



HOUSE OF LORDS

Science and Technology Committee

Corrected oral evidence: Financing and scaling UK science and technology: innovation, investment, industry

Tuesday 1 July 2025

11.10 am

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Members present: Lord Mair (The Chair); Lord Berkeley; Lord Drayson; Lord Lucas; Baroness Neuberger; Baroness Neville-Jones; Baroness Northover; Lord Ranger of Northwood; Viscount Stansgate; Baroness Walmsley; Baroness Willis of Summertown; Baroness Young of Old Scone.

Evidence Session No. 18

Heard in Public

Questions 215 - 228

Witnesses

I: Baroness Gustafsson CBE, Minister of State for Investment, Department for Business and Trade; Ceri Smith, Director General, Office for Investment, Department for Business and Trade; Matt Henty, Deputy Director, Science and Technology & Access to Finance, HM Treasury.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Baroness Gustafsson, Ceri Smith and Matt Henty.

Q215 **The Chair:** Welcome to the second session of the Select Committee on Science and Technology. I am very pleased to welcome Baroness Gustafsson, the Minister of State for Investment, and her two colleagues: Ceri Smith, the director-general of the Office for Investment at the Department for Business and Trade; and Matt Henty, the deputy director of science, technology and access to finance at His Majesty's Treasury. I thank all three of you for coming.

As you well know, our committee has been investigating the important question of scaling up science and technology companies in the UK. It is a very familiar theme. Six months ago, you, Minister, had your first Select Committee session with our colleagues on the Communications and Digital Committee on the same topic. What progress do you think the Government have made since then? Perhaps you could start by addressing that.

Baroness Gustafsson: Of course. You will have seen, I suspect, that there are aspects that we do well in terms of helping to encourage a culture of research and development and making sure that there is good funding around that; this happens through grants, UKRI and the R&D tax credits. Then there are the things that we do less well around how we provide that scale-up finance piece.

I feel as though the Government's role is not only to fix the scale-up side but not to mess up the bits that are working well. That is what we are seeing. We are seeing additional funding in the R&D provisioning that is happening within UKRI, so there is a recognition that this is really supporting those businesses, but how are we thinking about the scale-up piece? The British Business Bank is a really key player in that. We are trying to say that the Government do not necessarily have a role in providing that finance itself but have a role in creating the structure and the change such that private money can come in and do that.

So, you have the tactical changes. How do we then create these independent private sources of capital for the provision of that scale-up funding? This is everything that we are seeing in terms of the pension consolidation and all the Mansion House reforms, in order really to try to pull those moneys together, but how do you then encourage that money to be deployed into the types of organisations that we want to see building and scaling? This is where the British Growth Partnership is really important in saying, "Look, we'll use some public money to create the signal that this is something the Government are supporting, but the goal is really to catalyse the private money". So you have the mechanisms that are in place there.

Another important piece, not necessarily around money but the way in which you work, is how to make sure that the baton gets passed in all stages of the journey. You do not want to fund a company with UKRI

funds then have it fall off a cliff when it is too big for that, with nothing else picking it up on the other side. How you make sure that companies do not get lost in the gaps is really important. I know that UKRI and the British Business Bank are doing a big piece of work on thinking about how they can work together better on that side. It is about being collegiate and having all these departments working together to make sure that things go from one to the other.

A great example of that is in thinking about where the British Business Bank ends and where the big infrastructure projects that are funded by things such as the National Wealth Fund begin. As you will have seen, the level of business that the British Business Bank interacts with—that is, the fund size—has been increased, and the National Wealth Fund has come up with the goal of providing a bit more of an overlap so that it is harder for things to fall between the gaps. That is still not impossible, but we are trying to create a smoother journey through all these mechanisms so that, hopefully, things are not dropped in between.

The Chair: Thank you. We have many more questions, but thank you very much for that.

Q216 Lord Drayson: Baroness Gustafsson, the Government have, under your leadership, recently relaunched the Office for Investment and said that they expect it to be increasingly proactive both at home and abroad. This committee has heard quite a lot of evidence about the concerns that the UK has been very open to investment—selling the family silver, basically. We have seen company after company, rather than staying and growing here, be bought, change its management then leave. Do you recognise this criticism? If so, what are you doing about it?

Baroness Gustafsson: There are two separate events there. We have merged them together. There is investment into businesses and projects, which allows them to scale and grow; then you have “liquidity events”, in inverted commas, which are those exit opportunities where people realise the benefits. Those exit mechanisms could be via an IPO or via a trade sale.

As you rightly point out, where you have a trade sale—for example, where you scale a UK company then it suddenly gets bought by a US company—the change in shareholder really does not impact the company or the UK economy. What impacts your company is the shift in momentum, with the cultural centre moving from the UK to the US. That is more likely to happen if there is US ownership, for example. However, ownership in its own does not change. It is about the weight of where the jobs are. Where is the cultural epicentre of that business, and how do you make sure that it stays in the UK?

To my mind, we should not be entering into a situation where we are preventing businesses being acquired because we do not ever want our domestic markets to be culs-de-sac that lead nowhere; no one would operate in them then. Instead, we have to think about how we can retain and preserve the thing that we really cherish—the centre of gravity of a

business—and how we can make sure that it stays in the UK. To my mind, the best way to make sure that all of that happens is to make sure that, in the scale-up journey where people are getting all that money to scale and grow, that growth is felt in the UK and we keep all those high-value jobs here. This is why incentivising things such as R&D is a really important aspect here.

