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

This call for evidence (October 2024) is focussed on the challenges facing SMEs seeking to scale up in the UK, specifically on firms working in AI, and creative technology. Our evidence is collected in the Liverpool City Region in 2024 with place-based data and examples.

For over 15 years the Digital & Creative Industries in the LCR have been identified as a high growth sector, due to see 10% growth in the next 5 years (Avison Young 2023). Therefore, we believe there are valuable contributions from our findings that can support Government and industry decision making and policy over the next 5 years.

The following evidence is a summary of a baseline report of the LCR Scale Up ecosystem in 2024.

https://www.ljmu.ac.uk/-/media/files/ljmu/campaigns/corporate-communications/lcr-scaleup-ecosystem-2024.pdf

Regional context

The Liverpool City Region is a £33 billion economy with an average annual economic growth rate of 3.2% from 2001-2021. The key sectors in the region include **Digital and Creative Industries, Healthcare and Lifesciences, Advanced Manufacturing, Clean Growth, and the Visitor Economy.**

Micro and Small Sized Enterprises make up 97.7% of the LCR economy, 9% of these are in the C&D sector. There is a slightly below-average business start-up rate and a below-average rate of scale-ups, with 590 currently operating in the LCR (ONS).

Despite some economic growth, the region continues to face high levels of social deprivation, low wages, and limited opportunities for many. Almost one-third of the LCR’s neighbourhoods rank amongst the most deprived in the UK. Austerity measures, brexit, and inflation has seen further deprivation relative to other areas, despite parts of the LCR economy also growing (MHCLG 2019). The Liverpool City Region has a significantly higher rate of deprivation than the England national average, with 22% of children in the region living in poverty and 21% of over 60s are income deprived.

Employment & Skills - Almost 50% of the LCR workforce are employed in the public administration, education, wholesale and retail, and health and social care sectors. In total, 34.6% of the jobs are publicly funded while 10.7% of jobs are high-skilled jobs in the private sector. This presents a genuine need for more businesses to start and scale.

The LCR has variety of further and higher education institutions, meaning approximately 63,000 higher education students studying in the region every year. The unemployment rate for post-graduate students (3%) in the Liverpool City Region is lower than that of the national average England level (4%). Approximately 62% of LCR graduates were still living in the North West five years after graduating. This compares to around 50% of all graduates from English universities staying in the same region as the university.

Key findings - focus on Creative and Digital tech scale ups

To develop a baseline understanding of the regional scale up ecosystem we used Isenberg's (2010) six elements of the entrepreneurial ecosystem model, accessed publicly available data, organisational intelligence, and interviewed thirteen key contacts. National support services, current national policies, corporate lenders, banks, R&D tax relief etc are not specified here as our focus is on elements that are place based and specific to the LCR.

6 Ecosystem elements	LCR response
1.**Culture** for Entrepreneurship: attitudes towards scale-up in the LCR, including visible successes and social support.	Despite being a visibly cultural and creative city, the region has a diverse industry profile, so the visibility of successful scale-ups varies. There is a heritage of music, games development and digital services. The entrepreneurial culture is collaborative but hindered by a risk-averse mindset and in some cases limited institutional support. This has led to outward migration of ventures which creates a perception that scaling up locally is challenging, which can become self-fulfilling.
2 **Access to Finance**: the funding schemes available in the scale-up eco-system, as well as the organisations facilitating venture investment and financing (full list available in main report)	There are significant challenges in accessing finance for scaleups, worsened by the withdrawal of European funds post-Brexit. This has led to a funding mismatch, with limited replacements for lost funds. The region's historic dependency on European funds and a lack of venture capital and angel networks have hindered access to alternative forms of finance and an appetite for borrowing. Baltic Ventures Accelerator is addressing negative perceptions that have deterred investors, and funding preferences have favoured traditional sectors over creative and tech. https://balticventures.uk/ Socially trading businesses and women also face financing gaps. Initiatives like the Social Investment Pathfinder from Kindred (https://kindred-lcr.co.uk/news/kindred-updates/) and The Lifted Project aim to address these issues, but comprehensive solutions are still needed to bridge the financing gap for diverse businesses.
3.**Policy Environment**: the policy priorities of the LCR CA in relation to supporting business scale-ups.	Notable is the LCR CA 2022 'Plan for Prosperity' which aims to boost the economy through innovation, infrastructure improvement, and social issue resolution. A key growth sector is the creative and digital industries. Despite supportive policies like the Be More Apprenticeship Levy and Liverpool Freeport Status – these do not focus on this sector. Inconsistent policy environments hinder scaling businesses - challenges include national insurance contributions, the apprenticeship levy, and sustainability initiatives – which do not consider the micro and small firm, contract, and temporary nature of creative and tech industries employment. Calls for a C & D scale up advocate would give permanency and support stable, transparent policies for scaling businesses,

