



Communications and Digital Committee

Corrected oral evidence: Scaling up: AI and creative tech

Tuesday 29 October 2024

2.35 pm

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Members present: Baroness Stowell of Beeston (The Chair); Lord Dunlop; Lord Hall of Birkenhead; Baroness Harding of Winscombe; Baroness Healy of Primrose Hill; Lord Kamall; Lord Knight of Weymouth; Lord McNally; Lord Storey; Baroness Wheatcroft; Lord Young of Norwood Green.

Evidence Session No. 1

Heard in Public

Questions 1 - 20

Witnesses

I: Erin Platts, Chief Executive Officer, HSBC Innovation Banking; Alex Kendall, Chief Executive Officer and Co-founder, Wayve; James Wise, Partner, Balderton Capital; Michael Holmes, Chief Executive Officer, Scale Space.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Erin Platts, Alex Kendall, James Wise and Michael Holmes.

Q1 The Chair: This is the Communications and Digital Committee. Today we start the first of our public hearings as part of our new inquiry on scaling up. When we talk about scaling up in this inquiry, we will be concentrating on AI first and creative tech businesses. Today's session is primarily a scene setter, where we are very pleased to have a range of witnesses—I will ask them to introduce themselves in a minute—to cover the waterfront and hopefully get from them an understanding of the bigger picture of the UK's performance when it comes to scaling up businesses here and, if there are barriers to these particular industries, what the barriers are and what action needs to be taken to remove them.

I will open the questions in a moment, and then we will move on to specific issues around funding and the role of hubs and incubators and what the Government can do. May I ask each of the panel to introduce yourselves and the organisation that you represent, if indeed you are representing one?

James Wise: Thank you. I am a partner with Balderton Capital. We are the largest London-based UK and European-focused venture fund, which means we invest early stage in many new types of technology businesses, including AI. I am also a member of the Government's Industrial Development Advisory Board, which is a statutory body that sits in DBT.

Erin Platts: Good afternoon. I am the CEO of HSBC Innovation Banking. We focus on working with everything from newly started companies, scale-ups, public and private corporates, and a cross-section of tech verticals, as well as serving the venture capital and private equity funds themselves. We have a pretty good bird's eye view of what is happening across the ecosystem. Thank you for the opportunity to feed into today's committee.

Alex Kendall: Hi, everyone. I came to the UK about 10 years ago. I grew up in New Zealand and came here to do a PhD at the University of Cambridge. I studied machine learning, robotics and AI. After finishing my studies, I started the company called Wayve, of which I am the CEO. Today, Wayve is about 400 people headquartered in London. We build AI for embodied or physical robotics such as self-driving cars. We have a fleet of vehicles learning to drive here and in other places around the world. We are aiming to transform modern transportation with AI.

Michael Holmes: Hi, everyone. I am CEO of Scale Space. Scale Space is an innovation hub of over 100 scale-up businesses in sectors such as AI, digital technology, life sciences and deep tech. We are located in the heart of the White City innovation district, a joint venture between Imperial College London and Blenheim Chalcot, the leading global venture builder. We help our member businesses to overcome the barriers to scaling by supporting with access to talent, networks, markets

and infrastructure, leveraging the assets in connections of our joint venture partners.

Q2 The Chair: Again, thank you all for being here. I will start with a very open question. I will initially direct it to Ms Platts and Mr Kendall, but I will invite others. Is the UK a good place to scale up a business? Tell us how optimistic or pessimistic you are about the situation here in the UK?

Erin Platts: I probably should have mentioned in my opening that I have been in the UK for 17 years. I have had the opportunity to see this ecosystem thrive. I must admit that I am an optimist by nature. There is a lot that we should be extremely excited and proud about.

We have all the ingredients of success to help companies to scale in the UK. Those ingredients are: world-class universities; an increasing roster of both technical and commercial talent; a maturing VC and private equity ecosystem; depth of technical talent; and large global tech companies investing in our country, which helps to support investing in and procuring to scale-ups. There are also simple things such as the time zone and the stability of law. All those things create a supportive ecosystem to scale companies. I would use the fintech ecosystem as a great example. We have a thriving City, banks, financial institutions, insurance companies and hedge funds. We have seen great cross-fertilisation of talent. We have seen the established City invest and help to scale up the fintech community. It is a wonderful place to start and scale businesses.

That is not to say there is not a lot for us to continue to work on together, and things that we need to address in order to expedite and optimise our position in the global scale, but I would start by saying that it is absolutely a good place to start and scale a business.

The Chair: Mr Kendall, as somebody who has scaled up a business very successfully, what is your view?

Alex Kendall: Well I hold caution, I am not sure we have been entirely successful. We are yet to ship a product. I am determined to ensure that we can do so. When we reach the heights of having a product out there in the world, that is something I will certainly be proud of. Right now, we are fighting and pushing to try to develop the technology.

There are certainly some things that are awesome here and where there are growth opportunities. I would love to talk about all of those over the course of the session. In general, I have seen the ecosystem grow over the last 10 years, from when we started to today, and the trend is great. Is the UK world-leading at this? No, not yet. There are certainly some areas that need to be improved.

Some of the positives have been a lot of the technical ideas and talent. Certainly in the work that I was fortunate enough to do during my PhD, which led to starting the company and growing it, the UK has been a fantastic place to get going. We have had support from investors, commercial partners, and some big and important companies like Asda

and Ocado that we worked with when we were getting going and helped us get to the next stage of growth.

Now, as we get to this stage, we have increasingly had to look abroad for the talent to be able to take the technology to product. For commercial partners, companies like Microsoft, Nvidia and Uber, that we now work with, or customers in the automotive market, whether that is in Germany, Japan or the United States, we are increasingly having to look globally for all those aspects. Has the UK been a good base to get going, get started and work in a way that has been contrarian to some of the other ideas in the industry? Yes, but going forward I would certainly like to see areas where we can increase the maturity of the ecosystem to take the ideas into product.

The Chair: From what you have just said, are you under pressure to relocate, away from the UK?

Alex Kendall: No. I get a lot of questions about that from the media. I think there is a lot of insecurity around it. I think of Wayve as a global organisation. We want to build a product that can really change the world and for everyone around the world. Yes, our headquarters is here. We have an increasingly global footprint. If you look at the biggest and best companies around the world, even the partners I just spoke of—Nvidia, Microsoft and Uber—have a footprint around the world, with many different commercial endeavours.

Part of the discourse I would like to move away from is the idea of being solely in one area. Of course, where the value lies and where the talent base is grown and educated is important. Right now, that is more challenging here, which has caused us to look abroad. There are a lot of instances in our team where we have been able to bring amazing leadership from places like Silicon Valley to London, for us to learn from and grow and mentor our more junior staff. In some cases, we have not been able to and have hired externally. We have worked with both, but we are increasingly taking a global footprint. I would not think of it as us moving elsewhere. We are trying to globalise the technology and the impact that we can have as a company.

The Chair: Mr Wise, it would be good to hear your take on whether the UK is in good shape for scaling up. It would be helpful to understand, from your perspective, whether you think it is important that the UK is a place where AI and creative tech business should be and can scale up.

James Wise: Over the last 10 years I have been investing in venture capital technology companies. We have seen incredible progress, and Erin and Alex made some great points, but we should also be aware of the scale of the challenge. If you look at the amount that UK venture-backed AI companies will raise this year, it is about 10% of what our US private company counterparts will raise, and this has been a good year for the UK.

Nvidia, the company building infrastructure for AI, is worth more than the entire FTSE 100 combined. Amazon's R&D budget is larger than almost the entire private sector R&D budget alone in the UK. xAI built a

data centre, which is now the leading AI compute centre in the world, in 19 days. In the UK, I hazard a guess that it would take you many years to get there.