Lord Drayson: Can I push you on that? As you well know, shareholders choose management. If management moves from the UK to the United States time and again, you see the momentum shift. You are absolutely right to describe that shift in momentum, but we have seen it through generations of technology companies. It is still happening right now. What actions can you as a Minister take to address this?

Baroness Gustafsson: I would be careful about preventing that because, as I said earlier, the risk of making our domestic markets cul-de-sac would prevent businesses going on that scale-up journey here. Unless there is a realistic way in which investors can benefit from that investment and get a return, either through public markets or through a trade sale, they will not provision that journey here.

Instead, you should not be saying, “You cannot do that” or, “You should prevent that happening”. We have to have a really strong alternative path, which is things such as the public market. How do we make sure that listing on the London Stock Exchange is equally attractive a proposition as going through a trade sale? That is where the emphasis should be.

Lord Drayson: We have had evidence in this committee from other witnesses who have come from other countries that take a more, let us say, muscular approach to this issue in working out what is in the national interest. This is not for most companies but for a very small number, but we have seen a number of defence companies and cybersecurity companies that this has happened to recently. How would you like to comment? Have you as the new Minister in charge of the office looked at the way other countries have addressed this perennial problem regarding their national interest in relation to companies that have a big impact on their strategic competitiveness?

Baroness Gustafsson: I would point to things such as the NSI, which reviews and makes sure that where there is a strategic importance, you are retaining a lot of those national assets here. But my involvement and my journey is thinking about how we grow and scale those businesses. Rather than necessarily predicting how they would realise that investment, my focus is how we make sure a business can access the finance so that, if it wants to be able to double its R&D team here in the UK and grow 100% over the next 12 months, it has the ability to access the finance and investors that will support them on that journey.

Lord Drayson: A number of commentators have made the point that this year is a pivotal year in the relative position to the US stock market,

which has outperformed everybody else's up to this point, and other markets, that the UK is poised for a bull market because stocks are so low, and as a result, some international investors are looking to cycle out of the US. Is that something you are seeing? Do you see that there is an opportunity to act as a kind of concierge for those investors who might want to reconsider looking at the United Kingdom?

Baroness Gustafsson: There are people who could be more qualified to opine on the market overall. When I think about the UK market, I often talk about the fact that there is a huge gap between perception and reality. A lot of work has gone on in the London markets, in particular, to reform reporting requirements and to make it far easier to list when thinking about access to capital, where there is a lot of work happening. But the perception is still fairly gloomy, as you have articulated.

Lord Drayson: Fairly gloomy?

Baroness Gustafsson: Where you have a gap between perception and reality, investors can make a lot of money. I share the optimism that this will come and course correct, because the pessimism outweighs the reality in my personal view. So, I am optimistic that we will see a little bit of a return, but we cannot be complacent about that. We have to keep pushing on this journey. I, for one, will always engage with businesses that are thinking about international expansion and whether they should come to the UK and have an office or even their head office in the UK? I will always welcome them with open arms because having businesses, people and teams and jobs created here is a key driver to UK success.

Ceri Smith: Perhaps I can just add to that. The US is the big elephant in the corner of the room and casts a shadow over everything else. But actually, in equity markets, the UK raises more than the next three European exchanges combined in terms of equity capital being raised in 2024. So the UK, relative to competitors other than the US, is in a very strong position. What we need to do is make sure that the reforms we are making to the broader business environment are creating the environment where businesses want to keep their R&D here and see the value in being here. The investment through UKRI and the R&D infrastructure is the reason why, even where firms have gone and listed abroad, you will see key parts of the value chain remaining in the UK, because the UK is regarded as first class and is the place where people want to keep their R&D.

So, even where we lose companies to overseas, you quite often see the key parts of the business, the areas where the greatest spillover benefits et cetera are, remain in the UK.

Q217 **The Chair:** On foreign direct investment and the distinction between greenfield investment and brownfield—in other words, building factories or similar initiatives—whose responsibility is it to assess the broader costs and benefits to the economy for such an investment deal and potentially say no because the costs are too great? That must be an important factor

when potential foreign investors want to come and build factories in the UK. Could you address that?

Ceri Smith: To clarify what the question is, do you mean when there is a question over whether the UK will give support to a particular investment?

The Chair: Exactly.

Ceri Smith: The main thing is that we generally do not give support, most investment happens anyway, and about 86% of our business support is delivered through the tax system and so is available to all. The principle we have is to lower the rate and broaden the base. We have an approach that generally means the UK is an attractive place on its own merits. So, for the majority of businesses who will not need additional investment, the UK is a very good place to invest.

However, sometimes there is a case for government intervention. It might be that infrastructure is needed or new roads are required to open up a particular site. What will happen there will be on a case-by-case basis. We will look at a specific investment and take a view on whether the competitiveness gap that has been identified with the company is one that we recognise. We will use a Green Book evaluation to look at what the long-term benefits and GVA of a particular investment might be.

The Chair: Is it really the case that when a foreign company says it wants to build a factory in some part of the UK and would like the Government to put some resource into it, that that does not happen at all?

