



Communications and Digital Committee

Corrected oral evidence: Scaling up: AI and creative tech

Tuesday 3 December 2024

3.35 pm

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Members present: Baroness Stowell of Beeston (The Chair); Lord Hall of Birkenhead; Baroness Healy of Primrose Hill; Lord Kamall; Lord Knight of Weymouth; The Lord Bishop of Leeds; Lord Storey; Baroness Wheatcroft.

Evidence Session No. 7

Heard in Public

Questions 93 - 106

Witnesses

[I](#): Esra Kasapoglu, Executive Director, Innovate UK (UKRI); Professor Christopher Smith, Executive Chair, Arts and Humanities Research Council (UKRI)

USE OF THE TRANSCRIPT

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

Examination of witnesses

Esra Kasapoglu and Professor Christopher Smith.

Q93 **The Chair:** We have now changed over our panel of witnesses and are pleased to have two new witnesses from different arms of UKRI. I will start by asking you to introduce yourselves and the organisation or part of UKRI that you are representing today.

Professor Christopher Smith: I have two pertinent roles in UK Research and Innovation. I am the executive chair of the Arts and Humanities Research Council, but I am also the creative industries sector champion for all UKRI, which means that I try to lead and co-ordinate our activity collectively in the creative industries sector.

Esra Kasapoglu: I am director of AI and data economy at Innovate UK, which is the UK's national innovation agency and part of UK Research and Innovation. My role has multiple parts, including the following which are relevant to today. I am responsible for AI and the creative industries, which are a priority for both the UK, and Innovate UK—us—and UKRI.

Within my remit, I have responsibility for the BridgeAI programme, which is the UK's flagship AI programme for adoption and diffusion; the Creative Catalyst programme to scale innovation within the creative industries and support high-potential businesses; and the circular fashion programme, which is another one within my remit in collaboration with AHRC and NERC—the Natural Environment Research Council—for the development of new circular business models for a greener future. Innovate UK is also the delivery partner for the Department for Culture, Media and Sport, and my team delivers the Create Growth Programme.

In terms of background, I have over 20 years of experience across both the public and private sectors. Prior to Innovate, I worked at Microsoft and leading organisations such as Ericsson, Infosys and Accenture. My expertise spans across technology, finance and project management, with a particular focus on organisational change.

The Chair: I do not know how much of the last panel you got to hear, but you may have heard Mr Taylor reference Innovate UK a few times and, towards the end of the session, talk about the relationship between the British Business Bank and Innovate UK. He was saying that part of Innovate UK's role is to identify businesses that would be candidates for funding and part of the ongoing process with the British Business Bank. As we go on to ask our various questions, we will be conscious of the responsibility that Innovate UK has in this area, certainly through the eyes of the British Business Bank.

We will cover a range of different questions and my colleague, Baroness Healy, will kick us off in a moment. I am sure that you have been briefed in preparation for today and have perhaps seen some of the transcripts of earlier sessions of this inquiry, but it is worth saying that we have heard mixed reviews from people who have experienced different programmes associated with UKRI, due to the complexity of it all and the range, volume and bureaucracy of that. That is where Baroness Healy

will start and we will move on to other things.

Q94 **Baroness Healy of Primrose Hill:** Could you both answer this question, but I will start with Professor Smith? Could you explain the roles, and the difference in the roles, that Innovate UK and AHRC play in the innovation funding ecosystem and in helping innovative businesses scale? They are my main areas, because a lot of companies that we have interviewed have said that they are confused about how to access different kinds of funding.

Professor Christopher Smith: What I would like to do, if you will permit me, is to say something about research councils in general, then something about AHRC and then something about Innovate UK. As I am sure you know, UKRI is a body which includes a formula funder to universities, Research England. It has research councils such as my own and it has Innovate UK, which is the UK's innovation agency, but we are a collective and we work as one body.

The research councils all have some role in supporting innovation. All the research councils work with universities and companies to promote innovation. It is not the case that UKRI starts at one end and just hands innovation across to Innovate UK, nor is it the case that Innovate UK does nothing to support research; there is a good deal of research that Innovate UK funds. We have to see this as a much more complex circular motion than as something that divides us.

We accept and acknowledge that we are not a perfect funder. No funder is, and there is work to be done to combine us more. But we start from a base that recognises innovation at the heart of all our activity, to varying degrees. That gives us a base from which to start, then we come to sector issues.

