HMG Response to Communications and Digital Committee – Scaling Up – AI and Creative Tech Inquiry

Conclusion/Recommendation

1. **While the UK's vibrant startup environment is lauded, the country has a technology scaleup problem. We risk becoming an 'incubator economy' for other nations, which has serious implications for our economic growth and global competitiveness. (Paragraph 21)**

2. **The Government should not be complacent about the health of the UK's scaleup scene. Creating the conditions that will enable our brightest homegrown businesses to grow in the UK, rather than scaling overseas, should form a key objective in the Government's ambitions for growth. (Paragraph 22)**

The UK has the largest tech ecosystem in Europe and is in the top five largest tech ecosystems in the world. It is the best place to invest in tech in Europe, thanks to its unique combination of world class talent, R&D capability and pro-innovation regulation. We are committed to supporting the digital economy and removing barriers for scaling tech companies in the UK, including through the Digital and Technologies sector, one of the eight growth driving sectors named in the Government's Industrial Strategy Green Paper, 'Invest 2035'. This will support inclusive economic growth with opportunities for all, ensuring that all parts of the UK are the attractive locations for tech businesses to start, scale, and stay.

The scaleup problem or 'gap' is a complex, multifaceted issue that affects companies across all sectors, not solely tech or AI companies. Key factors, include; access to finance, investor culture and attitudes, investor knowledge base and skills, the allure of foreign markets and the current prevailing exit strategies for scaling companies.

The UK ecosystem remains very good at raising capital for its companies, which is a key reason why the UK has become the dominant player in Europe. However, for some companies access to the levels of capital required to scale a business can be a challenge. To begin addressing this issue, in Summer 2023, the previous Chancellor Jeremy Hunt announced the Mansion House reforms and the Mansion House Compact which were a series of measures to boost outcomes for savers and increase funding liquidity for high-growth companies through reforms to the UK's pension market. The Reforms have the potential to unlock £75 billion for high growth businesses, including tech start-ups and scale ups. The Mansion House Compact has also been complemented by an Investment Compact for Venture Capital and Growth Equity, where fund managers commit to work with pension providers to help facilitate their investments. The Investment Compact, led by BVCA, now has over 100 signatories with over £100bn AUM.

The current government has announced its own pension reforms, launching a landmark Pension Investment Review and the Pensions Schemes Bill to explore ways to increase investment into productive and growth assets, with the aim of boosting economic growth and improving retirement incomes. The government is also taking additional steps to help support scale-ups and growth, by helping businesses access finance and increase the levels of capital available in the UK. Including announcing new plans to use the new National Wealth Fund to boost growth and unlock investment, including a commitment of £7.3 billion of additional funding. A new vehicle being delivered by the British Business Bank (BBB) has also been announced to ensure it can mobilise the UK's deep pools of institutional capital. Overall, tech sector firms stand to benefit from an increased quantum of investment flowing into the sector.

The AI Opportunities Action Plan will support AI-powered tech companies to scale and stay in the UK. The government agreed to take forward the recommendations in the Action Plan and is taking action to progress them, including working to expand compute infrastructure by 20 times by 2030. Since the Action Plan was published, industry has shown their confidence in our approach by making significant investments into the UK, including £14 billion from Vantage Data Centres, Nscale, and Kyndryl to build AI infrastructure and create 13,250 jobs across the UK.

The Regulatory Innovation Office, launched in October, is helping companies to scale up by reducing the burden of red tape and helping companies bring new products to market faster. It is working to inform the government of regulatory barriers to innovation, set priorities for regulators which align with the government's broader ambitions and support regulators to develop the capability they need to meet them and grow the economy.

Whilst the UK Tech ecosystem has numerous strengths, we recognise there is still significant potential for inclusive economic growth across the whole of the UK and social benefits that will be reaped by improving the UK's scaling landscape and encouraging growth across the UK. We welcome this report into AI and creative technology scaleups and support the committee's desire to take better advantage of the UK's startup potential, whilst removing barriers that limit the ability of these companies to go as far as possible within the UK.

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

The Government recognises that competitive and dynamic digital markets are important for the growth of innovative AI and creative technology start-ups. This is why the Government prioritised the implementation of the Digital Markets Regime in the Digital Markets, Competition and Consumers Act 2024 (DMCC). The new Digital Markets Regime commenced on 1 January and the CMA launched the first Strategic Market Status (SMS) designation investigations on Google's search services, and Google and Apple's position in mobile ecosystems in January. A third SMS investigation is expected to be launched in June 2025.

The UK's economic regulators, including the CMA, have a key role to play in supercharging the economy with pro-business decisions that will drive prosperity and growth. The Government is pleased that the CMA is rising to meet this challenge with its plan to apply the '4Ps' principles to the merger control framework and the digital markets regime, and its refreshed commitment to engaging with business.

The Government has also consulted on a new Strategic Steer for the CMA, setting out how the government expects the CMA to support and contribute to economic growth. The steer applies to all aspects of the CMA's activity over which it has discretion. It will not affect the operational independence of the CMA on specific decisions but contributes to our wider mission for strategic reform of our regulators. The Government works well with the CMA and will continue to do so to ensure the UK's regulatory environment promotes growth while protecting consumers.