The scale of the challenge that we are facing when it comes to building companies that can be competitive and therefore considered global leaders is not to be underestimated. I can give you great statistics on how we are beating France and Germany, but the reality is that if you believe, as I do, that we are at the foundations of an industrial revolution underpinned by these new technologies, Britain is at a real risk of being an also-ran if we do not find ways to keep up.

None the less, there is still opportunity. The scale of the opportunity is obvious. As Alex has already said, many of those companies are investing here. It is important that international funding comes in and that those companies invest here. We need the talent. The talent is trained locally through investment. It is trained through our universities, but also through working in those world-leading companies. By having some of those companies open up offices here and invest in research here, it benefits and has spillovers to the local UK economy, not just in higher wages for those individuals but in their skills disseminating across our institutions and, we hope, eventually in returns to investors and the taxpayer.

It inspires people to think bigger and to be ambitious, and to think that they can take on global leaders from the UK. That latter point is really important. Our job over the last 10 years has been to say to people, "Raise money from UK institutions. We can help you to scale globally. You don't need to go to Silicon Valley or be part of that very white-hot ecosystem to build global businesses". We have been successful in some areas. Financial services is one that has been mentioned. We hope to be successful in others, but the scale of the challenge here cannot be underestimated.

The Chair: Mr Holmes, we will come to the specifics of clusters, hubs and so on later. Do you have anything to add at this point from your take on the current situation, and do you observe any obstacles for businesses scaling up in the way they have the talent to do?

Michael Holmes: The feedback from our community is that there is recognition that the scaling of businesses is incredibly difficult. There is a lot of fear that it is about to get more difficult. There are perhaps three key barriers, three themes, to scaling that recur.

The first is access to capital, which has just been spoken about. That remains an acute pain point. It is the general sentiment that UK-based VCs are perhaps more risk averse than the US VCs. Therefore, a scaling business based in the UK will go where the money is. Frankly, businesses do not particularly care whether it is UK or US capital. They just need to survive.

Access to talent comes up again and again. There are some perhaps structural issues with skills development in the UK. However, more tactically, there are issues with importing talent and barriers to achieving

that, whether it is related to visas or the amount of paperwork required to access skilled talent particularly. A recurring issue for preventing companies from achieving growth is being able to get hold of the right people at the right time. Some flexibility in the labour market is definitely a theme that emerges.

The third theme is a number of pain points around some of the paperwork and bureaucracy related to getting hold of some of the tax incentives that have been put in place to support scale-ups—everything from R&D tax credits to EIS approvals. There are stories of companies going bust because of the amount of time taken for approvals to get through the process. There is a view that all these policies and procedures have been put in place for good reason—to prevent fraud and claims that should not be approved. However, it is quite a defensive approach and perhaps it needs to be rebalanced, going back to the principles of why they were put in place in the first instance.

It is not just a barrier to some of the companies accessing incentives or funding. In some cases, it is the amount of time that gets spent having to go through all the paperwork that prevents companies being successful.

The Chair: Thank you. We may pick up some of those themes when we come to later questions.

Q3 Lord McNally: There is just a little bit of confusion. Erin's presentation was the kind of thing that excites Governments and government Ministers, in that this is going to be boom time. Immediately, the rest of you came in with very severe warnings, not least about labour shortages and skill shortages. I just worry whether, if we had the expansion that Erin was offering us, skill shortages would become a crucial barrier to that expansion. As you are nodding, Alex, would you like to confirm that?

Alex Kendall: The specific pain point that we see for skill shortages is around people who have scaled up a business and been able to succeed in taking a product to market and building something that generates that level of impact.

What I have observed, read and learned about how Silicon Valley grew is that a number of companies emerged and produced leaders who went on to mentor the next generation of leaders, invested in the next generation of companies and grew an ecosystem that way. We are seeing some evidence of that ecosystem cycle happening in the UK, but it takes generations to work through.

There is a shortcut to skip that cyclical growth by just bringing some of that talent in and learning from it in a way that does not require you to go through that learning cycle. As an entrepreneur, I have learned from many amazing mentors here in the UK. Some who taught me have built very large and interesting businesses, but the majority of my learning has come from mentorship largely from Silicon Valley in California.

We have had the chance to bring in some of those leaders. Two of our leaders have come to London and are helping our company scale. They

have had experience in some of the amazing organisations over there. Being able to bring that kind of talent to the UK would help produce some amazing companies.

By the way, by producing those amazing companies, those companies can then produce the ecosystem returns, whether that is capital that can be reinvested or those companies themselves helping to invest in and support the next generation of businesses, as we see today from companies like Microsoft, Nvidia and Uber. There are some things that would really help that. We have not had such a problem with visas and immigration per se. That has been quite frictionless for us. We have had challenges in being able to put in place the right growth opportunities, commercial opportunities as well as compensation packages, to be able to compete for that incredible talent.

Our business is a privately traded start-up. We have grown through various milestones to unlock additional rounds of funding to grow us towards product. Often, for businesses like ours, it is a longer than 10-year journey. I founded Wayve in 2017. We are yet to ship a product, and probably still have a few years to go. That is a very common journey. We grow and give our staff share options or equity in the company to incentivise them to grow it with us.

One point to look at is the way that you can issue equity options to staff and how that can be a competitive structure to incentivise people to grow and build a company. For our team, there are some equity schemes that are not fit for purpose for that kind of journey. For example, the EMI scheme, which is commonly used in early-stage start-ups and is fantastic, and has produced the vibrant early-stage community that we have in the UK, has a time limit of 10 years. That may not be fit for purpose. It also has thresholds. You cannot have more than 250 people in your company or have a certain amount of assets. Some of those kinds of schemes literally have a 100x or two orders of magnitude difference in their thresholds for where they need to be to support a company like ours. Those kinds of things would really improve our competitive position to compete in the talent war and to be able to build and accelerate the ecosystem growth in the UK. Those are some ideas to consider.

Q4 Lord Kamall: I declare my interest. I am an unpaid member of the advisory board for the Startup Coalition and an academic consultant to a think tank that has written on tech issues.

We are talking about tech scale-up. Could a distinction be made between the challenges faced by the wider tech start-up and scale-up environment and AI scale-up specifically? James and Erin, are there any specific differences for AI, or is AI just part of the general challenges faced by trying to scale up in this country?

James Wise: There are certainly different types of AI companies as well. Some AI companies are building what might be referred to as foundational models. You might classify Wayve as one. They require huge amounts of data annotation and infrastructure compute to train

models, and inference to run them. Fundamentally, they have very high upfront start-up costs to build a product that is ultimately very technically defensible and very transformative. Those companies, whether Wayve, OpenAI or Anthropic, are raising in the order of billions of dollars to get going, and in the case of their larger competitors such as Google, Meta and others, tens of billions of dollars.

On top of those models there is a broad ecosystem of start-ups that are seeing an ability to get going with less capital. They have access to those models and access to relatively cheap compute, so if they can get hold of it, for inference, from Amazon or Google, or whoever provides it, they can scale more quickly than traditional companies because they use machine learning technology to replace or augment existing or needed skills. There are two worlds there.

What is true of both those worlds right now is that if you show any kind of competence in AI you will not struggle to fundraise in most cases. That is definitely the case in the US and is increasingly the case in the UK. The UK has had a number of very large funding rounds for AI companies right now. There is a big differentiation between the people who have the skills and the capital to compete and the people who do not.

In the broader tech space, you are completely right that now there is a dearth of funding for people working outside AI. If you are building something in health at the moment, for example, or in enterprise software, you may struggle. Even further than that, outside the core software sectors—whether it is material sciences or even life sciences and infrastructure—it is even harder to raise capital. When we talk about the availability of funding, you are right that some people are better off than others.

