear legal framework that reassures rightsholders that their content is protected by the UK’s copyright regime.
176. Matt Clifford’s AI Opportunities Action Plan recommended that the UK reform its text and data mining regime so that it is “at least as competitive as the EU”.³⁸⁹ Our report on the future of news cautioned strongly against “adopting a flawed optout regime comparable to the version operating in the EU”. Witnesses to that inquiry told us the EU’s regime lacked transparency about illegal scraping and the use of crawlers, as well as a clear enforcement mechanism for infringements.³⁹⁰
177. We called on the Government to establish a framework that “helps the creative industries strike mutually beneficial deals with tech firms, aligns incentives, respects intellectual property and champions responsible AI development in the UK”. Any new regime would need to offer transparency mechanisms, technical enforceability and meaningful sanctions for non-compliance.³⁹¹ The Government’s response to the action plan referenced the consultation on AI and copyright it launched in December 2024.³⁹² The consultation proposed a “data mining exception which allows right holders to reserve their rights, underpinned by supporting measures on transparency”. We noted that the consultation document does not include details about enforcement on sanctions for non-compliance under such a regime. The consultation is expected to conclude in February 2025.³⁹³
178. **AI is one of many technologies driving innovation in the creative sector. However, the use of copyrighted content to train AI models without permission or compensation has raised alarm. Creative rightsholders must be able to exercise control over their intellectual property. Clarity around copyright is also important for creative**

385 Written evidence from Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#))

386 Written evidence from Dr Martin Smith ([ACT0001](#)), Dr Mercedes Bunz ([ACT0009](#)), Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#)), Computer and Communications Industry Association ([ACT0035](#)) and Ukie ([ACT0049](#))

387 *Large language models and generative AI*, paras 145–48

388 *The future of news*, para 124

389 Department for Science, Innovation and Technology, *AI Opportunities Action Plan*, CP 1241 (January 2025), p 14: https://assets.publishing.service.gov.uk/media/67851771f0528401055d2329/ai_opportunities_action_plan.pdf [accessed 28 January 2025]

390 Written evidence from DMG Media to the Communications and Digital Committee’s inquiry ‘The future of news’ ([FON0030](#)), Letter from Matt Rogerson, Director of Global Public Policy & Platform Strategy, Financial Times to the Chair of the Communications and Digital Committee (18 October 2024): <https://committees.parliament.uk/publications/45506/documents/225308/default/>; Letter to the Chair from Katie O’Donovan, Director, Government Affairs and Public Policy, Google (20 November 2024): <https://committees.parliament.uk/publications/46018/documents/229093/default/>

391 *The future of news*, paras 125 and 127

392 Department for Science, Innovation and Technology, *AI Opportunities Action Plan: government response*, CP 1242 (January 2025), p 17: https://assets.publishing.service.gov.uk/media/6785178cc6428e01318816f0/ai_opportunities_action_plan_government_reponse.pdf [accessed 28 January 2025]

393 Intellectual Property Office, *Copyright and AI: Consultation*, Cm 1205 (December 2024), p 13: https://assets.publishing.service.gov.uk/media/6762c95e3229e84d9bbde7a3/241212_AI_and_Copyright_Consultation_print.pdf [accessed 20 January 2025]

technology companies to feel confident in their own use of AI tools for innovation. The Government is right to try to make progress on this issue through its consultation on AI and copyright. Resolution of this issue is urgent.

179. *If, following its consultation, the Government decides to progress its proposals for a broad text and data mining exemption with a mechanism to allow rightsholders to reserve their rights, this must be underpinned by strong transparency measures, technical enforceability, and meaningful sanctions.*

Government-funded programmes

180. There are a number of Government initiatives aimed at supporting growth in the creative industries, including:
- The Creative Industries Clusters Programme (CICP) was launched by the Arts and Humanities Research Council (AHRC) in 2018 with a £56 million initial investment.³⁹⁴ It established nine creative clusters around the UK, each focusing on different subsectors of the creative industries. The aim was to provide a catalyst to drive innovation, boost skills, and create products and experiences that could be marketed. Funding for the first wave of the programme ran from 2018–23.³⁹⁵ A further £13.5 million was announced in November 2024 for two further clusters, including one focused on createch, based in the West Midlands.³⁹⁶
 - CoSTAR is a £75.6 million national research and development network of laboratories that are developing new technology for gaming, TV, film, performance, and digital entertainment sectors.³⁹⁷ The programme is delivered by AHRC, and will run until 2029. The CoSTAR national network comprises a National Lab, three Network Labs (focusing on live production, video games, and screen) and a Foresight Lab.
 - Innovate UK’s Creative Catalyst programme provides financial and non-financial support for creative businesses, from startups to growth-stage companies.³⁹⁸ Through the programme Innovate UK have offered £50,000 grants with simplified applications and attracted over 3,000 applicants since 2021. The programme also involves Investor Partnership support, aiding SMEs to secure follow-on private investment.
 - The Create Growth Programme is a DCMS initiative set up in 2022 with £17.5 million initial funding, supporting creative businesses to

394 Written evidence from UK Research and Innovation (ACT0045)

395 UK Research and Innovation, ‘Creative industries clusters programme’: <https://www.ukri.org/what-we-do/browse-our-areas-of-investment-and-support/creative-industries-clusters-programme/> [accessed 8 January 2025]