4. **We endorse the recommendations of the Council for Science and Technology's November 2024 letter to the Chancellor calling for an acceleration of efforts to unlock institutional capital; the development of the specialist skills required for investing and supporting innovative technology companies; and the financing and delivery of the critical infrastructure they need. (Paragraph 54)**

The Government welcomes the Council for Science and Technology's recommendations in its November 2024 letter to the Chancellor.

The Government is working to unlock institutional capital through the £250m Long-term Investment for Technology & Science initiative, and pensions reforms which could unlock as much as £80bn in productive investment, with the final report of the Pensions Investment Review due this Spring. We are also accelerating the development of a strong UK science and technology investment base by upskilling mid-career VCs on investing in deeptech and life sciences companies in the UK through the Science and Technology Venture Capital Fellowship.

The Government is working closely with UKRI to ensure that researchers and entrepreneurs in the UK have access to the right infrastructure across Technology Readiness Levels.

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

Entrepreneurship is vital for the economy and society. To ensure we get the most from the UK's incredible talent, we need to celebrate, encourage and empower our diverse range of startups and entrepreneurs to innovate and grow their firms. The government recognises this through initiatives like the King's Awards for Enterprise (KAE), support for the Invest in Women Taskforce, and engagement with the Lilac Review into inequality faced by disabled founders.

We will be publishing the Small Business Strategy later this year, which will have a core focus on championing and celebrating entrepreneurship. The government will set out a range of measures in this space to achieve this, including through awards and events programmes, as well as through support for new entrepreneurs.

6. **There has been a proliferation of individual grants and programmes targeted towards scaleups, which are difficult for SMEs to navigate and apply for. This includes programmes run by UKRI, the British Business Bank and government departments. Witnesses made a strong case for consolidating existing initiatives to maximise their impact, rather than adding further to an already complex suite of programmes and funding pots. (Paragraph 71)**

7. **The Government must ensure that its initiatives aimed at enabling technology companies to grow make a material improvement to the UK's innovation ecosystem, as well as providing value for money for the taxpayer. Schemes that are duplicative, or fail to achieve desired outcomes, should be wound down. We caution strongly against the introduction of further schemes or interventions, which have the potential to slow companies' growth by making the system of scaleup support even harder to navigate. (Paragraph 72)**

8. **Government programmes should also provide scaleups with a clear, comprehensible pathway of support along their growth journey. Consideration should be given to how to minimise administrative hurdles, for example by streamlining application processes for subsequent funding for companies that have already passed rigorous checks as part of earlier successful public funding bids. (Paragraph 73)**

The government agrees with these recommendations and is taking action to improve the landscape of support. The Industrial Strategy will focus on tackling barriers to growth in our highest potential growth-driving sectors and places, creating the right conditions for increased investment, high-quality jobs and ensuring tangible impact in communities right across the UK. Actively shaping and directing the economy in this targeted way means that the Government must choose what to do – and importantly what not to do. Our approach is one that seeks to place private business, entrepreneurship and innovation at its heart, supported by government playing a strategic and coordinating role beyond the fundamentals of upholding the rule of law and macroeconomic stability.

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In December 2024, the Business Secretary announced a new 'Business Growth Service' (BGS) which will make it easier and quicker for businesses across the UK to get the help, support, and advice they need to grow and thrive. A national service with local delivery at its heart, the BGS will bring together under one single, trusted banner a range of existing core services as well as new and improved elements of the business support offer that will be delivered both centrally and locally. We have now started engaging widely with interested parties, including SMEs themselves, in the design and development of the BGS to prepare for its launch later this year as well as the longer-term implementation, iterations and improvements that will follow over the coming years.

It is important to maintain distinct institutions and programmes to provide different types of support. For example, the British Business Bank (BBB) primarily operates through intermediaries such as commercial banks and venture capital funds, rather than managing applications from businesses directly, such as with Innovate UK grant programmes. Innovate UK focuses on business developing novel innovations, which is a small subset of all firms that might be supported by Growth Hubs. However, the Business Growth Service will interface with Innovate UK and the BBB to ensure a joined-up, coherent approach to the government's suite of business support programmes.

The creation of the National Wealth Fund was another key step towards bringing greater alignment and coherence to the landscape of the UK's public financial institutions. As a part of its creation, the government confirmed it will review how public finance institutions operate and interact with the market, government departments and each other to ensure that they are effective in mobilising private investment and delivering economic growth. This could include aligning other public financial institutions more closely together in future.

Within UKRI, we are seeking to reduce the overall number of programmes. Innovate UK has announced a pause in the Smart programme whilst it reviews its portfolio of funding and support to innovate SMEs. Further details of these changes will be announced later in Spring 2025.

We have already launched a second wave of our R&D-led Creative Clusters, building on the success of the first round with Clusters now embedded as UKRI business as usual. As these 5-year investments progress, supporting creative SMEs and micro businesses in new geographies and sub-sectors across the UK, Cluster and future Creative Catalyst activities will be closely integrated to provide a strong pipeline of support for business.

