National Audit Office

Report
by the Comptroller
and Auditor General

Department for Business, Energy & Industrial Strategy

Business support schemes

HC 20 SESSION 2019-20 15 JANUARY 2020

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National Audit Office

Department for Business, Energy & Industrial Strategy

Business support schemes

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

10 January 2020

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This report examines whether the Department for Business, Energy & Industrial Strategy (the Department) is managing its business support schemes in a way that is likely to maximise their value for money.

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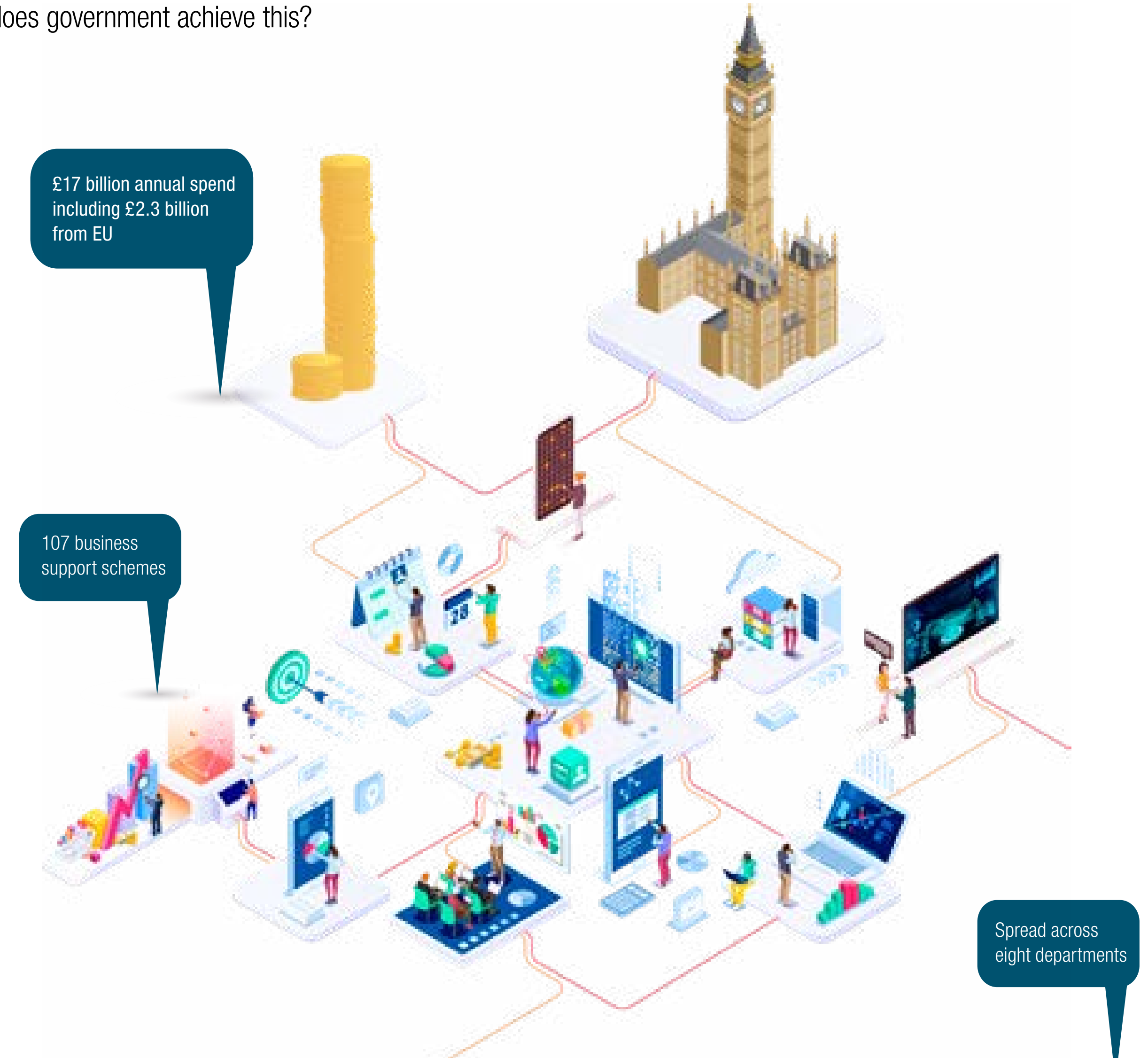
Key information

Why does government support business?

- Business expansion drives economic growth; businesses seek external help to grow.
- Governments can coordinate efforts to develop new technologies and industries and can take on long-term risks that may not be commercially viable.

How does government achieve this?



1 HM Treasury **(HMT)**	2 HM Revenue & Customs **(HMRC)**	3 Ministry of Housing, Communities & Local Government **(MHCLG)**	4 UK Export Finance **(UKEF)**
5 Department for Business, Energy & Industrial Strategy **(BEIS)**	6 Department for International Trade **(DIT)**	7 Department for Environment, Food & Rural Affairs **(Defra)**	8 Department for Digital, Culture, Media & Sport **(DCMS)**

Number of business support schemes

Department	Spending	Role	Schemes
HMT and **HMRC**	£11,530m	HMT is responsible for ensuring the economy grows sustainability and has strategic oversight of the tax system; HMRC administers business tax reliefs	11 schemes
MHCLG	£380m	Allocates European Regional Development Fund funding to the 39 Local Enterprise Partnerships	6 schemes
UKEF	£330m	Works with private lenders and insurers to help companies access export finance	2 schemes
BEIS	£2,440m	Responsible for the Industrial Strategy, government's plan to boost productivity across the UK	47 schemes
DIT	£270m	Helps UK firms to export and promotes foreign direct investment	12 schemes
Defra	£1,980m	Administers the Common Agricultural Policy	25 schemes
DCMS	£10m	Supports businesses in the digital sector, such as video game developers	4 schemes

The Department for Business, Energy & Industrial Strategy's support

Business growth and productivity

£660m

Innovation

£790m

Sectors and regions

£570m

Advice: schemes that aim to help businesses become more productive.

Finance: schemes that help businesses finance growth. Since 2014, BEIS's finance schemes have been run by the British Business Bank.

Schemes that provide finance for businesses to develop new technologies and ideas. Innovate UK administers these schemes on behalf of BEIS. Since April 2018, Innovate UK has been part of UK Research and Innovation.

Schemes that provide support either to specific sectors, such as aerospace and automotive, or specific regions.

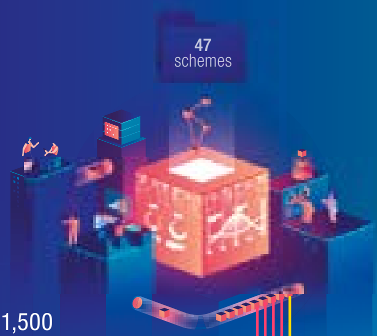
The sample of 10 support schemes considered in this study

Support	Scheme	Year set up	Total spend to date (2018-19 prices)	Overview
Business growth and productivity – advice	Business Support Helpline	2011	£16m	Signposting service to point businesses to advice or grant opportunities. The Helpline replaced the Business Link service, which the government closed to reduce the cost of business support.
	Be the Business	2017	£6m	Business-led initiative to help firms with low productivity improve through a national campaign to share best practice among firms and provide support through digital benchmarking tools, mentoring, peer networks and leadership and management education.
	Business Basics Programme	2018	£1m	Grant scheme that funds trials to evaluate the impact of new approaches to improve productivity, such as encouraging the adoption of new technologies. The scheme was launched following the Industrial Strategy white paper.
Sectors and regions	Exceptional Regional Growth Fund (eRGF)	2015	£20m	Discretionary grant award to respond to opportunities arising from internationally mobile investment or unanticipated economic shocks. This scheme uses much of the same decision-making processes and governance structures as the Regional Growth Fund, which ceased funding new projects in 2014. We have reviewed the eRGF scheme from 2015 onwards as a separate scheme to the Regional Growth Fund.
	Sharing in Growth	2013	£85m	Provides intensive training over four years to firms in the aerospace supply chain to improve their international competitiveness. Originally awarded funding through the Regional Growth Fund.
	Aerospace Technology Institute (ATI)	2013	£846m	Grant scheme run through a body of the same name that funds aerospace research and technology projects falling within the UK Aerospace Technology Strategy; the strategy is developed by ATI while grant competitions and monitoring are delivered by Innovate UK.
	Advanced Propulsion Centre (APC)	2013	£248m	Grant scheme that funds low-carbon powertrain technologies with a focus on commercialisation, contrasting with other Innovate UK schemes that focus on the earlier stages of research.
Innovation	Smart	2011[1]	£310m[2]	Grant scheme that provides funding for disruptive, innovative ideas in any sector, with a focus on the early stages of technology development such as market research and prototype testing.
	Catapults	2011	£1,276m	A network of centres that aim to encourage the commercialisation of technologies by providing access to technical capabilities and equipment. The centres cover nine areas, including high-value manufacturing, medicines discovery and satellite applications.
	Knowledge Transfer Partnerships (KTPs)	1975	£307m[2]	Scheme that brings together academic organisations and businesses by funding a graduate to work in the business and apply their academic knowledge to a commercial project.

Source: National Audit Office analysis

Administering organisation	Scale of support reported to date
BEIS	Answers 2,600 queries and provides 1,000 in-depth support sessions a month.
Independent body that receives grant funding from BEIS	Runs business peer networks in Cornwall and the North West, a national mentoring scheme, digital benchmarking tool, and leadership and management education across three regions.
Innovate UK and Innovation Growth Lab (NESTA)	Funded 26 pilots of new approaches to improve productivity, with first results due early 2020.
BEIS	Made five separate awards budgeting £57 million in total, with individual awards ranging from £1 million to £21 million.
Private body overseen by BEIS	More than 60 suppliers received three million hours of training resulting in 7,300 jobs and £4.2 billion in contracts won.
Innovate UK manages grant process on behalf of private body (ATI) and budget holder (BEIS)	Supported portfolio worth more than £2 billion with 200 projects across 200 organisations.
Innovate UK manages grant process on behalf of private body (APC) and budget holder (BEIS)	Created £840 million investment in 49 projects involving 176 organisations, safeguarding or creating more than 27,000 jobs and saving 47 million tonnes of carbon dioxide emissions between 2013 and September 2019.
Innovate UK	The most recent round of funding went to 93 projects worth £30 million.
Innovate UK	Runs nearly £1 billion of open-access facilities that support 4,000 industry collaborations, 1,000 academic collaborations and 6,000 small and medium-sized enterprises.
Innovate UK	One of the UK's largest graduate recruitment programmes offering more than 300 jobs per year.

Key facts from our review of the 10 schemes



1,500
approximate number of metrics the Department uses to track progress of 47 schemes

4/10
schemes we assessed had measurable and time-bound objectives

1/10
schemes we assessed that the Department had robustly evaluated its impact

Notes

1 Smart has changed format several times, making it difficult to determine when the scheme was first launched; the scheme came into Innovate UK's portfolio in 2011.

2 Spending estimates for the KTP and Smart schemes are from the point they were incorporated into the Innovate UK portfolio (Smart in 2011 and KTP in 2007).

3 Monetary values are approximate total government spend on each scheme in 2018-19 prices, rounded to nearest £1 million.

4 Estimates of spend for Catapults, Smart, KTPs and eRGF do not include Innovate UK's or the Department's overhead costs.

