

HM Government—Departments for Business and Trade; Culture, Media and Sport; and Science, Innovation & Technology; and HM Treasury—supplementary written evidence (ACT0063)

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

We are writing to you following our appearance before your committee on 10 December, concerning the Scaling Up – AI and creative tech Inquiry. During our appearance, we committed to provide further details on several topics. We have addressed these in sections respective to each of our ministerial responsibilities. Each section addresses topics by the order that they were raised. We hope the Committee finds this information useful.

Feryal Clark MP, Parliamentary Under Secretary of State at the Department for Science, Innovation & Technology:

There was interest shown in the AI Opportunities Action Plan by members of the committee. The following information builds on my comments during the session:

- In July 2024, the DSIT Secretary of State commissioned Matt Clifford to develop an ambitious AI Opportunities Action Plan. My department hopes to publish the plan shortly.
- This government is committed to building an AI sector that can scale and compete on the global stage, and to boosting the responsible adoption of AI across all parts of the economy – including the public sector – to improve products and services.
- The plan will set out how this government will achieve these goals, particularly through securing the necessary infrastructure, talent and data access, and specific measures to boost adoption and UK capability.
- DSIT will also establish the AI Opportunities Unit to support the delivery of the Action Plan recommendations, including working with departments across government.

Members of the Committee were interested in how the Government will support investors to have the right skills to be successful:

- DSIT has funded the Science & Technology Venture Capital Fellowship, which is being delivered by Imperial College London and the Royal Academy of Engineering. Having started on 25 November 2024, this first-of-a-kind programme will accelerate the development of a strong UK science and technology investment base by upskilling mid-career VCs on investing in deep tech and life sciences companies in the UK.

- The Fellowship also offers a select number of scholarships to boost diversity in the venture capital investment community, which will also help to increase female participation. This initiative addresses the issue cited by a number of research-based companies that Venture Capital funds lack the technical expertise to understand the scientific principles underlying their businesses and that this is a barrier to securing investment.

The Rt Hon. the Lord Knight of Weymouth raised a question regarding how the government will evaluate the effectiveness of the Digital Growth Grant (DGG) and its impact:

- The DGG is a £12m grant (over financial years 2023-25) supporting the UK tech sector, delivered by Barclays Eagle Labs. It builds on more than £42.2 million invested by the government to support tech start-ups and scale-ups since 2016. The DGG is on track to support 22,000 businesses over the two-year grant period (financial years 2023-25).
- Through the DGG, Barclays Eagle Labs delivers a range of business support programmes, including two programmes (delivered by Plexal and Cambridge Judge Business School respectively) that are specifically designed to accelerate growth and address the unique challenges that founders face in scaling up their businesses.
 - Across the first year of Digital Growth Grant funding, Barclays Eagle Labs have delivered: 13 national growth programmes supporting over 1,000 programme participants, 13 regional growth programmes supporting over 600 businesses. 80% of founders supported in year one of the grant were based outside of London, and 53% from underrepresented backgrounds.
- DSIT has commissioned Frontier Economics to undertake a full independent evaluation of the DGG, which will be published upon completion.

The Baroness Harding of Winscombe asked for clarification on the Central AI Risk Function (CAIRF). There was confusion during the committee session due to a question which referred to CAIRF as the Critical Central Support Function so I have provided clarification below.

- DSIT established a Central AI Risk Function to coordinate a cross-government approach to AI risk. The CAIRF's mission is to ensure that the UK Government's activities effectively reduce the likelihood and impact of risks associated with AI, and that the UK is prepared for its rapid advances. This decision was a commitment in the AI Regulation White Paper published in August 2023. The CAIRF has three functions: risk assessment; cross-Whitehall engagement; risk mitigation and preparedness. It is staffed with both experienced generalist civil servants and technical staff.