396 UK Research and Innovation, ‘Two major UKRI investments continue to boost creative industries’: <https://www.ukri.org/news/two-major-ukri-investments-continue-to-boost-creative-industries/> [accessed 8 January 2025]

397 UK Research and Innovation, ‘Convergent screen technologies and performance in realtime (CoSTAR)’: <https://www.ukri.org/councils/ahrc/remit-programmes-and-priorities/convergent-screen-technologies-and-performance-in-realtime-costar/> [accessed 15 January 2024]; Written evidence from CoSTAR Foresight Lab (ACT0023)

398 Q 93 (Esra Kasapoglu); Written evidence from UKRI (ACT0045); Innovate UK, ‘Creative Catalyst 2024’: <https://iuk-business-connect.org.uk/opportunities/creative-catalyst-2024/> [accessed 15 January 2024]

explore and secure commercial investment opportunities in six regions outside of London. It is partly administered by Innovate UK.³⁹⁹

181. In addition to these targeted programmes, Innovate UK’s BridgeAI and Digital Catapult programmes run initiatives focused on tech and AI adoption in the creative sector.⁴⁰⁰ Funding announced in January 2025 at the Creative Industries Growth Summit provided additional support for existing initiatives, including the Create Growth Programme.⁴⁰¹ As discussed in Chapter 2, stakeholders were supportive of these programmes in principle, but criticised a lack of consistency, clarity and coherence.⁴⁰²
182. Our 2023 report on the creative industries questioned the decision by UKRI to prioritise projects such as the Creative Catalyst programme, rather than continuing funding for the Creative Industries Clusters Programme. This was despite its good performance, which we heard “far exceeded expectations”.⁴⁰³ The final evaluation of the CICIP identified that 107 startups, spinouts and scaleups were generated, with businesses supported by the programme leveraging a total of £57 million of co-investment of follow on funding.⁴⁰⁴ We recommended that UKRI identify options for continuing support for the most successful projects after the initial funding ended in 2023.⁴⁰⁵
183. During this inquiry, we heard a similar mix of praise for the programme and frustration about its short lifespan.⁴⁰⁶ Stakeholders from the University of Edinburgh told us that the impact of the CICIP was “significant, and in some cases entirely transformational”. However, it expressed disappointment that “the programme concluded just as the clusters were well established”.⁴⁰⁷
184. Ms Norbury said that the creative industries “need predictability and reliability ... we need to believe that everyone is in it for the long haul”. She added that “arbitrary bits and bobs of programmes” do not provide the necessary confidence for founders or investors.⁴⁰⁸
185. UKRI acknowledged in its evidence that CICIP participants said that “a lack of a ‘scaleup road map’ identifying the clear routes and advice available for SMEs to exploit” was a barrier to scaling, as was the lack of a “coherent ecosystem providing the business support, knowledge and advice” alongside

399 [Q 93](#) (Esra Kasapoglu), [Q 105](#) (Prof Christopher Smith); Innovate UK, ‘Create Growth Programme’: <https://iuk-business-connect.org.uk/programme/create-growth/> [accessed 15 January 2024]

400 Innovate UK, ‘BridgeAI’: <https://iuk-business-connect.org.uk/programme/bridgeai/> [accessed 15 January 2024]; Digital Catapult, ‘Client: Creative Industries’: <https://www.digicatapult.org.uk/clients/creative-industries/> [accessed 15 January 2024]

401 Department for Culture, Media and Sport, ‘£60 million boost for creative industries to turbocharge growth’ (17 January 2025): <https://www.gov.uk/government/news/60-million-boost-for-creative-industries-to-turbocharge-growth> [accessed 20 January 2025]

402 [Q 58](#) (Simon Barratt), [Q 69](#) (Caroline Norbury); Written evidence from Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#))

403 *At risk: our creative future*, para 66

404 UK Research and Innovation, *Evaluation of the Creative Industries Clusters Programme: Final Report to AHRC and UKRI* (May 2024), p 13: <https://www.ukri.org/wp-content/uploads/2024/07/AHRC-01072024-FRONTIER-BOP-CICIP-CRDP-final-evaluation-report-STC2-20240524.pdf> [accessed 15 January 2024]

405 *At risk: our creative future*, para 67

406 [Q 68](#) (Caroline Norbury); Written evidence from Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#))

407 Written evidence from Dr Suzanne Black, Nicola Osborne, Caroline Parkinson and Prof Melissa Terras ([ACT0024](#))

408 [Q 68](#) (Caroline Norbury)

funding.⁴⁰⁹ However, Prof Smith disputed that UKRI “walked away”, arguing that many of the successful clusters continued to receive funding from other programmes, including CoSTAR.⁴¹⁰

186. Prof Smith said that UKRI was working on a pathway for innovative creative companies to move through the various initiatives it offers, and “would welcome from the committee the pull towards cohesion”.⁴¹¹ Supplementary evidence provided by UKRI describes its Creative Catalyst programme as:

“a pipeline, guiding companies through successive growth stages ... starting with small grants and advancing to secure private investment through IUK’s Investment Partnership initiative”.⁴¹²