5 Estimates of spend for Innovate UK delivered schemes include co-funding. This is derived primarily from other government departments so represents public money; however, a small proportion comes from other bodies.

Summary

1 There are around 5.7 million businesses in the UK, ranging from multinationals to sole traders. The government relies on businesses expanding to achieve economic growth. Businesses often seek external help to grow, in the form of either advice or finance. The government aims to encourage a private sector market to provide businesses with this support, but it also intervenes to coordinate the development of technologies and industries and to take on long-term risks that are not commercially viable.

2 The government provides a range of support to businesses, including tax reliefs, advice and finance in the form of grants and loans. In 2017, the Department for Business, Energy & Industrial Strategy (the Department) published its Industrial Strategy, which sets out the government's objective to boost productivity and earning power throughout the UK. Government support to businesses is intended to contribute to the achievement of this objective, alongside other government activities such as investing in infrastructure and skills. The Department, which is responsible for the Industrial Strategy, administers a larger number of business support schemes than any other government department. Its schemes either support businesses to grow through finance or advice; provide financial support for innovation; or support specific sectors or regions.

3 HM Treasury has overall responsibility for ensuring the economy grows sustainably and has strategic oversight of the tax system, including the tax reliefs that support businesses. In 2018, HM Treasury and the Department coordinated a cross-government project to review the business support schemes that had built up over time and consider the coherence of this support across departments. The project (referred to hereafter as the joint costing project) used a wide definition of business support, including any government support that intends to increase performance, productivity or investment in businesses. This meant its assessment of coherence between schemes covered activities with substantially different approaches and objectives, but which are commonly aimed at supporting businesses in some way.

4 The joint costing project also aimed to inform decisions about replacing the business support that currently comes from the European Union (EU), which will no longer be available after EU Exit. The EU provides around £300 million a year to businesses in regional development funding, which aims to address imbalances between regions by allocating support to local areas for research and innovation. The government is currently developing new schemes that will replace this funding following the UK's withdrawal from the EU.

Scope of this report

5 This report includes:

- a description of the overall landscape of government's support to businesses and how the Department supports businesses (Part One);
- our assessment of how the Department set up and managed a sample of 10 of its schemes against a set of good-practice criteria we derived from our previous reports and government guidance (Part Two); and
- our assessment of how the Department is managing its business support portfolio (Part Three).

We have published a separate report on the British Business Bank, a wholly owned government company accountable to the Department, which aims to make finance markets work better for small businesses in the UK at all stages of development.[1] Therefore, we have not included schemes in our sample that the British Business Bank manages.

Key findings

The business support landscape

6 There are more than 100 schemes across government for supporting businesses, costing around £17 billion a year. The joint costing project, which used cost data largely from 2016-17, indicated that in 2016-17 government provided support to businesses across 107 different interventions, administered by eight different government organisations. This included:

- £11.5 billion in tax reliefs that reduce the amount of tax a business owes, to encourage businesses to invest in certain activities such as research and development;
- £3.3 billion in government-funded schemes; and
- £2.3 billion spent by departments on behalf of the EU, of which £1.9 billion was support for agricultural businesses (paragraphs 1.4 to 1.9, and Figures 1 and 2).

7 The Department administers more business support schemes than any other department. The joint costing project found that the Department administers 47 separate schemes, making up £2.4 billion of the £3.3 billion spent by government on business support. Many schemes were relatively small, with 33 having annual costs of less than £50 million. The Department's schemes range from providing businesses with financial support for research and innovation activities, to giving advice to businesses that are seeking to increase their productivity (paragraphs 1.10 to 1.12 and Figures 1 and 3).

1 Comptroller and Auditor General, *British Business Bank*, Session 2019-20, HC 21, National Audit Office, January 2020.

8 The Department and HM Treasury recognise the need to reduce the complexity of the government's business support. Business representative groups have stated that firms find the range of government support difficult to navigate. The Department and HM Treasury are considering how they can increase coherence by centralising responsibility for coordinating different types of support (paragraphs 3.9 to 3.12).

9 The Industrial Strategy is yet to have a significant impact on the Department's support for businesses. The Industrial Strategy sets out how different areas of business support, such as supporting innovation and improving management practices, contribute to the overall objective of boosting productivity. Most of the Department's schemes, including eight of the 10 we assessed, pre-date the Industrial Strategy. The Department expects the Industrial Strategy to have greater impact in the future when there has been sufficient time for it to shape individual schemes and the overall portfolio of business support (paragraphs 3.2 to 3.8).

Scheme set-up

10 The Department did not evaluate alternatives when designing some of the schemes in our review. The Department established a long list of options for seven out of the eight schemes in our sample which started after 2010, but subsequently valued the costs and benefits of the options it shortlisted for only one. Consequently, the Department may have discarded options that would have provided better value for money. The Department consulted on most schemes in our sample in some way, but the range of stakeholders that it engaged with varied and it could not demonstrate how these consultation findings had informed schemes' design. This creates a risk of launching schemes that businesses do not need or that businesses find difficult to access (paragraphs 2.6 to 2.9 and Figures 4 and 6).

11 Most of the schemes we assessed lacked measurable and time-bound objectives. Six out of the 10 schemes we assessed did not have measurable objectives in their business case. This had implications for the effectiveness of some schemes. For example, the Department commissioned a review in 2017 of the Catapult scheme, a network of centres that provide technical capabilities and equipment for businesses seeking to commercialise technologies. This review found that the network could have had a significantly greater impact in delivering innovation and value for money than was ultimately the case in part because it lacked a clearly articulated set of objectives. The Department responded to this review by creating a common set of objectives across all Catapults. The Department considers that having measurable objectives can be too prescriptive for schemes that aim to support innovation, where it is not always possible to predict how they will perform. A lack of clear, measurable objectives, however, hinders performance monitoring and the assessment of whether taxpayers' investment offers value for money (paragraphs 2.4 to 2.5 and Figure 5).

Scheme management

12 **The Department allocated optimistic budgets to some of the schemes we assessed.** Good budgeting is a key part of delivering any activity successfully and requires forecasting the level of demand for a service accurately. Three schemes we assessed underspent against their early budgets because of delays in setting up the scheme or because fewer businesses applied to participate in the schemes than the Department had expected. This presents two risks: that money approved to support businesses is unspent and returned to the Exchequer; and that new programmes take longer than government intends to reach those businesses in need of support (paragraphs 2.11 and Figure 7).

13 **The Department collects ongoing information on schemes' performance but rarely uses this to refine its support.** The Department monitors the progress of schemes in our sample predominantly using activity measures, such as the number of businesses supported or the amount paid in grants. Its management activities tend to focus at a project level with processes for checking the award of funds both before it is paid and while a project is in progress, where it can reduce or cease payments to individual projects if they are not achieving the expected results. But some schemes do not have clear trajectories against which to compare overall activity levels to know whether they are on track, require intervention or are no longer required. For only one of the 10 schemes in our sample does the Department use businesses' views as a performance indicator (paragraphs 2.13, 2.14, 2.19 and Figures 8 and 9).

14 **The Department cannot easily compare performance between its schemes or understand how they interact.** The joint costing project found that the Department uses nearly 1,500 metrics to track progress across its 47 schemes, with only 136 of these used by more than one scheme. The Department uses common metrics to compare the relative effectiveness of schemes at Spending Reviews, which occur roughly every four years. It does not, however, compare performance more frequently. Government also does not have consistent information about which businesses receive support. This means it lacks complete information about which regions receive support or how different types of support, which may be provided by different departments, interact at a business level. The joint costing project recommended that the government collects common business identifiers to help it understand how different forms of support combine, but that these identifiers should be linked to existing government datasets where possible to minimise the administrative burden for businesses (paragraphs 3.13 to 3.15).

Scheme performance and impact

15 **The Department is working on ensuring that the short-term actions of its schemes actually lead to their intended long-term impacts.** Many business support schemes aim to achieve impacts that will not be measurable for many years, such as improving businesses' productivity. For most schemes in our sample, the Department monitors inputs and activities, such as training courses provided, with the expectation that these will result in long-term improvements. The Department has recently formalised the requirement for schemes to have a 'logic model', that identifies links between a scheme's activities and measures of long-term impact, which can also guide data collection and monitoring processes. Additionally, one of the objectives of its Business Basics Programme is to generate new evidence about which activities lead to long-term productivity increases (paragraphs 2.15 to 2.18 and Figures 10 and 11).

16 **The Department has only evaluated rigorously the impact of one scheme in our sample, although it has further evaluations planned.** The Department has evaluated the implementation of six schemes, and the costs and benefits of three schemes in our sample, but only one evaluation has been a quantitative study of a scheme's impact beyond what would have happened without it. The Department's own evaluation guidance for business growth schemes states that it is possible to conduct an impact evaluation three years from the start of a policy but it expects its innovation programmes to take longer to have an impact. The Department has plans to assess the impact of six further schemes in our sample. This includes a series of evaluations of productivity-boosting interventions being trialled in the Business Basics Programme. These are designed to produce robust impact evaluations that provide evidence to support future schemes. The Department also considers that evaluations of discontinued schemes provide additional evidence of what works when developing a new scheme. We found, however, that only two schemes' business cases referred to the lessons from such predecessor schemes (paragraphs 2.20 to 2.24 and Figures 12 and 13).

Developing future schemes

17 **The Department expects recent changes will improve the set-up and management of new schemes, but it is too soon to tell whether they have had an impact.** These include:

- A central analysis, monitoring and evaluation database, which began to be developed in October 2018, to share learning across policies. The database brings together impact assessments, post-implementation reviews, business cases and evaluations. The Department expects that this will, among other things, provide a more accurate estimate of optimism bias when setting up new schemes.

- In November 2018, the Department implemented a mandatory project assurance process whereby internal experts scrutinise business cases for completeness, applicability and appropriateness prior to any investment decision. This scrutiny includes ensuring projects have measurable and time-bound objectives, a comprehensive monitoring and evaluation plan and a value-for-money assessment of alternative options. These changes built on the formal approval process first introduced in 2016 that mean all investment decisions in the Department with a lifetime cost of more than £20 million require a business case to be submitted to its internal Projects and Investments Committee (the Committee). In considering business cases, the Committee considers a range of factors including that each project identifies lessons learned and uses these to make improvements.

- A new evaluation framework for business support schemes, published in January 2019, which aims to generate good-quality, comparable evidence across interventions that can be used to inform the development of future business support policies. This framework directly applies to the Department's business growth and productivity schemes, but it could be used to evaluate support for specific regions. Innovate UK also published evaluation guidance for innovation schemes in January 2018 (paragraphs 2.18 and 3.17).

18 The government may need to replace business support currently provided by the EU before it can learn relevant lessons from existing schemes. The Department is working jointly with the Ministry of Housing, Communities & Local Government (MHCLG) to develop the UK Shared Prosperity Fund (UKSPF). This would replace the European Structural Funds when the UK leaves the EU, including the European Regional Development Fund (ERDF). MHCLG is continuing to evaluate ERDF over the lifetime of the current EU budget period, but this evaluation, or the findings from the trials in the Business Basics Programme, might not be ready in time for the UKSPF. It intends to make the UKSPF's design flexible to enable it to incorporate learning in the future (paragraphs 3.18 and 3.19).