Clearly the Biotechnology and Biological Sciences Research Council is looking at innovating in particular sectors, whereas AHRC looks to innovate in others. AHRC has taken a leadership role in the creative industries predominantly because, within universities, the creative industries, which critically includes design, tend to fall in faculties of arts and humanities. That is a pattern that we see, so we have done some thought leadership in that area. We have worked with Innovate UK on some innovation work—we will perhaps get into the details—and we have been helped by Innovate UK in doing that innovation.

But other parts of the creative industries are supported by other research councils. The Engineering and Physical Sciences Research Council, for instance, funds a good deal of work in things such as immersive reality, haptics and robotics, which are also part of the creative industries. It has again helped and been helped by Innovate UK.

There is a complexity in that. We might revert to how good or bad it is to have complexity after I have invited Esra to say a little more specifically about Innovate. If you will permit me, I might then return to the issue of complexity.

Esra Kasapoglu: As Christopher explained, UK Research and Innovation has two fundamental focuses: research and innovation. Ultimately, we are here to drive economic growth. As Innovate UK, our fundamental focus is to drive economic growth through innovation, but also to translate the research that our research councils are producing, through universities and our ecosystem, to drive an impact for the growth of the UK economy and to create a benefit for the UK public. That is ultimately our goal. I try to look at it as a coin: one side is research and the other is innovation, but they cannot be decoupled.

Innovate UK's focus or remit is to support businesses to start, grow and stay ahead in the UK, and to create the conditions in the environment and economy that makes for a dynamic innovation ecosystem that businesses, across all stages of their growth, can tap into to get the support that they need to get into a position to attract investment and customers and to expand into the markets. Fundamentally, that is what we focus on in Innovate UK.

Also, we look at this through three different perspectives. You might have heard our CEO talking about CUBE. It has three dimensions. We look at it from the domain-focused delivery perspective. We have a net-zero domain, a healthy living and ageing domain, and a digital and technology domain, which includes the creative industries and AI sector.

Place-based initiatives are another angle from which we look at things. We also have product services and operations to deliver the support that the businesses need. All the businesses across all stages of growth are within our focus.

Professor Christopher Smith: You make a very fair point about complexity. One of the challenges we have is that we are also responding to quite a complex world. If we turn the lens around and look out at the world, the world is not necessarily simple on the other side of the fence.

So, as Esra has described, we have to have a range of products and services that meet that complexity. We have spin-outs and start-ups coming from business. We have spin-outs and start-ups coming from universities. We have businesses that are connected to neither. We have a huge range of different sectors that we are trying to support.

One thing that UKRI has been doing over the past few years—I hope to see this if we revisit this question in three to five years' time—is simplifying the pathway. A lot of Indro Mukerjee's role as CEO of Innovate UK was about creating a better shop window—his shop front, as he described it—so that it was more transparent. A lot of what UKRI has done through its own institutional reforms has been to simplify its grant structure. I do not think that we are at the end of that process—indeed, we never will be—but we have taken seriously the issue of trying to make complexity less confusing, if I may put it that way.

Baroness Healy of Primrose Hill: How would you answer the fact that a lot of the grants that are available just are not enough to allow companies to grow or scale?

Professor Christopher Smith: This is a very interesting challenge that takes us into the broader ecosystem in which we sit. Obviously, UKRI has a limited pot of funding, so let us start with that.

We have a responsibility to try to reach a broad portfolio of partners to fund. The larger the grant, the fewer grants we can make; every part of the organisation faces that challenge. Most of us have uplifted our grant size over time to make our grants more fit for purpose as inflation and other costs rise but, the further we lift it, the fewer the people who will benefit. That has impacts on diversity and spread, which includes things like diversity across the country and the diversity of the individuals receiving grants. So there is a balance.

There is also a balance of services and products across the whole ecosystem. There are some things that we do but there are other providers; you had one in the room just before us. There is a genuine question here around whether we as a country are clear enough about where the boundaries sit between the different providers. I suspect that we would not want those boundaries to be very hard and fast. There would need to be some blur. But, fundamentally, it is only partly and minimally the job of UKRI to be an equity funder of companies. So we have a job to do, I think. It relates very much to the issue of drawing a better map for AI and createch, for instance, as to where the opportunities properly lie and which are the appropriate funders. Esra, is that fair?

Esra Kasapoglu: Absolutely; it is very fair. The other angle is this: what we are seeing in the industry is that scaling is a challenge in the UK, like it is anywhere else in the world. We see it in this Series A-type funding, where they are small and they want to create a big leap in order to be in the league table with the others.

Another angle I want to highlight here is that too much grant funding could be seen as an impediment to attracting private sector investment. As Christopher mentioned, we are trying to create all the opportunities for all these companies who have high-growth potential in order to benefit them and the economy but, at the same time, we are really trying to push them into a stage where they can say, "Okay, we are very solid, big companies now, and we will attract private investment". The customer and the scale also play a role here so, as Christopher mentioned, all these pathways are kind of outside our control, but we very much recognise those challenges for the businesses.

