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Advanced Manufacturing Supply Chain  
Initiative (AMSCI): Process Evaluation  
Study

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RESEARCH



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# Executive Summary

## Introduction

This report outlines and evaluates the key steps in the process for delivering the Advanced Manufacturing Supply Chain Initiative (AMSCI). The objective of this strand of the evaluation, as set out in the terms of reference, is to enable the Department for Business, Innovation and Skills (BIS) to understand if the processes work well, how they could be improved and whether they are the best possible processes to deliver value for money for this kind of scheme. The process evaluation also provides an update on progress with key indicators to date against baseline.

The evidence underpinning this process evaluation is taken from a variety of sources:

- Review of programme documentation, including monitoring information
- Quantitative survey of 207 applicants to AMSCI, across all rounds, including both successful and unsuccessful applicants
- In-depth case studies with ten projects, involving semi-structured qualitative interviews with the lead applicant and, where relevant, one or two partner applicants
- In-depth semi-structured interviews with eight stakeholders responsible for AMSCI processes, including representatives from BIS, Finance Birmingham, Innovate UK and the Independent Investment Board

## Progress of AMSCI

From an overall budget of £245 million over the first four rounds, monitoring data show that £176 million has been committed to successful applicants in the form of grants and loans, suggesting that the level of relevant investment is likely to be lower than planned.

Moreover, AMSCI is still in the early stages of delivery and has made limited progress in terms of actual expenditure. By June 2014, 48 projects had received conditional approval although over half of these were still undergoing due diligence. Given that many of the projects have yet to commence, this impacts on the amount of funds drawn down to date (15.3 per cent of the overall grant and loan commitment of £175.65 million was certified as drawn down in August 2014).

In addition, the evidence suggests that a number of projects are progressing slightly more slowly than expected, resulting in underspend relative to the original profile of expenditure. Similarly, as can be expected there is still progress to made before the overall jobs targets are met (11.5 per cent of the overall target for the number of jobs created has been met and 42 per cent of the number of jobs safeguarded).

However, it should be noted that most projects appear to be progressing successfully or are relatively free from major risks. Out of the 48 projects receiving support 39 projects are classified under the RAG rating system as Green or Green / Amber. The one project classified as Red is currently receiving targeted supported. Moreover, in-depth interviews with applicants suggest that there is a relatively positive outlook regarding the potential for

successful project implementation and AMSCI is expected to have a significant impact on job creation and safeguarding in many supply chains.

It is too early to make a conclusive assessment of whether the slippage encountered in the programme so far is likely to have a major impact on AMSCI's ability to meet its expenditure and output targets over the timescales for the programme. However, the view of the evaluation team is that there is a risk of potential under-performance.

### **Recommendation – High priority**

For the reasons discussed, overall progress has been limited so far and considerable progress is required before the programme achieves its aggregate spending and output targets. While ongoing monitoring processes are identifying delivery risks at a project level, the aggregate monitoring data available do not enable a conclusive assessment to be made of whether or not the programme as a whole is on course to achieve its overall targets.

As a result, it is suggested that strong engagement takes place between the Monitoring Board and Finance Birmingham to ensure that the project risk rating systems is appropriately positioned to identify whether any slippage will occur in terms of programme level outputs by the relevant deadlines for each Round.

Future programmes of this nature should ensure that robust monitoring systems are in place that allow for continual and accurate monitoring of progress at an aggregate level, and that appropriate contingencies are put in place to mitigate the risks of project and programme slippage.

### **Marketing and communication, and the application process**

A key indicator of the effectiveness of marketing and communication activities, and the application process, is the quantity and quality of applications received to the programme. Monitoring data show that the quantity of applications has been rising from round to round, and have come from a greater diversity of advanced manufacturing sectors, although there is little evidence that the average quality of bids has improved over time. The fact that committed expenditure is lower than the £245 million overall budget may suggest lack of demand, although it is the view of the evaluation team that this is more likely to be due to high levels of scrutiny at the appraisal stage rather than low levels of awareness or interest from industry.

Ongoing demand for AMSCI support relies on eligible firms and supply chain collaborations being made aware of the programme. While many applicants were already engaged with Government prior to applying, industry bodies and supply chain and industry networks were also identified as being important channels for finding out about AMSCI. This suggests the importance of marketing the programme, and publicising AMSCI events, through private sector channels.

## Recommendation – High priority

Efforts should be concentrated on ensuring that industrial support programmes are publicised effectively through private sector channels, including industry associations, LEPs and private finance institutions, so that applicants from different advanced manufacturing sectors (with limited current engagement with Government) are not excluded from applying.