Conclusion on value for money

19 The Department administers more schemes to support businesses than any other department, costing around £2.4 billion a year. While we found both strengths and weaknesses in the management of the 10 schemes in our sample, the way they were designed and evaluated by the Department did not consistently follow government's own guidance. Most schemes in our review lacked measurable objectives from the outset or evaluations of their impact to know if they are providing the most value or if they should be discontinued. Without such analysis, the Department cannot know if its business support is providing value for money.

20 More widely across government, the joint costing project has shown that the landscape of business support, which cost around £17 billion in 2016-17, has developed piecemeal and includes a mix of policy interventions administered by different departments. HM Treasury and the Department recognise the need to make support better coordinated and prioritised. This work is both urgent and critical if government is to provide the most effective support to the UK economy when it replaces the support that currently comes from the EU.

Recommendations

21 There are welcome signs that the Department is improving the set-up and management of new schemes, including implementing a central database to share learning across schemes and a new evaluation framework to generate comparable evidence. In addition, the Department should ensure that from March 2020, any new business support scheme:

a **has clear objectives in place from the outset that are measurable and timebound**, enabling a scheme's progress to be assessed;

b **considers alternative ways of achieving its objectives**, including a meaningful estimate of the value for money of viable alternatives;

c **has a monitoring plan that shows how interim measures link to the scheme's ultimate objectives** if these are not immediately measurable; and

d **sets out plans for evaluation**, including how it will ensure such assessment is supported by robust evidence of the impact against the criteria in its updated evaluation framework.

22 In its management of its overall portfolio of business support schemes, the Department should:

e **coordinate a review of its schemes to determine their strategic fit** with the Industrial Strategy and what consequent changes are required by July 2020;

f **develop some standard metrics across schemes that have broadly similar aims**, to enable better comparison of their effectiveness by May 2020. This should include routine monitoring of businesses' views; and

g **monitor schemes' compliance with the good-practice principles of scheme management** that we have set out in this report and use this to drive improvements.

Part One

The government's support for businesses

1.1 This Part covers:

- why the government provides support to businesses;
- the cost of government's support for businesses; and
- the types of business support that the Department for Business, Energy & Industrial Strategy (the Department) provides.

Why government provides support to businesses

1.2 The government aims to achieve sustained economic growth because this can lead to higher incomes and better living standards. Economic growth partly relies on businesses with potential being able to grow. There are around 5.7 million businesses in the UK, ranging from multinationals to sole traders. Businesses often seek external support: in 2018, 26% of small and medium-sized enterprises sought external advice to help them grow; and 63% sought external finance for the same reason.[2]

1.3 The government aims to encourage a competitive private sector marketplace for business support, but it also sees a role in coordinating efforts to develop new technologies and industries and being willing to take on long-term risks that are not commercially viable. It provides a range of types of support, including:

- **grants and loans:** providing financial support to firms where the market is failing to do so;
- **advice:** information, structured advice or longer-term mentoring to firms;
- **tax reliefs:** these reduce the amount of tax owed by businesses that invest in activities such as research and development; and
- **support for exporters:** advice to help companies develop plans and knowledge to do business overseas; and insurance to exporters and guarantees to banks to share the risks of providing export finance.

2 Small and medium-sized enterprises are defined as business with 1–249 employees; the definition excludes small businesses with no employees.

The cost of government's support to businesses

1.4 In 2018, HM Treasury and the Department coordinated a joint 'Business Support Costing Project' (the joint costing project) to set out the totality of policies or schemes across government that support businesses and determine the coherence of the overall landscape. The project included all schemes that aim to increase performance, productivity or investment in businesses. This meant its assessment of coherence between schemes covered activities with substantially different approaches and objectives, but which are commonly aimed at supporting businesses in some way.

1.5 The joint costing project, which used cost data largely from 2016-17, indicated that government spent around £17 billion on support to businesses in 2016-17. This was across 107 separate schemes administered by eight government organisations (**Figure 1**). The main components of this are:

- £11.5 billion in 11 tax reliefs for businesses;[3]
- £2.4 billion through 47 schemes that the Department is responsible for, which are the focus of this report; and
- £1.9 billion through the EU's Common Agricultural Policy (CAP), which provides agricultural subsidies and rural development programmes. This is administered by the Department for Environment, Food & Rural Affairs (Defra).

1.6 The joint costing project's estimates of the cost of business support are approximate:

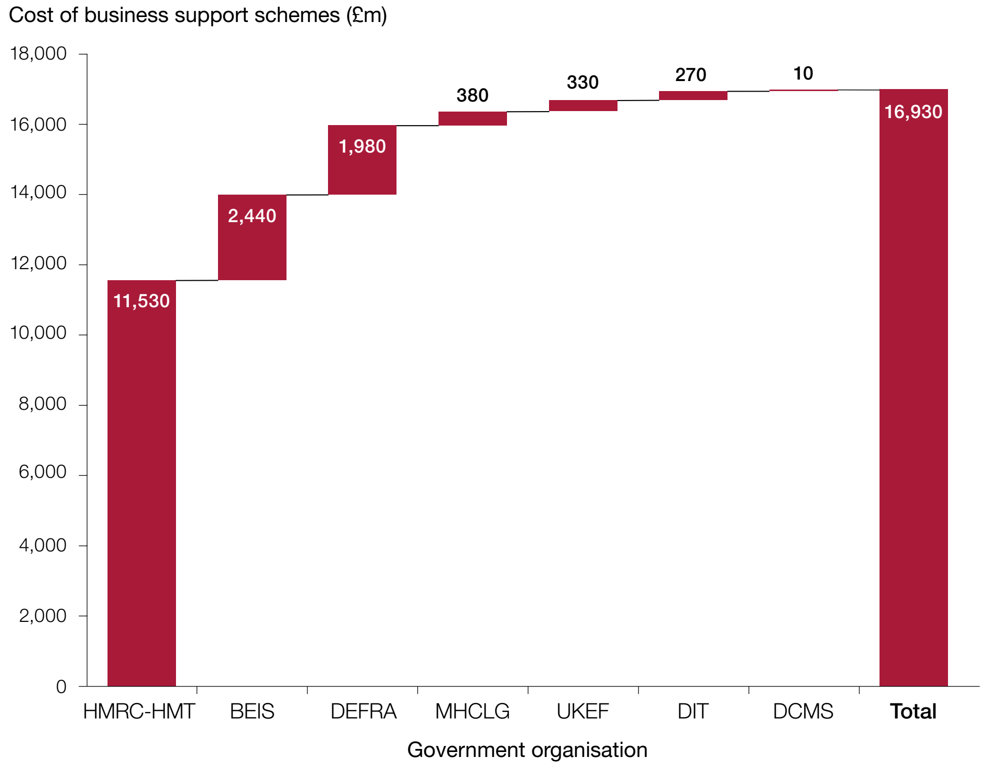
- Obtaining an accurate picture is difficult because of the regularity with which new schemes begin and the potential for schemes to overlap, meaning some expenditure could be counted twice. There is also the possibility that some forms of government support to businesses have not been picked up by the project.
- HM Revenue & Customs, which administers tax reliefs, revises its estimate of the cost of tax reliefs as new data and analysis become available. For example, its latest estimate of the cost of tax reliefs for research and development in 2016-17 is £1.9 billion higher than the amount included in the joint costing project.
- There have been developments in the support available since 2016-17, most notably the £2.5 billion of public funding allocated to date through the first three waves of the Industrial Strategy Challenge Fund, which supports organisations to conduct research and development.

3 Businesses can receive other reliefs that were not in the scope of the joint costing project. HM Revenue & Customs, which administers tax reliefs, notes that this total does not represent the amount gained if these 11 reliefs were to be removed, as they do not take account of taxpayers changing their activity in response to tax changes.

Figure 1

Total cost of business support by government organisation in 2016-17 (£m)

Government support to businesses cost around £17 billion in 2016-17, of which 82% was administered through HM Revenue & Customs and the Department for Business, Energy & Industrial Strategy



	HMRC-HMT	BEIS	DEFRA	MHCLG	UKEF	DIT	DCMS	Total
Number of schemes administered by organisation	11	47	25	6	2	12	4	**107**

Notes

1 Values rounded to nearest £10 million so may not sum to total.

2 Data are for 2016-17 as this is the default period covered by the costing project. Data for the Department for Business, Energy & Industrial Strategy's (BEIS') schemes are for 2016-17, and for 2017-18 where schemes did not have cost data for 2016-17. Some BEIS and UKEF support is in the form of loans, which are expected to be repaid with interest. Figures used here exclude loan repayments.

3 All data on tax reliefs are from public sources. Values reflect those tax reliefs included in the costing project.

4 The £11.5 billion of tax reliefs included in these spending data are those that support businesses to increase performance, productivity or investment: research and development tax credits; Entrepreneurs' Relief; Enterprise Investment Scheme; venture capital trusts; Annual Investment Allowance; Seed Enterprise Investment Scheme; Employment Allowance; Patent Box; Inheritance Tax – Business Property Relief and Agricultural Property Relief. HMRC has since revised upwards the cost of its research and development tax credits in 2016-17 by £1.9 billion.

5 HM Revenue & Customs (HMRC); HM Treasury (HMT); Department for Environment, Food and Rural Affairs (Defra); Ministry of Housing, Communities & Local Government (MHCLG); UK Export Finance (UKEF), which is the trading name for the Export Credits Guarantee Department, the UK's export credit agency that works with private sector lenders and credit insurers to ensure that UK companies can access export finance; Department for International Trade (DIT); Department for Digital, Culture, Media & Sport (DCMS).

Source: Data provided by departments for the joint costing project

Business support funded by the European Union

1.7 The joint costing project data included some support provided by the European Union (EU) (**Figure 2**). It identified that in 2016-17, the EU provided a total of £2.3 billion in business support, distributed via government departments. As well as the CAP, the EU provided £300 million in 2016-17 to support businesses through the European Regional Development Fund (ERDF).[4] The ERDF aims to address imbalances between the EU's regions by supporting research and innovation and small and medium-sized enterprises. Within England, the Ministry of Housing, Communities & Local Government (MHCLG) allocates ERDF funding to the 39 Local Enterprise Partnerships, which are private sector-led partnerships between businesses and local public sector bodies.

1.8 The government is developing new schemes to replace this funding after the UK withdraws from the EU:

- Defra is developing a domestic agricultural policy, the Future Farming and Countryside Programme, to replace CAP funding; and
- MHCLG is developing the UK Shared Prosperity Fund (UKSPF) to replace EU structural funds including the ERDF.

1.9 The joint costing project data did not include Horizon 2020, through which the EU provides support directly to higher education institutions and businesses for research and development projects. The UK is due to receive a total of €5.5 billion of funding through Horizon 2020 in the current EU budget period (2014–2020).

The Department's business support schemes

1.10 The joint costing project found that the Department oversees more business support schemes and is responsible for more expenditure on supporting businesses than any other government department (excluding tax reliefs, which are revenue foregone). Based on the joint costing project, the £2.4 billion that the Department spent on supporting businesses in 2016-17 is made up of 47 schemes that vary significantly in size:

- seven schemes each cost more than £100 million;
- seven schemes cost between £50 million and £100 million; and
- the remaining 33 schemes each cost less than £50 million.

1.11 The Department provides four main types of business support:

- **advice:** schemes that aim to help businesses grow and/or improve their productivity;
- **finance:** schemes that help businesses grow. Since 2014, the Department's finance schemes have been principally provided through the British Business Bank. We have reported separately on the effectiveness of these schemes;[5]

4 The total budget for the ERDF in the UK for 2014-20 was €5.8 billion, or £5.2 billion using the exchange rate on 24 September 2019. This is an average of £740 million per year. The £300 million in our report refers to a subset of this total, and covers the ERDF budget that directly relates to supporting businesses.