Erin Platts: You hit the nail on the head in that there are largely two types of companies. There are those that scale, more similar to a regular enterprise software company at AI application and the more capital intensive. That is where we see a much larger gap in the deep pockets and the patient capital. Alex alluded to the timelines for those companies. They do not fit well within the 10-year venture capital models.

On the depth of capital, you need to bring in more corporate investors, more patient capital and much deeper pockets that can be strategic in nature and dovetail into partnerships. The capital stack looks a lot different. It is access not just to equity finance but to potential grants. Debt also becomes much more applicable. I just note, on James's point, that we do not have the depth of capital here.

The other thing to call to the committee's attention is that at face level the UK tech scene has raised about \$12.4 billion year to date. Over 70% of that came from international sources, 42% from the US alone. If you look at the last five to seven years of data, the amount of equity capital coming from the UK is actually going down. If we start to think about AI as one of the most exciting and game-changing subsectors for us, we will need to think about how to unlock domestic capital so that everyone,

inclusively, can enjoy the returns and the upside that comes from great companies like Alex's.

The Chair: We will continue to come back to funding in a moment.

Q5

Lord Young of Norwood Green: My first question is directed at you, Erin. Did you see a significant difference in Nordic countries? There is then a more general question. If we look at the gender balance of the panel, it is good to see that there is one woman. Generally, if we look at your companies, is there a need for you to have recruitment policies that attract more women into AI, and into IT generally?

Erin Platts: In our remit we have the opportunity to work with pan-European companies. We have offices in Denmark and Sweden that are extremely exciting and vibrant ecosystems in and of themselves. If you double-click on AI investment, AI start-ups and creative tech, we actually see more AI companies coming out of the UK. This is anecdotal evidence for our particular business. That is not to say that there is not great AI and GenAI investment going into those markets.

I would say that the UK is a bit further along. Enterprise software more broadly and climate tech are two areas where we have seen a huge amount of investment and momentum in the Nordics, but I think the UK is a step ahead in some of the momentum on AI. Of course, there are larger pools of capital, both on the venture capital and private equity side, going into the UK.

Alex Kendall: Can I make a comment on the importance of diversity? I think diversity is hugely important. There is some very clear evidence that more diverse teams are higher performing and more resilient. In general, they build better products that can access larger markets. I see a very strong need to have high diversity in teams. In AI, it is quite similar to other areas of STEM. Unfortunately, there is a gender imbalance in the market today. There is a systemic issue that we need to continue to address as a society.

At Wayve, we have a number of fantastic female leaders in our company who are real growth icons in the business. When we look at a recruitment process, we tend to look to source or find candidates to join the top of our funnel from diverse backgrounds and experiences. During recruitment we run a fair and equitable process that assesses every candidate equally against their role. We choose the best candidate for the role. We try to find as much diversity as we can at the top of the funnel and then run a fair process. That is how we build our team today. I guess it is providing more mentorship in the ecosystem and more grass-roots opportunities for people from more diverse backgrounds. Those kinds of initiatives are very welcome in the longer term.

Lord Young of Norwood Green: Is that the general view?

Michael Holmes: I certainly echo the comments on the value of diversity. It is not just about gender diversity. There are other dimensions of diversity that are also really important. Our community and our 110 or so member companies are fairly representative of the

tech and AI landscape. There is a bit of a skew. Obviously, we are not directly in control of that in any way, but we work very closely with our local institutions and partners, such as Imperial, on local initiatives to try to support skills development across diverse groups locally, and support placement schemes and other initiatives that help to break the historical trends of why we have ended up with the current mix in the industry.

Lord Young of Norwood Green: Thank you.

The Chair: We will focus a bit more on funding now and perhaps other specific barriers.

Q6 **Baroness Harding of Winscombe:** Even this afternoon we have heard mixed views from you already on the availability of growth funding in the UK. Do you think that companies face a valley of death when looking to raise funding beyond a sort of series B, or is the availability of capital no longer an issue in the UK?

Erin Platts: My previous comment about the 70% of venture capital being invested in our country coming from overseas is a relevant point. We have seen a wonderful maturity of the ecosystem that precedes series A. That is moving through the ecosystem well. We are nudging up to series B, but the fact of the matter is that with domestic funds largely—of course James, to my right, is a great example of a world-class fund that has raised significant amounts of capital for both early and growth stage—it is much more difficult to get the scale of capital at series B, mostly series C plus. That is where we mostly see US investors investing in UK companies.

The trend that we have seen over the last five to seven years is that US funds are no longer flying in and flying out. They are setting up shop. For me, in the short term, flocking in international capital and talent to help drive the ecosystem and continue with the momentum that we see around not just starting but being able to scale world-class companies is critically important. Over time, systemically, we need to address how to unlock capital to go into venture funds to help them to be at the size and scale where they can compete with international funds that are coming in here, especially with the earlier point about the capital intensity of some of the businesses that we see, especially in AI, in space tech and climate tech, those being a few examples.

We are on the right track. The narrative is also important. Comparing ourselves to the US is often done. We cannot put our heads in the sand; the US venture market is 40 or 50 years ahead. We are closing the gap. There is a lot to be proud of and excited about, and a lot of momentum, but there is still very much more work to do, especially in growth equity and moving into public markets.

Baroness Harding of Winscombe: Thank you. Mr Wise, do you agree that there is a gap?

James Wise: Yes, certainly. The good news is that the term “valley of death” seems to be applied later and later in the stages of the companies. When I first heard it, it was series A, and now we are talking

about \$100 million growth rounds, so that is positive. When I started in European venture, Balderton's fund when I became a partner was \$300 million. This year, we raised \$1.3 billion. There is progress in the UK ecosystem. I will add though that, while we may be considered a domestic fund because we are based in the UK and most of us are based here and invest here, a vast majority of our capital does not come from UK sources; it comes from international and world-leading pension funds and endowments. So even when we say money comes from UK-based venture funds, it does not mean that our money is being returned to UK investors and therefore to UK pension holders. In fact, most of the success of European and UK venture funds is probably going back to Canadian firemen and German librarians.

Having said that, the ecosystem is getting stronger. We welcome the expanse of funding coming in at a later stage from those international investors, because, as Alex correctly put it, this is a self-reinforcing ecosystem. Once you have those larger, later-stage rounds, those \$100 million or billion-dollar funding rounds coming from international investors, it will allow UK-based funds, which generally invest early and therefore see positive returns, to raise bigger and bigger funds and compete. In fact, if you look at the IRR performance of UK venture funds over the last five years, it outperforms the average US funds. Unfortunately, venture capital is not really about averages; it is about the outliers. Often, the outliers in the US outperform still, but the competition is getting better, which raises the bar for everyone and hopefully crowds in international funding not just internationally to the UK but eventually with its domestic funding.

Baroness Harding of Winscombe: What do you think we need to do in the UK—Ms Platts, you have said it a couple of times—to unlock UK capital? The past Government set up the process to implement a number of financial reforms to pensions and listing rules. Will that be enough, or do you think we should be making other interventions to unlock British capital?

Erin Platts: The Mansion House reforms and some of the work that the British Business Bank is doing are critical to implement. The challenge for us is pace. 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. Things like the LIFTS programme that the British Business Bank has announced—£250 million—is a great idea, but is the scale of a £250 million programme going to solve the growth equity gap? James has alluded to it. The fund started at £300 million; it is now £1.3 billion. We need multiples—tens and twenties—of the £1.3 billion funds to take advantage of this unique opportunity.