We are also trying to provide them with not only grants but non-financial support so that they can get investor ready. They have the networks and the international connections to expand. This is the complexity that we always try to mask from the businesses in everything we do. Of course, we are a continuous learning organisation, but the financial and non-financial pathways are important. We need to look at them and really get the minds, the thoughts and the hearts of those businesses in a way that means they will be incentivised to attract customers and commercial investments from outside the ecosystem for themselves.

Baroness Healy of Primrose Hill: It is just that a lot of companies

have said to us that they have to hire full-time staff to learn how to even apply for the grants or the funding. There is obviously an issue in the ecosystem. What do you think you might be able to do about that, for clarity?

Esra Kasapoglu: I recognise and acknowledge that most of the organisations are bootstrapped and do not have the resources, especially to navigate our system, but that is the reason why we are very customer focused. We try to learn from their experiences and make improvements and enhancements in our system. We have also put in extra support for them so that they get the support they need throughout the application process.

Q95 **Lord Kamall:** You have both mentioned the complexity; we understand that. I know that you are aware of the criticism that UKRI initiatives are often piecemeal in a way—you have spoken about trying to simplify and reduce that complexity, or perhaps not reducing it but making things more understandable, as it were—but, clearly, this gives the impression, as we have heard from others, that there is no clear pathway for companies to progress through different programmes. If you have answered some of this already, I accept that, but can you add something more on how your programmes are designed to support the long-term growth of innovative start-ups, rather than just addressing short-term objectives? I am asking both of you.

Professor Christopher Smith: Would it be helpful if we focused on createch or AI? Obviously, we fund an awful lot, but I wonder whether it would be useful for the committee if we took the creative industries as an example of a place where we could exemplify it.

The Chair: We are doing both—this is an inquiry into both AI and creative tech—but, if you want to say something specific about creative tech, please do.

Professor Christopher Smith: I will start with the creative industries and Esra might speak to AI; that will give you two exemplifications.

First, on creative industries, we have quite a fragmented and complex industry sector. It is relatively young, as I think you have heard before. It comprises a number of non-isomorphic subsectors. In some ways, the piecemeal-ness slightly reflects what we are looking out at on the other side.

What are we doing to mitigate that? My view is that, as time has progressed, we have arrived at a situation that is becoming more coherent for UKRI. If it is properly aligned with and placed within a broader sector approach, in the context of the coming industrial strategy, it will be able to look a good deal more joined up.

Let me explain a way in which that could happen. First, we have now an infrastructure, CoSTAR, which is in virtual screen production, and is a key part of the creative industries and has perhaps the greatest need for, and potential with, infrastructure that we did not have 18 months ago.

That infrastructure allows a national lab and three network labs, and an insight and foresight unit to drive forward innovation.

That itself is the beginnings of a concentration of capacity with the intent to diffuse it across the nations, which we have not had in the past. Secondly, alongside that, we are moving forward into a second phase of clusters. The advantage of clusters and indeed—

The Chair: We will come on to clusters a bit later.

Professor Christopher Smith: That aggregation of SMEs around place, and the launch pads are another example, is a very useful model. Thirdly, we are looking at what creative scale-up the DCMS will support with Innovate UK. I know that I have just misspoken the term, but Esra will get it right for me [Create Growth Programme]. That will have a different place-based focus. There is also generic funding within Innovate UK for individual companies. That will have a ceiling and a limit. We will not do everything. You have already heard from Creative UK and others about requests for R&D tax credits of various kinds and equity.

If you looked at what the creative industries' offer might be in response to the industrial strategy in, say, three years' time—I am putting that out there as when all the things have been connected and are mature—you would see that it is a pretty joined-up national offer that, in my opinion, many other countries would admire. Now we have arrived at that. It has taken us some time, but we are getting there. Not every company will find its place. Not every company will succeed in funding and not every region will receive funding. But that is the nature of constrained resource and a competitive market. But, from infrastructure to clusters to place-based growth to individual opportunity, that is not bad. That would be my offer.

Esra Kasapoglu: Within the market, within the industry, as we have been discussing, we are trying to create the clear pathways for businesses to move from early to late stage. We are giving them the help that they need to contribute to the economy with all the support that we are providing through UKRI. That means that we need between ourselves to be clear about the pathways we are creating for the businesses. With the mapping exercises discussed just a few minutes ago, we know where the grants are and what the support is, and we try to identify how the businesses need that support and the grant in order to grow their business.