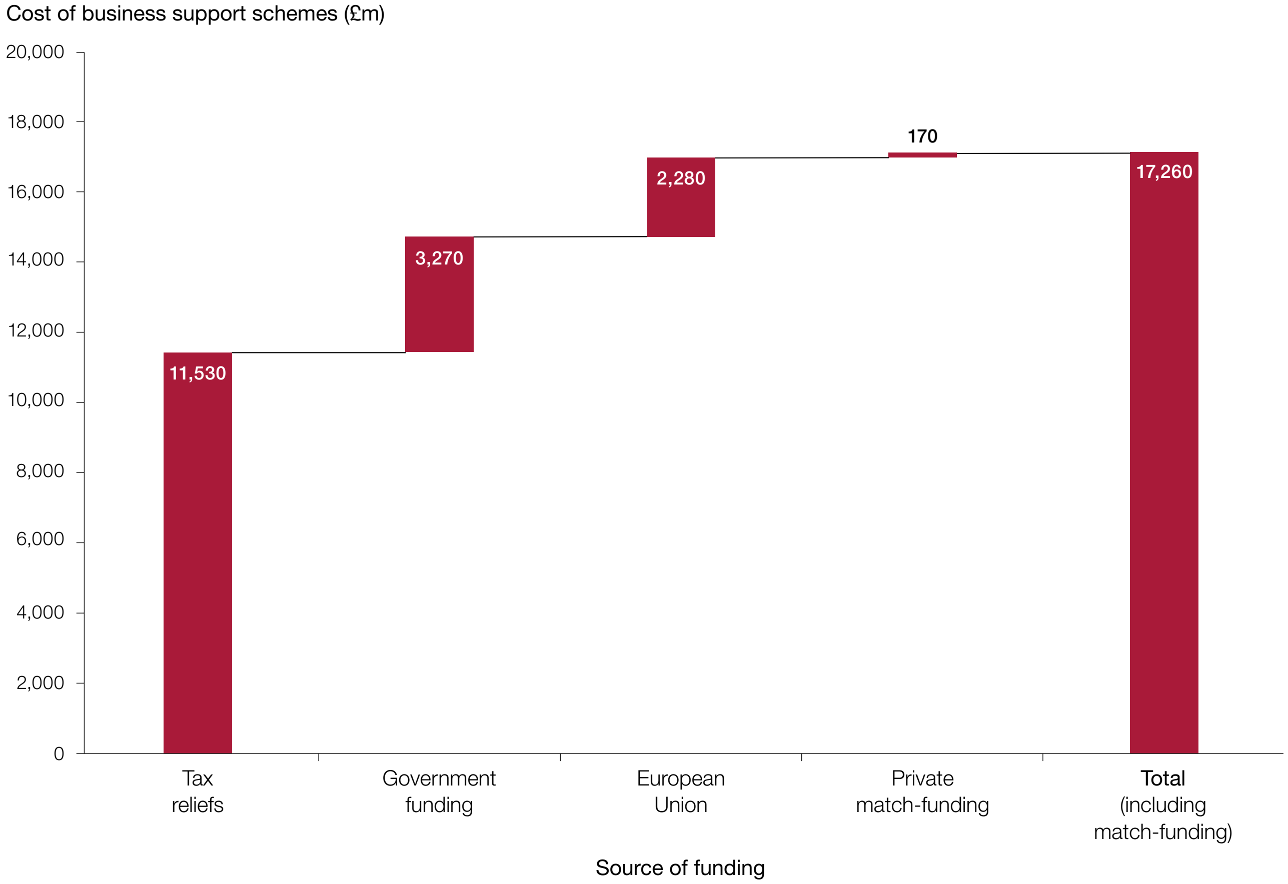
5 Comptroller and Auditor General, *British Business Bank*, Session 2019-20, HC 21, National Audit Office, January 2020.

- **sectors and regions:** schemes that provide support either to specific sectors, such as aerospace and automotive, or specific regions; and
- **innovation:** schemes that provide support for businesses to develop new technologies and ideas that will help the economy to grow. Innovate UK administers these schemes on behalf of the Department. Since April 2018, Innovate UK has been part of UK Research and Innovation.

Figure 2

Source of funding for business support, 2016-17 (£m)

A total of 40% (nearly £2.3 billion) of the £5.7 billion business support spend (excluding tax reliefs) is from EU funds



Notes

1 Values rounded to nearest £10 million so may not sum to total.

2 Government funding includes direct Exchequer funding plus other public match-funding.

Source: Department for Business, Energy & Industrial Strategy and HM Treasury business support costing project

1.12 The joint costing project indicated that the Department spends more on innovation schemes, delivered through Innovate UK, than any other category of business support. These are primarily grant schemes that usually require businesses to provide a certain level of match-funding. The smallest spend related to business advice schemes (**Figure 3**).

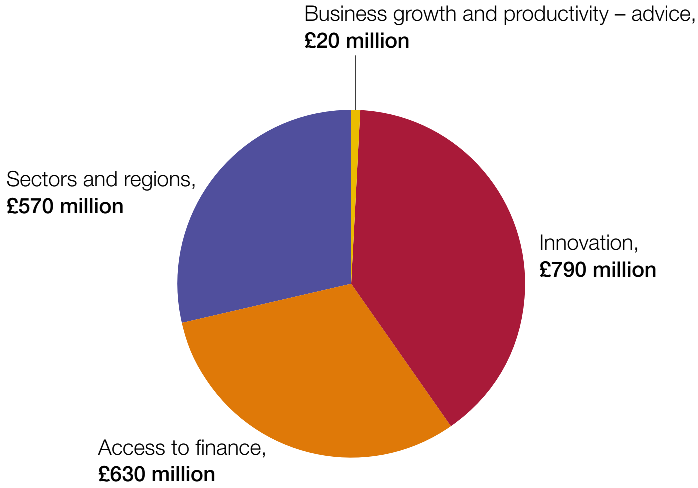
Schemes we have assessed in this report

1.13 We have assessed how the Department has managed a sample of 10 of its schemes (Key Information on pages 4 to 7). We have assessed schemes that vary in their objectives, size and the date they were introduced. Our sample is not intended to be representative of all the schemes that the Department manages. We have not assessed any of the Department's access to finance schemes because these are incorporated into our separate report on the British Business Bank. We also excluded the Industrial Strategy Challenge Fund because we plan to look at this scheme separately in a future study.

Figure 3

The Department for Business, Energy & Industrial Strategy's business support schemes, 2016-17

The Department spends more on innovation schemes, delivered through Innovate UK, than any other category of business support



Notes

1 Data for the Department for Business, Energy & Industrial Strategy's (the Department) schemes are for 2016-17, and for 2017-18 where schemes did not have cost data for 2016-17.

2 The chart excludes schemes that help businesses provide clean energy as this was outside the scope of this report. This means that the total spending on business support schemes in this figure will differ to the Department's total value shown in Figure 2.

3 Access to finance schemes provide support through debt, equity and guarantee programmes. Gross amounts are used here, and exclude any income arising from the programmes, or capital repayments.

4 Values rounded to nearest £10 million so may not sum to total.

Source: National Audit Office analysis of the Department for Business, Energy & Industrial Strategy's and HM Treasury's business support costing project data

Part Two

The Department's management of business support schemes

2.1 This part sets out our findings from assessing the Department for Business, Energy & Industrial Strategy's (the Department's) approach to setting up and managing a sample of 10 of its business support schemes, against our evaluative criteria set out in Appendix Two.

Setting up a scheme

2.2 According to HM Treasury guidance, when setting up a scheme the Department should:

- identify from the outset why change is necessary, and the specific market failure it is seeking to address, drawing on feedback from stakeholders. It should use this rationale for intervention to identify the measurable objectives that it wishes to achieve;
- consider how best to meet the objectives by generating a long-list of options, which can then be narrowed down to a shortlist of viable options to assess their expected costs and benefits; and
- consult with stakeholders to identify and develop suitable options that meet the needs of the user.

2.3 Our review of the Department's business cases for the 10 schemes in our sample found they did not include all the evidence that HM Treasury considers necessary when deciding whether to set up a policy (**Figure 4** overleaf).

Figure 4

The Department for Business, Energy & Industrial Strategy's (the Department's) information and analysis to support the setting up of business support schemes we assessed

Of the business cases we reviewed, the Department did not include all of the evidence that HM Treasury considers necessary to decide whether to set up the schemes

Scheme	Spend to date (2018-19) (£m)	Year launched	Measurable and time-bound objectives	Long-list of options appraised	Stakeholders consulted: Individual businesses	Stakeholders consulted: Industry groups	Preferred option determined through value-for-money (VfM) analysis
Catapults	1,276	2011	Green	Green	Green	Green	Red
Advanced Propulsion Centre	248	2013	Red	Green	Red	Green	Red
Exceptional Regional Growth Fund (eRGF)	20	2015	Green	Green	Red	Red	Grey
Sharing in Growth	85	2013	Green	Green	Green	Green	Green
Business Support Helpline	16	2011	Red	Green	Green	Red	Red
Be the Business	6	2017	Red	Red	Red	Green	Red
Business Basics Programme	1	2018	Green	Green	Red	Green	Red
Aerospace Technology Institute	846	2014	Red	Green	Red	Green	Red
Smart	310	2011	Red	Grey	Grey	Grey	Grey
Knowledge Transfer Partnerships	307	1975	Red	Grey	Grey	Grey	Grey

● Evidence found of the criterion in the scheme's business case (Green)
● No or insufficient evidence in the scheme's business case (Red)
● Criterion is not applicable (see other notes) (Grey)

Notes

1 Our review criteria are not all applicable to the Knowledge Transfer Partnerships and Smart schemes as they have evolved over many years since they were first set up, and their original business cases are no longer relevant to our analysis. These schemes have recent business cases to justify their ongoing spending.

2 The review criteria of 'preferred option determined through VfM analysis' is not applicable to the eRGF at a scheme level as it has no formal budget. The Department considers the value for money of each individual grant awarded through this scheme.

3 The eRGF was originally one element of the Regional Growth Fund (RGF), which undertook stakeholder consultations prior to launch. RGF ceased to fund new projects in 2015 but eRGF has continued to operate as a standalone intervention. We assessed the case that was made for continuing eRGF. No stakeholder consultation was undertaken at that time and so the scheme has a negative result for both these criteria.

4 Spend values rounded to nearest £1 million.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy documents

Setting measurable objectives

2.4 A lack of measurable and time-bound objectives can limit the effective design, planning, monitoring and evaluation of a scheme. Although the Department made the case for change and set objectives for all 10 schemes, it did not set measurable objectives for six of the schemes (Figure 4). Evaluators of the Smart scheme, for example, had to identify quantitative objectives for the scheme themselves since the Department had not formalised these. This meant that it was challenging to assess the effectiveness of the scheme. In contrast, we found that the Department has included measurable and time-bound objectives in the most recent scheme in our sample, the Business Basics Programme (**Figure 5**). The Department has also taken steps to improve the objectives for the Catapult scheme following a review in 2017, which found that an inconsistent purpose across the Catapult network reduced the impact and value for money of the scheme. The Department responded to this review by creating a common set of objectives across all Catapult centres.