The programmes that we are starting to implement and see coming into action around Mansion House, LIFTS and the national wealth fund are very helpful, but are they bold enough in size and scale, and are we implementing them quickly enough to take advantage of what is probably a two to three-year window at least in AI?

Baroness Harding of Winscombe: Mr Wise, do you have anything to

add to that?

James Wise: I sit on an endowment board of a university, so I see it from the other side of the table. It is very slow moving. We were very happy to sign the Mansion House reforms. Balderton and I have had discussions with government for many years on this point, but it will be over a decade, at the current pace, before we see a significant impact of DC contributions going into venture capital. Even the LTAF proposal, which is now becoming the favoured vehicle for DC pension funds to look at investing in liquid and illiquid assets at the same time, is not appropriate for venture capital investing. It is appropriate for many others forms of capital, but not venture capital. So I think we will have to go through many iterations of the Mansion House reforms and the subsequent pension reforms Bills before we see meaningful change.

Erin Platts: James has reminded me of another point. There is the systemic and there are the reforms, but there is also the talent and the experience. How do we get experienced managers, fund of funds managers and asset allocators who have experience of the venture capital space to help these pension funds to funnel the money in the right places so that we get the outcomes that we all hope for?

Q7 **Baroness Harding of Winscombe:** I am very mindful that if we are not careful, we are doing the work of the Economic Affairs Committee. Could I just ask one final question on the specifics of capital availability for AI and createch? One of my concerns is that the uncertainty over our copyright regime might make it harder, specifically in the UK, to put capital to work in AI and createch. Is that a false concern, or are there other issues specific to the sector to investing in AI and createch that we should be thinking about to unlock capital to invest in the UK?

James Wise: We are currently compiling with legal advice a listing of IP regulation across different jurisdictions—so countries, the EU, the UK, the USA—where our companies may look to expand. The fortunate thing is that the UK also has a very strong legal system and very good lawyers who can advise on these things. Ultimately, the best entrepreneurs will navigate the regulatory environment and find ways to raise capital to scale. We have not yet seen the UK's position play vastly to its detriment in this specific area when it comes to things like generative AI in image or text creation. Certainly, the UK's position, while a little vague at times, has allowed us to attract talent from Europe so far.

Overall, I do not think it has been a major challenge, but there are additional costs with that uncertainty; it can be delayed investment decisions, but often it is also just additional legal fees as you take advice to work out which jurisdictions you can use particular types of models in.

Q8 **Baroness Harding of Winscombe:** Mr Kendall, congratulations. I think you raised \$1 billion in series C quite recently. The absence of capital has not been a problem for you. That is brilliant to see. Is there anything specific that you have experienced that you think we should be considering to make changes in the regime in the UK that would unlock more British capital for scale-up?

Alex Kendall: I can give four interesting anecdotes on this front of our experience in the last couple of years. The first is the importance of stability and regulatory position. A year or a year and a half ago, the Government changed R&D tax credits and reduced that amount, and a month later increased it again and back again. This was a swing of tens of millions of pounds per year in our cash flow that this affected, and this volatility produced a lot of uncertainty for us as a business and for our investors and prospective investors. So, first, stability in position is important.

Secondly, for things going forward like the position on AI that the Government have taken here, which I think is spot on, we are looking to regulate AI with sector-specific regulation. If it is in healthcare or autonomous driving, using the specific outcomes and risks of that sector to be able to regulate it is important for seizing these opportunities quickly. That has given an advantage to the UK to seize the opportunities of these technologies, but what is important going forward is that this position stays stable and that we do not see any flip-flopping of that.

The third one is the opportunity for regulatory innovation here. Earlier this year, the Automated Vehicles Act 2024 was passed. This is fantastic. We were really pushing for this for a five or six-year journey, and to see autonomous vehicles legalised here certainly makes our product possible and makes the benefits of autonomy possible for the country, which is massive in terms of safety as well as economic benefit to the country. That legislation in many ways is going above and beyond what we might see in other jurisdictions. I would love to talk sometime today about the opportunity to export and work internationally with that kind of legislation and bring leadership to the world. That is another area for us that has been impactful and quite meaningful in our investors' ability to back us in the UK.

Finally, I will make some comments on what it is like as an entrepreneur to raise capital here. In our business, we are a little more ambivalent about where the capital comes from. We want capital that will provide not just the money but strategic support, connections, benefits, mentorship and all that kind of thing. We have been fortunate enough to be backed by some amazing funds in the UK, whether it is Firstminute at a seed stage, Balderton at series A, or Baillie Gifford at a later stage, that have mentored us and helped us navigate some of the regulatory challenges that I spoke of.

Ultimately, the majority of our capital has come from markets like Japan and the United States. Another thing we had to go through when we raised that capital was to navigate the foreign investment—I forget the name of that process. We had to get approval from government to accept this capital, and that caused a three or four-month delay in the process which slowed us down. It probably is a sensible thing to have in place, but it was a slow process that applied to us, given that we are building AI technology.

We have looked globally at where the best capital is available to us as a company. In general, there is larger capital available in markets like the

United States that are more bullish and ambitious and can move faster. I have never seen a foreign investor be concerned about investing in the UK and so I do not see any worries about that, but the problem that companies would face here is getting the exposure to US investors; how you have the brand, how you get them interested to take a look and dig in and understand the business. It is more the brand, the friction and the distance that is the problem. I have not seen any systemic issues of investing here per se.

Baroness Harding of Winscombe: Thank you. Mr Holmes, is there anything that you would want to add?

Michael Holmes: There is an interesting scoping question here. This conversation has been held as if AI is a completely separate sector, whereas the reality is that across any industry sector AI is becoming increasingly prevalent. Medtech companies have AI in their business model. That is just more of a comment. In our community, they are typically between 10 and 50 people, much smaller scale and less successful than some of the businesses around this table, with maybe a different set of challenges.

When we talk about AI regulation, I guess the question is: to what extent will that apply broadly across different sectors and industries? The reality is that in the next five years a lot of new business models and new industry sectors will emerge. How the regulatory environment responds to that in a way that does not slow companies down and does not slow down innovation would be a concern from my community. Regulation could get in the way of growth and new innovation. There are a lot of good ideas out there.

Q9 Lord Knight of Weymouth: Just for the record, I should declare my interests in respect of this inquiry as Chair of the board at CENTURY Tech, a growing AI edtech company, and on the board of Educate Ventures Research.

We have heard that at the IPO end the valuations you can get on the markets in London are just not good enough compared to New York. Is it true? Is it a problem? Does it reinforce a sense that you need to access the big markets of the US and you will end up IPO-ing in the US, so you might as well go to the US sooner or later?

James Wise: These things come in cycles. If you look at the long run, how companies are valued on the NASDAQ over the course of five years is not markedly higher than how companies are valued on a purely economic basis on the FTSE. There are some periods when the NASDAQ has been much higher but sometimes it is lower. What is the case though is that, as we have spoken about the private equity ecosystem, public markets as well have positive and negative reinforcing cycles. When you do not have the analysts you do not have the liquidity, and if you do not have the liquidity you do not get the companies, and as a result the indexes suffer.

Unfortunately, over the last decade, the FTSE has struggled to get the coverage and therefore the liquidity to attract the best companies to it,

with many exceptions. We are fortunate to have invested in companies like Darktrace that have gone public in the last few years, and we hope many more will. Compared to the NASDAQ with that liquidity and that coverage, the FTSE is still lacking. There are obviously also some regulatory hurdles that the FTSE had, especially on the founders of the businesses, the CEOs of the businesses, which some of the recent reforms have sought to overcome. I know that the Capital Markets Industry Taskforce is dealing with other areas such as a secondaries market—the PISCES initiative—which will also help unlock more liquidity.