Ceri Smith: No, I am saying that clearly, we wish to minimise the level of public expenditure and you would have to check that there is a strong argument for providing that support. As I said, it could be that there are public realm things that the state needs to provide in order to make a site viable. Some of that will be on a specific investment, but on some of it we are moving towards being more proactive. One of the things announced in the spending review was that I was given £600 million to be able to bring sites that are close to being investable but are not yet investable to market through investment by the Government to potentially remediate land or whatever it might be. So, we are going to be developing a proactive approach to this as well as a reactive one.

Sometimes we do an assessment and the company is asking for too much, we say we are not prepared to make that level of contribution, and quite often you will then see headlines saying that we have lost an investment. But there is always an opportunity cost; the money we put into one investment is not something we can use to support a different investment. So, clearly we need to take a view on the specifics.

Matt Henty: My basic point on this would be to make the overall environment as attractive a place to invest as possible, whether that is

through capital allowances, R&D tax credits or the baseline position. That is one of the things that makes the UK attractive.

Then there are the bespoke cases that Ceri is talking about. The National Wealth Fund will also be supporting projects through financing, equity financing or debt financing as well. That is an institutional structural thing to enable that investment to happen.

Q218 Lord Lucas: Minister, you talked about a cultural epicentre, which I think is a really important concept. Do you see that there is more that universities could do to play a role in being part of that cultural epicentre, and indeed more that the Government could do in being an innovative and supportive first customer to help create that cultural epicentre?

Baroness Gustafsson: Universities do a lot. Their success is part of the reason we see so many fantastic science and tech companies starting up in the UK. It is because of the amazing brains they build out of the academic institutions. I know, and I hear stories, that sometimes their spin-out process can be a little bit complicated. If you are operating in the US environment, you will go and speak to professors and you turn up at the door and say, "Can I speak to Professor Bob?" And they say, "Oh, no, sorry. He's seconded into this business over here doing something else". My observation is that the people are far more porous in the US than in the UK, where they tend to either be in the academic or the start-up world.

But aside from that, I feel that we are doing a good job; it feels as if there are good amounts of science and technology start-ups coming out, particularly around the academic institutions. It feels like that is doing a good job. Can government do more to try to incentivise and encourage the epicentres to be here? One thing that we all take for granted but which is around us each and every day is that the UK is a great place to live. People love being here. Everyone always says that it is a great place for your soul. So that hard bit is really fixed; it is how we make it a really good place for your money as well. How do we make sure that we are attracting not just people but people with their investment, wanting to scale their businesses here? That is where the challenge is and where a lot of this effort is being undertaken, to make sure that the investment piece follows as well.

Q219 Viscount Stansgate: I have a quick question to Mr Smith in the light of what he said a moment ago about some of the things that could be done to attract businesses. If I remember rightly, about 20 years ago, maybe a bit more, when Pfizer was consolidating at Sandwich in Kent, the Government played quite a part in encouraging and producing a major road improvement plan to enable people to get in and out of Sandwich more easily. Of course, we all know what happened after that—but is that the type of activity that is going on again now to try to consolidate the attraction of a particular site, or where somebody wants to build a factory?

Ceri Smith: It can be, in that infrastructure improvements are one thing that the Government might consider doing for a particular site. Quite often those things will be about a timing difference. There may be a DfT plan to do a road improvement at some point, and we would just bring that forward to enable a site to become viable. We do that not only for inward investment for commercial purposes but for housing. So with Homes England developments you might see something similar. That is one thing that you might do.

There are other things. For example, we have AI growth zones, which are areas where the Government will get accelerated planning regimes. There are things that you can do through the various different zones. I think that they are now called industrial strategy zones—I am afraid that they change their names quite a lot—but there could be advantages in a particular geographical area. What you are trying to do there is not necessarily to target a specific company. There may be an area where, for policy reasons, you think there is an opportunity for an increase in economic activity. So you would target a geographical area, then businesses would come in and look at those reliefs, or whatever might be available to all businesses. So again, it need not necessarily be bespoke to a particular deal; it could be something where you are creating a slightly more attractive area and you are getting clustering—then you will get other firms seeking to come in.

The Chair: It is Lord Berkeley next.

Lord Berkeley: I think that I have got an answer to my question.

The Chair: In that case, let us go on to Baroness Northover.

Q220 **Baroness Northover:** I want to take a two-pronged approach here, picking up on something that you have just said, Minister. In terms of science and technology companies moving to the US, drawn by the access to deeper pools of capital, you have just said that quite often companies keep their R&D here because of the strength of our universities. Could you dig deeper into what you are doing to try to make sure that our historic strength in our universities is now preserved in the current situation where we are appearing not to want foreign students? We have all sorts of health and visa charges that deter researchers, and so on and so forth. We have the opportunity because of what is happening in the United States, and other countries are being very proactive in that regard. I am not sure that we are getting a sense of whether we are managing to push back on the Home Office in terms of the concern about migration numbers. You said that there was strength in terms of R&D, but what are we doing to make sure that that is sustained going forward? It does not look as if it is.

Then in terms of capital, what are we doing to try to ensure that it is available? After all, Darktrace chose to go overseas. Do you have a particular knowledge as to why that happens and how the reasons for that could be translated in some way in the United Kingdom so that Darktrace, or a Darktrace type of company in future, did not do that?