2.5 The Department considers that having measurable objectives can be too prescriptive for some schemes, particularly where its aim is to achieve innovation. For such schemes, the Department told us that having high-level objectives encourages a wider range of practices that are more likely to result in innovation. For example, Be the Business has been created to 'test and learn' what works in raising demand for business support and tackling firm-level productivity issues, so did not suit having measurable objectives while it was being designed. But we have previously reviewed the Department's venture capital schemes, which also aimed to promote innovation, and found that a lack of clear, measurable objectives hindered performance monitoring and prevented the Department from being able to judge whether taxpayers' investment offered value for money.[6]

Figure 5
Case example: Objectives for the Business Basics Programme

The Department for Business, Energy & Industrial Strategy included measurable and time-bound objectives in the business case for the Business Basics Programme

Objective	Success criteria	Timescale
Increase small and medium-sized enterprises' productivity.	Complete trials to assess the impact of new approaches to improve business productivity. Trials involve small and medium-sized enterprises from more than three regions and three sectors. More than two projects are scaled up during the lifetime of the project.	Data are available from trials by early December 2019.

Source: National Audit Office review of the Business Basics Programme business case

6 Comptroller and Auditor General, *Venture capital support to small businesses*, Session 2009-10, HC 23, National Audit Office, December 2009.

Appraising alternative options

2.6 Starting out with a narrow set of options or a pre-determined solution may miss the opportunity to explore more novel solutions that might offer better value for money. The Department appraised a long-list of options for seven out of the eight schemes we assessed (Figure 4).[7] For example, it considered four options for the Advanced Propulsion Centre (APC) scheme (**Figure 6**). But the Department supported Be the Business, which included a benchmarking tool and peer-to-peer mentoring in its activities, without considering whether there were alternative ways to achieve the scheme's objective of improving productivity. The Department told us that it did not appraise alternative options, as the solution was determined through the work of industry experts and Be the Business is an independent, business-led organisation.

2.7 For most schemes in our sample, the Department did not assess the costs and benefits of shortlisted options against a viable alternative, as recommended by HM Treasury guidance. As a result, the Department did not analyse options that might have achieved better value for money.

Consulting with businesses

2.8 Consulting with businesses can help to identify improvements to current business support schemes and provide feedback on proposed schemes. The extent to which the Department consulted with stakeholders was mixed (Figure 4):

- the Department took direct views from businesses that were potential recipients of support for three schemes prior to launch (Sharing in Growth, Catapults and Business Support Helpline);
- the Department received input from industry representatives for six schemes (Business Basics Programme, APC, Be the Business, Sharing in Growth, Catapults and the Aerospace Technology Institute (ATI));
- the Government consulted on the Regional Growth Fund through which Sharing in Growth is funded; and
- the Department consulted with specialists in evaluation for the Business Basics Programme.

In addition to the scheme-specific consultations listed above, Innovate UK consults with industry to identify barriers that its programmes should help businesses to overcome. It uses this information to develop its sector and technology strategies. Similarly, the Department consults with businesses as part of its wider engagement work. For example, it undertakes an annual survey of small businesses and maintains relationships with business representative bodies.

7 We did not include Smart or Knowledge Transfer Partnerships in our review of business cases given these schemes significantly predate the other schemes in our sample with their business cases having changed many times since they began.

Figure 6

Case example: Options for the Advanced Propulsion Centre scheme

The Department for Business, Energy & Industrial Strategy considered four alternative options in the business case for the Advanced Propulsion Centre scheme

Option 1: Do nothing.

Option 2: Focus support on manufacturing investment.

Option 3: Continue existing support for collaborative research and development.

Option 4: Set up the national Advanced Propulsion Centre.

Source: National Audit Office review of the Advanced Propulsion Centre business case

2.9 It is not clear how the Department has used findings from direct consultations with businesses and industry groups to design its schemes. The Confederation of British Industry told us, for example, that the Department often consulted with the organisation about a pre-empted solution rather than asking it for open suggestions. This means the Department might have missed an opportunity to tailor its schemes to the needs of businesses.

Managing a scheme

2.10 In managing a scheme once it is implemented, the Department should:

- set a realistic timetable for rolling out the scheme which is consistent with delivering the intended objectives. Sound planning and budgeting is a key part of delivering any activity successfully and comparing actual results with what was planned;
- have processes and controls in place to ensure that spending remains in line with the aims of the scheme, particularly for schemes that are providing grants to a range of individual projects – where spending is harder to manage than providing money through one organisation; and
- collect monitoring information that indicates whether the scheme is on track to achieve its objectives.

Setting the timetable and budget

2.11 At least three of the schemes we assessed underspent against their early budgets. This was because of delays in setting up the scheme or because fewer businesses applied to participate in the schemes than the Department originally expected (**Figure 7**). We have reported in the past that departments tend to be overly optimistic about the amount of time it will take to engage groups over which government has no direct control.[8] Underspending against budgets presents two risks: that money approved to support businesses is unspent and returned to the Exchequer; and that new programmes take longer than government intends to reach those businesses in need of support.

Figure 7

Business support schemes with underspends against original budgets

Three of the 10 schemes we assessed underspent against their early budgets

Scheme	Budget	Spend	Reasons for underspend
Be the Business	£5 million for the first year of the scheme.	£2 million for the first year of the scheme.	Recruitment delays. Delays in establishing Be the Business with charitable status.
Advanced Propulsion Centre	£219 million over first four years.	£172 million over first four years.	Fewer than expected applications to the scheme. Scheme-funded projects took longer than expected to start.
Aerospace Technology Institute	£483 million over first three years.	£400 million over first three years.	Aerospace industry took time to respond to increase in funding. Spend of £150 million in first year was inherently challenging target.

Note

1 Budget and spend figures are in 2018-19 prices.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy data

8 National Audit Office. *Over-optimism in government projects*, December 2013.

Awarding grants to businesses

2.12 Our past audits of government contracts show that having checks in place, such as due diligence, before awarding funding to applicants helps to ensure that both sides clearly understand what is required and what might go wrong.[9] Additionally, having incentives in place that relate to desired outcomes once funding is granted can encourage the recipient to act in the interest of the Department.[10] We found that for the five grant schemes in our sample, the Department had carried out checks both before and after granting money to businesses:

- **pre-award checks** included assessing the financial health of recipients and assessing the potential costs and benefits of individual projects. For four of the five schemes, the Department also commissioned an independent assessment of applications received. On Smart, for example, the Department asks five independent assessors with technical knowledge of the subject to score each application; and

- **post-award checks** included requiring recipients to submit evidence of how grants are used. For the Exceptional Regional Growth Fund (eRGF), for example, the Department obtains invoices and conducts site visits to verify the use of grants. Innovate UK schemes have systems in place to change grants over the course of a project, reflecting the specific needs of innovation. The Department also has mechanisms in place to reduce or cease payments to recipients if projects are not achieving the expected results. In general, however, there were few instances of payments being stopped or reduced across the schemes we reviewed.

Monitoring scheme performance and impact

2.13 In monitoring the performance and impact of schemes, the Department should:

- collect appropriate monitoring data with key metrics to measure and track scheme performance against original objectives, enabling identification of problems that require action;

- identify clear links between intermediate or proxy performance indicators and a scheme's ultimate objectives where it is not possible or feasible to track final outcomes until many years later; and

- collect information showing businesses' views of the scheme.

Our review found that while the Department collects monitoring information for each of the 10 schemes in our sample, often it did not fulfil the criteria above (**Figure 8** overleaf).

9 National Audit Office, *Good practice contract management framework*, December 2016.
10 National Audit Office, *Commercial and contract management: insights and emerging best practice*, November 2016.

Figure 8

The Department for Business, Energy & Industrial Strategy's (the Department's) monitoring of 10 business support schemes

The type of monitoring information that the Department collects across the 10 schemes we assessed is varied

Scheme	Date scheme set up	Number of key performance indicators	Key metrics assessed against targets/objectives	Link between proxy indicator and scheme objective	Business satisfaction data collected routinely	Business perspective assessed in previously published evaluations
Catapults	2011	8	Green	Green	Red	Red
Advanced Propulsion Centre	2013	2	Red	Green	Red	Green
Exceptional Regional Growth Fund	2015	2	Green	Grey	Red	Grey
Sharing in Growth	2013	7	Green	Grey	Red	Grey
Business Support Helpline	2011	13	Green	Green	Green	Green
Be the Business	2017	7	Green	Green	Green	Grey
Business Basics Programme	2018	4	Green	Green	Green	Grey
Aerospace Technology Institute	2014	5	Red	Green	Red	Green
Smart	2011	3	Green	Green	Red	Green
Knowledge Transfer Partnerships	1975	5	Green	Green	Red	Green

● (Green) Evidence found of criterion in the scheme's documentation
● (Red) No or insufficient evidence in the scheme's documentation
● (Grey) Criterion is not applicable, for example an evaluation is yet to be completed

Note

1 Exceptional Regional Growth Fund and Sharing in Growth are not considered in the category 'link between proxy indicator and scheme objective' because the indicators used to monitor the scheme (private sector leverage and jobs created) are the overall objectives of the scheme.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy documents

Performance against objectives

2.14 Most schemes monitor performance against targets. Where schemes do not do this, it is difficult for the Department to know whether the schemes are on track or, if not, whether it needs to make changes to address problems. For example, the APC scheme reports on the number of jobs created or safeguarded but with no comparison to any projection or target to know whether it is ahead or behind where it should be for the amount spent. Even for schemes where the Department does monitor activity against some expectation of performance we found that this information had been used to refine the scheme in only a small number of cases. One such example is Be the Business, which set targets for its activities from the outset and used performance against these to trigger changes in its approach when uptake for its online benchmarking tool was not as high as planned (**Figure 9**).

Identifying links between short-term activities and long-term impact

2.15 The majority of schemes' performance indicators measure levels of activity. For example, Sharing in Growth measures the number of companies that have participated in its programme; Knowledge Transfer Partnerships measures the number of competitions held and the number of applications received; and Smart measures the total funding committed to projects. But for most schemes it will not be apparent whether these types of activities are leading to achievement of their overall objectives, such as boosting firms' productivity, for many years.

2.16 A key means of establishing links between short-term measures of activity and intended long-term outcomes are 'logic models'. These identify the relationships between a scheme's inputs, activities and outcomes (**Figure 10** overleaf). Logic models can also guide the data collection and monitoring processes as well as providing a framework to inform the types of evaluations carried out. As such, the earlier in its development of a scheme the Department establishes a logic model the more it can shape how effectively that scheme is monitored and evaluated.

Figure 9
Case study: Be the Business' change in approach

Be the Business changed its approach after demand for its online benchmarking tool fell short of its target

Initial target	In 2017-18, 200,000 businesses should complete Be the Business' online self assessment benchmarking tool to measure their productivity.
Actual performance	5,649 businesses accessed the tool.
Be the Business' response	Recognised that small and medium-sized enterprises do not come forward for help, leading to a change in approach from a mass-marketing campaign to bespoke support for a smaller number of firms.