9. **The Government should set out the steps it is taking to evaluate the impact and join-up of existing initiatives, including those administered by the British Business Bank, to ensure they offer a clear route for companies to progress through, address genuine gaps in the private markets and represent a sound use of government funds. (Paragraph 74)**

As the Chancellor announced at the International Investment Summit in October, the government is continuing to review how the UK's public finance institutions operate and interact with the market, government departments and each other to ensure that they are effective in mobilising private investment and delivering economic growth. Government is committed to ensuring that there is still greater link up between Innovate UK and the British Business Bank (BBB) and that companies that receive support from Innovate UK are ready to access BBB programmes, ensuring innovative businesses can scale and deliver impact for the UK economy and society.

Through the Industrial Strategy, Government is committed to ensuring that BBB is able to effectively support companies at the scale-up stage and is exploring how BBB can address the scale-up finance gap for companies in the growth driving sectors.

The BBB reports annually on its impact on addressing finance gaps in the private markets and demonstrating a sound use of Government funds. In the 2024 annual report, BBB reported against their KPI of 'managing public money properly and delivering value for money', achieving a 5-year adjusted average return on capital employed of 4.5%, beating their KPI target of 0.9%. In 2024, BBB also published their first annual impact report, setting out the impact of BBB's activity on access to finance for small businesses. This report found that BBB deployed £1.53 billion of new equity commitments under BPC, BBI, ECF and Enable Funding in 2023/24, leveraging in an average of 4.8x capital per £ of BBB commitment.

In April 2024, Innovate UK and the BBB signed a Memorandum of Understanding (MOU) to strengthen their collaboration. The agreement aims to create clearer pathways for businesses seeking funding from either organisation, ensuring more coordinated support throughout their growth. AI and the Creative Industries, including CreaTech, are key priorities for UKRI. This strengthened collaboration will help more companies in these sectors access later-stage financial support from BBB and its partners.

10. **We have the right ingredients to build world-leading tech companies, including in the high-growth potential areas of AI and creative technology. However, fundamental barriers to scaling in the UK's technology sector, such as poor infrastructure, a culture of risk aversion, and comparatively limited domestic growth capital, are well documented and longstanding. (Paragraph 84)**

11. **Some of these barriers do not have straightforward policy solutions, for example the relative size of the UK market, or cultural attitudes towards entrepreneurship. It is positive that solutions initiated by the previous Government to address challenges are being built upon by the current Government. However, these initiatives will not succeed without a consistent and determined focus on enabling British startups to scale. (Paragraph 85)**

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

The government will publish its Industrial Strategy, alongside Sector Plans, for the eight growth-driving sectors, in Spring 2025. Sector Plans will set out the specific sub-sectors of focus, identify key barriers to growth, and describe how government and industry intend to achieve long-term growth for the sector.

The Industrial Strategy will provide a coherent plan to support scale-ups across all eight growth driving sectors. It will be:

- **Aligned with the multi-year spending review** - The Green Paper (published 14 October) sets out our vision for a modern Industrial Strategy "Invest 2035", a credible, 10-year plan to deliver the certainty and stability businesses need to invest in the high-growth sectors that will drive our growth mission. In doing so, the Industrial Strategy will create a pro-business environment and support high-potential clusters across the country.
- **Developed and delivered with partners outside government** - The Industrial Strategy will work with partners outside government to make sure there is a coherent plan for scale-up. For

example, they will align with 10-year Local Growth Plans, which set out how Mayoral Strategic Authorities (MSCAs) will use their devolved powers and funding to drive growth in their region.

- **Underpinned by a statutory Industrial Strategy Council** - The Government is establishing a statutory, permanent and independent Industrial Strategy Council to make sure the strategy, and the Sector Plans which sit beneath it, are informed by a broad and high-quality evidence base. Ahead of introducing legislation, we are forming the Industrial Strategy Advisory Council so that the development of the strategy is informed by independent, expert advice, which will be chaired by Microsoft President, Enterprise & Industry, EMEA Clare Barclay who brings a wealth of leadership experience from the top-flight of business across technology, innovation, and artificial intelligence.

The Industrial Strategy as a whole, and each Sector Plan, will be cross-government, breaking down Whitehall silos and ruthlessly focused on providing the support scale-ups need to grow. This will include measures on access to finance, using procurement policy to support growth, providing the right support, advice and facilities necessary to expand, creating a regulatory environment which helps emerging sectors get their products to market, and building a pipeline of skills required to succeed.

Crucially, the Industrial Strategy will also shape the *type* of growth being pursued, and each Sector Plan will set out clear objectives on Net Zero, regional growth, and economic security and resilience. We have focused on which sectors help us meet our broader objectives for Net Zero, regional growth, and economic security and resilience – to make sure that we secure the type of growth we want.

Jobs will be at the heart of our modern Industrial Strategy, supporting growth sectors to create high-quality, well-paid jobs across the country, backed by employment rights fit for a modern economy.

