

# UK Research and Innovation (UKRI)—supplementary written evidence (ACT0061)

## House of Lords Communications and Digital Select Committee inquiry: “Scaling up: AI and creative tech”

### Introduction

This written evidence submission covers additional information requested by the Committee, during their evidence session with Professor Christopher Smith (Arts and Humanities Research Council) and Esra Kasapoglu (Innovate UK) on 3 December 2024.

### Details of the Innovate UK Scaleup Programme and outcomes

1. The Innovate UK Scaleup Programme<sup>1</sup> has been in operation since 2017, including its pilot phase. To date, the Programme has supported 297 companies, including 15 AI-integral companies<sup>2</sup> and 10 companies directly included within the creative industries (across areas including design, media and advertising), as well as other which using creative methodologies an/or technology in a parallel sector. See Box 1 for two case studies exemplifying companies supported through the Programme.
2. Overall, 70% of all companies supported by the Programme are outside of London and the South East (Figure 2).

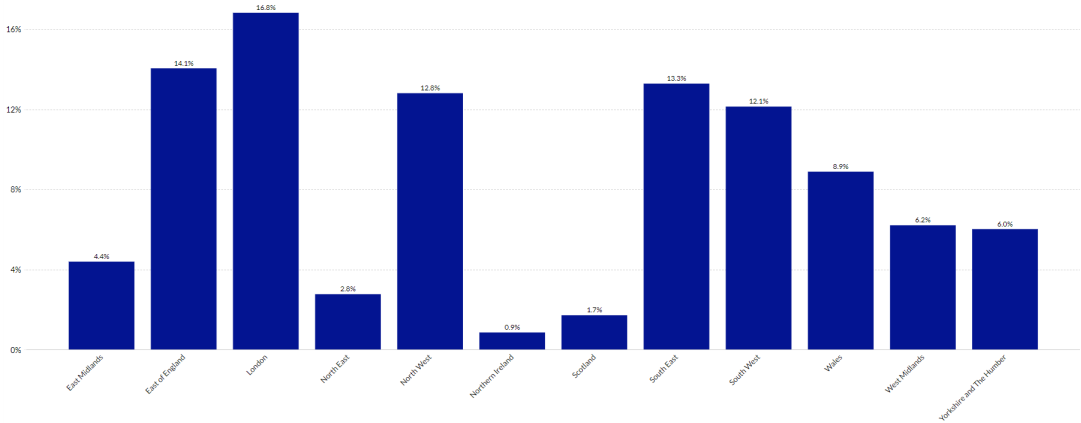


Figure 1 - Geographical spread of companies supported by the Innovate UK Scaleup Programme

<sup>1</sup> <https://iuk-business-connect.org.uk/programme/scaleup/>

<sup>2</sup> Companies where Artificial Intelligence is integral to their offer on the Scaleup Programme.

### 3. Outcomes and Impacts

- Proportion of businesses that raised equity investment post support commencement:<sup>3</sup> 27.9%
- Total equity investment raised post support commencement = £518m
- Average equity investment raised post support = £6.24m
- Multiple of equity investment to IUK grant support received, post support commencement: c. 6:1
- Total turnover increase<sup>4</sup> = c. £324m
- Average increase in turnover = c. 83%

An interim summative assessment<sup>5</sup> of the Scaleup Programme revealed that:

- 75% expect to develop new products
- 78% expect to enter new markets/secure new contracts
- 82% expect turnover to increase
- 90% have created or will create jobs
- 86% believe this support is intrinsic to the growth they witnessed
- 90% would recommend the Scaleup Programme to other enterprises.

#### **Box 1—Case studies from the Innovate UK Scaleup Programme**

##### AI—Habitat Learn

Habitat Learn<sup>6</sup> is striving for a world of digital learning that is both inclusive and immersive, where everybody fits in. From live captions and note-taking to transcription and generative AI, Habitat Learn has developed a suite of products and services rooted in the principles of Universal Design for Learning, to create genuinely accessible learning environments.