Source: National Audit Office analysis of Be the Business documents

Figure 10

Identifying scheme impact: the components of a logic model

A logic model identifies the links between a scheme's short-term activities and long-term outcomes

Term	Inputs	Activities	Outputs	Outcomes	Impacts
Description	Resources used	Nature of intervention delivered	Measure of intervention delivered	Changes that resulted from intervention	Net changes, including wider economic and social effects
Examples	Money spent; staff hours; machinery used	Provision of training; grant paid to business	Number of training courses delivered; value of grants disbursed	Increased knowledge; new technology developed	Improved productivity growth or increased GDP compared to what would have been expected without intervention

Source: National Audit Office analysis of HM Treasury (2011) and Department for Business, Energy & Industrial Strategy (2019) guidance

2.17 Most schemes in our sample have logic models in place. The Catapult network, for example, has used logic models to develop eight key performance indicators, which are aligned with the scheme's overall objectives. However, only four schemes had logic models in place prior to carrying out an evaluation while none developed these models from the outset (**Figure 11**). This may have limited the extent to which data collected during scheme implementation can be aligned with the needs of evaluation, or the likelihood that schemes have interim measures that are linked to long-term intended outcomes.

2.18 The Department has taken steps to embed the use of logic models: its January 2019 Business Support Evaluation Framework stipulates that all schemes must have a logic model with clear and measurable outputs, outcomes and impacts. This framework applies to the Department's business growth schemes and could be applied to schemes that provide business support within specific regions; it is not designed to be used by either innovation or sector-specific business support schemes.

Figure 11
Number of business support schemes with logic models

The Department for Business, Energy & Industrial Strategy developed a logic model for five schemes before the evaluation stage. It did not develop a logic model for any of the eight applicable[1] schemes during the design stage

	Number	Schemes
Logic model developed during an evaluation	3	Knowledge Transfer Partnership, Smart, Business Support Helpline
Logic model developed during implementation of scheme and prior to evaluation	5	Catapults, Advanced Propulsion Centre, Business Basics Programme, Be the Business, Aerospace Technology Institute
Logic model developed during design of scheme	0	Not applicable

Note

1 We have not considered Exceptional Regional Growth Fund and Sharing in Growth in this analysis because the indicators used to assess the scheme are the schemes' overall objectives.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy scheme documents

Collecting businesses' views

2.19 Routinely monitoring businesses' views of a scheme could help to identify problems that would prevent a scheme achieving its objectives, such as the process being too complex for businesses to engage with the support. But we found the Department's monitoring of businesses' views was patchy:

- The Department measures businesses' views as a performance indicator for one of the 10 schemes: the Business Support Helpline. This scheme measures customers' satisfaction with calls made to the helpline and reported in July 2019 that 97% were satisfied.
- In addition, the Department collects data on businesses' views routinely for the Business Basics Programme and Be the Business.
- Five of the schemes have collected businesses' views of schemes as part of an evaluation.

Evaluating schemes' impact

2.20 Good-quality evaluations provide evidence about a policy's effectiveness. They help departments improve policies and justify reinvestment; they should also be proportionate to the policy's scale. There are three main types of evaluations:

- **process evaluations** to examine how well a policy is implemented;
- **impact evaluations** to provide quantitative evidence (as opposed to self-reported evidence) using a control group on whether the policy itself, rather than other factors, made a difference; and
- **economic evaluations** to compare the net benefits of a policy with its costs.

2.21 To date, of the 10 schemes in our sample, the Department has published a process evaluation of six schemes and an economic evaluation of three schemes. It has only rigorously evaluated the impact of the Smart scheme (**Figure 12**). This evaluation found that the scheme had had some effect but that there was little difference between the performance of companies awarded funding compared with those that were not (**Figure 13** on page 34). The Department has not evaluated the impact of the other schemes in our sample despite eight having run for more than six years. The Department's evaluation guidance for business growth schemes states it should be possible to conduct an impact evaluation three years from the start of a policy, by which point there will be sufficient data to understand its long-term impact, although it expects its innovation programmes to take longer to have an impact. By comparison, our review of the British Business Bank found that it had produced good-quality evaluations of its individual products despite it only being established in 2014.

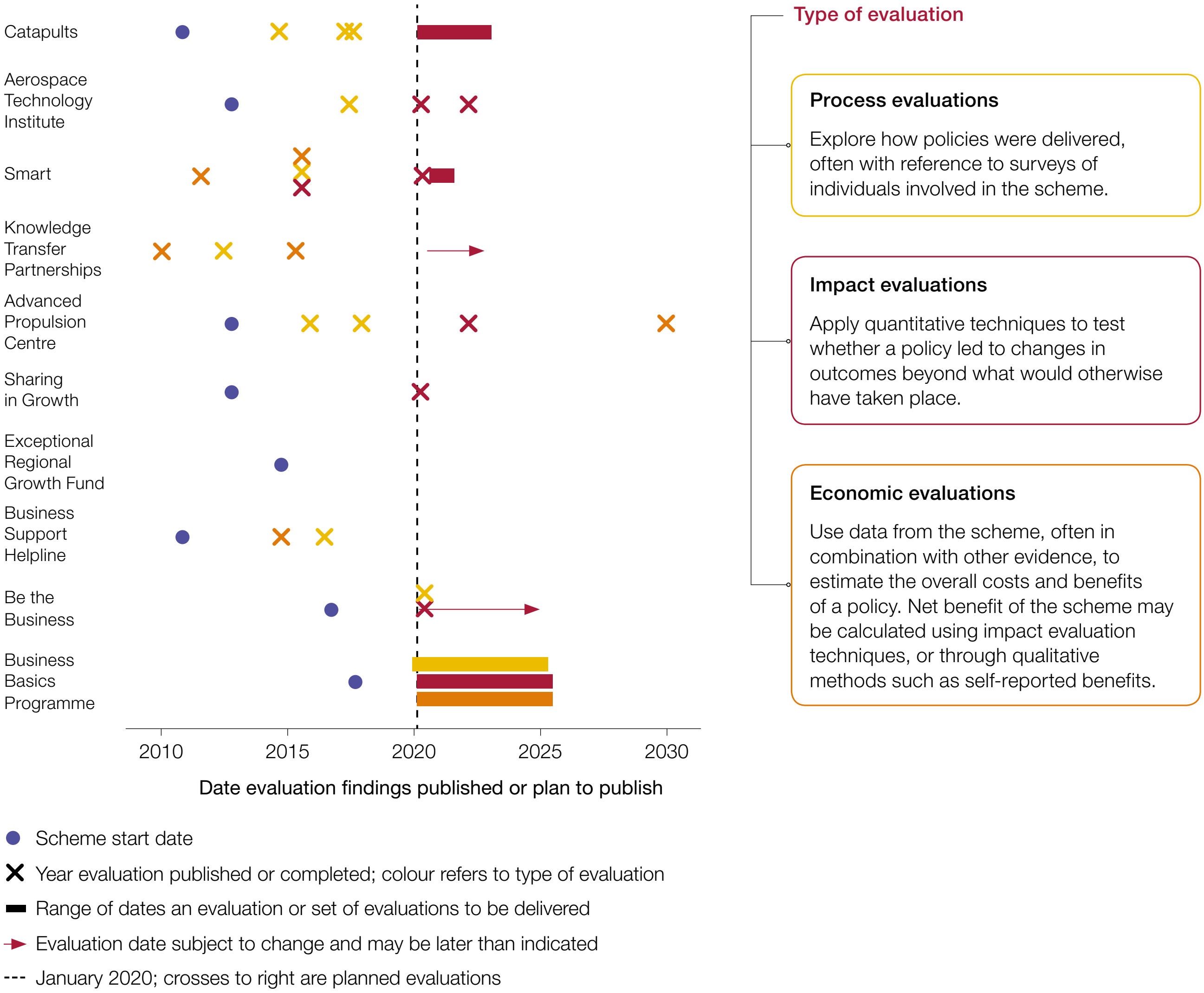
2.22 The Department is planning to evaluate the impact of some schemes in the future. Of the four schemes in our sample that have not yet been evaluated, the Department plans to conduct an impact evaluation of the Business Basics Programme, Be the Business and Sharing in Growth schemes.[11] The Business Basics Programme involves running several trials of interventions that aim to increase productivity, which the Department will use to generate impact evaluation evidence to support the design of future policies. The Department views the Business Basics Programme as a key part of its efforts to raise the standards of evaluation within its business support schemes.

11 The Department will also evaluate Sharing in Growth and the remaining scheme, eRGF, through an overarching evaluation of the Regional Growth Fund.

Figure 12

The Department for Business, Energy & Industrial Strategy's (the Department's) evaluation of business support schemes in our sample

The Department has conducted a process evaluation of six schemes and an economic evaluation of three schemes, but only evaluated the impact of the Smart scheme, despite eight of the schemes in our sample running for more than six years; several schemes are currently undertaking evaluations with plans to publish in the future



Notes

1 The Department will evaluate the Sharing in Growth and Exceptional Regional Growth Fund schemes through an overarching evaluation of the Regional Growth Fund; this is in addition to a separate evaluation of the Sharing in Growth scheme, see figure.

2 The figure shows the evaluations undertaken after the Smart and Knowledge Transfer Partnerships schemes were incorporated into Innovate UK's portfolio. It excludes previous evaluations of these schemes.

3 The process evaluation category includes reviews, since these generally examine scheme progress supported by consultations or interviews in a manner similar to process evaluations.

4 The start date for the Catapults scheme shown is 2011, the date that the first Catapult centre became part of the network (the High Value Manufacturing Catapult). Subsequent Catapults were launched between 2012 and 2016. This means that future evaluations cover a range of dates, as different Catapult centres are at different levels of maturity.

Source: National Audit Office analysis of Innovate UK (2007–2019), Office for National Statistics (2019) and Department for Business, Energy & Industrial Strategy (2011–2019) data

Figure 13

The impact evaluation of the Smart scheme

The impact evaluation of the Smart scheme in 2015 used a control group and found that it did not have a statistically significant impact on the performance of firms that participated in the scheme

Evaluation method:

- the evaluation compared a group of firms that missed out on a grant (**control group**) with firms that received a grant from the Smart scheme.

Impact of the scheme:

- more than half the firms that missed out on funding went ahead with their proposed projects, but these projects were **delayed and of lower quality than the firms that ran projects under the scheme**, indicating the scheme has had some effect;
- the firms that received grants **self-reported outcomes** of £380 million to £470 million in added value as a result of the Smart scheme; and
- the **quantitative analysis** of the control group against participants showed **no statistical difference** in the performance of companies that were awarded Smart funding and those that were not.

Source: National Audit Office analysis of the Smart impact evaluation. Available at: www.gov.uk/government/publications/smart-funding-assessment-of-impact-and-evaluation-processes, Innovate UK, *Impact assessment – Smart funding*, 13 October 2015

2.23 To date, the Department has mostly used economic rather than impact evaluation techniques to identify scheme achievements. These can rely heavily on qualitative or self-reported outcomes, which makes the accuracy of their findings less certain than using quantitative outcomes, such as the recorded level of earnings. The Department told us that it triangulates evidence from multiple sources to identify a scheme's overall impact, which can often rely heavily on self-reported outcome data from programme participants. Although such data can be valuable, good practice is to assess as much of a scheme as possible using more robust quantitative techniques. The Department has taken steps to increase the use of such techniques in the case of the Catapult network, for example, where it has invested more than £1 million in evaluation and made use of business registers and analyses of scheme participants and non-participants to estimate impact.