Fundamentally, our ultimate goal is to create economic growth and provide the clear pathway. With the sector in mind, we design our programmes so that they can really take advantage of them when we have that objective. The objective is to help businesses, help our economy and align to government priorities. When we think of all these, we design the programmes so that they can interact with one another and operate within a portfolio of other work that is going on.

AI is so wide and all-encompassing. It is so complicated. It is massive. So, what we do to create this strategic, rather than a piecemeal, view is to look at all the objectives we have, look at all the components of it and

put them all together. We overlay every programme we have with a governance structure. UKRI is also a machine, if you like, with different parts to it. To join the dots and put a joined-up proposition, everybody in UKRI needs to be aware of what is going on. We have a lot of communication behind the scenes. We have a lot of raising awareness going on so that you can provide a wraparound service.

Lord Kamall: You mentioned various programmes and communication. How do you make sure that the various programmes across UKRI are complementary rather than duplicative?

Professor Christopher Smith: Portfolio management is an important issue. We have an enormous portfolio, and we recognise that there is work to be done on making sure that we are communicating better and more effectively. The current financial situation is hugely advantageous, in a way, because it is a one-year settlement in which there will not be much movement followed by a longer one. We have the space of time to do more preparation.

I want to say something specifically about the AI companies. One issue that we face is that AI is, first, quite young. If the creative industries are young, AI is younger. Secondly, it is a technology. It is not necessarily a bunch of companies. I would pick out what we have done. Innovate UK's BridgeAI programme has been brilliant at adoption and diffusion. It was fast off the block. It has done some really good work, some of it in the creative industries, and we have some good large-scale activities in responsible AI, both in EPSRC and AHRC, with Innovate UK and partner companies. I expect us to come back to you and see a growing cohesion as we go, but AI will always be a little different as a foundational technology as opposed to a sector.

Q96 **Lord Kamall:** How do you ensure that these programmes align with what you have to deliver for the departments, if you think about, for example, Create Growth? Also, you have had a scale-up programme for five years. What have you seen from that? How many scale-ups have you supported and what have these businesses gone on to achieve? Those are two distinct questions. You may want to take one each or share them out.

Professor Christopher Smith: I am going to defer to Esra, certainly on scale-up. On the relationship with the department, I should say that is very interesting. You of course refer to the fact that the creative industries sector is, interestingly, owned—in so far as it is owned—by Whitehall. A bit of it is indeed in DCMS. But, of course, we are funded by DSIT, and the DBT will own the industrial strategy. So we are going to have to be clever at delivering on that. But regarding DCMS, this is a programme managed by Innovate UK and successfully so.

Lord Kamall: I know it is early days for some of the departments, but do you find they are aligned on what they expect from you?

Professor Christopher Smith: It is early days in the departments.

The Chair: Send us in writing the data on the scale-up programme.

Esra Kasapoglu: I have that and can send it to you.

Lord Kamall: If you have it, can you quickly give us a summary figure and then send us the detail?

Esra Kasapoglu: Absolutely. Since the inception of the programme in 2017, it has supported more than 200 businesses and created 1,400 jobs. With £560 million-plus raised in grants, these businesses secured matched funding. The gross value added to the economy is about £75 million. Those are the stats that I have been given around the scale-up programme, and the return on investment from particular initiatives is estimated to be 500%-plus. As you can see, when we run programmes for five years and onwards, we can really see the impact to which Christopher alluded. Our programmes like BridgeAI and Creative Catalyst are very new, but the early signs are really promising. We have a hockey stick kind of demand profile coming in. AI and creative are big industries. It is really promising to see that there is a technology like AI that we can augment with human ingenuity to create real solutions to big challenges in the UK and globally. The UK can play a big role in this space.

Lord Kamall: Thank you. Could you please send in more details on what you achieve?

Esra Kasapoglu: We will definitely do so.

Q97 **Lord Knight of Weymouth:** I am interested in exploring whether you have sufficient resources to do the job that we are asking you to do, particularly in supporting innovative scale-ups in the AI and creative tech spaces.

Starting with Ms Kasapoglu, do you have enough technical expertise internally on these two sectors to be able to properly explore them and, in particular, to understand some of the supply side challenges there might be around compute power, energy and skills? As well as that, are you then able to put the money in to make the magic happen?

Esra Kasapoglu: For the magic to happen, a lot of factors come into play that need to be aligned at the right time and at the right place. The landscape is evolving rapidly and some of these programmes, such as in AI, are very disruptive. The creative industries are brilliant, because we use people's creativity but they also need the tools and techniques. Constantly evolving technology is posing us challenges to keep up with it.