187. We heard mixed views on the commercial focus of these programmes, including from those administering them. UKRI stated that CICIP participants felt there was a lack of business support, knowledge and advice to help SMEs to scale up, with mentoring and support often not considered in offers for funding.⁴¹³ Evidence from the CoSTAR National Lab, which is delivered by AHRC, noted that an “over dependency on R&D grant funding without business growth support” had seen “several mid-size companies working in innovation technologies either substantively down-size or fold as they were unable to access finance for growth support”.⁴¹⁴

188. Witnesses also raised questions about the efficacy of distributing funding through universities.⁴¹⁵ These concerns were also raised during our previous inquiry by Dr Martin Smith, who said that the “‘R&D’ agenda is often set by academics with little or no commercial experience and little interest in building sustainable businesses”.⁴¹⁶

189. Finally, we heard that a lack of cohesion can lead to duplication, and that UKRI could play a greater role in connecting innovators and customers within the creative sector. Mr Barratt suggested that UK funding bodies should link existing projects to encourage collaboration and create scale, rather than funding the same project twice, describing an example related to his games studio, Cooperative Innovations:

“Recently we had a platform called Curatours, which is a virtual museum and heritage platform we had developed with £25,000 of funding from Innovate UK ... Then we see £8 million or £9 million go to universities to do the same thing, rather than doubling down on what we had invested ourselves. It is a shame really, because we end up running around trying to connect the dots, whereas it seems like something overall could have closed that circle for us.”⁴¹⁷

190. Prof Smith said that a “requirement from government for [UKRI] to be clear and joined up would be incredibly useful”, and warned against the forthcoming industrial strategy introducing “a set of piecemeal recommendations and a

409 Written evidence from UKRI ([ACT0045](#))

410 [Q 102](#) (Prof Christopher Smith)

411 [Q 104](#) (Prof Christopher Smith)

412 Supplementary written evidence from UKRI ([ACT0061](#))

413 Written evidence from UKRI ([ACT0045](#))

414 Written evidence from CoSTAR National Lab ([ACT0013](#))

415 [Q 58](#) (Simon Barratt), [Q 69](#) (Caroline Norbury)

416 Written evidence from Dr Martin Smith to the Communications and Digital Committee’s inquiry ‘At risk: our creative future’ ([CRF0003](#))

417 [Q 52](#) (Simon Barratt)

lot of individual schemes”.⁴¹⁸ Sir Chris agreed that more “consistency and clarity” is needed across government programmes, which he said need to be brought “into a single space”. He said that the department had not yet undertaken “concerted work” to learn lessons from previous programmes, but that it would be completed ahead of the industrial strategy.⁴¹⁹

191. **Initiatives focused on clustering have proved successful for facilitating growth in the creative industries. However, the current landscape of initiatives aimed at supporting innovation in the sector lacks cohesion. A more streamlined approach is needed to avoid duplication and inefficiency, alongside longer-term funding commitments that offer greater stability to business owners and investors. The tendency of Ministers and government bodies to constantly reinvent or introduce new initiatives is having a detrimental effect on the very businesses they are hoping to support.**
192. *DSIT, as the department responsible for UKRI, and DCMS should undertake a critical review of the cumulative impact of the various initiatives aimed at supporting innovation in the creative industries, with a view to reducing their complexity and developing a coherent pathway for progression for businesses. Ministers must guard against the temptation to introduce additional initiatives in the Government’s forthcoming sector plan. AHRC should use its convening power to foster closer connections between cultural institutions and creative technology scaleups.*

418 [Q 106](#) (Prof Christopher Smith)

419 [Q 124](#) (Sir Chris Bryant MP)

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter 2: The technology scaleup problem

1. While the UK's vibrant startup environment is lauded, the country has a technology scaleup problem. We risk becoming an 'incubator economy' for other nations, which has serious implications for our economic growth and global competitiveness. (Paragraph 21)
2. *The Government should not be complacent about the health of the UK's scaleup scene. Creating the conditions that will enable our brightest homegrown businesses to grow in the UK, rather than scaling overseas, should form a key objective in the Government's ambitions for growth.* (Paragraph 22)
3. We welcome the Competition and Markets Authority's decision to review its approach to mergers and acquisitions and to engage with a wider range of stakeholders. Effective implementation of the Digital Markets, Competition and Consumers Act 2024 regime will play a vital role in ensuring innovative technology scaleups can compete with, and provide challenge to, incumbents. (Paragraph 41)
4. *We endorse the recommendations of the Council for Science and Technology's November 2024 letter to the Chancellor calling for an acceleration of efforts to unlock institutional capital; the development of the specialist skills required for investing and supporting innovative technology companies; and the financing and delivery of the critical infrastructure they need.* (Paragraph 54)
5. *We also support its recommendation that the Government work to "renew a shared pride in the UK's culture of innovation". The Government has a leadership responsibility to promote and celebrate British entrepreneurial success in order to shift cultural attitudes towards risk and innovation.* (Paragraph 55)
6. There has been a proliferation of individual grants and programmes targeted towards scaleups, which are difficult for SMEs to navigate and apply for. This includes programmes run by UKRI, the British Business Bank and government departments. Witnesses made a strong case for consolidating existing initiatives to maximise their impact, rather than adding further to an already complex suite of programmes and funding pots. (Paragraph 71)
7. *The Government must ensure that its initiatives aimed at enabling technology companies to grow make a material improvement to the UK's innovation ecosystem, as well as providing value for money for the taxpayer. Schemes that are duplicative, or fail to achieve desired outcomes, should be wound down. We caution strongly against the introduction of further schemes or interventions, which have the potential to slow companies' growth by making the system of scaleup support even harder to navigate.* (Paragraph 72)
8. *Government programmes should also provide scaleups with a clear, comprehensible pathway of support along their growth journey. Consideration should be given to how to minimise administrative hurdles, for example by streamlining application processes for subsequent funding for companies that have already passed rigorous checks as part of earlier successful public funding bids.* (Paragraph 73)
9. *The Government should set out the steps it is taking to evaluate the impact and join-up of existing initiatives, including those administered by the British Business Bank, to ensure they offer a clear route for companies to progress through, address*

genuine gaps in the private markets and represent a sound use of government funds. (Paragraph 74)