Baroness Gustafsson: To touch on those questions in order, on the academics, I have to confess to the limit of my knowledge here, and to whether it extends broadly to what we are doing in funding the universities. I do not know—so I could not comment on that. To think about the specifics of talent, though, I know that there are particular areas of research where we could have a USP, such as in quantum. There may be an incredible academic somewhere else, outside the UK, who has some incredibly valuable knowledge about driving quantum that could end up catalysing momentum around our existing quantum industry. There are initiatives in place to think about how we attract those with specific, targeted academic excellence to the UK to come in, support and create that environment. That is through the Global Talent Taskforce. So I know about that—but more broadly, about universities, I do not think that I could comment credibly.

Baroness Northover: Can I suggest that it is really important in your role that you do? It is one of the selling points of the United Kingdom, and of science and technology, so as a Business Minister it is absolutely vital that it is part of what you are looking at, and what the incentives are for us to continue to build on the historic strengths of the UK in this sector. That will be absolutely vital going forward, in terms of business.

Baroness Gustafsson: I shall add it to the list. When you talk about the capital available, do you mean with regard to the companies that are spinning out?

Baroness Northover: Yes.

Baroness Gustafsson: We have a number of initiatives. First of all, you are this brilliant academic thinking, “I know, I could create a business that is going to solve this problem over here—how do I set that up?” The British Business Bank has a start-up loan facility whereby it can just give out—I do not know whether it is loans or grants—£10,000 to people starting businesses to help them to get on their feet. You have things like the UKRI, which has played a part in developing a lot of that research and helping to keep that moving along. Then your business gets a little bit further progressed, and we have initiatives such as the Enterprise Investment Scheme, whereby we can encourage individuals that are investing with a lot of tax incentives to say, “I’m going to support you on this journey and I can be a bit of a seed investor”. We have a very well established venture capital industry, and the third largest or deepest pools of venture capital. As that business goes on, you have further initiatives within the British Business Bank—and the goal is then to be able to ask what the British Growth Partnership can do to pull in some of that pension capital that we have now just consolidated. So as you go from series A to B to C, there are much deeper pools of equity, so people can grow and scale their businesses in the UK for longer.

That early-stage stuff is done quite well. The R&D initiatives in particular are really strong at encouraging people to have R&D as the beating heart here within the UK. Where we are weaker is in series B onwards, and the

much deeper pools of capital. Those are some of the problems that we are trying to address at the moment.

To comment lastly on Darktrace and the experience of going through that, we should remember that it is something always subject to the shareholders. Darktrace is a listed company and the share price is trading at a particular value. If an offer comes in for a different value, you are obligated—it is not a choice—to present that to your shareholders. The shareholders get the chance to say, “Yes, please—if Y is greater than X, I would like that”, or, “No, thank you—in the current mode of operating, I think I’ll return much more in a much shorter space of time”, and you leave that open to shareholder vote. So it is not a decision; it is something that was subject to a vote, which depends normally on financial returns.

Baroness Northover: Therefore, what you are seeking to do as a Minister now is to make sure that the shareholders of a Darktrace type company would not see that as the route to go down. That is the challenge that you as a Minister are now seeking to address.

Baroness Gustafsson: The challenge that I am seeking to address is for there to be more companies at Darktrace’s scale that are being grown and created in the UK that go on to be listed within the London markets. If then, in the next chapter of their life, they move to a US market or do something else, so be it. I feel like that is still success. What I see as the problem is that there are still not enough Darktraces getting there in the first place. That is the problem that I feel passionate about solving.

Q221 **Lord Drayson:** Taking a 30-year perspective of the UK equity market compared to the United States, UK technology companies have traded at a significant discount against like-for-like companies. Speaking from my own experience, a whole generation of biotech companies from the 1990s have all gone, because it is only a matter of time before a US company, traded at a higher multiple, buys a UK company cheaply. What are we going to do about this?

Baroness Gustafsson: To mitigate that, you would need the price in the London market to be equally competitive with the price in the US. To get that, you need greater pools of liquidity within UK markets; and to get that, you need initiatives such as those thinking about how we consolidate pension pots and get to those bigger pots of money, and how we encourage them to think about domestic deployment of that capital.

Lord Drayson: Are you satisfied that the Government’s mandate to turn the economy around within a Parliament is happening fast enough? The Government are going to be held to account in just a few years as to whether this problem, which has existed for decades, has actually been fixed. Are you seeing the speed of reform happen fast enough—for example, of the London Stock Exchange?

Baroness Gustafsson: Think about what it is to be a pension fund that is incredibly risk averse. For decades, they have been measured on how

much they spend rather than how much they return. They are culturally embedded in a very defensive posture. The Government are saying, "You now have to take a lot more risk. You have to shift between value and not just cost then you have got to deploy that money—those pensioners' money—in things on which you have been trained not to take any risk." That is so much more than a government steer; it is an entire change of culture of the individual making the decisions and the organisation in which they operate, and that takes time.

The initiatives are there. They are in place and we are seeing that move, but it is a big ship turning. As a businessperson, would I love to see this happen overnight? Of course I would, because I love it when things move fast, but I know from government that things can also move too fast. There are many unintended consequences from making changes like this, and I think there is safety in seeing this ship turn slowly and gently, so you get a chance to observe the ripples and see the impact that it causes. This is a big shift and it is not just around government policy. It is an entire shift of an institution's cultural sense of being and, if you do that too fast, people will tighten up and you will get nowhere. You would get blocked. You have to do it gently.

Lord Lucas: In that context, would it not help if the Government said to institutions that, if they are going to take tax relief on the money coming into them, we would expect at least that amount to be invested in the UK?