When it comes to resourcing, we look at things from a systems perspective—do we have the technical resources and enough capability in the system to tap into those resources? Lots of things need to happen together. Within our ecosystem, we have technical resources, sector expertise, research and academics—all thinking from different angles.

If I apply the lens of AI and of the creative sector, the hockey stick profile I mentioned regarding the demand is quite complicated to keep up with. Infrastructure, access to data, access to high-performance computing, skills and talent are all huge challenges that we are seeing.

Also, we are operating in a global world connected to everything else, so we are tapping into the same kinds of resources.

In our BridgeAI programme we work with sister research councils within UKRI and they have the capabilities, infrastructure, skills and expertise that our businesses—with support—can tap into. But with the funding we have we will always have limited resources, so we can only go so far with it. It is known that we in the UK are falling a little bit behind on the infrastructure side of things.

Regarding skills, as the UKRI we are working very hard to upskill our own workforces, find new talent and tap into international markets. We collaborate with our Home Office colleagues to develop visa schemes to attract more talent into the UK.

Overall, it is a big challenge. We are doing our very best. There is more to be done, as with anything, such as matching the supply side and the demand side. As we are operating in a market with a constantly moving needle, it is challenging. Are we doing a good job? Absolutely, we have great, very talented, people. The UK is a fantastic place for talent. With our programmes we are trying to look at things from a pipeline point of view—where the supply is, where we need to match it and how we can improve that supply with the changing market conditions.

Lord Knight of Weymouth: How do you manage your risk appetite in such a way that it is smoother for people to apply and that you can get the money out of the door without constraining the innovation?

Professor Christopher Smith: There are lots of answers to that. I will offer an example. Forgive my returning to clusters, but it is an example of a mitigation way of doing it. One of the things about devolving funding—with clear guidelines and KPIs—is that clusters and devolved funding have been quite successful at reducing friction and bureaucracy in the system. That will not work for all our programmes—we cannot do everything that way—but by allowing an anchor institution to hold funds and distribute them appropriately to SMEs that it knows and can track, and then report back to us, is a way of moving things through the system more quickly.

We need to do more to explore models that allow that, in order to lower the risk to business, but also to manage good value for money.

I will add a couple of things to your question if I may. First, compute is a significant issue for creative industries. One of the things it would be brilliant for this committee to do is stress the necessity for creative industries to be considered in the demands for compute capacity. There are some other voices that are very large in that.

Regarding our own management of grants and funds, UKRI has a limited and reduced OpEx target. That is a perfectly legitimate issue within the public sector, but we will need to make sure that the demands of industrial strategy can be met effectively from what we have. We will perhaps need to think about our internal resourcing, but I hope we will be able to speak with DSIT intelligently about making sure we are fit for purpose.

The last thing I will say on this is that the CoStar National Lab brings additional capacity into the creative industries and the UKRI sector. The pilots programme, which makes funding available for AI and createch companies for research, adds to our expertise and can also leverage work with major companies. So that is another way in which we bring more resource into play.

Q98 Lord Knight of Weymouth: Professor Smith, I am grateful for the steer around access to compute for the creative industries. Do we judge the creative sector differently in this conversation? A lot of the success is measured on returns on investment and they can be different in creative from those in some of the big, less risky sectors.

Professor Christopher Smith: Yes, it is interesting. The standard line is, of course, to say that we are bigger than aeronautics, automobile and oil and gas put together, which is true, but it is a diverse picture within that. There is still a degree of not quite full understanding of the breadth of what can be done. There are so many aspects where the creative industries bring a special lens to scientific and other social problems. So the returns on investment are diverse and complex. You can bring in creative industries to do things, for instance against mission-led activity, in a way that would perhaps be harder to do if you just thought about the automobile industry.

Those different kinds of return on investment—the difference in how you judge the return on investment in film, for example, where you have one version that is how much money a film makes; a version that is how much money the industry makes; and a version that is how much social good film does—is a more complicated pitch. Therefore, in comparison with a very straightforward thing, such as how much compute we need to manage quantum, we are talking a different language.

But you will not get the innovation challenges that the creative industries offer to foundational technologies unless they have access to that compute. I refer the committee back to the Council for Science and Technology's letter to the Prime Minister which made very clear how creative industries challenge technologies to innovate. They do not simply receive innovation but challenge it.

Q99 Lord Knight of Weymouth: I have three brief questions. The first is about the links between academia and industry and what steps you are taking to improve those links? In particular, we are concerned that we are not learning enough from what they have been doing in the US with equity stakes and so on. Should we have more embedded PhDs in businesses, and is academia responding to that? Could you give a quick answer to that one, Professor Smith?