There are regulatory changes afoot, but it is really hard to keep up with the NASDAQ. How important is that? I am from Manchester. We used to have a stock exchange as well. It is now just a beautiful building. There was an agreement that it was better to pull capital in London over time, which probably has not harmed Manchester or UK plc doing that. Ultimately, it is not a huge issue for many businesses. However, if you are a UK-domiciled business that only trades in the UK, which is certainly true of some of our healthcare, defence and financial services businesses, where an overwhelming amount of your revenue comes from the UK and is pound-denominated, it is a challenge and you will lack that liquidity.

We want to see a stronger IPO market. I do not think it is the only tool, though, in the regulator's toolbox to fix international investment in the UK and perhaps gets more coverage than some of the issues this committee is rightly covering in the private market as well.

Q10 **Baroness Wheatcroft:** We are talking about growing independent companies, but could you say something about the companies that would prefer to own you and take over our growing tech businesses? Is that an issue? Would it be possible for them to partner potentially rather than gobble up? At the beginning of the session, Mr Holmes, you intimated that things might be about to get harder. What were you referring to in that particular context? First, Mr Kendall, have you had people knocking on the door wanting to stop you being an independent?

Alex Kendall: I certainly cannot comment on that. When it comes to choosing an acquisition route, it comes down to a few things from my perspective as an entrepreneur. First, do you have the opportunity to go build the business of your dreams? If you do not have that opportunity, you may be forced into that path. Secondly, do you have that ambition, or would you rather seek some financial outcome? I really care about building this technology and solving this problem, and doing so in the most impactful way, and that is driving a lot of what we as a company look to do and our ambition and what we are looking to grow.

In general, when I look around the world at other entrepreneurs and leaders who have achieved these kinds of feats, there are very few in the UK. I would love to see more in this ecosystem. We have been able to navigate so far and put together some incredible partnerships that have really helped our company grow with some of those large American tech companies I have spoken of. There are also some challenges with M&A and acquisitions right now due to antitrusts that are causing a lot of

them to pull back from looking at acquisitions and look for partnerships that are more successful. A partnership needs a clear opportunity and ability for it to succeed, and that requires all the other ingredients that we have been talking about.

Everything comes down to the talent. Do we have the right talent to build the outcomes and then go into investing roles and support the ecosystem? If there is one message I could emphasise today, it is that the biggest thing we could do in the UK to make this a thriving environment is to invest in getting the right talent here, because if there is great talent, people will figure out how to build great things.

Baroness Wheatcroft: Thank you. Ms Platts.

Erin Platts: Looking at the broad spectrum of UK tech companies, many of the businesses that have been funded, especially perhaps in the 2020-21 timeframes at really high valuations, have not been able to scale as quickly as Alex's company and do not have the momentum, so the only option is to look to gracefully exit these businesses. M&A as a tool used in a really organised way will be very helpful for our ecosystem.

A lot of the comments from the panel have been about that flywheel that happens in the innovation economy. You start businesses, you scale, you exit, and you want to recycle the capital, hopefully, if it is a good outcome. Even if it is not, recycling that expertise and talent back into the market either to join companies that are rocket ships or for those entrepreneurs to try it again but with more experience and perhaps more resilience the second time around is important.

Thirdly, there is an opportunity here. There is a lot of change happening, whether it be policy or new bodies like the Regulatory Innovation Office. How do we harmonise all the things that are happening in our ecosystem across the PRA, the FCA and the CMA? There is so much to contend with, and for time-poor entrepreneurs and perhaps investors with limited sized teams it is very difficult to navigate.

Baroness Wheatcroft: Does it have to be an exit? Is there scope for large companies to be supportive in all sorts of ways and help smaller businesses grow?

Erin Platts: There is probably room for both. Some companies, if they are not bought for the tech or the talent, will need to wind up. That is a large part of any innovation economy. It is not a bad thing. It is a high-risk, high-reward business. There is also an opportunity for further partnerships, hopefully domestically, as well as international partners coming in, as Alex alluded to.

Baroness Wheatcroft: Thank you. Mr Wise.

James Wise: It is an important question. Our business model requires exits. We have to return the capital at some point to our investors. That can come through public listings or through M&A; we have had experiences of both and I have been through both processes. M&A is an important way of recycling capital into the ecosystem and releasing some of that talent back into the ecosystem. I am sure Alex can talk to you at

length about the many people at DeepMind who may now work at Wayve post the Google acquisition. If Google had not made that acquisition, it is unclear whether DeepMind would have been able to have access to the resources it needed to build that talent base. So there is an important flywheel effect here.

Baroness Wheatcroft: We hear that all the talent that is grown by DeepMind then goes to the States.

James Wise: I speak to lots of DeepMind teams who are looking at more entrepreneurial endeavours at the moment, and we have invested in some of them. Not all of them have left these shores, I can promise you that much. It is a good example, because I believe Cadbury was taken over in the same week as DeepMind was. I was on the radio talking about DeepMind and the person opposite me was talking about Cadbury, and there was a lot more public scrutiny at the time of the Cadbury takeover than the DeepMind one. The CMA's role is not an easy one. It has been on a journey over the last five years. Right now, at least in my experience, the CMA is more communicative than it has ever been, which is really important, and at the moment is getting praise compared to its US peer.

The one thing I would stress, though, is that when you talk about scale-up, some of that scale is achieved inorganically. The CMA is just as harsh, if not harsher, at looking at internal roll-ups—British companies buying other British companies to scale—as it is in international takeovers, where there is just no path for many companies to get to a competitive level with their international peers if they cannot also take over other British companies. Making sure that we are not forcing British companies to stay small by not allowing them to grow through blocking small takeovers is important.

Baroness Wheatcroft: What is your average holding time until you exit?

James Wise: Seven years is our average. We hope that it is longer than that, because if it is longer than that it has generally gone better.

Q11 Lord Hall of Birkenhead: Can we talk now about the role of hubs, incubators and other ways of supporting scale-ups? There are two questions I would love to hear you all on. First, how important are place-based schemes, clusters and hubs? Do they deliver something that you cannot get elsewhere. The second thing is the role of universities in helping start-ups and then scale-ups.

Mr Holmes, can we start with you, because you have had very direct experience working in White City with Imperial? There is a similar thing happening in Manchester. Could you help us by telling us what you think has worked well, what we might be able to learn from elsewhere, and where there are things that you think did not go quite as well?

Michael Holmes: My direct experience is partnering with Imperial in the White City Innovation District. If we describe what we have as an innovation cluster and define what that means for this group, it brings

together a combination of businesses of course, and, importantly, access to talent, access to mentorship and the networks that any scaling business needs in order to scale. It is not just about the great idea and the capital; you need the support system. Covid had its couple of years of people working remotely, but we had a rapid return to the office in west London following the pandemic, which is important.

The question made reference to a place-based scheme. We see that day to day with the networking events, the learning and development, the fact that young people want to be in the office because they know they will learn more from each other, meet their mentors and bump into their neighbours who are in a similar industry sector. The value of a cluster is that it helps in some sense to de-risk the decisions from a business perspective. If you are a talented individual going to join a company and you are in a cluster, that is lower risk than moving somewhere where there is only one company.

The second part of the question was about the role of the universities.

Lord Hall of Birkenhead: Yes. I am interested in how clusters form and whether there are things we should be urging to get clusters to form, or whether these happen naturally in the world of universities in helping them to come together.