- On the first function: in order to mitigate the risks, you first have to understand them. The CAIRF has established an AI Risk Register to provide an evidence base for AI risk. The Register lists individual risks associated with AI that could impact the UK, spanning national security, the economy, and society. The CAIRF is tasked with the development, maintenance, and governance of the AI Risk Register, though individual risks and their mitigations are owned by the relevant Government departments.
- The CAIRF's second function is to act as the key engagement touchpoint on AI risk between Lead Government Departments ("Risk Owners") and DSIT. The CAIRF supports other Government departments to reduce the AI risks in their areas and has set up a governance structure to hold risk owners to account.
- Finally, the CAIRF also monitors the effectiveness of mitigation and preparedness solutions to AI risks developed by Risk Owners. AI most often exacerbates existing risks, so many of the solutions to those risks lie within individual departments' remits. The CAIRF's role is to offer AI expertise to inform how AI might converge with those sectoral risks, and to hold departments to account for delivery of those sectoral mitigations. Some cross-cutting mitigations are the responsibility of DSIT; the clearest example of this is AI legislation and regulation, which are informed by the CAIRF's work on risks. The CAIRF also works with national security departments on the most acute risks, to ensure that Government is prepared to respond to the release of an AI model that could exacerbate a national security risk. This work was covered in your national security briefing earlier this week.

The Baroness Harding of Winscombe asked for clarity concerning the difference between the Regulatory Innovation Office (RIO) and the CAIRF. The Rt Hon. the Lord Knight of Weymouth also requested further information concerning the relationship between the Regulatory Innovation Office and the Digital Regulation Cooperation Forum. I would like to highlight that:

- I have provided information above on the objectives and activity of the CAIRF. The RIO has been established to update regulation, speed up approvals, and ensure different regulatory bodies work together smoothly for technologies and innovations. This will involve looking across technologies that drive economic growth, like AI. The RIO has identified AI and digital in healthcare as a priority area and is working with government departments, regulators, industry and academia to ensure coordinated regulatory policy and delivery.
- The RIO is working closely with stakeholders to implement a demand led organisation to enhance regulatory pathways for technologies and innovations. Regulators, including regulatory forums like the Digital Regulation Cooperation Forum (DRCF), are key stakeholders and further collaboration will support the design of the RIO's target operating model. As the RIO evolves, it will ensure key findings are shared across

regulators, for example, lessons learned from the DRCF AI and Digital Hub trial, due to end in 2025.

- Linked to this, DSIT is working with regulators to ensure they have the necessary capability to regulate the use of AI in their sectors. This is done through regular engagement, ensuring government better understands their concerns in the context of AI and can reflect this into my department's broader policy making process.

The Lord Kamall expressed interest in the government's plans and timescales for compute. I would like to expand on my initial response given at the committee hearing as follows:

- Ensuring that the scientific community can access the large-scale computing power that they need is crucial to the UK's scientific competitiveness. However, undertaking the exascale supercomputing project requires a significant budgetary commitment of up to £1bn over the lifetime of the system. The previous government announced that the project would be undertaken, without allocating all the necessary funding. This government is committed to backing up all announced programmes with full funding.
- As such, DSIT is now developing a long-term plan for the UK's computing infrastructure in line with the AI Opportunities Action Plan's recommendations and will take this forward as part of the multiyear spending review settlements that will be allocated next year.
- My department recognises the need to ensure there is sufficient access to power to enable DSIT's wider compute goals and my department is working with National Grid and DESNZ to ensure this is not a limiting factor.
- To bolster the UK's compute infrastructure, the AI Research Resource (AIRR) will go live early next year – with two AI supercomputers at Bristol and Cambridge Universities – this will expand the UK's AI Compute capacity by 30x.
- Isambard-AI, made up of more than 5,500 Nvidia GPUs, will be one of the world's leading public AI supercomputers and the UK's most powerful public compute facility once it is fully operational in 2025. The capability will provide a great platform for international collaboration and partnership.

The Lord Kamall requested further detail on the government's plans for a National Data Library:

- We are not yet tapping into the full potential of our data. 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.

- Work is underway to design the National Data Library and decisions on its design and implementation will be taken in due course.