10. We have the right ingredients to build world-leading tech companies, including in the high-growth potential areas of AI and creative technology. However, fundamental barriers to scaling in the UK's technology sector, such as poor infrastructure, a culture of risk aversion, and comparatively limited domestic growth capital, are well documented and longstanding. (Paragraph 84)
11. Some of these barriers do not have straightforward policy solutions, for example the relative size of the UK market, or cultural attitudes towards entrepreneurship. It is positive that solutions initiated by the previous Government to address challenges are being built upon by the current Government. However, these initiatives will not succeed without a consistent and determined focus on enabling British startups to scale. (Paragraph 85)
12. *The Government's industrial strategy must provide a coherent, cross-government vision for the role of innovative technology scaleups in delivering the Government's growth ambitions across its eight key sectors. It should serve as an opportunity to critically review the existing landscape of support for scaleups, and be underpinned by a resolute focus on removing barriers to growth. In its response to this report, the Government should outline how it will reconcile this with competing policy priorities, for example its commitments on net zero and employment rights. (Paragraph 86)*

Chapter 3: Scaling up: AI

13. AI is not a sector but a technology, with the potential to drive innovation across all eight of the Government's key growth sectors. Yet the window of opportunity for capitalising on the UK's strengths is limited and diminishing. (Paragraph 96)
14. The AI Opportunities Action Plan is a positive step towards seizing opportunities in this transformational technology, and the Government's response to it is encouraging. However, achieving these goals will demand a mindset shift across the public sector, accompanied by bold policy reforms and robust political commitment. The Government should not underestimate the scale of the challenge. (Paragraph 97)
15. *The Government must take immediate action to deliver the AI Opportunities Action Plan. Delivery of the plan must be supported by sustained political commitment and a laser focus on delivering growth. Implementation must be joined-up and pragmatic, and focus on solving immediate challenges. (Paragraph 98)*
16. *The Government's long-term compute strategy should set out as soon as possible, and certainly by the proposed "spring 2025" deadline, how it will deliver the broad range of computing resources required by AI scaleups, including high-end computing facilities. AI scaleups should be granted access to these facilities to catalyse commercial opportunities for UK companies. Startups and universities should also be provided access to ensure a healthy pipeline of innovation. (Paragraph 108)*
17. *The Government should quickly make available high-quality, curated data sources linked to specific objectives. A mission-led, incremental approach that builds public confidence should be adopted in work to deliver the complete national data library. (Paragraph 117)*

18. We heard strong support for the UK's sector-led, outcomes-based approach to AI regulation. However, this relies heavily on existing regulators' ability to navigate complex and evolving technologies. The Government has frequently referenced the potential benefits of the Regulatory Innovation Office (RIO), but its remit remains unclear. (Paragraph 127)
19. *The Government must continue to ensure that regulators are properly resourced to deliver a sector-led approach to AI. In its response to this report, the Government should clarify the RIO's priorities and set out in detail how it will engage with existing regulators to harmonise approaches, share best practice and drive behavioural change. Future AI legislation must not create further regulatory uncertainty or barriers to entry.* (Paragraph 128)
20. *The Government should also consider setting up dedicated teams specialising in key markets to help fast-growing UK AI companies expand internationally by facilitating connections overseas, including with foreign regulators.* (Paragraph 129)
21. The UK has comparatively low levels of AI adoption and public trust in AI technologies. Supporting innovation in AI will not lead to economic growth unless adoption is promoted in parallel. (Paragraph 134)
22. *The Government is right to identify adoption as a key factor in enabling its AI growth ambitions, but should not play down the level of change this represents for both the public and private sectors. In its industrial strategy, the Government should outline the specific steps it will take to drive AI adoption across its key high-growth sectors, including how it will overcome barriers such as low trust, outdated infrastructure, and lagging digital skills.* (Paragraph 135)
23. Witnesses were clear that the UK's universities are one of its strengths, and that universities will continue to play an important role in UK AI development and leadership. Steps taken to implement the recommendations of the 2023 Independent Review of University Spin-out Companies should help innovative AI spinout companies be better positioned for future growth. However, more can be done to improve links between academia and industry and to ensure we remain competitive in the provision of supercomputing capacity. (Paragraph 140)
24. *We recognise the progress made in the adoption of TenU's University Spin-out Investment Terms best practice guidance. The Government should continue to implement the recommendations of the independent spinout review, including options to improve collaboration between academia and industry.* (Paragraph 141)