##### Challenges addressed on Scaleup Programme

###### 1. Funding

To look at possible funding options for the company, as this would be the first type of funding injection it would prepare for (e.g. identifying grant funding, working on the investment thesis and framework plus identifying investor contacts).

###### 2. Growth strategy/business model

Support with transition from hybrid service/hardware/SW delivery approach to a software-based proposition with SaaS business model.

<sup>3</sup> Equity investment post acceptance onto the Programme, data derived from Beauhurst and FAME. Data includes any equity raised by 14 companies who had submitted a Scaleup Programme EOI, but who had not yet been supported

<sup>4</sup> Turnover increase since accepted onto the Programme, a Redflag-derived estimate from 2023 based on last filed accounts from FY 21 or 22 (i.e. companies on the Programme for which information is available)

<sup>5</sup> From interim summative assessment of financial years 2019-20 and 2020-2021 support (79 companies). Analysis commissioned from The Innovation Partnership

<sup>6</sup> <https://www.habitatlearn.com/>

3. Market expansion  
Development of clearer market and customer roadmap.

#### Outcomes

1. A high level of success with grant funded projects has helped support the company while the full investment proposition was being refined.
2. Much tighter product/market fit as evidenced by customer acquisition and expanding pipeline. Competitive advantage strengthened by a strategic partnership and embedding trustworthy AI.
3. Impressive and growing North American customer footprint with expanding pipeline. Funded market discovery projects for Saudi Arabia and Rwanda.

Habitat Learn is now on steep growth trajectory to multiply revenue and achieve significant market penetration.

#### Creative—VRSS (Virtual Reality Simulation Systems)

VRSS developed a VR application to train all Rail Staff including dispatchers, conductors and safety staff. The Platform Train Interface training course follows the curriculum of UK rail operators. The product has been developed to operate on a VR headset and includes the full replication of a station environment, complete with avatars, rail stock and haptic additions (such as batons).

Through the Scaleup Programme, VRSS re-positioned itself to receive game-changing equity funding by collaborating on a 5-year growth plan, protecting its IP and sourcing senior talent. The Innovate UK Global Business Innovation Programme<sup>7</sup> helped expand the company's horizons.

Within six months the business attracted the right financial backing as a platform for growth, expanded into new vertical and international markets, (healthcare and a business partnership in India).

### **Case studies from BridgeAI and Creative Catalyst Programmes scaling innovative AI and Creative Tech businesses**

4. **DAACI:** By integrating cutting-edge AI technologies, DAACI streamlines the music creation, production, and distribution process. Their platform enables faster music generation, automatic mixing and mastering, and the creation of customizable tracks tailored to specific moods or themes. This is especially valuable for independent artists who lack access to traditional high-end production resources.

---

<sup>7</sup> <https://iuk-business-connect.org.uk/programme/global-business-innovation>