Baroness Gustafsson: There are Ministers whose brief this sits under who would be better qualified to understand all those ripples than I. My personal view is that, if you say a percentage too clearly, it becomes a fixed point. Then what do you do in some years' time, when the bubble that I am really excited about fades? Would there be a temptation to say, "We're going to change the percentage and put that up?" I do not feel that it is the Government's role to mandate the answer; the Government's role is to say that the current state of play is not the answer.

Q222 **Baroness Young of Old Scone:** Can I ask this of Mr Smith, if it is appropriate for him? It may not be. I know that, if a strategic company which has implications for defence, security or whatever, is looking as if it is going to move, we have a process to step in and try to help secure it in the UK. Whose job is it to do that for companies that are not seen as crucial to the British economy, but are just part of the rot?

Ceri Smith: I would say that it is nobody's responsibility. That is the short answer. We are an open economy, and some firms will come and some will go. There has been a lot of coverage in the press about Wise leaving the UK, but Wise came into the UK from Estonia. One reason that it came here was because, at that stage of its development, the UK was exactly the right place for it to be. But, if we had a regime that meant that it could never leave, it would never have come in the first place, so it is a tricky balance.

If something is strategically important but not covered under the National Security Act, it is still open to the Government to keep it in the UK, if that is a particular capability that we want under our industrial strategy. We have mechanisms such as the National Security Strategic Investment Fund; we are able to channel funding to that organisation.

Actually, the key thing, as the Minister said, is not just about who owns the means of production but what is being produced and where. To look at something like DeepMind, it still has an enormous presence in the UK with R&D. We are still getting the benefits of having that company based here, even though Google is the owner of it. I see Lord Drayson is going to totally refute me on that one but, Darktrace, for example, still has significant capabilities in the UK.

Baroness Gustafsson: It has R&D in Cambridge.

Ceri Smith: Arm is another company that has significant capabilities and maintains a big presence here, because the UK is an attractive place to do business.

Q223 **Baroness Walmsley:** I just want to pick up on this, Minister. We all heard your resistance to the suggestion that pension funds should invest a particular percentage in the UK. Are you similarly resistant to the idea of direction of travel and of holding the mandation hammer over their head, if the direction of travel is not what we want?

Baroness Gustafsson: I think direction of travel is important. There are things that you can do in encouraging, and the Government signalling what we would like to see is the first part of that. That is about the goals from the Mansion House reforms and what the compact is saying: how do we ask businesses to voluntarily sign up to say that this is something that we want to support? We agree that we should see more capital deployed in the UK, and then we would love to see them reporting on how well they are getting on with that journey. It is just by encouraging them, bringing them in and talking to them about their frustrations with what is getting in their way, what is worrying about this process and how we can take those frustrations and worries away. But this needs to be a journey and partnership, rather than a strict set of rigid policies. Otherwise, people just end up going through a tick-box exercise for the sake of getting the Government off their back, rather than driving that cultural change.

The Chair: Baroness Young, I think you wanted to pursue the Mansion House reforms.

Q224 **Baroness Young of Old Scone:** I think Baroness Walmsley has just stolen my question. Perhaps I could move on to the other part, which is the whole business of local government pension scheme consolidations. What is the trajectory for that? How quickly might it happen? What is happening at the moment is ridiculous; you could stick each of them in your eye.

Baroness Gustafsson: Again with the caveat that this is probably more Torsten Bell's brief, businesses say to me, "When are we going to see it? When will all this money rain in from the heavens, when it's all going to be great?" My caution to them is that this is not an overnight fix; it is a big cultural change. It is like one of those events where you look back in five years' time and the world will feel like a different place, there is much broader cultural support from organisations for domestic businesses and we have these big, clever pension funds that attract the best talent and make these really savvy investment decisions. You do not see that overnight. It starts with a selection of small deployments that we perhaps do or do not notice, then people build their confidence and it grows with time.

I do not think there will ever be a point when we think, "Oh, it's done now". Like the tanker turning, you see it slowly moving inch by inch then, one day, it happens to be pointing in roughly the right direction, but we have all wandered off on to different things. I do not think that we will wake up and it will be done.

Ceri Smith: There is always a difficulty in the narrative that you hear. The *FT* is often doom and gloom about the amount of FDI, because the number of deals has reduced—but that is actually in line with our strategy, whereby we are pivoting. So 35,000 patisseries count 35,000 times more in the UN statistics than one nuclear power station, and that is bonkers. We are making sure that we focus on value rather than on volume. The UK is incredibly strong already; we are the second-largest market for AI investment; we get more unicorns than France and Germany combined. There are many strengths here, and it is very easy to focus on other things. It could be better—I completely accept that, and we are in a process of continuous improvement, but actually the UK is incredibly strong and performs incredibly strongly. Yes, there is more that we can do in the margins. One of the challenges, if we try to go after things that really shape the market, is that we need to be quite careful. There is a role to shape the market, but we need to be careful about how we do that. What we cannot do is direct the market—or we could do, but it would undermine our entire approach to being very open to investment and the benefits that come from that.

Baroness Young of Old Scone: I take your statistics, but 25 years ago the institutional investors had 50% of their investment in the UK, and now we have about 5%—so there is quite a long way to go. What are the things that are going to make a difference? The British Business Bank made a big bid for it this morning, in having a big role in that. Are there any other levers that you are pulling that you think will be powerful?