The guidance and support provided to applicants is identified as crucial to ensuring that bids are of a high quality and the requisite information is provided in application forms to allow the appraisal process to be conducted effectively. Evidence from the process evaluation suggests that, while the application guidance (particularly in relation to State Aid conditions) is necessarily complex and thorough, applications have benefited from the “hand-holding” provided by Finance Birmingham during the application process. Feedback from previous failed bids has also been identified as being useful to applicants, suggesting that allowing for a more iterative application process, as per the design of AMSCI 2014, may help to improve the quality of bids.

There is also a suggestion that more could be done at the application stage to make applicants fully aware of the due diligence requirements and the likely impact of this on the project, including the planned start date.

## Appraisal

Over the course of AMSCI, the appraisal framework supporting the value for money assessment has been reviewed and strengthened and this has led to an improved system for identifying projects that are “value for money”. The general focus has been on strengthening the examination of specific issues such as additionality, displacement and risks, which are inherently difficult to judge objectively in light of potential optimism bias in the information provided by applicants.

As explored in the Early Additionality Report, around half of successful applicants suggested that their project would not have gone ahead at all without AMSCI funding (with most of the rest saying that the project would have otherwise progressed at reduced scale or scope or over a longer time period). Moreover, around half of unsuccessful applicants were able to (or were planning to) take their project forward without AMSCI funding. Taken together, these results are broadly supportive of the judgements being made at the appraisal stage: the average estimate of deadweight applied in the appraisal process was 50 per cent among unsuccessful applicants, rising slightly to 55 per cent for successful applicants. However, given the propensity of a small share of applicants to pursue (or suggest they would pursue) private finance options following rejection, coupled with the finding that 70 per cent of applicants had not sought debt finance to fund the project prior to applying to AMSCI, this reinforces the possible need for more stringent tests of financial constraints at the appraisal (or due diligence) stage (such as requiring applicants to demonstrate that they have been rejected for finance).



In later rounds, where applications were considered marginal, BIS approached applicants to clarify their answers and to provide further evidence where necessary. This has proven to be very effective in filling in information gaps and learning more about the specific focus of projects and their wider context. In some cases, this has led to the identification of additional benefits or has helped to review information that appears biased. Further measures to strengthen quality assurance mechanisms could be introduced. For example, wider sectoral expertise available in BIS could be further drawn upon when examining additionality issues.

The value for money assessment faces additional challenges due to the fact that some AMSCI projects relate to early stage innovation investments and there is inevitable uncertainty around the likely success of projects. In order to address market failures, it is often preferable to fund projects involving experimental technologies which are associated with greater uncertainties. These uncertainties should be fully reflected in the value for money assessment, including perhaps a sensitivity analysis around the central benefit cost ratio (BCR) to help the Independent Investment Board to understand the risks involved.

The approach to technical assessment under AMSCI 2014 appears to be better designed than in earlier rounds. The home assessors (used for each assessment) provide consistency in assessment across all applications and can provide support to other assessors that are used on a rotating basis. In addition, the aggregation of individual assessors' independent scores, followed by a moderation exercise to allow the assessors to discuss and vote on marginal applications, is considered less biased than the consensual decision-making approach used in earlier rounds.

Evidence suggests that the Independent Investment Board has a critical approach to examining applications for funding, rejecting approximately 50 per cent of bids during Rounds 1 to 4, with the rejected bids tending to be projects with lower than average technical appraisal scores (average of 74.0 compared to 76.1 for successful projects) and BCRs (average of 2.78 compared to 4.28 for successful projects). The Independent Investment Board makes a critical assessment of additionality. If the proposal appears to be "too good" then the Board may decide not to allocate funding as the supply chain should be supporting the type of activity proposed without government funding. Moreover, analysis of risks is a central part of the decision-making. If the risks are perceived as too low, the application may be rejected as the supply chain should be able to access financial support from private sector sources.

However, there is a suggestion that the Board may be overly conservative given its propensity to reject a large proportion of bids that have met the technical and value for money assessment thresholds. Coupled with the fact that rejected bids have had a much higher average value than successful bids, it is our view that this conservative approach may be driving the overall under-commitment of funds relative to programme budgets.

### Recommendation – High Priority

While only very minor adaptations are likely to emerge, it would be useful to undertake an internal review of the Independent Investment Board at the end of AMSCI 2014. One area

### Recommendation – High Priority

to explore (for AMSCI and other similar programmes) could be the extent to which selection panels are adopting a conservative approach to risk, and the subsequent impact on project selection.

### Contracting and due diligence

The objective of the contracting and due diligence process is to expose the proposed project to much greater scrutiny on legal, additionality and risk issues than was possible through the appraisal process.

The evidence suggests that many applicants find the process of due diligence challenging and often underestimate the level of work involved to ensure that the process is completed thoroughly. In particular, the process for ensuring State Aid compliance is necessarily complex and applicants are expected to invest time to ensure they are informed of the legislation.