Michael Holmes: To give some context, Scale Space came into being through a number of years of discussion between the local council of Hammersmith and Fulham, Imperial College London and Blenheim Chalcot, which at the time was based in Hammersmith but had run out of space at that location. It took several years of discussion and the opportunity on Imperial's White City campus, which it acquired during the financial crisis. A combination of factors resulted in a fairly unique joint venture partnership, and the opportunity arose to deploy that. It would not have been possible without Imperial's land, resources and support. Imperial is leading the way on this being a successful cluster.

Clearly, there is a large number of high-quality university institutions, some of which are going through a period of stress, but Imperial is perhaps shining a light on what can be done. There are other successful examples and university partnerships with various degrees of success. The university angle is interesting and important, because that is one area where the UK has a competitive advantage in the number of world-leading institutions. However, that is not translating into the number of billion-dollar scale-ups coming through the system. So the more that universities can be encouraged to partner with business and to form these clusters, the better. Hopefully, west London is a good example of what can be replicated elsewhere in the UK.

Lord Hall of Birkenhead: There is an example in west London White City, but what do we need to be urging universities and others to do? What is the policy that we need to be promoting?

Michael Holmes: One consideration is the way that grant funding is structured. There are a number of grants that encourage or stipulate joint academic and business input. At the moment, there are two fairly

discrete pools that could be better connected. When you compare the culture of UK institutions or universities as opposed to the US, in the UK we have world-leading research institutions but with less of a focus on translating those into commercially successful businesses, which is more of a focus in the US. That can perhaps be stimulated through reviewing the way the grant funding is structured and particularly encouraging more partnerships between universities and businesses.

Lord Hall of Birkenhead: Thank you. I wonder whether any of our other guests today have views about the role of universities and where we should be looking for more reform to deliver the sorts of things that we are trying to deliver.

Alex Kendall: Can I make a quick comment on grant funding? In our experience, grant funding through Innovate UK—I looked it up the other day—costs the taxpayer £900 million a year. This is severely broken and something that could be looked at. In our experience, often the results of where this money is allocated are largely random, not well formulated on the venture capital-style approach or on viability of business. Often, they go to projects that are more political than will actually produce leading outcomes that will really move the needle for the country. I want to separate this from the academic grants. I cannot comment on that area.

When it comes to the company grant process, our experience going through those processes was certainly not positive. There was a lot of time spent and a lot of money flowing through to the grant writer businesses, but very little value come out from ours or other businesses that I have seen go through those processes. That is on grants.

On universities, there are two types of companies that can come out of universities. One is companies that draw on IP that has been developed through the university. Wayve was not that, but my observation of those companies is that they often get stuck in tech transfer processes, and a lot of innovation is killed or slowed down by some of those processes.

My experience at Cambridge University has some positive aspects, but in general I have read and seen reports and had friends and entrepreneurs who have gone through those experiences where the university takes a high equity ownership and has very slow processes or a lot of IP grab that will prevent those companies being launched into a venture scale-up model. That could certainly be vastly improved for the benefit of the deep tech sector in the UK. For companies that do not take IP out of universities, again it is more of a talent hub. My experience was meeting friends and co-founders at the universities, and they can be a great source of that.

Lord Hall of Birkenhead: Thank you. Erin.

Erin Platts: Building on Alex's comments, I very much welcome the recent university spin-out review. A lot of the findings in there are very relevant with respect to time to spin out, especially on tech transfer, and capping the ownership that universities can take. Unfortunately, we have been talking about this for at least the 17 years that I have been here. It

really is about implementation and co-ordination and harmonising our amazing universities to set these businesses up for success more quickly.

The role of clusters post spin-out becomes very important. A lot of what we have observed at least is that some of the spin-outs that are IP-led—healthcare, life sciences and deep tech-related—can perhaps use additional commercialisation talent to come in and join the early-stage spin-out. Having clusters like Scale Space that Mike runs where you have a combination of deep technical expertise and folks who have commercialised technology in a different scale flattens the learning curve, and the time to market becomes quicker.

Q12 Lord Hall of Birkenhead: Something that came out of a conversation that some of us had in San Francisco some weeks ago with founders was the thought that in the US certainly there is much more interchange between universities and what you are doing and promoting, and that here you are either one or the other. Do you think that is an issue and something we should be thinking about?

Erin Platts: I do, and I see Alex vigorously nodding. You see in the US—Stanford, MIT, you name it—professors going in and out, and universities spinning out and taking their ideas with them. We seem to have quite separate silos still, so that is a real opportunity for us to facilitate and incentivise.

Lord Hall of Birkenhead: Thank you. Alex, you were nodding.

Alex Kendall: Yes, I have nothing further to add. I agree.

Lord Hall of Birkenhead: Thank you.

James Wise: All these comments are important. I would just like to add one more point beyond commercialisation, which is access to resources for researchers today. The university is incredibly important and still a hub of innovation, but the trend over the last decade has increasingly been that the resources around private R&D labs, in particular those owned by big technology companies, are becoming so much more powerful and influential that universities are struggling to compete.

I spoke to a University of Oxford graduate researcher last week working on a flood-plain modelling service—very important as we go through changes in the weather—and 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, and it would look for ways to commercialise that over time. 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? Eventually, the allure of the university system will break down beyond the nice dining at high table unless we provide them with the resources to compete or at least find novel areas that those large technology companies are yet to focus on.

Lord Hall of Birkenhead: That is really interesting and clear. Thank

you.

- Q13** **Baroness Healy of Primrose Hill:** It is very interesting. Mr Holmes, you mentioned culture. Do you think we can encourage a much more entrepreneurial culture in UK universities as they do in Stanford and on the west coast? Is it a lack of ambition, or are we just very risk averse?

Michael Holmes: It is a combination of factors. Changing the cultural stance of a country is not an overnight job. There is something to be said about creating the incentives and conditions in which the appropriate amount of risk-taking is rewarded. The UK has an interesting relationship with risk; it is seen as a bad word and not something to be desired. However, in reality, you need to take risks to innovate and break new ground. That is definitely a factor.

However, in more practical terms, to respond to one of the previous questions, from a policy perspective, sustaining funding for schemes that support university innovation activities such as the Higher Education Innovation Fund is important. The university spin-out review referenced earlier also recommended £20 million of proof-of-concept funding, which has not yet been implemented. That would be useful if it was taken forward. Universities have to make their own decisions about how to operate. There should be recognition that we are in a really strong position today with regard to the quality of our university ecosystem. However, it is not translating through to the outcomes that we would want as a country. Anything that can be done to support the universities around entrepreneurial activities and innovation should be supported.

- Q14** **Baroness Healy of Primrose Hill:** Thank you. Ms Platts, you mentioned the report that was looking at spin-outs. One thing it suggested was that PhD students should be sent to companies to learn some entrepreneurial techniques as well. Do you think that would be possible and that companies would be interested in trying to encourage that?

Erin Platts: I think it is a wonderful idea. The panel's discussion on talent being the No. 1 linchpin in this whole ecosystem coming together, to be able to cross-fertilise, establish companies with PhDs, to give the PhDs access to not just working in established companies but seeing how it feels to work in a start-up, what you can do with passion and ambition, is very welcome and something that I hope we facilitate.

Alex Kendall: That is exactly what I was fortunate enough to be able to do. I took six months out of my PhD and went to Silicon Valley and joined a series A-stage robotics company called Skydio, where I was able to continue my research with the benefit of commercial resources. I was also immersed in and learned about how to build a venture-backed company. I did not know what venture capital was before that experience. Off the back of that, it set me off on the path of being able to build Wayve to where we are today. It was a very formative experience for me.

James Wise: In fact, I first met Alex while he was at university because it was so rare to find someone who was doing a PhD and had gone to San Francisco to get experience of a start-up. It was the only reason why I reached out initially.