Baroness Gustafsson: For those institutional investors, the Mansion House reforms will have the biggest impact. We are saying that private money should be deployed domestically, and we will encourage you to do so. The British Business Bank gives them the mechanism to do so in a safe structure, as they figure this stuff out, but then notionally

momentum builds and will grow and the British Business Bank may well pull back in time, because it happens all of its own.

Ceri has just written a note here about PISCES, which is another initiative. If you think about the fact that businesses want to be able to stay private for longer, it is not just about the scale of the money coming in—it is how you then create a secondary market for those investors that do not want to be on that journey, and an innovation like PISCES coming out of the London markets is a good example of that. It encourages people into the stock exchange environment and community, a bit like a “try before you buy” IPO.

Lord Drayson: Ceri, I want to come back to you on that point, as expected. Although I agree with you that the UK has a huge amount to be proud of, most members of the public have seen their standard of living decline over the past 10 years. Then there is the challenge that the UK has of not improving productivity; during a period when technology has had a disproportionately increasing effect on productivity and GDP growth, the fact that the UK keeps losing technology companies is a problem. I accept that the UK has a process for making an assessment of a company that has a strategic defence—but when a company is clearly a foundation stone for economic growth, does the department go back to look and say, “Let’s just look at the case study of DeepMind”? Yes, I accept that a lot of research is still done in London, but the economic value created from that research has not benefited UK taxpayers.

Ceri Smith: I am not sure that is true. If it has been bought by Google—

Lord Drayson: Not to the extent that it has people out of the UK. You have to accept that.

Ceri Smith: Well, I would say that it benefits the shareholders of Alphabet—is that what it is called? There are people in the UK who are going to be shareholders in Alphabet. In fact, one criticism is that pension funds are too likely to be invested in Alphabet and not enough in UK firms.

Lord Drayson: Okay, but my question is whether the department looks at those examples. Is it looking at the sectors that the industrial strategy has identified as key drivers of future productivity improvement and economic growth and identified the companies that really need to stay here and keep growing here?

Ceri Smith: We do more than that. As part of the shift of emphasis in the OFI—and the department absolutely does that—we are also trying to work out where the gaps are in our supply chain, and the capabilities we do not have, and we go out and hunt so as to target those capabilities abroad to try to bring them into the UK. FDI is clearly an important part of the UK economy, so we will look to protect capabilities that we have in the UK, particularly within those eight sectors in the industrial strategy—but we will also look to attract further capabilities into the UK.

Lord Drayson: To quote a former Secretary of State from the department, who you will remember, will the department therefore intervene before breakfast, dinner and tea to make sure that these companies stay here and grow here?

Ceri Smith: I think that there is certainly a willingness to consider deploying capital and other resources where it is appropriate to do so.

Lord Drayson: Brilliant, thank you.

Q225 **Baroness Neville-Jones:** Just as a comment on that last exchange, you can see that the committee is extremely concerned about ownership. R&D is fine—it is important—but ownership is also important, and we need more of it in the UK. That is where we are.

I shall ask you about two features of the current scene. Minister, you have said—and I think people would certainly agree with this—that we need a pipeline where Innovate UK, the BBB and the National Wealth Fund form a stream of potential financing, such that it is one of the ways in which you can keep the ownership and shareholder value in the UK, if they continue to get funding opportunities through those organisations. Since you have been in office, what is your assessment of how well we are doing in getting that smoother stream? Are there things that you would like to see done better or bigger—improved or different? Could you say something about the role of the Office for Investment? Is it an introducer or a guider? Where does it fit into the picture.

Baroness Gustafsson: Where can we do better? My biggest observation is that we take too long to say no. People will come in and say, "Please may I have some money to do A, B and C", and we will say, "Let's see if we can try to make that happen", and we rally round and speak to all these various organisations, and we try to pull on all these different threads of opportunity then realise that it is just not feasible. We are not good enough at saying, "I've worked really hard at this, I can't find a way, is there any other mechanism by which we can figure this out?" There are pockets where we are much better at that, but we tend always to try to accommodate, and sometimes we give too much false hope, and we need to be better at saying no faster.

Baroness Neville-Jones: Do we take too long to say yes?

Baroness Gustafsson: Saying yes takes time, obviously, and I think that it is right that it takes time, because this is taxpayers' money that we are spending. But as long as you keep businesses engaged and updated it is, broadly speaking, fine. You just do not want to give false hope—that is my biggest criticism.

The role of the OFI is to try to provide a lot of that mechanism. With some exception around the strategic sites accelerator, the OFI does not have its own money to spend. If a company comes and in and says, "I need some incentive to relocate", we will be passing them through government to find the appropriate people who can help, and we will be there as a relationship manager to say, "This might not be the right path

for you, but have you thought about this, can we make this instruction here, how are you thinking about this, what is the opportunity there, what if you brought your R&D as well?" It is about helping them to craft how they might think about that journey, but also how they plumb into the Government to get what they need, otherwise it can be quite complicated. So that is the role of the OFI, to do a lot of that relationship management.

Baroness Neville-Jones: So is it a sort of horizon-scanning role?

Baroness Gustafsson: The bit that I have described is more the tactical, day-to-day inbound stuff. A company says, "I'm thinking about investing. How do I do it?", and we will take it and guide it.

Baroness Neville-Jones: I see.