Chapter 4: Scaling up: creative technology

25. Createch is an important growth driver in the creative industries, which in turn is one of the key sectors identified in the Government's industrial strategy Green Paper. The innovative products and services it generates also provide spillover benefits in other areas of the economy. (Paragraph 151)
26. It is vital that the Government's industrial strategy, its creative industries sector vision, and its innovation investment priorities reflect the economic value and true growth potential of createch, and the creative industries more broadly. We welcome the Government's recognition at the Creative Industries Growth Summit that the creative industries will play an important role in meeting its ambitions for growth. (Paragraph 152)

27. *We urge the Government to remain steadfast in championing the creative industries sector and supporting its innovative businesses to scale. It should not underestimate the role of creative technology scaleups in helping the creative industries realise their full growth potential, and should remain alert to the needs of these businesses in its wider efforts to “turbocharge growth” in the sector. (Paragraph 153)*
28. The creative industries are fragmented and have a high proportion of micro- and small businesses. Some creative technology SMEs are not looking to scale in the traditional venture capital model. But it is important that those with ambitions for high growth are supported to pursue this goal. High-growth tech scaleups in the creative industries should be afforded the same opportunities as those operating in any other key growth sector. (Paragraph 157)
29. *The Government is right to explore options for improving access to finance for creative businesses. This could involve a specialised financial vehicle aimed at catalysing investment into innovative creative technology businesses. Any interventions should be co-designed with industry and accompanied by work to track the performance of creative investments to improve investor understanding of and confidence in the sector. (Paragraph 165)*
30. *We reiterate our previous recommendation that the Government should change the definition of R&D for the purpose of tax relief to include more of the creative sector. (Paragraph 168)*
31. AI is one of many technologies driving innovation in the creative sector. However, the use of copyrighted content to train AI models without permission or compensation has raised alarm. Creative rightsholders must be able to exercise control over their intellectual property. Clarity around copyright is also important for creative technology companies to feel confident in their own use of AI tools for innovation. The Government is right to try to make progress on this issue through its consultation on AI and copyright. Resolution of this issue is urgent. (Paragraph 178)
32. *If, following its consultation, the Government decides to progress its proposals for a broad text and data mining exemption with a mechanism to allow rightsholders to reserve their rights, this must be underpinned by strong transparency measures, technical enforceability, and meaningful sanctions. (Paragraph 179)*
33. Initiatives focused on clustering have proved successful for facilitating growth in the creative industries. However, the current landscape of initiatives aimed at supporting innovation in the sector lacks cohesion. A more streamlined approach is needed to avoid duplication and inefficiency, alongside longer-term funding commitments that offer greater stability to business owners and investors. The tendency of Ministers and government bodies to constantly reinvent or introduce new initiatives is having a detrimental effect on the very businesses they are hoping to support. (Paragraph 191)
34. *DSIT, as the department responsible for UKRI, and DCMS should undertake a critical review of the cumulative impact of the various initiatives aimed at supporting innovation in the creative industries, with a view to reducing their complexity and developing a coherent pathway for progression for businesses. Ministers must guard against the temptation to introduce additional initiatives in the Government’s forthcoming sector plan. AHRC should use its convening power to foster closer connections between cultural institutions and creative technology scaleups. (Paragraph 192)*

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Lord Dunlop
 Lord Hall of Birkenhead
 Baroness Harding of Winscombe
 Baroness Healy of Primrose Hill
 Lord Kamall
 Lord Knight of Weymouth
 The Lord Bishop of Leeds
 Lord McNally
 Lord Storey
 Baroness Stowell of Beeston (Chair)
 Baroness Wheatcroft
 Lord Young of Norwood Green

Declarations of interest

Lord Dunlop
No relevant interests to declare
 Lord Hall of Birkenhead
No relevant interests to declare
 Baroness Harding of Winscombe
Adviser, Carna Health
 Baroness Healy of Primrose Hill
No relevant interests to declare
 Lord Kamall
Member, Advisory Board, Startup Coalition
Member, Academic Advisory Council, Institute of Economic Affairs
 Lord Knight of Weymouth
Chair of the Board, Century-Tech Limited
Director, Educate Ventures Research Limited
Adviser, Good Notes Limited
 The Lord Bishop of Leeds
No relevant interests to declare
 Lord McNally
No relevant interests to declare
 Lord Storey
No relevant interests to declare
 Baroness Stowell of Beeston (Chair)
No relevant interests to declare
 Baroness Wheatcroft
Chair, Financial Times Appointments and Oversight Committee
 Lord Young of Norwood Green
No relevant interests to declare

A full list of Members' interests can be found in the Register of Lords' Interests: <https://members.parliament.uk/members/lords/interests/register-of-lords-interests>.