2.24 The Department also told us that, although it had not evaluated the impact of most schemes in our sample, it has evaluated similar predecessor schemes. We found, however, that only two schemes' business cases referred to the lessons from such predecessor schemes. The Department drew on the findings of a pilot study for the APC scheme, and reviewed lessons learned from a predecessor project for the Business Support Helpline. We have previously reported that we would expect to see more reference to evaluation evidence of previous phases to inform the design of existing schemes.[12]

12 National Audit Office, *Evaluation in government*, December 2013.

Part Three

The portfolio of business support schemes

3.1 The evidence we have collected when assessing a sample of schemes has indicated how effectively the Department for Business, Energy & Industrial Strategy (the Department) manages its portfolio of business support schemes overall.[13] Good portfolio management maximises the value for money of government expenditure by minimising duplication and ensuring different interventions complement one another. This part of the report sets out how effectively the Department is managing its portfolio of business support schemes.

Strategic alignment

3.2 Ensuring a set of interventions are aligned with a wider government policy or strategy helps to ensure a department can organise its portfolio effectively. Each intervention (or scheme) should have objectives that can be linked to the strategic objectives to ensure overall alignment, with resources and capability allocated according to their strategic importance. It is also important to consider periodically whether schemes continue to align with the overarching strategy and whether they need to adapt or cease where they do not.

3.3 The Department published its Industrial Strategy in November 2017.[14] This set out the government's objective to address the relatively low productivity of UK businesses compared with other countries (**Figure 14** overleaf). Additionally, the Department and the Ministry of Housing, Communities & Local Government (MHCLG) have asked all Local Enterprise Partnerships, which are private sector-led partnerships between businesses and local public sector bodies, to develop local industrial strategies. These should set out a shared course for long-term development in local areas, aligned to the national Industrial Strategy.

3.4 Supporting businesses is a key component of the Industrial Strategy, alongside other activities such as investing in infrastructure and skills. The Industrial Strategy sets out the five areas, called 'foundations', which the Department considers to be vital to boosting productivity.[15] The Department's business support schemes link to one or more of these foundations. For example, its schemes that provide advice and finance to help businesses grow align with the 'business environment' foundation and its grants for innovation align with the 'ideas' foundation.

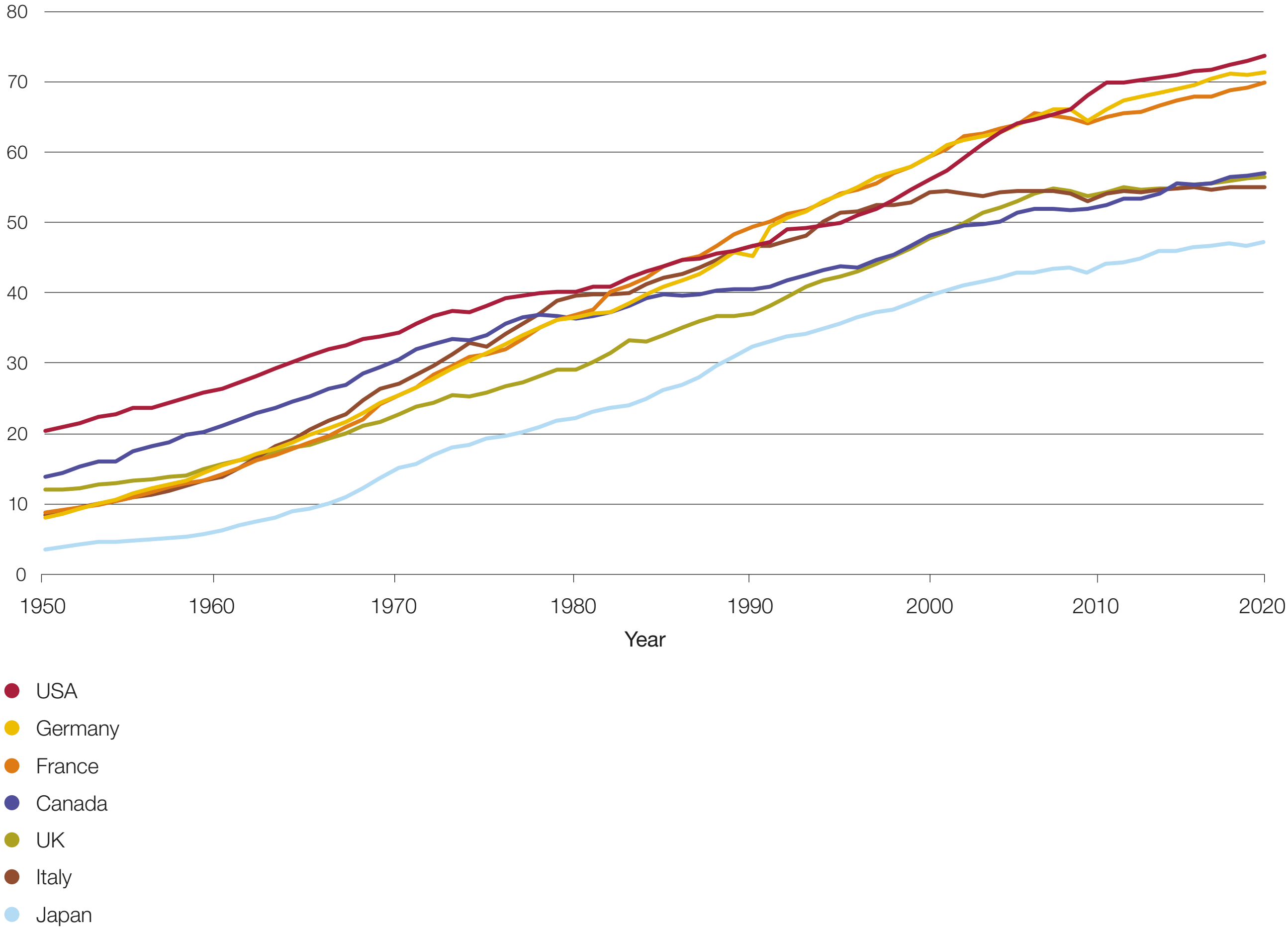
13 We use the term 'portfolio' to refer to a set of linked interventions that are broadly aimed at achieving the same government objective.
14 HM Government, *Industrial Strategy,* white paper, November 2017.
15 The five foundations of productivity are: Ideas; People; Infrastructure; Business environment; Places.

Figure 14

The UK's productivity compared with other G7 countries

UK productivity has grown less in the last decade than all other countries in the G7 except for Italy

Labour productivity, measured as GDP per hour worked (2018 United States Dollars)



Notes

1 The group of seven (G7) countries are an informal organisation comprising the world's seven largest 'advanced economies' as defined by the International Monetary Fund.

2 Gross domestic product or GDP is a measure of the size and health of a country's economy over a period of time (usually one quarter or one year). It is also used to compare the size of different economies at different points in time.

Source: National Audit Office analysis of The Conference Board Total Economy Database™ (Original version), April 2019

3.5 Some of the schemes we reviewed had clear links to the Industrial Strategy. The Business Basics Programme and Be the Business began as part of or following the Industrial Strategy's publication and have objectives that are clearly aligned with the overall aim of boosting productivity. The Knowledge Transfer Partnerships scheme was renewed as part of the 2018 Budget following the findings of the Industrial Strategy.

3.6 Some schemes in our sample existed before the Industrial Strategy and have been incorporated into it. For example, the Advanced Propulsion Centre (APC) and the Aerospace Technology Institute (ATI) schemes are respectively part of the Industrial Strategy's automotive and aerospace sector deals, while the Industrial Strategy sets out how Catapults would continue to play a role in supporting innovation. Other schemes in our sample, such as Sharing in Growth and the Business Support Helpline, are legacies of previous policies and strategies.

3.7 The Department lacks information about which businesses receive support from some of its schemes, including their location. This means the Department cannot know whether it is achieving the Industrial Strategy's objective to boost productivity throughout the UK by ensuring its support accumulates in the areas that need it most, or how its support will interact with local industrial strategies.

3.8 The Department expects the Industrial Strategy to have a greater impact in the future, when there has been sufficient time for it to shape individual schemes and its overall portfolio of business support. For example, each Catapult had to demonstrate alignment with the Industrial Strategy for its latest five-year plan. The Department plans to consider the strategic fit of its schemes at the next Spending Review, which is due in 2020. Additionally, the Industrial Strategy Council, an independent advisory group, is establishing measures that demonstrate the impact of the Industrial Strategy on raising productivity.

Managing the portfolio's size and complexity

3.9 It is important that the Department manages the size and complexity of its business support portfolio to avoid overlaps between schemes and to ensure that its support is coherent to businesses. In November 2018, the Business, Energy & Industrial Strategy Select Committee reported that small and medium-sized enterprises (SMEs) find it difficult to navigate the landscape of a "myriad of policies and initiatives aimed at helping SMEs innovate, export and address productivity issues".[16]

3.10 The Department's business support schemes have built up over time as it has developed new strategies and approaches. From 2006, the government aimed to simplify the business support landscape by reducing the 3,000 different schemes provided by central and local government to under 100. Since then, there have been successive government strategies aimed at addressing poor productivity in the UK (**Figure 15** overleaf). The political and strategic shifts over time are likely to have created additional complexity as new initiatives build on those that already existed.

16 HC Business, Energy and Industrial Strategy Committee, *Small businesses and productivity*, Fifteenth Report of Session 2017–19, HC 807, December 2018, page 3.

Figure 15

Timeline of government strategies to support businesses

The 2017 Industrial Strategy follows several previous strategies to support businesses

2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019

March 2008

Simple Support, Better Business: Business Support in 2010, which set out a vision for:

- simplifying access to business support;
- reducing number of schemes from more than 3,000 in 2006 to 100 in 2010; and
- creating a unified portfolio of schemes that is managed and monitored in a coherent way.

March 2011

Plan for Growth:

- a programme of structural reforms to remove barriers to growth for businesses; and
- covered a range of policies to improve UK infrastructure, cut red tape, reform the planning system and increase trade and inward investment.

December 2013

Small Business, Great Ambition:

- set out a range of commitments to make it easier for ambitious small businesses to grow.

November 2017

Industrial Strategy white paper published to address UK productivity.

November 2019

Government Productivity Review published following a call for evidence and engagement with industry:

- identified best practice used by leading businesses to boost performance; and
- sets out 10 key actions to improve productivity, including boosting funding to existing schemes, building the evidence base for policies, and improving access to support services and information.

Source: National Audit Office analysis of previous business support strategies

3.11 The Business Support Costing Project (the joint costing project) found that more work is needed to ensure a coherent policy landscape across government. It found that multiple policies with broadly similar aims, such as improving productivity, are administered by different departments with different implementation approaches. The Department told us that it expected the next phase of this project to look at whether there needed to be centralised responsibility for coordinating different types of support, including the Department's schemes and tax reliefs.

3.12 The joint costing project also found that departments have poor data about businesses that receive support, with recipient data available for 16% of business support cost. It recommended that departments agree and commit to collecting common business identifiers to help understand the combination of government support that a business receives. The joint costing project suggested the business identifiers should link to existing government datasets where possible to minimise the administrative burden for businesses. This could include, for example, the trading name and address of the business, the registered number of the business with Companies House, or contact information for the business. The Department's evaluation framework, which it published in January 2019, also states that unique business identifiers should be collected to enable an understanding of which businesses are engaging with government support, although only where such requirements do not deter businesses from engaging with the services offered.