5. Leveraging Innovate UK grants, DAACI has combined generative AI with data analytics and personalized marketing to enhance audience targeting and drive growth opportunities.
6. In less than two years, DAACI attracted seed funding from private investors and created new high-tech jobs, boosting the UK's tech sector. Following their participation in Innovate UK's Global Business Innovation Programme, DAACI expanded into international markets, increasing revenue by over 30%. DAACI's innovative approach is reshaping the way music is produced and experienced in the digital age.
7. **Synthesia:** This company's AI-powered platform leveraging deep learning and synthetic media technology allows users to create realistic and customizable video content. The photo-realistic human faces and speech are indistinguishable from real video but without the need for cameras, actors, or expensive film studios.
8. With support from Innovate UK, Synthesia expanded its capabilities, enabling businesses to produce training, marketing, and educational videos at scale. This early backing helped the company scale rapidly, ultimately reaching "unicorn" status—valued at over \$1 billion. Synthesia's success demonstrates the transformative potential of AI in creative industries and the vital role of strategic innovation funding in fostering high-growth tech startups.
9. **Celestial Labs:** Founded in 2020, Celestial uses synchronized illuminated drones to craft stunning night-sky storytelling. The company has quickly gained international recognition, offering premium creative design and production services to clients worldwide.
10. Celestial's journey with Innovate UK began with a 2021 grant through the Creative Catalyst, followed by additional funding in 2023. Innovate UK Growth helped the company raise angel investment by enhancing their investment readiness and strategy. The support also included guidance on innovation capacity and market expansion.
11. Celestial's global presence includes drone art shows in Australia, Nigeria, the US, and Europe. Their environmentally conscious work, which replaces fireworks with renewable energy-powered drones, has gained significant attention, including a performance at the 2021 G7 Summit.<sup>8</sup> The company's innovative success and rapid growth, including expanding from a team of 5 to 50, exemplify how strategic innovation and investment support can accelerate business transformation. Celestial's story underscores the importance of creative industries funding in scaling high-impact companies.

---

<sup>8</sup> <https://celestial.show/shows/social-impact/greenpeace/>

## Case studies for the two new creative industries clusters in Liverpool and the West Midlands.

### MusicFutures: Transforming Liverpool City Region (LCR) into a Global Leader in Music Innovation

12. Music is a universal language and cultural necessity delivering multigenerational societal benefits. It is a unique source of national pride, creating unforgettable moments and uniting people across diverse backgrounds and interests. The music sectors delivering these experiences are currently exposed to tectonic technological and socio-economic change. Over the next five years, MusicFutures will seize this transformative moment to establish Liverpool as the UK's creative cluster for music and music business innovation. The cluster will drive artistic, technological and intellectual property (IP) breakthroughs that will diversify and strengthen the UK's position at the forefront of the global music industry. As England's only UNESCO City of Music, Liverpool is uniquely positioned to leverage its cultural heritage, strong industry infrastructure, and creative energy to become a sustainable, inclusive, and world-leading Music RD&I ecosystem.
13. **Industry context:** The UK music industry contributes £6.7 billion to the economy, provides 210,000 jobs, and generates £4 billion in exports. However, this success masks systemic challenges that hinder musicians and freelancers from building sustainable careers. Government reports highlight a decline in grassroots venues and touring, which are crucial for nurturing new talent and community engagement. Inequities in copyright and contracts, and a lack of transparency in rights management and royalty distribution, create additional barriers for music makers. The precarity of working across "gig economies" worsens these issues, making it particularly challenging for artists, small businesses, and marginalised communities to achieve success. The result is strained talent pipelines and the inability of new voices to break through.
14. In this challenging environment, disruptive technologies like AI, XR, and blockchain present a pivotal and urgent opportunity to revolutionise music creation, distribution, and monetisation. By harnessing these technologies, artists can engage with their audiences in unprecedented ways, and retain more control over their creative output and resulting financial success. However, the potential of these technologies can only be realised if the industry and policymakers actively work to ensure equitable access and develop frameworks that support a diverse and inclusive music ecosystem.
15. The UK music sector operates within broader global industry trends where domestically produced music earns an ever-increasing share of national charts, and cities/regions within nations promote bespoke musical identities and industry credentials. Given these dynamics, a key R&D question emerges: How can regional music innovation ecosystems incubate and

enable cutting-edge artistic and technical practices that drive business growth and elevate the UK's leadership in the global music industry?

16. **Regional opportunity:** Liverpool has continuously pioneered and shaped global pop culture. Boasting the most UK number-one records and more than 1,400 music businesses, Liverpool's music sector and global brand is ideally positioned for MusicFutures to catalyse innovation and growth within and beyond the region, and bridge sectoral gaps in the Creative Cluster/CoSTAR network, creating essential musical pathways into other creative sectors such as gaming, film, and XR.
17. **What the Cluster will do:** MusicFutures will launch a waterfront hub, fostering collaboration with 27 partners to generate sector insights and career pathways for artists and future music professionals. This environment will empower SMEs and entrepreneurs to innovate, attract investment, scale up, and adopt sustainable practices. Through diverse cross-sector programmes, we will fuel growth, drive environmental innovation, and champion inclusivity. MusicFutures will elevate both the region's and the UK's competitiveness in the global music market.