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at <https://committees.parliament.uk/committee/170/communications-and-digital-committee/publications/> and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral evidence and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

* Erin Platts, Chief Executive Officer, HSBC Innovation Banking	QQ 1–20
** Alex Kendall OBE, Co-founder and Chief Executive Officer, Wayve	QQ 1–20
* James Wise, Partner, Balderton Capital	QQ 1–20
* Michael Holmes, Chief Executive Officer, Scale Space	QQ 1–20
* Antony Berg, Chief Financial Officer, Speechmatics	QQ 21–38
* Eleanor Lightbody, Chief Executive Officer, Luminance	QQ 21–38
* Barney Hussey-Yeo, Founder and Chief Executive Officer, Cleo AI	QQ 21–38
* James Smith, Co-founder and Chief Executive Officer, Human Native AI	QQ 21–38
* Leo Ringer, Founding Partner, Form Ventures	QQ 39–51
* Gerard Grech CBE, Managing Director of Founders, Cambridge Enterprise	QQ 39–51
* Susan Bowen, Chief Executive Officer, Digital Catapult	QQ 39–51
* Victor Riparbelli, Co-founder and Chief Executive Officer, Synthesia	QQ 52–61
* Peadar Coyle, Founder, AudioStack	QQ 52–61
* Simon Barratt, Co-founder and Chief Executive Officer, Cooperative Innovations	QQ 52–61
** David Glick, Founder and Chief Executive Officer, Edge Investments	QQ 62–70
* Paul Murphy, Partner, Lightspeed Venture Capital	QQ 62–70
* Caroline Norbury OBE, Chief Executive Officer, Creative UK	QQ 62–70
** Nick Poole OBE, Chief Executive Officer, Ukie	QQ 62–70
* Louis Taylor CBE, Chief Executive Officer, British Business Bank, and Chair, British Patient Capital	QQ 71–92
** Esra Kasapoglu, Executive Director, Innovate UK (UKRI)	QQ 93–106

- ** Professor Christopher Smith, Executive Chair, Arts and Humanities Research Council (UKRI) [QQ 93–106](#)
- ** Sir Chris Bryant MP, Minister for Creative Industries, Arts and Tourism, Department for Culture, Media and Sport; and Minister of State for Data Protection and Telecoms, Department for Science, Innovation and Technology [QQ 107–129](#)
- ** Feryal Clark MP, Parliamentary Under-Secretary of State for AI and Digital Government, Department for Science, Innovation and Technology [QQ 107–129](#)
- ** Baroness Gustafsson CBE, Minister for Investment, Department for Business and Trade and HM Treasury [QQ 107–129](#)

Alphabetical list of all witnesses

- Advertising Association [ACT0044](#)
- Dr Amr Al Khateeb, Senior Lecturer in Marketing, Liverpool John Moores University [joint submission] [ACT0021](#)
- Andreessen Horowitz [ACT0051](#)
- Dr Fiona Armstrong-Gibbs, Reader in Enterprise and Inclusive Growth, Liverpool John Moores University [ACT0041](#)
- Dr Carlos Arranz, Senior Lecturer, University of Greenwich [joint submission] [ACT0007](#)
- Dr Marta F Arroyabe, Reader and Deputy Director of IADS, University of Essex [joint submission] [ACT0007](#)
- The Association for UK Interactive Entertainment (UKIE) [ACT0049](#)
- Authors' Licensing and Collecting Society (ALCS) [ACT0048](#)
- * Simon Barratt, Co-founder and Chief Executive Officer, Cooperative Innovations ([QQ 52–61](#))
- behold.ai technologies [ACT0039](#)
- * Antony Berg, Chief Financial Officer, Speechmatics ([QQ 21–38](#))
- Dr Suzanne Black, Research Associate, CoSTAR Foresight Lab, University of Edinburgh [joint submission] [ACT0024](#)
- Boardwave [ACT0052](#)
- * Susan Bowen, Chief Executive Officer, Digital Catapult ([QQ 39–51](#))
- British Film Institute (BFI) [ACT0036](#)
- British Standards Institution (BSI) [ACT0020](#)
- Emma Brown, Programme Manager, University of York [joint submission] [ACT0043](#)

- ** Sir Chris Bryant MP, Minister for Creative Industries, Arts and Tourism, Department for Culture, Media and Sport and Minister of State for Data Protection and Telecoms, Department for Science, Innovation and Technology ([QQ 107–129](#)) [ACT0025](#)
[ACT0063](#)
- Professor Oli Buckley, Professor of Cyber Security, Loughborough University [ACT0008](#)
- Dr Mercedes Bunz, Professor in Digital Culture and Society, King’s College London [ACT0009](#)
- British Private Equity and Venture Capital Association (BVCA) [ACT0050](#)
- Professor Martin Charter, Director, Centre for Sustainable Design, University for the Creative Arts [joint submission] [ACT0002](#)
- ** Feryal Clark MP, Parliamentary Under-Secretary of State for AI and Digital Government, Department for Science, Innovation and Technology ([QQ 107–129](#)) [ACT0025](#)
[ACT0063](#)
- Computer and Communications Industry Association (CCIA) [ACT0035](#)
- Confederation of British Industry (CBI) [ACT0029](#)
- Dr Michael Cook, Senior Lecturer, King’s College London [ACT0034](#)
- CoSTAR Foresight Lab [ACT0023](#)
- CoSTAR National R&D Lab for Creative Technologies [ACT0013](#)
- Council on Gestrategy [ACT0031](#)
- * Peadar Coyle, Founder, AudioStack ([QQ 52–61](#))
- Creative Industries Policy and Evidence Centre [ACT0028](#)
- James Dancer, Chair of the Alumni Board, University of Oxford [joint submission] [ACT0055](#)
- Dr Trevor Davis, Managing Director, Trevor Davis & Associates Ltd [joint submission] [ACT0002](#)
- Michael Drummond, Senior Lecturer in Business, Liverpool John Moores University [joint submission] [ACT0021](#)
- Effa Ettah, Ecosystem Manager, Turing Innovation Catalyst Manchester [joint submission] [ACT0026](#)
- Faculty AI [ACT0054](#)
- Dr Rajab Ghandour, Senior Lecturer in Business Intelligence and Data Analysis, Liverpool John Moores University [joint submission] [ACT0021](#)
- ** David Glick, Founder and Chief Executive Officer, Edge Investments ([QQ 62–70](#)) [ACT0059](#)
- ** Gerard Grech CBE, Managing Director of Founders, Cambridge Enterprise ([QQ 39–51](#)) [ACT0053](#)