Standardised measures of activity

3.13 Having standardised reporting and categorisation of similar interventions within a portfolio helps to facilitate internal and external scrutiny of performance. In the context of the Department's business support portfolio, some standardisation is important because:

- it helps the Department to identify which schemes are most at risk of not achieving their objectives and whether the scheme should continue; and
- it enables the Department to establish a cumulative picture of activity across schemes.

The Department's evaluation framework for business support schemes states that "similar metrics need to be collected across different interventions where possible, so that the Department is able to compare like with like".[17]

17 The Department for Business, Energy & Industrial Strategy, *Business support evaluation framework*, January 2019, page 5.

3.14 Across government, there is significant variation in how departments monitor the progress of schemes. The joint costing project collated information from the departments that provide business support to identify how they monitor scheme progress. It found that the government uses more than 1,600 measures to monitor business support schemes. The Department itself uses around 1,500 metrics across its 47 schemes, with only 136 of these used for more than one scheme. The costing project has subsequently recommended that common metrics for policies with similar aims should be stipulated across government to allow meaningful comparison of policies.

3.15 The Department compares the effectiveness of all its schemes as part of Spending Reviews. HM Treasury carries out Spending Reviews to allocate funding across the government's priorities, set limits on spending and define the main outcomes that the public can expect the government to achieve with its resources. The next Spending Review is planned for 2020, at which the Department will calculate relative costs and benefits of each of its schemes and submit this to HM Treasury. This will provide some indication of schemes' relative performance.

Identifying and embedding good practice

3.16 To maximise the effectiveness of its portfolio, the Department needs to ensure that individual schemes comply with good practice. Our review of schemes, set out in Part Two, has shown that adherence to existing government guidance, such as HM Treasury's Green and Magenta Books, has been inconsistent. HM Treasury told us that it was the responsibility of departments' accounting officers to ensure that departments follow its guidance.

3.17 The Department has recently taken steps to embed good practice into how it sets up and manages schemes:

- In October 2018, the Department started developing a central analysis, monitoring and evaluation database to share learning across policies. The database brings together impact assessments, post-implementation reviews, business cases and evaluations. This allows comparisons across its policies and improved implementation of new schemes by enabling lessons to be learnt from past experience, such as the impact of optimism bias. The Department has so far collated 1,000 documents into the database and it intends to extend its scope to include monitoring data.

- In November 2018, the Department implemented a mandatory project assurance process whereby internal experts scrutinise business cases for completeness, applicability and appropriateness prior to any investment decision. This scrutiny includes ensuring projects have measurable and time-bound objectives, a comprehensive monitoring and evaluation plan and a value-for-money assessment of alternative options. These changes built on the formal approval process first introduced in 2016 that mean all investment decisions in the Department with a lifetime cost of more than £20 million require a business case to be submitted to its internal Projects and Investments Committee (the Committee). In considering business cases, the Committee considers a range of factors including that each project identifies lessons learned and uses these to make improvements.
- In January 2019, the Department published a new framework for evaluating business support schemes.[18] This aims to ensure that evaluation evidence is comparable across interventions and of sufficient quality to inform policy-making. This followed Innovate UK's publication in January 2018 of an equivalent framework that outlines best practice for evaluations of innovation policies.

Replacing EU funding

3.18 The Department is contributing to the development of schemes to replace support from the EU, which is an opportunity for it to draw on good practice from both domestic and European funding. The Cities and Local Growth Unit (the Unit), which includes officials from the Department and MHCLG, is developing the UK Shared Prosperity Fund (UKSPF), which will replace EU Structural Funding, including the European Regional Development Fund (ERDF). The Unit is planning to draw on evidence of good practice collected from previous business support evaluations and lessons emerging from ongoing schemes, including the Business Basics Programme.

3.19 The Unit plans to make the design of the UKSPF flexible so that it can incorporate new learning over time. It is planning to evaluate the impact of the ERDF over the current EU budget period (2014–2020). The ongoing design of the UKSPF will incorporate lessons learned from European programmes and domestic programmes such as the Business Basics Programme. But this learning may not emerge until after the Unit has implemented the UKSPF.

18 The Department for Business, Energy & Industrial Strategy, *Business support evaluation framework*, January 2019.

Appendix One

Our audit approach

1 This study examined whether the Department for Business, Energy & Industrial Strategy (the Department) can demonstrate it is achieving value for money from its spending on business support schemes. To do this we reviewed:

- what is known about the overall landscape of government support to businesses;
- whether the Department is designing, managing, monitoring and evaluating schemes in accordance with best practice and government guidance; and
- whether the Department is effectively managing its schemes as a portfolio to ensure investment in business support is value for money.

2 This report covers all business support schemes overseen by the Department except those delivered through the British Business Bank because we have reported on those separately.[19]

3 We assessed value for money by:

- analysing the landscape of government support to businesses using HM Treasury and Departmental data;
- developing an evaluative framework based on general government guidance to identify what arrangements would be optimal in designing, monitoring, managing and evaluating business support schemes; and
- evaluating the Department's management of its portfolio of schemes.

4 Our audit approach is summarised in **Figure 16**. Our evidence base is described in Appendix Two.

19 Comptroller and Auditor General, *British Business Bank*, Session 2019-20, HC 21, National Audit Office, January 2020.

Figure 16
Our audit approach

The objective of government

Government aims to achieve sustained economic growth because it leads to higher incomes and better living standards. Economic growth relies on businesses with potential being able to grow.

How this will be achieved

To achieve this objective, the government provides a range of support to businesses, including tax reliefs, advice, and finance in the form of grants and loans. In 2017, the government published an Industrial Strategy, which sets out how to boost productivity and earning power throughout the UK. More business support schemes are delivered by the Department for Business, Energy & Industrial Strategy than any other department.

Our study

This study examined whether the Department can demonstrate it is achieving value for money from its spending on business support schemes.

Our evaluative criteria

Government knows how much it spends on business support and has a view of the business support landscape.

The Department designs, monitors, manages and evaluates business support schemes according to best practice and government guidance.

The Department manages its schemes as a portfolio by ensuring the strategic alignment of schemes, monitoring overall performance and sharing best practice.

Our evidence (see Appendix Two for details)

We identified whether government understood the business support landscape by:

- **drawing on past National Audit Office (NAO) work**;
- **analysing spending data** from HM Treasury and the Department; and
- **reviewing documents** relevant to the business support landscape including the Industrial Strategy white paper.

We evaluated the Department's oversight of business support schemes by:

- **constructing an evaluative framework** from HM Treasury and the Department's guidance;
- **reviewing documents** provided for each of the 10 schemes; and
- **conducting interviews** with officials in the Department and scheme delivery bodies.

We assessed how the Department is managing its business support portfolio by:

- **interviewing key officials** in the Department;
- **reviewing relevant documents** including HM Treasury data; and
- **drawing on past NAO work** concerning best practice.

Our conclusions

The Department administers more schemes to support businesses than any other department, costing around £2.4 billion a year. While we found both strengths and weaknesses in the management of the 10 schemes in our sample, the way they were designed and evaluated by the Department did not consistently follow government's own guidance. Most schemes in our review lacked measurable objectives from the outset or evaluations of their impact to know if they are providing the most value or if they should be discontinued. Without such analysis, the Department cannot know if its business support is providing value for money.

More widely across government, the joint costing project has shown that the landscape of business support, which cost around £17 billion in 2016-17, has developed piecemeal and includes a mix of policy interventions administered by different departments. HM Treasury and the Department recognise the need to make support better coordinated and prioritised. This work is both urgent and critical if government is to provide the most effective support to the UK economy when it replaces the support that currently comes from the EU.

Source: National Audit Office

Appendix Two

Our evidence base

1 We reached our independent conclusions on whether the Department for Business, Energy & Industrial Strategy's (the Department's) business support schemes deliver value for money based on evidence that we collected between January and November 2019.

2 We applied an analytical framework with evaluative criteria to consider what arrangements would be optimal for government support to businesses (**Figure 17**). Our audit approach is outlined in Appendix One.

3 We analysed the landscape of government support to businesses by:

- **drawing on past National Audit Office (NAO) work** that examined business support schemes;
- **analysing cost data** from HM Treasury and the Department on total spend on business support schemes across government;
- **reviewing documents** relevant to the business support landscape including the Industrial Strategy white paper, the Department's *Longitudinal small business survey 2018* and policy analysis from the What Works Centre for Local Economic Growth; and
- **interviewing experts and stakeholders** from universities, research institutes and business representative groups.

Figure 17
Business support schemes – good practice criteria

Area	Our evaluative criteria
Rationale	Why is government intervening? How does this fit into the wider strategic context? **1** Case for change made. **2** Outline objectives in business case are measurable and time-bound. **3** Clear understanding of how objectives fit with other government interventions.
Design	What is the best way to meet government's objectives? **4** Long-list of options appraised. **5** Stakeholders consulted. **6** Preferred option determined through value-for-money analysis. **7** Outcome of options appraisal tested in sensitivity analysis. **8** Assessment of affordability and budget impact. **9** Arrangements for monitoring and evaluation built in at planning phase, with data requirements identified.
Management	Are realistic and robust delivery plans in place? **10** Responsibilities among government departments and arm's-length bodies for managing interventions are clear and well thought through. **11** Risks, including potential abuse of funding for individual projects, are assessed and managed to ensure expenditure is in line with the scheme's objectives.
Monitoring	Is the scheme monitored to ensure value and provide data to improve the scheme or future policies? **12** Data on scheme take-up, costs and benefits are collected, with reasons given for differences to forecasts. **13** Interim results of scheme reported to relevant parties. **14** Defined review points to change or end the intervention if costs or benefits differ from forecasts.
Evaluation	Are the outcomes of the intervention assessed? **15** Evaluation meets 'Magenta Book' principles for evaluating policies. **16** Intervention outcomes or impact assessed against original objectives. **17** Evaluation published or reasons for not doing so reported.

Source: National Audit Office

4 We evaluated the Department's management of business support schemes by:

- **reviewing documents provided for each of the 10 schemes**, including business cases, ministerial submissions, funding approval documents, monitoring data and evaluations (both published and unpublished);
- **conducting interviews** with officials in the Department, stakeholders and scheme delivery bodies. These semi-structured interviews covered all aspects of setting up the scheme, running the scheme and learning from the scheme. We interviewed the following bodies as part of our analysis of the 10 schemes (in addition to interviews with the Department on each scheme): Innovate UK, Advanced Propulsion Centre, Be the Business, Sharing in Growth and Aerospace Technology Institute; and
- **assessing schemes against an evaluative framework** constructed from government guidance, specifically HM Treasury's *Managing Public Money*, the Green Book, the Magenta Book, *Guide to Developing the Programme Business Case*, *Guide to Developing the Project Business Case* and the Department's Business Support Evaluation Framework. Our evaluative framework covered the Rationale, Objectives, Appraisal, Monitoring, Evaluation and Feedback (ROAMEF) policy cycle as set out in the Green Book and consisted of 17 criteria grouped into five categories (see Figure 17).

5 We assessed how the Department is managing its business support portfolio by:

- **interviewing key officials** in the Department to understand how schemes are run as a portfolio. We also conducted interviews with the Department's monitoring and evaluation team, and officials working on the central analysis, monitoring and evaluation database to understand recent initiatives intended to improve the Department's management of its portfolio;
- **reviewing relevant data and documents** including HM Treasury data on the cost of government support schemes, the Industrial Strategy white paper and evidence collected on individual schemes in our sample; and
- **drawing on past NAO work** concerning best practice.

CORRECTION SLIP

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