### **CreaTech Frontiers, Birmingham City University**

18. CreaTech Frontiers aims to establish a thriving innovation ecosystem for creative technology companies in the West Midlands. This ambitious plan brings together four leading universities - Birmingham City University, Coventry University, University of Birmingham, and the University of Warwick - alongside the Royal Shakespeare Company, to set up for the first time a creative cluster in the region. The collective expertise of the core partners spans creative computing, artificial intelligence, immersive technologies, gaming, virtual production, digital arts, excellence in live performance and creative industries research.
19. We define createch as businesses in the creative or cultural sector developing or adapting technology to create experiences, products and services. Createch in the West Midlands faces significant challenges, including fragmentation, skills gaps, a predominance of microbusinesses and freelancers, and underinvestment in R&D. Despite being one of the UK's most ethnically diverse regions outside London, its creative workforce lacks diversity. The region also grapples with below-average educational attainment and a substantial digital skills deficit. CreaTech Frontiers seeks to address these challenges with an intense programme of collaborative R&D involving researchers, createch businesses, cultural organisations and high-value growth industry. The programme will provide comprehensive business support and skills development, embedding EDI, sustainability and responsible innovation practices throughout its activities.

20. The programme revolves around three core themes:
  - Createch innovation with SMEs
  - Innovative content creation and production
  - Cross-sector collaboration for innovative creative services
21. A network of four specialised labs will form the backbone of the R&D infrastructure, each focusing on different aspects of createch:
  - Immersive audio and video technologies (Birmingham City University)
  - Virtual production (Coventry University)
  - Applied AI for createch (University of Birmingham)
  - Gaming, esports, and animation (University of Warwick)
22. The cluster will disburse £1.8 million through funding calls, offering grants ranging from £5,000 to £50,000 to regional SMEs. Additionally, it will deliver over 70 paid internships and 16 fully funded PhDs as Collaborative Doctoral Awards to nurture talent and drive innovation.
23. CreaTech Frontiers boasts an impressive array of industry partners, including Vodafone, ARUP, Rebellion, Holosphere, Capture Ltd, Elemental Compute, Reach plc and Hollywood Gaming. Cultural heavyweights such as the Birmingham Opera Company and Birmingham Contemporary Music Group will collaborate on R&D projects, while organisations like TechWM, Create Central, and Culture Central will provide advocacy and industry connections.
24. The programme's potential applications and benefits are far-reaching. It will accelerate growth in the createch sector, creating jobs and attracting investment to the West Midlands, and it will contribute cultural and social benefits by developing cutting-edge, technology-enhanced performances and experiences. CreaTech Frontiers will seek to address the region's digital skills gap and open the door to a diverse talent pipeline. It will also promote cross-sector innovation by providing creative services for high-growth industries and enhance the West Midlands' global reputation as a createch hub through international collaborations and showcases.
25. By leveraging the West Midlands' unique strengths - its young, diverse population, burgeoning tech sector, world-class cultural organisations and universities - CreaTech Frontiers aims to position the region as a leader in createch innovation. The programme's holistic approach, combining R&D, business support, and talent development, promises to create a sustainable ecosystem that will continue to thrive long after the initial funding period.