Baroness Gustafsson, Minister of State in the Department for Business and Trade and HM Treasury:

Committee members asked what had happened to the proposal in the Labour Party's *Financing Growth* policy paper published before the General Election that there should be an opt-in scheme for pension funds modelled on the French Tibi Initiative:

- This initiative involves an oversight committee comprised of private investors and BPI France (France's national development bank) drawing up an accredited list of investment funds. Institutional investors are asked by government to allocate a small proportion of their capital to the scheme and have full discretion over which funds from the accredited list they invest in.
- This government's judgement is that directly replicating the Tibi initiative in the UK would have limited effectiveness. The French pension system is more centralised, with fewer private pension funds. The relationship between government and business is closer in France. Investors responded to a direct appeal from the President to play their part. The current lack of investment by UK funds into UK growth assets is not for lack of political signalling, but reflective of several barriers including the lack of suitable vehicles.
- The British Growth Partnership addresses the same goal and represents a more effective approach in the UK context. By creating an investment vehicle advised and overseen by the British Business Bank, the British Growth Partnership goes beyond accrediting funds for investment. The British Business Bank will play a more active role than its French counterpart, by using its pipeline capability and track record as the UK's largest domestic investor in venture capital funds to attract and deploy capital.

You (Baroness Stowell) asked for more information around the government plans to hold the British Business Bank to account:

- The Secretary of State for Business and Trade is the sole shareholder of the British Business Bank and is represented on the board by UK Government Investments. He sets the Bank's mission and objectives and, together with Treasury ministers, approves the annual business plan and Key Performance Indicators (KPIs) for the Bank.
- The Bank and its commercial subsidiary, British Patient Capital, publish Annual Reports and Accounts which outline the full extent of their

activities including the Bank's performance against KPI targets. This year the Bank also published an Impact Report setting out the impact of its activity on smaller businesses across the UK.

- The Bank commissions regular external evaluations of its programmes. In particular, I would point the Committee to evaluations of British Patient Capital (BPC) and the Enterprise Capital Fund (ECF) programme. The interim evaluation of BPC in 2023 found that it has helped create up to 5,000 additional jobs across the UK, driven company growth, and fuelled innovation through its investments. Companies with investment from BPC-backed funds grew their employment by 55%, equivalent to c. 4,600-5,000 additional jobs, and demonstrated an increase in turnover of between £4.7m and £5.4m per year.
- A similar evaluation of ECF in 2021 found that the programme is helping to close the early-stage 'equity gap' by increasing the supply of equity capital to high-potential, early-stage UK companies as well as lowering barriers to entry for fund managers looking to operate in the VC market. The programme has helped create UK success stories including Graphcore, GoCardless, Marshmallow, Tractable, Thought Machine, Grapeshot and Mimecast.

Chris Bryant MP, Minister of State at the Department for Science, Innovation and Technology and the Department for Culture, Media and Sport:

You (Baroness Stowell) were interested in whether the government had considered a creative technology-focused fund under the British Growth Partnership:

- DCMS is working with the British Business Bank to consider how best to support the creative sector with existing and new programmes.
- The British Growth Partnership, subject to regulatory approval, will encourage more UK pension fund investment into the UK's fastest growing, most innovative companies. It will leverage British Patient Capital's existing track record and pipeline to provide a compelling, commercial investment opportunity for institutional investors. This will include opportunities in deeptech, including areas that underpin and overlap with creative tech.
- Many of the Bank's existing programmes, such as those within BPC, already supply patient capital that is relevant to the sector, given the nature of developing the technology behind creative tech businesses.
- For example, British Patient Capital has committed over £175M to Balderton Capital. Balderton Capital is a leading UK-based VC firm which invests in high-growth technology companies across the UK and Europe at both the early and venture growth stages. The current

portfolio includes global category leaders like Revolut, Dream Games, GoCardless, and Wayve. Balderton's investment history spans technology sectors including AI, fintech, B2B SaaS, digital health, mobility, gaming and marketplaces.

- More broadly, the Bank continues to engage with the creative sector to better understand the unique challenges it faces and it is exploring how it can further support the key growth sectors of the Industrial Strategy, including creative industries and digital technologies.

We hope the Committee finds this response helpful and we look forward to working together in the future.

19 December 2024