13. AI is not a sector but a technology, with the potential to drive innovation across all eight of the Government's key growth sectors. Yet the window of opportunity for capitalising on the UK's strengths is limited and diminishing. (Paragraph 96)

14. The AI Opportunities Action Plan is a positive step towards seizing opportunities in this transformational technology, and the Government's response to it is encouraging. However, achieving these goals will demand a mindset shift across the public sector, accompanied by bold policy reforms and robust political commitment. The Government should not underestimate the scale of the challenge. (Paragraph 97)

As the Prime Minister said in the Government's response to the AI Opportunities Action Plan, AI is the defining opportunity of our generation. It will turbocharge every mission in the Government's Plan for Change.

We're investing in the foundations to ensure we have the right computing and data infrastructure, access to talent and economy-wide skills to accelerate the adoption of AI across the economy. To capture the full productivity, growth and innovation potential of AI we are committed to leveraging the government's Industrial Strategy, targeting the eight growth-driving sectors identified, and appointing AI Sector Champions in key industries to go further and faster. The Technology Adoption Review announced at the Autumn Budget will set out additional recommendations in Spring 2025 as to how government should work with industry to support businesses to adopt and innovate with AI.

The government is additionally committed to harnessing the power of compute to enable life-changing innovations that we can bring to market faster than ever before, and particularly in key growth sectors. In response to the AI Opportunities Action Plan the government committed to expand public compute capacity by 20 times by 2030, starting by at least doubling the AI Research Resource this year.

15. The Government must take immediate action to deliver the AI Opportunities Action Plan. Delivery of the plan must be supported by sustained political commitment and a laser focus on delivering growth. Implementation must be joined-up and pragmatic, and focus on solving immediate challenges. (Paragraph 98)

The Government has committed to delivering the AI Opportunities Action Plan. This will lay the foundations for AI growth, drive adoption across the economy and build UK capability at the frontier. Since the Action Plan was published, industry has shown their confidence in our approach by making significant investments into the UK, including £14 billion from Vantage Data Centres, Nscale, and Kyndryl to build AI infrastructure and create 13,250 jobs across the UK. This is in addition to the £25 billion in AI investment announced at the International Investment Summit in October 2024, bringing the total to £39 billion in the last six months.

DSIT has also immediately doubled the AI Research Resource capacity, received hundreds of responses from local authorities submitting expressions of interest to host an AI Growth Zone, renewed our focus on skills, and established a new function in Government to ensure the UK can remain at the forefront of AI development.

Government has committed to an ambitious and public timeline across the AI Action Plan, and we will be taking a whole government approach to deliver on these recommendations.

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

The government is committed to harnessing the power of science and technology to deliver growth, opportunity, and scientific advancements for people across the UK. Large-scale computing infrastructure and AI will play an important role in driving progress against each of the government's national missions, as well as supporting AI startups in creating innovative new technology.

The AI Opportunities Action Plan tackles the UK's long-term underinvestment in public compute by setting an ambitious target for our compute capacity by 2030. This will ensure that we have the necessary AI infrastructure to be at the cutting edge of developing and deploying AI, whilst also securing our long-term economic security. The government agreed to take forward all 50 recommendations in the Action Plan and is taking immediate action to progress them including those on expanding the compute infrastructure, by 20 times by 2030.

As a first step towards this, the government will soon launch a new procurement process to double the capacity of the AI Research Resource, ensuring we can bring more life-changing innovations to market faster than ever before. Furthermore, we are also opening the AI Research Resource, which consists of supercomputers in Bristol and Cambridge to a wider pool of researchers, startups and SMEs to drive forward new AI-enabled innovations while the systems are being tested.

In addition, we are launching AI Growth Zones across the country—dedicated hotbeds of AI development where government support will rapidly accelerate data centre construction, and the infrastructure needed to power cutting-edge AI. In February, we invited local and regional authorities, along with industry, to come forward with potential sites suitable for hosting AI infrastructure. The formal selection process will open in spring 2025 with sites being selected by summer 2025, and we welcome interest from areas with strong power infrastructure and economic potential.

DSIT is also developing a long-term plan for computing infrastructure in line with the AI Action Plan's recommendations, engaging closely with the sector and key academic institutions. DSIT will update on this longer-term plan in the spring.

17. The Government should quickly make available high-quality, curated data sources linked to specific objectives. A mission-led, incremental approach that builds public confidence should be adopted in work to deliver the complete national data library. (Paragraph 117)

Harnessing the value of the UK's data has the potential to contribute to UK productivity growth by between 0.23 and 1.26 %-points per year. In an increasingly complex and contested geopolitical landscape, identifying and exploiting potential areas of UK strategic advantage is crucial, and enabling access to high quality, unique data sets is one of these.

The government aims to overcome the challenges faced by the public and private sector through its Industrial Strategy, to boost productivity and drive innovation. It will set out our vision for growth from data and focus on three areas: unlocking the value of public sector data; enabling empowering individuals to use and do more with their data; and targeted measures to support our high growth sectors.

The Government will consider how the current data ecosystem enables data use and access, before taking steps to empower the public sector to leverage data more effectively, improving service delivery and fostering innovation. The National Data Library will be integral to this effort.

Whilst there are pockets of excellence across the public sector, we are not yet tapping into the full potential of our data. There is currently no single strategic approach to data access across the public sector. Existing initiatives are uncoordinated, leading to a landscape that is complex, fragmented and difficult to navigate.