- ** Baroness Gustafsson CBE, Minister for Investment,
Department for Business and Trade and HM Treasury
([QQ 107–129](#)) [ACT0063](#)
- Jay Harrison, Postdoctoral Research Associate, XR+
Network, University of York [joint submission] [ACT0043](#)
- * Michael Holmes, Chief Executive Officer, Scale Space
([QQ 1–20](#))
- * Barney Hussey-Yeo, Founder and Chief Executive Officer,
Cleo AI ([QQ 21–38](#))
- Institute of Chartered Accountants in England and Wales
(ICAEW) [ACT0046](#)
- The Institution of Engineering and Technology [ACT0015](#)
- ** Esra Kasapoglu, Executive Director, Innovate UK, UK
Research and Innovation (UKRI) ([QQ 93–106](#)) [ACT0045](#)
[ACT0061](#)
- Richard Keirnan, Global Head of AI Platforms, NatWest
Group, NatWest RBS Group [ACT0003](#)
- ** Alex Kendall OBE, Co-founder and Chief Executive
Officer, Wayve ([QQ 1–20](#)) [ACT0047](#)
- Kennedys [ACT0042](#)
- Knowledge Rights 21 [ACT0016](#)
- * Eleanor Lightbody, Chief Executive Officer, Luminance
([QQ 21–38](#))
- Professor John McAuliffe, Professor of Poetry, The
University of Manchester [joint submission] [ACT0026](#)
- Market Research Society [ACT0037](#)
- Professor Sarah Montano, Professor of Retail Marketing,
University of Birmingham [joint submission] [ACT0010](#)
- Professor Damian Murphy, Professor of Sound and Music
Computing, University of York [joint submission] [ACT0043](#)
- * Paul Murphy, Partner, Lightspeed Venture Capital
([QQ 62–70](#))
- National Council for the Training of Journalists [ACT0032](#)
- ** Caroline Norbury OBE, Chief Executive Officer, Creative
UK ([QQ 62–70](#)) [ACT0019](#)
- Dr Aislinn O’Connell, Senior Lecturer in Law, Royal
Holloway University of London [ACT0038](#)
- Nicola Osborne, Manager of the Institute for Design
Informatics, Edinburgh College of Art, University of
Edinburgh [joint submission] [ACT0024](#)
- Oxford Science Enterprises [ACT0056](#)
- Pact [ACT0005](#)
- Panacea Innovation [ACT0058](#)

- Caroline Parkinson, Director of Creative/Sector Engagement Manager, Creative Industries Edinburgh Futures Institute, University of Edinburgh [joint submission] [ACT0024](#)
- * Erin Platts, Chief Executive Officer, HSBC Innovation Banking ([QQ 1–20](#))
- ** Nick Poole OBE, Chief Executive Officer, Ukie ([QQ 62–70](#)) [ACT0060](#)
- * Leo Ringer, Founding Partner, Form Ventures ([QQ 39–51](#))
- * Victor Riparbelli, Co-founder and Chief Executive Officer, Synthesia ([QQ 52–61](#))
- Royal College of Art [ACT0022](#)
- Liz Scott MBE, Director, Turing Innovation Catalyst Manchester [joint submission] [ACT0026](#)
- Josh Siepel, Senior Lecturer in Management (Business and Management), University of Sussex Business School [ACT0004](#)
- ** Professor Christopher Smith, Executive Chair, Arts and Humanities Research Council, UK Research and Innovation (UKRI) ([QQ 93–106](#)) [ACT0045](#)
[ACT0061](#)
- * James Smith, Co-founder and Chief Executive Officer, Human Native AI ([QQ 21–38](#))
- Dr Martin Smith, Visiting Fellow in Creative Industries, Goldsmiths, University of London [ACT0001](#)
- South London Creative and Digital Innovation Cluster [ACT0006](#)
- Mati Staniszewski, Co-founder, ElevenLabs [ACT0057](#)
- Surrey Institute for People-Centred AI [ACT0018](#)
- Dr Jon Swords, Reader in Creative Industries, University of York [joint submission] [ACT0043](#)
- Synthetic Media Research Network [ACT0011](#)
- Professor Lord Tarassenko, President, Reuben College, and Professor of Electrical Engineering, University of Oxford [joint submission] [ACT0055](#)
- ** Louis Taylor CBE, Chief Executive Officer, British Business Bank, and Chair, British Patient Capital ([QQ 71–92](#)) [ACT0027](#)
- techUK [ACT0017](#)
- Professor Melissa Terras, Professor of Digital Cultural Heritage, Edinburgh College of Art, University of Edinburgh [joint submission] [ACT0024](#)
- Dr Inci Toral, Associate Professor of Marketing, University of Birmingham [joint submission] [ACT0010](#)