Professor Christopher Smith: Yes, we have things to learn. I suspect that others have things to learn from us, too, as there are good practices. Again, I will be very specific and boring, and come back to clusters. Clusters anchor institutions—universities—to working with companies, developing PhDs et cetera. We were doing some of that work.

Esra Kasapoglu: To add to that point, Innovate UK also has specialised grants—ICURE, Knowledge Transfer Partnership and Smart—specifically to improve collaboration between the academic world and industry. Within the programmes that we mentioned, we are also adding collaborative R&D activity and grants specifically to bring multiple SMEs, as well as small and big tech companies, together with academics, so that that diffusion is much stronger.

Q100 **Lord Knight of Weymouth:** There has been a lot of talk about how great DARPA has been in the States at leveraging procurement. ARIA was set up to do something similar here. We have had some people saying that Innovate UK should do something similar and leverage procurement. Is there room to do more in that area?

Esra Kasapoglu: On procurement, we have availed of our Contracts for Innovation very successfully. That is something we can use in collaboration with public sector organisations for challenges such as better public services and healthcare, and to address the climate change problems that we are facing. It is about understanding what is on offer and where the public sector needs that solution. We can use those contracts for innovation, known as SBRI in the old world, for that kind of procurement.

Lord Knight of Weymouth: There is maybe a bit more to be done.

Professor Christopher Smith: There is always more that can be done.

Esra Kasapoglu: Yes, exactly.

Q101 **Lord Knight of Weymouth:** Finally, is there more that more be done with your convening power to bring together the larger creative companies and institutions with those that we are looking to scale up to create more advantageous partnerships on the supply chain?

Professor Christopher Smith: Yes, there is. I co-chair, with Ben McOwen Wilson from Google, a subgroup of the Creative Industries Council on innovation and growth. CoSTAR is doing some of this work and is a trailblazer for us.

When I say that there is always more to be done, I think that there is infinite possibility. This is a £126 billion GVA sector. It is an enormous contributory factor to the economy, so there is enormous potential.

UKRI has to cohere around what we can do best and what will deliver the best return on investment for public money, so we have to make choices. Undoubtedly, at the end of this process, there will be somebody who says, “Why didn’t you work with that company or pick that sector?” It will always be a fair criticism, but it needs to be set against the fact that all of us are constrained. We have to do our best job to pick.

By focusing on virtual screen production, I think that we have moved into a space which is potentially one of the most exciting to be delivered. We have just announced two new clusters—one in music and one in createch, in Liverpool and the West Midlands—which are absolutely at the bleeding edge of technology. That is an example of us picking where

we can work and, in both those instances, we are working with major companies.

Lord Knight of Weymouth: I would value a case study on each of those, if you could send something.

Professor Christopher Smith: I would be delighted to send them through.

Q102 **Lord Hall of Birkenhead:** Professor Smith, you have mentioned clusters a number of times and you clearly believe strongly in their benefit. In fact, we have heard a lot of evidence about how good they are in this and in a previous inquiry into the creative industries.

We know that clusters take a long time to set up to begin to work together. They are complex things. You decided to move on to a second round, leaving the first lot to make their own way. Why did you do that? We hear a lot from people that there is not enough long-term thinking and that there is too much of what is probably medium-term thinking, in this case. Why move on, leave them and go elsewhere?

Professor Christopher Smith: One very good reason for moving on is that every single cluster has succeeded in getting significant additional funding and creating a new life for itself. We did not walk away from things that then fell off a cliff. We had the Strength in Places funding and other grant funding; a lot of CoSTAR picked up some of the previous clusters. It is not the case that we just walked away; we found ways of building, as UKRI, on that success.

Lord Hall of Birkenhead: I accept the point that you did not just walk away, but you could have doubled down and you decided not to.

Professor Christopher Smith: To give an example of doubling-down, StoryFutures, which is one of our clusters, is now the national lab for CoSTAR. It has moved from a £5 million grant for a cluster to holding a £50 million infrastructure—one of the largest investments that we have ever made in AHRC. We have done some of that.

There are, however, two challenges that we have to face. One of them, if I may, is that the Government quite often say, “Why doesn’t UKRI stop doing things?” We have a tension—when do we stop and move on?

Lord Hall of Birkenhead: Is it not your job to be thinking long term? Governments think in political cycles, but your job is to be thinking long term about what is good for the UK and growth.

Professor Christopher Smith: Yes, but the question then is what continuity is in the long term. When we went into the first round of clusters, there was nothing there. There was a new model, but we deliberately tried to spread across the country to build capacity, and I think we succeeded. Long-term thinking could be to stick with those nine or it could be to continue to build capacity across the country. I think we are on track to doing the latter, which is long term in a different way.