Baroness Healy of Primrose Hill: That is interesting, because in San Francisco we were told that if you are at Stanford and doing a doctorate you immediately think of also doing a business project, but that if you did that at Cambridge or Oxford you might get sent down. Maybe that was an extreme view.

Q15 **Lord Young of Norwood Green:** I want to go a little bit below PhDs. The climate has changed in this country. Young people may go to university, but they may take an apprenticeship. Some universities are good at delivering that; some are not very good. You also have FE colleges as part of that process.

First, do you recognise those changes that are taking place and the part they play in delivering skills? Secondly, Alex, it was you who said, "I owe such a debt of gratitude to my mentor". I am paraphrasing your words, but it was pretty fulsome praise. Do each of you play your part in delivering these new entrepreneurs by

James Wise: I have supported an apprenticeships business for a long time based in Manchester—for the last five years, in fact. So I think it is an incredibly important opportunity. In fact, if you look at the reasons why people in the UK say they go into entrepreneurial roles at least, less than 10% say that it is because of their educational background. A vast majority of people say that it is because of role models and mentors they had around them as they grew up.

Even if you do go into further education, there is no reason why you may become more entrepreneurial and not go down that route. We are increasingly seeing both a willingness by young people to take apprenticeship routes and other types of formal training over further education, and more young people wanting to be entrepreneurs. They also have the opportunity now to get experience of that at a younger age, whether that be buying and selling things on eBay and Depop or consuming content on YouTube from other entrepreneurs. We are providing younger people with more routes to getting work experience, finding role models and starting businesses, and they have access to more content. I am fully supportive of it.

As to mentorship, we are an active venture fund. We almost always take board seats. Therefore, we take our governance and fiduciary responsibilities very seriously as well as supporting our founders. We launched something called the founders well-being programme, which tries to provide mental and physical support to founders, because entrepreneurs are very hard-working people and need that kind of support. We hope to expand that mentorship to other areas of our sector, whether it is product officers or finance officers.

Britain as a whole is not as good at this as the US. If you speak to most of my peers in Silicon Valley, if they work in product at, let us say,

Facebook, their friends and peers almost always product at Google and at Snapchat. A lot of Brits' friends are people they went to university and school with. That is wonderful, but we do not have the same cultural leaning towards creating communities of like-minded individuals who are perhaps pursuing a similar kind of skill or path. Informal networks are equally important, and there is probably more that private sector individuals like me and government have to do.

Erin Platts: This is such an important point about bringing in more diverse talent into innovation, especially from a socioeconomic perspective. I am a good example of a non-technologist having made a career in the innovation ecosystem, starting with answering the phones 20-something years ago. There is a narrative that we are all responsible for breaking that down. You do not need a PhD to be successful in the tech industry. You do not need to have spent X amount of money on private education to be successful. That is the beauty of this ecosystem; with some luck and hard work, you can have a wonderful career. There is a fantastic opportunity in this country to crowd in, whether it be apprentice or just entry-level folks who can get on the rocket ship and enjoy the ride and hopefully make a really successful career of it.

All of us are very much responsible for mentoring. It is a great point. In our role in HSBC innovation banking, we see ourselves as a convener of the ecosystem. We have 5,000 tech companies and 350 funds. We are working with people like Sie Ventures, Alma Angels or Black Seed. Trying to funnel more resources and investment into overlooked founders from different backgrounds is a big role that we play in the ecosystem.

Lord Young of Norwood Green: I am thinking of computer games, an area where young people are just phenomenal with their contribution. Alex and Michael, do you want to add anything?

Alex Kendall: I would love to do more of this in the future, but right now I am so focused and devoted to building Wayve that, unfortunately, I do not have much time to help with mentorship outside our team. Within our team, we bring on a number of different interns from universities every year, and we are rapidly growing up an engineering base. The exciting thing about where we are at the moment is that we are starting to see internal leaders grow in our company as well rather than just hiring in leaders. We have had enough time that we are starting to see the growth of some people in our company stepping up, leading teams, delivering new outcomes, and that has been great to see and amazing to work with over the last couple of years.

Michael Holmes: On the topic of mentorship, for me this really comes back to clusters again. In our cluster in west London, there are a huge number of very valuable mentorships that form quite naturally. Mentorship means different things to different people, and around this room you would all have a slightly different definition.

On a personal note, I try, although I would say that I am not an entrepreneur. My job is to set the environment where the other CEOs and entrepreneurs will be in a position and encouraged to mentor other people in the community through putting on events and networking and

different initiatives. I play a slightly different role in that aspect, but I recognise that it is hugely important and valuable for any ecosystem.

Lord Young of Norwood Green: Thank you. I appreciate the response.

- Q16 **Lord Kamall:** One of the issues we heard in San Francisco when comparing British universities to American universities and spin-outs or scale-ups was that some of the people who were British and had started over here said to us that they thought some of the British universities did not really understand the environment or were too greedy in the stake they wanted to take in the start-up company. Is that your experience, any of you, and is that our message to our universities—to try to give these spin-outs or start-ups a bit of slack to allow them to grow?

Erin Platts: Having some framework or harmonisation of the equity stakes that universities can take for tech transfers will be exceptionally helpful. A lot of the US universities do not take anything, or it is 10% or less. I do not think the variance that we see across the board is helpful. I am an advocate of some sort of framework that perhaps caps the percentage that universities can take.

Lord Kamall: That is very helpful, thank you.

- Q17 **Lord Knight of Weymouth:** We will quickly rattle through a series of three or four questions about what else government can do apart from what we have already discussed. I want to start with government procurement and the access that scale-up companies have to government procurement. James and Erin, with your overview, do you see scale-ups being able to access government procurement contracts? Is there more government should do to open that up?

James Wise: Yes, it is an ongoing challenge. The Procurement Act, which has been passed and will come into effect next year, will be a welcome change. It will lower the size of some of the contracts, which will make them more applicable to start-ups, and there will be some more pressure to look at SMEs in that process. But the truth is that the procurement process is difficult for start-ups to navigate; it has been for a long time. Often, they are unwilling to start on the process of understanding how to navigate a system that has been well-navigated for a long time by a handful of very large organisations. It is a challenge both ways. We need to change the culture on the start-up side, but government has to be more open-minded to it as well.

If you look at NASA's procurement that led to the creation of SpaceX or the first SpaceX deal in 2006, the company was barely three years old. I do not think it had anything but a business plan in front of it. That was almost 20 years ago, and SpaceX is now the leading private space company in the world—if not the leading space institution, full stop—including Governments. I do not think that if SpaceX applied today to the UK Space Agency it would be able to get through the procurement process with where it was as a company. I say that as a member of the Industrial Development Advisory Board where we see some of the applications that come into UKSA.

There is still a very stark challenge. It is increasingly important as software becomes more prevalent in almost every industry. You will see this in healthcare, transportation, agriculture, and increasingly in defence. The more that government can do here to lower the barriers to entry and to allow people to experiment, the better.

Erin Platts: I absolutely echo James's comments about risk appetite and the role the Government can play in procurement. Even when companies get in, we have seen examples of hitting milestones and KPIs and then the contracts being ended anyway. That is almost worse, because the signal you are sending to the private sector is that something has gone wrong here. That is the other element. Even if they manage through, there is a responsibility of continuation and following up.

Q18 Lord Knight of Weymouth: Thank you. I would agree with that. Alex and Mike, please add anything on procurement, and then I am interested in your view on what the Advanced Research Invention Agency—ARIA—might do. Alex, you have already commented on Innovate UK, but how would you like it to be configured, or do you think we should get rid of it and spend the money with one of the new agencies? Do you have a view on how the Regulatory Innovation Office should best be set up?