The National Data Library will unlock the value of public data assets. It will provide simple, secure and ethical access to our key public data assets for researchers, policy makers and business – including those at the frontier of AI development – and make it easier to find, discover and make connections across different datasets.

By unlocking public sector data, the National Data Library will support world-class science and R&D and will lay the foundations for the UK to compete at the global frontier of the development of AI, delivering on the Government's AI action plan. It will also drive forward a modern government, enhancing the everyday experience of people and businesses when using public services.

Our approach to the National Data Library will be guided by the principles of public law and the requirements of the UK's data protection legislation, including the data protection principles and data subject rights. This will ensure that data sharing is fair, secure, and preserves privacy. It will also ensure that we have clear mechanisms for both valuation and value capture. We are seeking advice from experts on all these issues.

This Government has been clear that it wants to maximise the societal benefits from public sector data assets. We need to ensure good data collection, high quality curation, interoperability and ways of valuing data that secure appropriate value returns to the public sector. The NDL is still in the early stages of development with key decisions to be made in due course. We will engage with a broad range of stakeholders on the delivery of the National Data Library.

18. We heard strong support for the UK's sector-led, outcomes-based approach to AI regulation. However, this relies heavily on existing regulators' ability to navigate complex and evolving technologies. The Government has frequently referenced the potential benefits of the Regulatory Innovation Office (RIO), but its remit remains unclear. (Paragraph 127)

19. The Government must continue to ensure that regulators are properly resourced to deliver a sector-led approach to AI. In its response to this report, the Government should clarify the RIO's priorities and set out in detail how it will engage with existing regulators to harmonise approaches, share best practice and drive behavioural change. Future AI legislation must not create further regulatory uncertainty or barriers to entry. (Paragraph 128)

As referenced by the Committee, the government believes that most AI systems should be regulated at the point of use, and that our existing expert regulators are best placed to do this. The AI Opportunities Action Plan set out several recommendations for the Government to support and empower regulators. We are committed to supporting regulators in evaluating their AI capabilities and understanding how these can be strengthened.

We agree with the Committee that future legislation should not create further regulatory uncertainty or barriers to entry. This is why the government is developing legislative proposals that will be highly targeted and will complement the UK's existing regulatory frameworks, helping to build trust in AI and drive adoption across the country.

The legislative proposals will build on the voluntary commitments already secured at the Seoul and Bletchley AI Safety Summits, and will include plans to strengthen the role of the AI Security Institute. This will deliver on the Action Plan recommendation to support and grow the AI Security Institute and provide clarity on how frontier models are regulated in the UK. We look forward to engaging further with the full range of stakeholders on our legislative proposals in due course.

The Regulatory Innovation Office (RIO) was formally established on 8 October 2024, with Lord Willetts appointed as its first Chair on 10 March 2025. As the Government's primary lever for achieving its transformative ambitions in regulatory innovation. It has been established as an in-house function within the Department for Science, Innovation and Technology (DSIT).

The RIO supports regulators to update regulation, speeding up approvals, and ensuring different regulatory bodies work together smoothly. It works to continuously inform the Government of regulatory barriers to innovation, set priorities for regulators which align with the Government's broader ambitions and support regulators to develop the capability they need to meet them and grow the economy.

The RIO has three core pillars of activity: knowledge, strategy and capability building.

- The **knowledge pillar** will enhance our understanding of regulatory barriers to innovation, drawing on the work of the Regulatory Horizons Council.
- To address the most critical barriers, the **strategy pillar** will set clear priorities for regulatory innovation, aligning with our missions and Industrial Strategy, whilst ensuring safety.
- Through the **capability building** pillar, the RIO will work with regulators to ensure they have the necessary tools to achieve our shared goals. For example, it will build on the work of the Regulators' Pioneer Fund to provide strategic grant funding to regulators supporting the responsible development of novel or experimental regulatory approaches and on the work of the Regulators' Innovation Network to share skills and disseminate best practice among regulators.

The RIO is initially supporting four fast-growing areas of technology that make a difference to people's lives. These are:

- Engineering biology
- Space
- Artificial Intelligence and digital in healthcare; and
- Drones and other autonomous technology

The RIO will expand its focus to back further technologies and sectors as the Office evolves.

These four areas hold significant potential to drive innovation in support of the Government's missions, particularly the mission to grow the economy. Whilst the initial focus will be on these four areas, the RIO will not exclude any regulators or sectors from its scope as it develops.

The cross-cutting nature of emerging technologies, which do not fit neatly into existing regulatory frameworks, can mean a slower process in getting them onto the market. The RIO works closely with government departments ensuring that, while the RIO actively collaborates on addressing regulatory barriers, regulatory responsibility remains with the relevant Department.

20. The Government should also consider setting up dedicated teams specialising in key markets to help fast-growing UK AI companies expand internationally by facilitating connections overseas, including with foreign regulators. (Paragraph 129)

We are committed to building a thriving AI sector and ecosystem, supporting UK AI companies to scale and expand globally, and continue to work with our international partners and stakeholders to deliver this. Through international engagement and delivery of the AI Opportunities Action Plan, we can make progress towards unlocking the opportunities of AI to drive growth and prosperity, in the UK and across the globe. This includes establishing a new function with the mandate to strengthen the UK's sovereign AI capabilities in partnership with the private sector. Matt Clifford has been appointed as the Prime Minister's AI Opportunities Adviser to support this work.