As a result, clear performance differences have been observed between firms that engage in the process heavily at the onset and quickly provide detailed information and those that take slightly more time to get up to speed with what is expected of them. Delays can emerge if companies are not quick to respond fully to information requests.

The case studies revealed that the timescales for completing due diligence did cause problems for a number of projects. The main impact appears to be on a delayed start of the project which is expected to put pressure on project completion and defrayal of funds within the timescales set out in the Offer Letter.

### Recommendation – High priority

It is recognised that the onus is on the applicant to engage with the process and provide required information promptly, and for lead applicants to manage their partners effectively through the process. However, clear up-front communication of the State Aid due diligence procedures, including an explanation of the benefits of the process, and a realistic timescale built into the overall project schedule will help to ensure that applicants are adequately prepared and engaged. In particular, the start dates for projects set out in applications and Conditional Offer Letters should allow a realistic period of time for due diligence to be completed to reduce the incidence of project slippage.

### Monitoring and performance management

With regard to implementing effective internal monitoring systems, there is some variation in performance between applicants. In particular, monitoring obligations may be more burdensome for smaller companies, and there is potentially some need for more guidance to help applicants set up effective monitoring processes.

A key function of the monitoring process is to ensure that risk is adequately identified and managed. Several applicants have established appropriate risk management tools for their projects to feed into quarterly meetings, and there may be a role for monitoring officers to share best practice on how projects should manage risk. A risk register for all projects is reviewed at the monthly AMSCI Programme Board, although few projects have been identified as “red” risk so far.

Most applicants are satisfied with the support provided by monitoring officers and feel that there is an appropriate level of flexibility to ensure that projects can be adapted to meet changing business needs.

## **Conclusions and recommendations**

The full list of recommendations, together with an indication of their level of priority, are summarised in the Conclusions (section 7).

# 1.0 Introduction

This report outlines and evaluates the key steps in the process for delivering the Advanced Manufacturing Supply Chain Initiative (AMSCI). The objective of this strand of the evaluation, as set out in the terms of reference, is to enable BIS to understand if the processes work well, how they could be improved and whether they are the best possible processes to deliver value for money. The process evaluation also provides an update on progress with key indicators to date against baseline. The evaluation considers the likely impacts of changes to the process for AMSCI 2014 on applicants' experiences and value for money. A full description of the evaluation framework underpinning this process evaluation is set out in section 1.3 below.

This report is part of a wider formative evaluation of AMSCI and sits alongside the following reports:

- AMSCI Pilot Monitoring Report
- AMSCI Early Additionality Report
- AMSCI Impact and Economic Evaluation Scoping

## 1.1 Description of the process

### Overview of AMSCI

The objective of AMSCI is to improve the global competitiveness of the UK advanced manufacturing supply chain with an explicit focus on creating jobs and re-shoring production to the UK. This objective is delivered through the provision of Government finance, in the form of grants and loans, to support innovative supply chain projects that would not otherwise go ahead.