Alex Kendall: I am not sure Wayve is in a great position to comment on government procurement, so I will pass on that question. On ARIA, I have spoken at length with Ian and Matt and others. Going back to the talent piece, the Government have done a fantastic job of getting great talent around that, so I am confident that great things will come as a result. As to what they are, I am not sure yet. I have seen some really interesting strategic questions posed about where and how to invest to make the most of AI technologies. The UK has some really big gaps in infrastructure, compute and power.

Getting the benefits of self-driving cars being on the roads everywhere throughout the UK, as an example, will require a complete overhaul in many different areas of infrastructure to be able to optimise them over time. It is early days. It has been a couple of weeks since the Regulatory Innovation Office was announced. If we had that five years ago, it would have been amazing. We were working out of a garage in Cambridge, building our start-up, and trying to knock on the door of government saying, "Hey, we've got this new idea of self-driving cars. Can you make it legal?" It was an impossible task. If we had had a method to navigate through that, that would have been great. Today, I have this opportunity to speak to you all and have a conversation with government. Five years ago, that was so far from the truth.

Lord Knight of Weymouth: We are not government.

Alex Kendall: Sorry, to speak to the Lords.

The Chair: Parliament.

Alex Kendall: Yes. I think that is a great concept. I am optimistic. I hope it helps others in our position going forward, whether they are trying to change other significant opportunities in deep technology or

things like this. I feel optimistic and I hope it can shortcut a lot of the process that we had to go through to be able to see more change to support our product.

Michael Holmes: I will echo that there is generally some quite strong positivity around ARIA and what it may end up achieving, and it is generally supported by the community that I represent.

Regarding Innovate UK, there is still quite a lot of frustration with the bureaucracy involved and the time it takes, and even in some cases the outcomes and the explanation of the outcomes in accountability for where the taxpayers' money is being deployed and for what reason. I have heard that on both the academic and the business side. I am not the expert on grant funding, but I certainly think that is an area that—

Lord Knight of Weymouth: Is your sense, then, that it is about slimming down the grant application process, or is it that we need to start again with the whole premise and the concept of it?

Michael Holmes: The concept of it is very valuable in what it is there to achieve. It is highly valued as the central source of funding for many very small businesses and start-ups. I think it is the implementation and the execution. In some cases, it is clearly a bit of a black box from our side on the decision-making process and reference was made in some cases to whether the outcomes appear linked to a political objective more so than what the actual business case would be. As a principle, it is very valuable. It is really the implementation or the paperwork involved for the start-ups that has been a pain point.

I have one specific comment on the Regulatory Innovation Office, particularly where there is a new product or service and how that will be captured by regulation. Particularly from an Imperial perspective, having regulation of convergent science at the heart of the new office would be beneficial, where different disciplines are coming together to form a new proposition or product that might not be covered by existing regulation, and making sure those types of things do not fall into the cracks. That is often where there will be a new opportunity or a new innovation.

Q19 **Lord Knight of Weymouth:** Thank you. Finally, is there anything else that you think government should be doing to help scale-up? Is there more that DSIT should be doing to support exports? This is your final chance to feed into our thinking for this inquiry.

James Wise: I would love another 90 minutes to discuss that. Just taking a step back and trying to pull some of these threads together, whether it is procurement, Innovate UK or other institutions here that we have spoken about, what ARIA is doing slightly differently is that it is very proactively reaching out and looking for opportunities and seeking them. As a state, we have been incredibly reactive. We say, "We want X. Please fill in the forms and jump through the hoops, and we'll give you the money to do it". We need to be far more proactive in what is an increasingly volatile world, whether that is when it comes to regulation or funding—dare I say it, more of a venture mindset when it comes to seizing these opportunities—and culturally that is something that

government has not yet seized. Across the board, all these institutions could benefit from thinking that way.

Lord Knight of Weymouth: Thank you.

Erin Platts: A lot of the ideas that have been posed are great. It is an injection of pace—to James's point—scale, and harmonisation across the various initiatives. There is a risk of duplication in some of the items that we are talking about. I am really supportive of the RIO, but how do we ensure that we are not just layering regulation on regulation and stifling growth? Those would be a few things.

There is one more that just popped into my mind. While there are gaps domestically, whether it be capital talent or growth, there is an opportunity to aggressively target and bring in talent and innovation companies globally. That will foster amazing domestic growth. Other countries are doing that much more aggressively. It is not just about money; it is about narrative, openness and being welcoming, and it is something that I just wanted to put on the table.

Lord Knight of Weymouth: It is a point well made. Is there any final comment before we stop?

Alex Kendall: I would love to make one comment on exporting technology, policy and products. Right now, we have developed software that can drive cars autonomously and safely, and we are trying to export this into major markets and automotive manufacturers such as those in Germany, Japan and the United States. A lot of this requires engagement with regulators in those domains. There are a couple of asks that we would love to see from government that are absent today. When we go to Germany and look to meet regulators there, having introductions from the UK Government would be a powerful way to get in. We have had to navigate our way to those introductions through commercial relationships. There is a huge opportunity for government to help navigate those.

Lord Knight of Weymouth: The Department for Business and Trade does that for us in education through an education export tsar-type person, but you do not have access to that in your sector.

Alex Kendall: No, not in transport, unfortunately. We have been asking and have not seen that effectively done so far.

The second constructive ask we would love to get is this. We do a lot of international policy work. I have a fantastic policy team that sits on the UN committee to look at global autonomous driving regulation. We co-chair one of these committees with BMW. Countries like Germany and Japan will gather together industry leaders, mutually agree a position and then go with a powerful ask to these committees.

In the UK, our experience has been that we find out the UK's position in the meeting. I would love to see a collective and unified message that can be brought together from public and private stakeholders and for us to go together to drive change. The Automated Vehicles Act in the UK is a great example of innovative regulation that is ahead of other markets.

If we could bring that leading message and align other regulators to follow suit, it would be a real advantage for us to get this technology out there. I would love to see that.

Lord Knight of Weymouth: That is a really powerful point.

Michael Holmes: My final comment relates to a question I did not manage to come back to about why there was some pessimism from our scale-up CEOs about what is to come. One specific point comes back to some extent to the topic of talent and more specifically employment law changes and the flexibility of the labour market. The reality is that most start-ups and scale-ups do not go through the seamless success story that Alex's business has gone through. The reality is that many of them go through stops and starts and have to restructure, pivot and be adaptable. When you compare the US market, which is not what I am suggesting we should replicate, we can learn from the level of flexibility and therefore risk-taking of companies as they are making these decisions and pivoting their businesses, and the amount of adaptability and nimbleness that those businesses can show; and that is a point of concern noted from some of my community.

Q20 **Lord Young of Norwood Green:** If you had a magic wand, what is the one thing you would like to see from the Budget?

James Wise: Anything we can do to improve access to compute in this country and infrastructure would be a huge advantage, and trying to avoid any political hot potatoes is probably a good thing, I think we can all agree.

The Chair: That segues into where I was going to conclude, which was to say, alongside a huge thank you to all four of you for your fantastic contributions today, you have been very rich with the information that you have provided. It is hugely helpful, and I am very grateful to you for the time that you have taken and for the preparation that you have clearly given to come here and give evidence to us today.

We have the Budget tomorrow, of course. Lord Knight said to Mr Wise that this is your final opportunity. If there is anything that you reflect on having given evidence to us today that you would like to follow up with any supplementary written evidence, you are more than welcome to do that. Please contact Dan or Anna, and we can draw on that too in terms of further written evidence. Indeed, if there is anything that comes out of the Budget tomorrow that you would like to refer to—because, clearly, we are doing this in advance of that—that would be hugely helpful, too. On that note, thank you again.