21. The UK has comparatively low levels of AI adoption and public trust in AI technologies. Supporting innovation in AI will not lead to economic growth unless adoption is promoted in parallel. (Paragraph 134)

The AI Opportunities Action Plan aims to accelerate the adoption of safe and trustworthy AI across the economy, with all sections of the plan aiming to secure the necessary infrastructure, skills and other fundamentals required to promote widespread adoption. We are committed to diffusing AI widely across the whole of the UK, with a particular focus on supporting SMEs to overcome barriers to adoption. In parallel the government is working to develop a globally leading UK AI assurance ecosystem, driving the development and adoption of tools which measure, evaluate and communicate whether an AI system is trustworthy and works as intended. AI assurance is a key pillar of increasing public trust in AI technologies, as well as ensuring that industry can confidently invest in new products and services.

Technology adoption is a key driver of productivity growth and is thus an important priority for the government in delivering its growth mission. With the advent of disruptive new technologies, including AI, there are opportunities and challenges ahead that will demand more agile responses. That's why The Technology Adoption Review was launched, to gain views on what has worked well and what needs to change to ensure the UK remains at the forefront of successful technology adoption.

22. The Government is right to identify adoption as a key factor in enabling its AI growth ambitions, but should not play down the level of change this represents for both the public and private sectors. In its industrial strategy, the Government should outline the specific steps it will take to drive AI adoption across its key high-growth sectors, including how it will overcome barriers such as low trust, outdated infrastructure, and lagging digital skills. (Paragraph 135)

The Government recognises that the adoption of trustworthy AI across the UK public and private sectors will improve public services, drive productivity and growth across the whole economy, transforming all our lives for the better and supporting the Plan for Change.

Meeting these ambitions will require government and industry to develop agile and robust processes to support adoption, address barriers, and instil confidence in the technology while managing risks and safety. The AI Opportunities Action Plan sets out a roadmap to achieve this, including how we can strengthen our AI skills and talent base to ensure AI can be used by workers across the economy. The establishment of Skills England will also be key to embedding the right skills in workers, tackling skills shortages and supporting sustained economic growth.

As set out above, the Government is additionally working to develop a globally leading UK AI assurance ecosystem, driving the development and adoption of tools which measure, evaluate and communicate whether an AI system is trustworthy and works as intended. AI assurance is a key pillar of increasing public trust in AI technologies, as well as ensuring that industry can confidently invest in new products and services.

To capture the full productivity and growth potential of AI in the private sector, we are targeting high-growth Industrial Strategy sectors and supporting diffusion across the whole economy, which will include addressing the challenges faced by SMEs. The Technology Adoption Review announced at the Autumn Budget will set out recommendations in Spring 2025 for how government should work with industry to support businesses to adopt AI, with a focus on the eight growth-driving sectors identified in the Industrial Strategy.

Furthermore, the Government recently announced the Digital Inclusion Action plan to increase digital skills to deliver growth and opportunity for all. Improving digital skills essential to economic growth and success of Plan for Change, within the Action Plan the Government has set out the initial steps to breaking down barriers to digital inclusion currently affecting 1 in 4 Britons.

23. **Witnesses were clear that the UK's universities are one of its strengths, and that universities will continue to play an important role in UK AI development and leadership. Steps taken to implement the recommendations of the 2023 Independent Review of University Spin-out Companies should help innovative AI spinout companies be better positioned for future growth. However, more can be done to improve links between academia and industry and to ensure we remain competitive in the provision of supercomputing capacity. (Paragraph 140)**

Large-scale computing infrastructure is key to the UK's ability to harness the power of science and technology to deliver growth, opportunity, and scientific advancements for people across the UK. As mentioned above, we are opening the AI Research Resource to a wider pool of SMEs and academic researchers to drive forward new AI-enabled innovations while the systems are being tested. We recognise that engagement with academia and industry is crucial in this area to ensure that the compute resources we deliver are fit for purpose and the UK remains a leader in science and innovation advancements.

24. **We recognise the progress made in the adoption of TenU's University Spin-out Investment Terms best practice guidance. The Government should continue to implement the recommendations of the independent spinout review, including options to improve collaboration between academia and industry. (Paragraph 141)**

The Government accepts the findings of the Independent Review of University Spinouts and is committed to implementing its recommendations. We are actively monitoring the adoption of best practice policies by universities, with 52 institutions already signed up to improve licensing and equity stakes in line with the review's recommendations.

To enhance collaboration between academia and industry, the Government continues to fund TenU, which shares effective practices in research commercialisation. TenU has published detailed guidance on spin-out deals in life sciences and in software.

Improving links between academia and industry is essential to ensure we remain competitive. UK Research and Innovation (UKRI), through Research England has launched a Technology Transfer Offices (TTOs) Pilot

Programme to develop shared TTOs, enhancing efficiency, collaboration, and commercialisation by pooling resources and expertise to manage intellectual property effectively.