## **Governance bodies or processes that coordinate or inform UKRI's various programmes relating to AI and Creative Tech startups and scaleups**

26. The Creative Industries Advisory Group<sup>9</sup> was raised during the oral evidence session.
27. The Innovate UK BridgeAI programme is delivered collaboratively with a network of strategic delivery partners which share Innovate UK's commitment to increasing the adoption and responsible implementation of AI as well as relevant expertise and understanding of the landscape. Key partners include the Alan Turing Institute, BSI, Digital Catapult and Hartree Centre.
28. In addition, an Advisory Group and four Expert Working Groups (one for each target sector) have been convened. These groups provide:
  - Expert advice into the BridgeAI programme offerings in line with real industry needs.
  - Thought Leadership by representing and evangelising the BridgeAI programme to raise awareness and mobilise stakeholders.
  - Strategic guidance to help inform future of the programme, including early sight of priorities.
29. These groups consist of senior representatives from industry, academia and the investment community and meet 4 times per year and ad-hoc as circumstances arise.

## **Simplifying, and reducing the burden on industry grant applicants**

30. Innovate UK (IUK) grants, like all UKRI funding,<sup>10</sup> are awarded through a competitive process. Grants are only awarded when an applicant meets specific criteria in the assessment process, which relies on external assessors. Typically, IUK receives more fundable applications than its available budget can support. Consequently, the funding threshold becomes more stringent. For instance, while IUK may classify any application scoring over 70% as fundable, oversubscription might require applicants to score above 78% to secure funding.
31. This competitive dynamic has encouraged some businesses to allocate significant resources to maximise their application scores and improve their funding prospects.

---

<sup>9</sup> For more context please see <https://www.ukri.org/opportunity/creative-industries-clusters-programme-invite-only/>

<sup>10</sup> <https://www.ukri.org/apply-for-funding/how-we-make-decisions/>



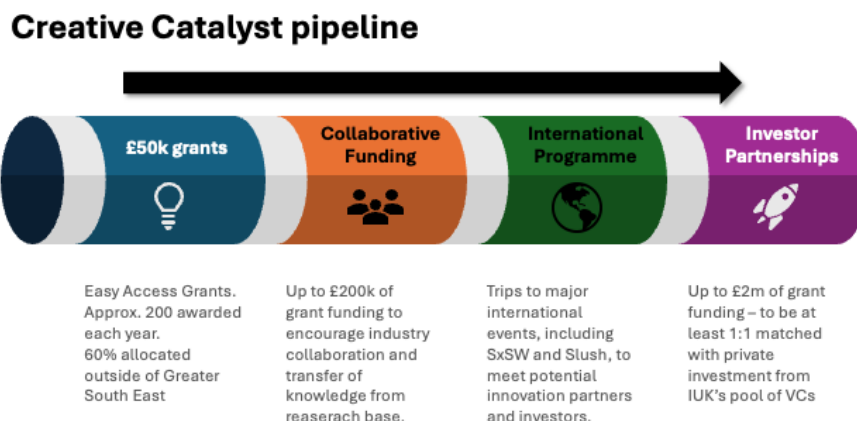
32. To address these challenges, Innovate UK has introduced several new products and processes in recent years:
- **Standardised Scored Questions:** IUK has ensured that the scored questions used in its competitions are standardised, reducing variability. This approach allows potential applicants to familiarise themselves with the questions in advance, improving their preparation. It also facilitates the efficient reuse of answers across multiple, consecutive competitions.
  - **Simplified Application Forms for Low-Value Grants:** For grants up to £50k, IUK has introduced a simplified application process, requiring responses to only four scored questions and no additional appendices.
33. These innovations have been particularly effective in the creative industries, where IUK has used low-value grants to expand funding opportunities through initiatives such as the Creative Catalyst and DCMS' Create Growth Programme. In 2024, over 310 companies were funded using this new product.
34. The quality of applications received under this streamlined approach, as measured by assessor scores, has been comparable to that of other competitions, demonstrating that excellence is not compromised.
35. This new product aligns with IUK's commitment to tailoring application processes to the size of the award. For example, IUK employed a two-stage process (a standard application form followed by a panel interview) to select the winning consortium for its £4m Sorting and Recycling Demonstrator competition under the UKRI Circular Fashion Programme.
36. Additionally, IUK ensures consistency when using unscored questions across relevant competitions. For example, a question on AI ethics (including freedom to operate), developed by the AI Team for use in the BridgeAI programme, was also used in the Creative Catalyst's AI in the Music Industry competition.