Dean Williams, Business Consultant, Research and
Knowledge Exchange Department, Goldsmiths,
University of London

[ACT0030](#)

* James Wise, Partner, Balderton Capital ([QQ 1-20](#))

Yoti

[ACT0014](#)

APPENDIX 3: CALL FOR EVIDENCE

The UK has a vibrant startup scene with a strong reputation for innovation. But major challenges persist around converting startups into the stable, scaleup businesses the UK needs to secure long-term prosperity.⁴²⁰

The reward for improving the UK's scaleup potential is high. Scaleups⁴²¹ have a disproportionately large economic impact, create highly skilled jobs, drive productivity and boost UK competitiveness.⁴²² In 2023, scaleups represented just 1 per cent of UK small and medium-sized enterprises, but accounted for 22 per cent of all SME turnover, which amounts to £497 billion.⁴²³

The consequences of failing to capitalise on these opportunities are also considerable. International competition is growing. Business strategies focusing on foreign buyouts or overseas scaling remain a feature, rather than a bug, of the UK's ecosystem. Without concerted action, the UK risks losing its competitive edge in strategic economic sectors.

A number of initiatives have sought to boost the UK's scaleup potential in recent years.⁴²⁴ But barriers to progress abound: funding, skills, data, networks, risk appetite and investment culture are just a few of the challenges holding UK innovators back from fulfilling their potential, and from benefiting the UK's economy and society.

Our inquiry focuses on two high-potential areas where the UK has existing advantages: technology in the creative industries,⁴²⁵ and (more widely) artificial intelligence. As a 2023 report by the Social Market Foundation argued, these are among the key sectors “where the potential of scaleup firms is greatest and growth is most achievable”.⁴²⁶ Businesses in these areas also face a range of challenges that need to be addressed.⁴²⁷

420 See for example Venture Path, ‘Open letter’: <https://www.joinventurepath.com/open-letter> [accessed 28 January 2025]

421 We use the term scaleups to mean small and medium sized enterprises growing at 20 per cent on average each year for the past three years.

422 Innovate UK, ‘The scaleup programme’: <https://iuk.ktn-uk.org/programme/scaleup/> [accessed 28 January 2025]

423 Social Market Foundation, *The scale of opportunity* (November 2023): <https://www.smf.co.uk/wp-content/uploads/2023/11/Scale-of-the-opportunity-Nov-2023.pdf> [accessed 28 January 2025]

424 Measures include the Long-term Investment for Technology and Science (LIFTS) initiative; venture capital fellowship schemes; Mansion House reforms; evaluations of regulation; tax reliefs; changing university spinout structures; investment research reviews; engagement forums; and various industry groups. In January 2024 UK Research and Innovation set out a “commitment to improve the research and innovation environment for businesses seeking to scale up”. See UKRI, ‘Position statement’ (16 January 2024): <https://www.ukri.org/publications/ukri-declaration-supporting-businesses-to-grow-and-scale/supporting-businesses-to-grow-and-scale/> [accessed 28 January 2025]

425 Often described as ‘createch’, we are focusing on: creative businesses where the development of new technologies or the adaptation of existing technologies in a novel way is a significant part of their business activities. See Creative Industries Policy & Evidence Centre, *Understanding createch R&D* (December 2022): <https://pec.ac.uk/wp-content/uploads/2023/12/PEC-Understanding-Creatch-RD-December-2022.pdf> [accessed 28 January 2025]

426 Other areas included fintech, life sciences, data science and therapeutic care. See Social Market Social Market Foundation, *The scale of opportunity* (November 2023): <https://www.smf.co.uk/wp-content/uploads/2023/11/Scale-of-the-opportunity-Nov-2023.pdf> [accessed 28 January 2025]

427 AI firms often require access to high quality compute, for example, and face an evolving regulatory landscape. Creative sector businesses often have difficulty with finance due to their intangible assets, and investors reportedly view the sector as a lower priority for R&D investment. See for example: Council for Science and Technology, *Harnessing Research and Development in the UK Creative Industries* (5 October 2023): https://assets.publishing.service.gov.uk/media/652fc7ac92895c0010dcb980/Harnessing_Research_and_Development_in_the_UK_Creative_Industries.pdf [accessed 15 January 2025]

Our inquiry objectives

We are seeking to understand the specific barriers to SMEs scaling in AI and creative technology, and to propose changes to Government and industry practices that can be delivered over the next five years. This will include evaluating the adequacy of existing schemes to support scaling; assessing the new Government's plans; and learning lessons from past successes and failures.

Questions

1. What is the economic potential for improving the UK's scaleup landscape, and what are the consequences of failing to capitalise on this?
2. What specific barriers do SMEs face when seeking to scale in AI, and in creative technology?
 - (a) To what extent are these challenges unique to their respective sectors?
3. How effectively are existing organisations (such as UKRI), catalyst programmes and other Government initiatives addressing these issues?
 - (a) What outcomes are being achieved?
 - (b) Are any changes necessary, and how would they work in practice?
4. What further measures are needed to address barriers to scale in AI, and creative technology?
5. What role do academic institutions play here, and what can be done to boost commercial links with AI and creative technology?
6. What can the UK learn from overseas?

The Committee invites written contributions by 23:59 on Wednesday 16 October 2024.