The Government is supporting the commercialisation of our world-leading university research by providing, through UKRI, £40 million over five years for proof-of-concept funding, helping researchers spin out the UK's cutting-edge research into firms of the future. This is in addition to ongoing support like the Higher Education Innovation Funding, which supports knowledge exchange between universities and the wider world, with £280 million for the 2024-25 academic year, including £20 million for commercialisation.

Further activities undertaken by UKRI include increasing opportunities for doctoral students to undertake internships in businesses, addressed through the new deal for postgraduate research as mentioned in the recently published Statement of Expectations for Doctoral Training. UKRI also continues to support career mobility and porosity between academia and business through opportunities such as Knowledge Transfer Partnerships and Future Leaders Fellowships.

25. Createch is an important growth driver in the creative industries, which in turn is one of the key sectors identified in the Government's industrial strategy Green Paper. The innovative products and services it generates also provide spillover benefits in other areas of the economy. (Paragraph 151)

26. It is vital that the Government's industrial strategy, its creative industries sector vision, and its innovation investment priorities reflect the economic value and true growth potential of createch, and the creative industries more broadly. We welcome the Government's recognition at the Creative Industries Growth Summit that the creative industries will play an important role in meeting its ambitions for growth. (Paragraph 152)

27. We urge the Government to remain steadfast in championing the creative industries sector and supporting its innovative businesses to scale. It should not underestimate the role of creative technology scaleups in helping the creative industries realise their full growth potential, and should remain alert to the needs of these businesses in its wider efforts to "turbocharge growth" in the sector. (Paragraph 153)

The government firmly agrees with these recommendations. The creative industries were selected as one of the government's eight priority Industrial Strategy sectors in view of the sector's high growth potential, and over the past decade, the sector has grown at over 1.5 times the rate of UK GVA.

The government will publish a Creative Industries Sector Plan in late Spring, which identify the barriers holding back the sector's growth potential, and government and industry's shared commitment to overcoming them.

As part of this, this government recognises the importance of createch to driving growth in the UK's creative industries as well as across the wider economy. Research funded by the Department for Culture, Media and Sport (DCMS) published in 2025 found that there are 13,800 creative businesses leveraging emerging technologies to drive innovation, supporting 350,000 jobs. Creative technology scale-ups provide a significant growth opportunity and, according to projections by Erskine Analysis, could generate up to £18 billion in additional Gross Value Added (GVA) over the next decade with the right support.

Creative industries firms are highly innovative, with 61% being classed as innovative compared to 38% of UK businesses. Creativity is a vital ingredient of innovation and the future economy, and the most significant predictor of economic growth up to 2030.

As a first step towards the Sector Plan, at the Creative Industries Growth Summit in January 2025, the government set out that the British Business Bank will increase its support for the creative industries to support the scaling and growth of creative businesses, and that UKRI will strengthen its investment into creative R&D, building on the success of the Arts and Humanities Research Council and programmes like the Creative Clusters Programme, and develop a new strategy to support the creative industries. This will help support the positive economic spillovers of R&D in the creative industries, as identified by the Prime Minister's Council of Science and Technology report: *Harnessing research and development in the UK creative industries*.

28. The creative industries are fragmented and have a high proportion of micro and small businesses. Some creative technology SMEs are not looking to scale in the traditional venture capital model. But it is important that those with ambitions for high growth are supported to pursue this goal. High growth tech scaleups in the creative industries should be afforded the same opportunities as those operating in any other key growth sector. (Paragraph 157)

The government agrees that high growth scaleups in the creative industries should be afforded the same opportunities as those operating in any other key growth sector. Creative businesses have diverse growth and development needs. Some may not want to scale or seek dilutive funding but, for those that do, it is essential that we support them to scale in line with our central mission.

The Create Growth Programme has supported high-potential growth businesses from across England to increase their investment readiness for scale-up and foster links with investors. Creative businesses are also accessing government growth support including the Growth Guarantee Scheme, provided by the British Business Bank. The Sector Plan will set out further details of the increased support from the British Business Bank announced at the Creative Industries Growth Moment and the government's wider support package for high-growth scaleups in the creative industries.

29. The Government is right to explore options for improving access to finance for creative businesses. This could involve a specialised financial vehicle aimed at catalysing investment into innovative creative technology businesses. Any interventions should be co-designed with industry and accompanied by work to track the performance of creative investments to improve investor understanding of and confidence in the sector. (Paragraph 165)

The government is committed to co-designing interventions with industry. In November, the DCMS Secretary of State announced the creation of the Creative Industries Sector Plan Taskforce, comprising high-calibre sector representatives, economists, academics and investors. Co-chaired by Baroness Shriti Vadera and Sir Peter Bazalgette, the Taskforce has a specific focus on developing plans for growth of the sector under the government's Industrial Strategy.

A full package of measures will be announced in late Spring, with the publication of the Creative Industries Sector Plan and Industrial Strategy, many of which will aim to catalyse investment into Createch and other high-growth startups. This will include reporting requirements so that we know the real-world impact that these interventions are having and inform improved investor understanding of and confidence in the sector.