**How programmes are designed to support the long-term growth of innovative start-ups, rather than just addressing short-term objectives.**

37. Innovate UK manages a diverse portfolio of funding products and support mechanisms designed to help companies achieve their long-term growth objectives. These range from early-stage interventions, such as small grants, to larger grants and more advanced offerings like Investor Partnerships and Innovation Loans.
38. To help companies navigate these products and select the most suitable option at the right time in their innovation journey and growth stage, we deploy a variety of interventions across our programmes. The type and

number of interventions depend on the specific objectives of each programme.

39. One example is the Creative Catalyst programme. This UK-wide initiative addresses a key barrier to growth and scaling faced by the creative sector: access to finance. The Creative Catalyst delivers a tailored package of targeted resources and ongoing support to help creative businesses thrive. It is specifically designed to meet the needs of creative companies, which are often small, young, innovation-driven, and underfinanced. Many companies have progressed from the Creative Industries Clusters Programme, as noted in the evidence given to the Committee.
40. The programme offers support ranging from £50k grants for those at the start of their journey to multi-million-pound packages combining grant funding with venture capital investment. Acting as a critical bridge, it connects early-stage research council initiatives with both private and public scale-up funding.
41. Creative Catalyst functions as a pipeline, guiding companies through successive growth stages. As companies progress, the level of funding increases, but so does the requirement for match funding and the risk borne by the business. For example, the programme begins with 100% funded grants of £50k, progressing to larger projects requiring a minimum of 1:1 match funding, potentially up to £2 million, matched with venture capital investment.



42. This approach is delivering tangible results. Since its launch, two years ago, we've seen a growing number of companies progress through the programme—starting with small grants and advancing to secure private investment through IUK's Investment Partnership initiative. Through Investment Partnership, IUK is forecasting an expected private investment of over £31m for its funding of £7m to 20 creative technologies and industries projects.

43. Access to finance is a particularly significant issue in regions outside London and the South East. Within the programme, Innovate UK encourages and ensures that at least 60% of the funding for the initial £50k activities is allocated outside the Greater South East. Furthermore, IUK is developing new approaches in other activities to ensure maximum benefit across the entire UK.
44. For example, in the latest CR&D competition, which is currently open,<sup>11</sup> at least one partner is required to be a grant-claiming business based outside of Greater London. This approach aims to stimulate activity beyond London, encourage value transfer across multiple regions in the UK, increase collaboration and knowledge transfer among multiple business partners and ensure that no company is explicitly excluded.

## **About UKRI**

Launched in 2018, UKRI is a non-departmental public body sponsored by the Department for Science, Innovation and Technology and the largest public funder of research and innovation in the UK. UKRI is nine councils working individually and collectively across all disciplines and sectors. Together we connect discovery to prosperity and public good, enriching lives and enabling high productivity economic growth, job creation and high-quality public services across the UK.

UKRI invests in people, teams, places and infrastructure, strengthening the skills, organisations, and collaborations needed to explore and develop game-changing ideas within and across disciplines. We build and tune a portfolio of investments with aligned incentives to capture the benefits of research and innovation for the UK, tackling challenges from climate change to healthy aging, and harnessing the opportunities from new technologies from AI to engineering biology. UKRI works with our many partners and stakeholders to shape a dynamic, diverse and inclusive research and innovation system that gives everyone the opportunity to participate and to benefit.

*December 2024*

---

<sup>11</sup> <https://apply-for-innovation-funding.service.gov.uk/competition/2060/overview/abfdedaa-0787-4060-8f9d-9372480acd25>