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

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

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.

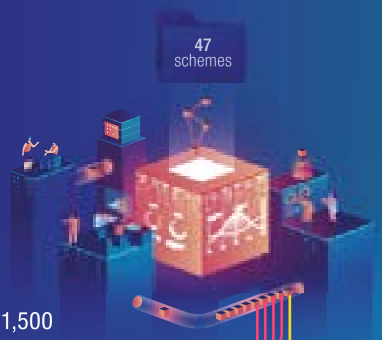
The sample of 10 support schemes considered in this study

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.