30. We reiterate our previous recommendation that the Government should change the definition of R&D for the purpose of tax relief to include more of the creative sector. (Paragraph 168)

The Government recognises the importance of research and development (R&D) in driving innovation and the benefits it can bring for society, where the R&D tax reliefs play a vital role in the Government's mission to boost economic growth. All sectors, including creative industries, can claim R&D relief on projects that meet the definition of qualifying R&D set out in DSIT Guidelines, which covers any advance in science or technology through the resolution of uncertainty. This is on top of generous support through the creative industry tax reliefs, which were worth £2.2 billion in 2022-23.

At Autumn Budget 2024, the Government made several commitments on R&D tax reliefs as part of the Corporate Tax Roadmap, with a focus on providing stability and certainty for businesses. As set out in the Corporate Tax Roadmap, the Government will continue to consider longer term simplifications and incremental improvements to the effectiveness of the R&D tax reliefs. However, any reforms need to be considered in the context of the challenging fiscal position, and the Government's commitment to reducing the unacceptably high levels of error and fraud in the R&D tax reliefs.

Tax policy is the responsibility of HM Treasury, who keeps all taxes under review as part of the policy making process. The Chancellor makes decisions on tax policy at fiscal events in the context of the public finances.

31. **AI is one of many technologies driving innovation in the creative sector. However, the use of copyrighted content to train AI models without permission or compensation has raised alarm. Creative rightsholders must be able to exercise control over their intellectual property. Clarity around copyright is also important for creative technology companies to feel confident in their own use of AI tools for innovation. The Government is right to try to make progress on this issue through its consultation on AI and copyright. Resolution of this issue is urgent. (Paragraph 178)**

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

The government agrees that rights holders should have control over and have viable routes to payment for their work, including when thinking about the role of AI. Our consultation on the impact of AI on the copyright regime, which was published on 17 December and closed on 25 February, received over 11,500 responses. Our aim is to provide certainty and deliver shared growth in for our British creative and AI sectors through a copyright regime that provides creators with real control and transparency, and helps them licence their content, while supporting AI developers' access to high-quality material.

We welcome the significant engagement with this consultation from across the creative and AI sectors, and the valuable contributions from parliamentarians to development of policy on this issue. As noted in the recommendation, it is important that any policy intervention must address the needs of creators as well as AI developers. We will now consider the full range of responses we have received and will continue to develop our policy approach in partnership with creative industries, media and AI stakeholders.

The consultation sets out the Government's ambition to ensure our creative industries and AI sector can grow together in partnership. Key to this approach will be measures to deliver greater transparency over what material is being used to train AI systems and ensuring that those measures are enforced and complied with, alongside practical technical solutions that enable right holders to protect their rights. In particular, any rights reservation system would have to be underpinned by requirements for AI model developers to be more transparent about how they obtain their training material, to enable copyright to be more easily enforced.

Addressing this issue is an urgent priority for the government, but no decisions will be taken until we are absolutely confident we have a practical plan that delivers for both the creative industries and AI developers together. Particularly when considering rights reservation tools for creators, we will only move forward if we are confident that tools are accessible, easy to use and effective for rights holders of all sizes.

33. **Initiatives focused on clustering have proved successful for facilitating growth in the creative industries. However, the current landscape of initiatives aimed at supporting innovation in the sector lacks cohesion. A more streamlined approach is needed to avoid duplication and inefficiency, alongside longer-term funding commitments that offer greater stability to business**

owners and investors. The tendency of Ministers and government bodies to constantly reinvent or introduce new initiatives is having a detrimental effect on the very businesses they are hoping to support. (Paragraph 191)

34. DSIT, as the department responsible for UKRI, and DCMS should undertake a critical review of the cumulative impact of the various initiatives aimed at supporting innovation in the creative industries, with a view to reducing their complexity and developing a coherent pathway for progression for businesses. Ministers must guard against the temptation to introduce additional initiatives in the Government's forthcoming sector plan. AHRC should use its convening power to foster closer connections between cultural institutions and creative technology scaleups.

The Creative Industries Sector Plan will set out ambitions to drive the sector's growth to 2035. We are working across departments and delivery bodies to ensure that government support is streamlined, coherent and accessible for creative businesses and investors.

As part of this, we announced in January that we would develop a new UKRI strategy for the creative industries. This will guide the commitment to strengthen investment in R&D for the creative industries, which responds to the recommendation from the Prime Minister's Council of Science and Technology that "public investment in R&D in the creative industries should reflect the size, economic contribution, and future growth potential of the sector". Creative clusters will be an important part of this.

UKRI will work towards a coherent research strategy and a cohesive, streamlined approach to investment which has a strong focus on the capacity to draw universities, cultural institutions and SMEs together to create scalable investable propositions. This includes reducing barriers for businesses, innovators, and knowledge transfer from the research to industry by establishing dedicated pathways to innovation funding programmes. CoSTAR and the Digital Catapult will be especially relevant as infrastructures with significant convening power and networked capacity, especially in collaboration. Connections with other parts of government and delivery bodies, including the British Business Bank, are also vital.