Music was not a sector in which we had a cluster; it now is. Liverpool and the West Midlands had no cluster activity; they now do. I believe that we

can have a rolling programme of clusters, which will continue to build capacity, and look much harder as an organisation at some of the follow-on funding between us and Innovate UK.

It is also the case that, in the end, Creative Catalyst funded some of the SMEs that came from the first clusters. I think we perhaps could have been more intentional about that, but we are always learning and now we have the learning mechanisms.

I think the criticism—the question—is fair, but I would look at the outcome and say, first, that we did not let anybody down. Secondly, we have continued long-term thinking by keeping clusters moving. Thirdly, the need for us to grow capacity across the country is part of long-term thinking, if we want creative industries to be a successful R&D-led industry that is not based just in London.

Look at StoryFutures; it is in Pinewood. That is great. We could carry on doing that and pouring money into the greater south-east, but we need to move away and build capacity elsewhere. We still have significant cold spots in our map—nothing in north Wales—so we need to keep thinking long term about how creative industries can become a United Kingdom success, not a success just for parts of the United Kingdom.

Lord Hall of Birkenhead: I think I am hearing that you have not moved on, you are keeping a relationship with the existing clusters, you will watch how they grow or do not, and will intervene or support if and when necessary.

Professor Christopher Smith: Absolutely.

Lord Hall of Birkenhead: What have you learned to do better with the second wave, the new clusters, in their commercialisation and subsequent growth?

Professor Christopher Smith: This is a very interesting question. First, I think we can work better together. The industrial strategy challenge fund, which led to the first set of clusters, sat in its own particular box within UKRI. That structure does not exist any more, which releases us to work better together.

Secondly, Esra is kindly writing down “catapults”. I do not think we used the catapults enough when we were thinking about the clusters. There is more to be done with the Digital Catapult and the High Value Manufacturing Catapult. I think that is great.

Thirdly, it is not just a matter for our learning. We found that every university had to learn how to do commercialisation better with the clusters. They all had tricks to learn, and they were all struggling with the notion of how to move into this market. They all carry that knowledge now, and you can see that in the way Belfast’s work in film is going so well. So what we are really doing is teaching a whole load of new universities how to be better.

Q103 **Lord Hall of Birkenhead:** Do you ever stop and think whether universities are the right route? There are routes other than universities.

We have heard evidence that there should be a business route rather than a university route, for example.

Professor Christopher Smith: My only criterion is that the anchor institution has to be sufficiently long-term and have sufficient capacity and knowledge to aggregate SMEs and attract co-investment. In the long term, one might very well think about mayoral combined authorities or other local investments. One could certainly think about partnering with business. We have not seen that yet, but it is not that we would not look for it.

Lord Hall of Birkenhead: How would it work with a mayoral combined authority?

Professor Christopher Smith: That is exactly the question we are asking ourselves.

Lord Hall of Birkenhead: And what things are you weighing up when you think about working with the metro mayors?

Professor Christopher Smith: Most mayoral combined authorities are relatively new in formation, so whatever they may have come from to be what they are now, they are relatively new. It will take time to build capacity to do the kind of intense knowledge-rich work that the universities are doing, and there is the question of duplication: why would you duplicate what is well advanced in a university in a mayoral combined authority that is strapped for cash? Why would you not enable partnership? That is our fundamental question.

One answer, which might be very exciting, is mayoral combined authorities generating better partnerships between universities at a regional level by enabling people to come together—incentivisation—and universities responding with their knowledge. That could be a very powerful way of thinking about clustering even at a large and regional scale. The northern corridor idea, for example, would look at a requirement for mayoral combined authorities and regional funding agencies to work with universities. That is an interesting model yet to be fully explored.

Q104 **Lord Hall of Birkenhead:** You mentioned cold spots, areas where there are no clusters—north Wales, for example. When you are looking at that, are you thinking about where the need for growth is in the creative industries through clusters, and/or where there are things that need help to be exploited that could grow in the future?

Professor Christopher Smith: It is very much both. This is where the DCMS Create Growth programme is extremely useful, because it is operating in a slightly different space than clusters that are mayoral combined authorities. We can begin to have a mosaic across the country that picks different kinds of regions, different sorts of needs, different kinds of, “Are you building business skills only? Are you growing capability”, et cetera.

To return to Baroness Healy's complexity point, this is the waterfront that we need to cover, with clearly targeted investment models that work for the different needs.