Baroness Gustafsson: The shift that we are seeing now is around how we can be more proactive so that, instead of just responding to inbound requests, we go and find them. How are we thinking about the supply chain? Where are the gaps and what is missing?

The industrial strategy is really useful for that because not only is it the consequence of a huge amount of consultation with the industry, where it is telling you all the answers on what is missing; it means that the Government are really aligned between, "This is the problem", and, "This is what we want to be able to do to come and support it". So it is a great mechanism for us to say, "Look, we have money that is set aside and dedicated to supporting the industrial strategy sections in the British Business Bank. Here is a company that is going to fill the gap that we have identified in the industrial strategy". We can shortcut a lot of the conversations around whether we need to plug a gap in the supply chain because all of that heavy lifting has already been done. This means that we can now be much more proactive.

Ceri talked about hunt lists. We can now say, "Look, we have a gap in the supply chain around this particular sector. Here are the top three players in that sector. Let's go and start having a conversation and see if there's anything we can do there". So we are seeing the pendulum shift from being just reactive into being much more proactive; the industrial strategy is a really good mechanism for doing that.

The Chair: Minister, we know that you have only 15 minutes more, but we have many more questions for you.

Baroness Gustafsson: I am so excited.

Q226 **Baroness Walmsley:** My question is about cross-government co-ordination. Minister, you have a role that cuts across the Treasury and the Department for Business and Trade. The Office for Investment also brings in No. 10, the Treasury and the DBT. Clearly, DSIT has a horizontal role to play across government when it comes to science and technology; you, Mr Henty, might want to say something about that.

What have you done while in post—I know that you have not been in it for very long—to break down those silos across government? What more do you think you could do if given a little more time?

Baroness Gustafsson: I will be quick. In terms of my experience, being a joint Minister has really helped. I feel equally at home in the Department for Business and Trade as I do in the Treasury. I feel perfectly happy wandering around in DSIT and chatting to those Ministers. So I feel that those joint ministerial roles work really well. Do you want to comment on the OFI?

Ceri Smith: Yes. The OFI does not have positional power. We can convene. Now that we have a Minister jointly with the Treasury, that is incredibly helpful because we can now call on the Treasury, No. 11 and the DBT to get people round the table.

Our fundamental role is dealing with government failure. In all Governments around the world, there will be government failure. Ours is no exception. They could be co-ordination failures. What we are able to do is bring people together and agree that the computer needs reprogramming when it has come up with a “no” which is clearly the wrong answer. We can unlock things where, otherwise, bureaucracies everywhere have too much inertia. We have that agility; it is really important.

I have only ever worked in one part of government where you knock on the door of a department—this time, it was UKGI, or UK Government Investments—and say, “Hi, I’m here to help you”. Normally, a government department slams the door shut in our face, because its view is that we are parking tanks on its lawn, but it actually worked in UKGI and we are aiming for it to work with the OFI. We are not trying to influence the policy; we just take its policy goals. In DSIT’s case, we will take its policy goals on quantum, say. It will say, “We really want to attract some investment”. We will say, “Which bit of quantum?”, and it will say, “Remote sensing”. We will say, “Which bit?”, and it will say, “The bit that looks around corners. Who’s really good at that?”, and it will task us to go and find those firms.

What we do not want to do is get into a position where we are arguing with DSIT about whether it is the right strategy. I am very clear that we keep away from that. We are there to facilitate and to try to help it achieve its goals. Because we take that approach, we are very much welcomed by Permanent Secretaries across Whitehall. The ones we have spoken to are keen for us to come in and help them deliver their policy goals. It is an absolute win-win for them.

The Chair: Can you, Matt, say something about the role of the Treasury, the revision of the Green Book that is going on and the co-ordination with DSIT?

Matt Henty: I would like to follow up on that. One of the examples I have seen of the OFI playing that convening role is in partnership with

DSIT on AI growth zones, with the Treasury in the room as well, and having that conversation about what would help investments take place, how the Treasury can assist with that and what conversations need to happen. So I do not see this as oppositional; I see it as a collaboration process with DSIT and other departments.

A review of the Green Book took place earlier in the year; that was finalised at the spending review. The conclusions that might be most pertinent to this discussion are that there was the response and then some guidance, which has gone to accounting officers for them to talk about it. The Green Book is a guideline. It is there to help decision-makers understand the value for money of meeting a policy objective in a certain way. It offers additional reinforcement on the idea that the cost-benefit ratio is not a threshold to be met to make anything possible and is not just about the monetisable benefits. It is a tool that we all want to see work effectively in helping those decision-makers make the right decisions on how to meet those objectives, which are set by Ministers. That is refreshed guidance that has gone out again and will continue.

The other point is about shortening the guidance to make it easier for people to operationalise it—rather than it being very long, as it is at the moment.

The Chair: What we are really interested in—I go back to the Minister on this—is how much you think the scientific and technological expertise in DSIT is being brought across to your department, to the Treasury and to other departments, but, principally, your department and the Treasury. How much are DSIT’s scientists and technologists having an input?

Baroness Gustafsson: Can I comment on science on technology? No, but we engage a lot with the people from DSIT. A lot of the investments that we are supporting are in their sector, and we engage a lot with departments such as DESNZ. It has always felt incredibly collegiate. You know how it is in government: you have all these Zoom calls with 100 million people, and they are always from myriad departments, so there is no differentiation. We are all part of the same conversation.