	particularly in digital and creative sectors where freelance work is common. Enhanced support for embedding social value and sustainability is also needed.
4.**Support Mechanisms**: the formal and information institutions that provide support (such as advice, incubation, and acceleration) to scale-up businesses in the Liverpool City Region (full list available in main report).	Creative organisations, spaces, and places that formally or informally currently offer support for business to scale up are visible with many having been in receipt of EU funding and some more recently supported by the LCRCA administered grant, the UK Shared Prosperity Fund (UKSPF). Baltic Creative CIC https://www.baltic-creative.com and the Baltic Triangle is a key start-up area however spaces to scale have been hampered by poorly managed place-based development by local authorities. The Knowledge Quarter, SciTech Daresbury and emerging clusters in Birkenhead are evident communities supporting growth. Scaling may require companies to move to Manchester and London due to limited office space, particularly for high-end enterprises. This exodus of scaleups deprives the region of talent and investment, perpetuating a cycle where resources and support programs concentrate in larger cities. Despite local ambition for entrepreneurial growth, inadequate infrastructure undermines efforts to retain and nurture scaling businesses, hindering the region's economic development.
5.**Human Capital:** the educational institutions (formal and informal) that support scale-up activities and train/retrain individuals engaging in the LCR.	Access to a skilled, diverse workforce is crucial for scaleups, with further and higher education institutions playing key roles. However, there are concerns about limited collaboration between universities and industry. This disconnect affects student preparation for employment in scaleups and support for entrepreneurial endeavours. Issues include inadequate technology transfer support and a skills gap between university offerings and scaleup needs. Improved collaboration, clearer pathways for graduates, and alignment of education with industry requirements are needed to better support both students and scaling businesses. Bespoke training opportunities that focus on Creative tech are also essential for human capital development and a strong representation in schools is also needed. Form https://form.studio/ LJMU https://www.ljmu.ac.uk/study/courses/postgraduates/2025/36077-business-scaleups-mba
6. **Access to Market:** the organisations, mechanisms, and opportunities for facilitating organisations to connect to global markets for scaling businesses in the LCR.	The 'Liverpool' brand successfully drives its cultural and visitor economy, but targeted support for creative and digital internationalising scaleups is limited. Access to markets is too generic and needs to be sector-specific due to diverse business types, with different export routes for sectors like digital/games. Limited networking opportunities and visibility of existing support mechanisms hinder internationalisation efforts. A bespoke approach per sector is needed to address these challenges and enhance market access for scaling businesses.

Additional focus questions from the call for evidence.

2. What specific barriers do SMEs face when seeking to scale in AI, and in creative technology?

- Good role models and exemplars of people, leadership, and business models. Creating a culture of responsibility, success, collaboration, and a confidence to explore/test and risk in a safe space to fail will set an example for others.

- There is limited access to the digital and tech knowledge and resources that universities have, engaging with these resources could build alliances and support businesses to scale.

- There are limited 'work ready' graduates. Businesses need 'doers' rather than just those with AI & Tech knowledge. Creative skills are highly desirable with the ability to apply knowledge and be able to work in a team and in a business growth environment.

- Government policies that are sustainable, long term and accessible to micro and small business practice and their flexible nature.

- Access to UK based markets, larger tenders, and government contacts.

- Creative sector is heavily reliant on short funding cycles, contract work and freelancers – so policies such as the current apprenticeship levy – requiring permanent employment etc is prohibitive.

3. How effectively are existing organisations (such as UKRI), catalyst programmes, industry schemes and other Government initiatives addressing these issues?

97% are SMEs in the LCR – 9% of which are in the creative / tech sector, many do not have the internal systems such as a HR team, inhouse legal or tender writers. In many cases the founder or MD will lead business development so engaging with large government schemes and bureaucratic levy systems is very time consuming. However, those that do access central government schemes (such as apprenticeships and MKTPs) can expedite growth. See Living Lens acquisition https://www.prolificnorth.co.uk/news/liverpools-livinglens-acquired-us-tech-firm-26m-deal/

In summary, there are huge opportunities to support AI and creative tech Scale ups in the LCR from a place-based perspective and harnessing the benefits of devolved decision making to create the right support services is needed. Despite a lack of clear understanding of what a 'Scale-up' is - there are many willing players in the ecosystem - education institutions, professional services and policy makers all need to understand the contribution of scale ups to the economy. This is the time for a confident and courageous vision, improved collaboration, clearer pathways, alignment of education with industry needs, comprehensive solutions to bridge the financing gap, and the appropriate infrastructure to retain and nurture scaling businesses in the region.

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