Lord Hall of Birkenhead: More than glimmers in the eye, what do you think you would like to do? What other clusters would you like to build or are working on building?

Professor Christopher Smith: My personal take on this is that we have a terrific set of opportunities around architecture and design. There is an extraordinarily important opportunity and demand for us to be looking at intellectual property in publishing. There are some really quite exciting opportunities in robotics and wearables for healthcare. That is just getting us going with some areas.

Lord Hall of Birkenhead: The first two sound quite south-east.

Professor Christopher Smith: Not necessarily, actually. Let us take publishing and IP. It is very interesting to see the way publishing has moved out of London. There is an interesting hub around Newcastle/Northumbria. What really interests me about design and architecture is how we make sure that they absolutely do not stay in large companies in the central south-east but answer the need to regenerate housing right across the country. Of course, some of that is in London and the south-east, but quite a lot of it is elsewhere.

I would like to give Esra the opportunity to say something about the catapults, if she would like to add on that, because they are a critical part of this.

Esra Kasapoglu: I know that the picture is complex, but we have many relationships within UKRI and we have to be able to reach the talent as well as provide businesses with the services. There are catapults at the heart of the clusters where the skills are and where they can tap into the strengths of the area. We have launchpads, we have clusters. Christopher mentioned DCMS's Create Growth programme, which is looking at 12 regions in England, and with our Creative Catalyst programme we are expanding it to the whole of the UK. It all has to come together in a very joined-up way. If I may say so, we have to get better at branding our own proposition.

Professor Christopher Smith: Indeed, we would welcome from the committee the pull towards cohesion. You are asking us how we make a complex set of offers coherent but transparent. That is a very fair challenge for us, and it was what I, as a creative industries sector champion, want to do. You would be pulling us in a direction in which we are trying to progress.

Q105 **The Chair:** That is good to know. I am grateful to you for that. I have two final questions that are linked to that. First, you have talked about various programmes and initiatives today. Do you initiate these, or is somebody telling you to? How much of this complexity is off your own back as opposed to being imposed on you?

Professor Christopher Smith: There is one thing that I might try to offer to do—he said, gulping hard. When we go into narrative, it looks a great deal more complex because there are acronyms and things. Actually, I would revert to infrastructure, clustering, place-based activity, individual support. That is about it. It is not that complicated; it is just that there are names. So I think we can draw something simpler.

It is very much a partnership, so let us think. Create Growth is in partnership with DCMS, so that is our managed programme. The others, we are generating, but we are generating them in very close conversations with the Creative Industries Council and our partners in industry. We have the Creative Industries Advisory Group in UKRI, which is chaired by Sir Peter Bazalgette. That is an industry sector-led body where we test our ideas against the sector need. That is how we come to them. We say, “This is what we’re trying to do. Does this seem sensible?”, and they are very good at telling us no.

The Chair: That may apply to the creative tech area, and I understand your point that AI is not an industry, but I do not know whether there is a similar set-up in the context of AI-first businesses seeking to scale up and that being a priority for growth. There is no time to extend the discussion on that.

Professor Christopher Smith: I will defer to Esra in a moment. I will just say that there is a lot of work by EPSRC in this area, so I would not wish to answer on that. I do not know whether Esra wants to say something.

Esra Kasapoglu: We have the flagship programme BridgeAI. It is an adoption and diffusion programme, so it is a programme that will come to an end eventually when we achieve critical mass. That is how we are approaching that one.

In general, to your question, we look at three things: the need of the business, the need of the markets, and how we can align ourselves with the UK’s priorities but manage the risk. All our programmes have a very balanced approach to improving within the environment that we are operating in to drive economic growth.

Professor Christopher Smith: We would be very happy to send through details of any governance processes, similar to those of the Creative Industries Advisory Group in UKRI, that I am not immediately able to respond to, if that would be helpful.

Q106 **The Chair:** Okay. Please do. My final question is the same one that I put to Mr Taylor. Before the Ministers are before us next week, is there anything you want the Government to do differently that would make you better at what you exist to do?

Professor Christopher Smith: For us, the most important thing is a consultative process around the industrial strategy that pulls in a direction in which we are trying to go. A requirement from government for us to be clear and joined up would be incredibly useful. What would be least useful would be government producing a set of piecemeal

recommendations and a lot of individual schemes, which would be hard for us to react to.

I think that we are all, right now, at a cusp for creative industries where we need to be joined up across the waterfront, using the Creative Industries Council as a key convener so that we absolutely get past the complexity point you make and so that all the schemes are delivered by the right partner.

The Chair: I draw the session to a close at that point. I am very grateful to you both for being here this afternoon and for answering our many questions.