Personally, I have not felt any frustrations or boundaries between departments in the negotiations that I have done to date, but that might just be my naivety around who belongs in which department.

Ceri Smith: The chief scientific adviser of the DBT is actually the scientific adviser for the growth mission. That mission could just be words, but there is a genuine alignment across Whitehall around growth. Our chief scientific adviser has an industrial background; she brings that to debates and ensures that the overarching strategy is informed by science and technology.

When it comes to our hunt list, if it is a DSIT area of responsibility and we are going to go and make a pitch to a particular firm to come and invest in the UK, we are not going to be credible if our pitch is not rooted in the

science and technology of what is actually possible in the UK. So I would say that we absolutely take our lead from the lead department.

Q227 Lord Ranger of Northwood: Thank you very much for your time today, Minister Gustafsson. I particularly welcome your energy, passion and experience, and the huge success that you have had in industry. We know that there is cultural change; we have had discussions about that—but actually to have that change takes people who come in with a different perspective. That is where you are coming from, and many of your colleagues as well. But how can we retain that pace? I would not want you to drink the Kool-Aid and feel that it takes too much time in government. From my experience from having worked in parts of regional government, time is the thing that we have to really push on when we try to get these cultural changes embedded, to make the outcomes that we want to see happen. How do we get more people like you in to help bring that pace to what we are trying to achieve?

Baroness Gustafsson: Thank you for your warm words. I love moving fast, obviously—that is my background. I want to make decisions and have it done straightaway, but I am also aware that in many of those decisions you make mistakes, and if you make mistakes you undo it again. You cannot do that in government. A lot of people will come in front of you and have a very loud voice about perspectives on things, but the other side of the coin is an opposing voice that might not be as loud. It is government's job to make sure that it is seeing all sides of the argument, which takes time. There are always unintended consequences of every single decision that you make. I do not think that it is appropriate for government to move at the pace of business, but I acknowledge that time is of the essence. Can we be a bit faster? Quite possibly we can.

On attracting talent, one thing that is really good about the OFI is that we are able to attract some very good entrepreneurial talent that does not really know how government operates. Therefore, when they want to get something done they just pick up the phone to the person who is in charge of getting stuff done rather than writing each other letters. That is really good; it works really well. Trying to make sure that we continue in that mould of bringing in a wide variety of external, diverse talent, as well as people who can make government do the things that we need to do, is one of the reasons it has been so successful.

Lord Ranger of Northwood: Do you need a conveyor belt of those people who come in and can go out? Is that something that is happening at the moment, and are you looking at that?

Baroness Gustafsson: We have a good pool of talent. The other thing is that we have the board. In the Department for Business and Trade there is the external advisory board—I do not know its name—but that is quite helpful as well. A selection of people from the private sector come in and provide an opinion or a reflection on a lot of work that is happening in the department, for example. They can also be quite useful in spotting talent. When we are thinking about building out a

functionality that is going to be able to work with financial services, or whatever it is, they say, "Oh, you should speak to Sue or Bob", and they are able to help to channel in talent as well. So there are a few different spots with a few good networks of people who are encouraging us.

The Chair: Ceri, do you want to comment?

Ceri Smith: One thing that I have discovered in my career is that, if you employ a bunch of enthusiastic people who do not know that stuff cannot be done and do not understand the rules, quite often you can get stuff done. That is very much the culture that we have in the OFI. You are bound more by the limits of your imagination than anything else, because often people assume that stuff cannot be done but it can be. It is that point about reprogramming the computer: often, if you just bring in people around the table to have a conversation, suddenly it all falls into place, and people realise that they could do it slightly differently. By having people who are willing just to pick up the phone, as the Minister says, and not get stood up on process, you find that you can move fast—and you hope that you do not break too many things while doing so.

Lord Ranger of Northwood: That is good to hear. I think we have that culture now happening across a lot of industries—especially with the next generation of people, who are operating in a way that says, "Let's do it". We do not want to break things but make things move a bit faster and be more innovative. It is really good to hear that the Government are looking to operate in that way.

The Chair: I am afraid that we are down to our last question.

Q228 **Baroness Neuberger:** You have partly answered it. You have said that there are people in tech and people in government, and that they do not meet—and you have said that we can make things possible if people do not think that things are impossible, which is key. How do we do what other countries do so well and let people move from academia to business, into government and out again? How do we create that system of moving people around? What can you in your role, in your department, do about it?

Baroness Gustafsson: I think that is a really good question, and I would love to have a really intelligent answer. I do not—but I see it quite acutely in terms of the academic and business world, as I mentioned earlier. On that concept of how you second it, I had not really thought about it in terms of business and government, but you are right that it is equally as important.

Baroness Neuberger: You need to be able to go round and round, as it were.

Baroness Gustafsson: Exactly. People sort of step in and step out without losing their jobs. So, for example, in academic institutions, some of them have that secondment opportunity, where you can take a year to go and do something else—but if it does not work you can come back in;

your space will be reserved for you. So work is happening there. I had not really thought about that in terms of business and government, but it is something that would help.

The Chair: Minister, unfortunately we have come to the end of our session. I am sorry that we have to end, because clearly there are many more questions that we would like to ask—but we are very grateful to you for coming to give evidence in front of our committee, and to your two colleagues, Ceri and Matt. We thank all three of you very much for coming.