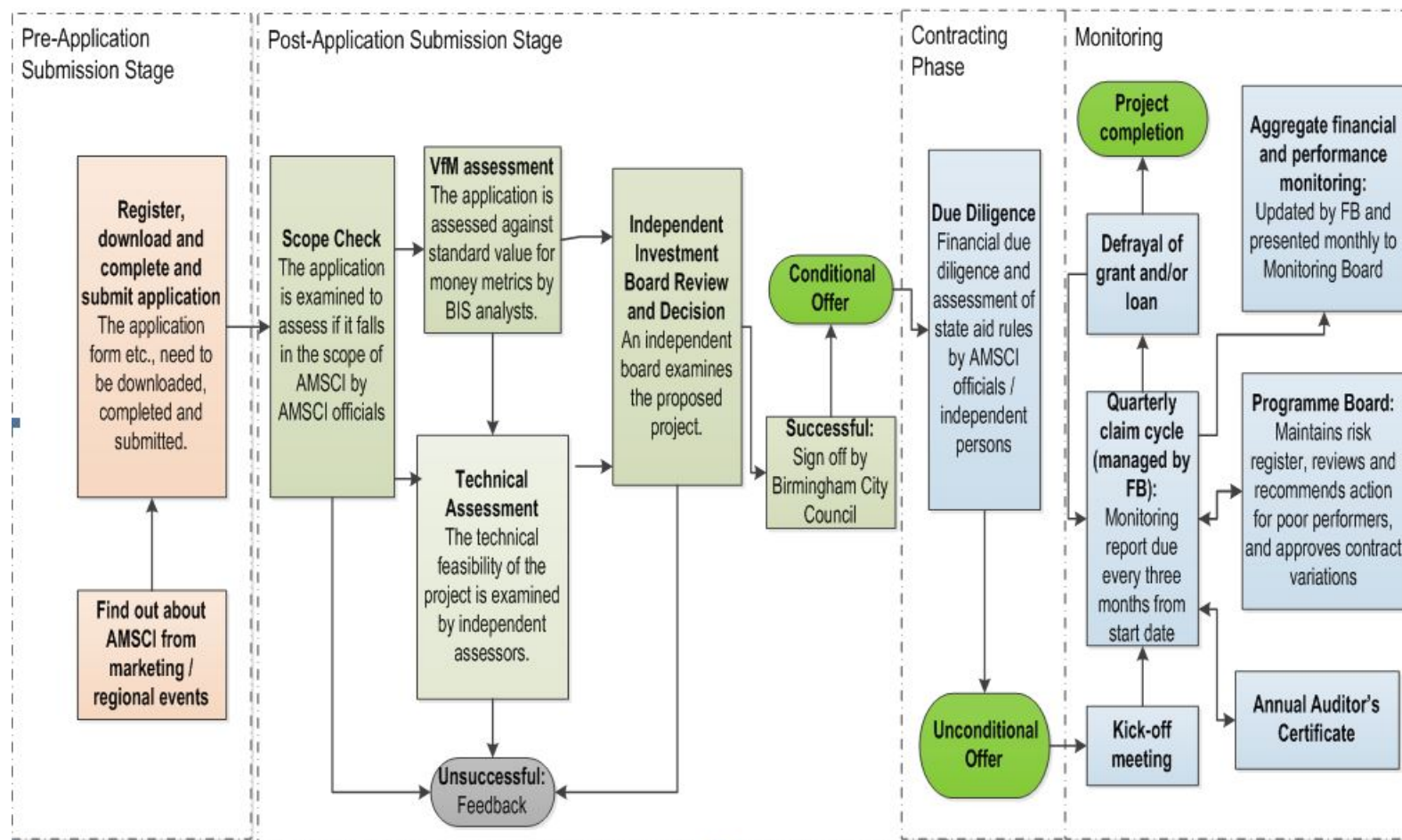
AMSCI has been implemented on the basis of several rounds. Rounds 1 to 4 and AMSCI 2014 are the main rounds through which support has been provided. These rounds have required applications from consortia of at least two partners (private sector or universities), all of which should be based in England and at least one of which is a manufacturer. In Rounds 1 to 4, a total of 54 projects and 250 beneficiaries were supported by the initiative. In the current round (AMSCI 2014), a total of £100 million has been made available to successful applicants and the programme is currently underway.

In addition, two regional rounds have been implemented: Round 1.2a and the West Midlands and Liverpool City Region (WMCLR) Round. Under these rounds, single applicant bids were permitted.

Applications must also demonstrate value for money for the taxpayer and a commitment to create and safeguard jobs within the supply chain. Funding is available for capital equipment, research and development to improve systems and processes and training and workforce development.

Figure 1.1 summarises the main stages in the process

Figure 1.1: Overview of AMSCI Process



This process is described in more detail in Annex 1.

## Management of AMSCI Processes

A number of bodies are involved in the management of AMSCI processes:

- The Department for Business, Innovation and Skills (BIS) is the policy owner of AMSCI and is responsible for supervising the bodies implementing the initiative. BIS also performs key tasks such as the value for money assessment of applications.
- Birmingham City Council is the Accountable Body for the initiative and is responsible for managing funds and allocating payments to applicants.
- Finance Birmingham is a specialised public private partnership established by Birmingham City Council to implement grant and loan programmes. A service agreement is in place between Birmingham City Council and Finance Birmingham outlining Finance Birmingham's responsibilities for implementing the initiative. Over time, Finance Birmingham's responsibilities have increased. Finance Birmingham has always played a key role in communication and marketing, contracting, due diligence and monitoring activities. However, more recent responsibilities include managing the AMSCI web-site<sup>1</sup> (an online tool used to promote AMSCI and receive applications) and managing the technical assessment of bids conducted by independent technical assessors.
- Innovate UK (formerly known as the Technology Strategy Board) was previously involved in AMSCI but this is no longer the case under AMSCI 2014. Innovate UK was responsible for administering the AMSCI competitions for funding and the processes supporting the technical assessment of bids.
- The Independent Investment Board has the role of reviewing and selecting applications for funding. The Independent Investment Board consists of independent industry experts.

The processes for which the actors indicated above are responsible and that are within scope for this evaluation include:

- Marketing, communication and application process (i.e. the pre-application submission stage);
- Appraisal and selection of bids (i.e. the post-application submission stage);
- Contracting and due diligence;
- Project monitoring.

These processes are described in detail in Annex 1.

## 1.2 Process evaluation framework

Table 1.1 proposes some key evaluation questions that informed the data collection fieldwork. These have been primarily addressed in this report. However, evaluation questions related to project impacts and additionality are primarily addressed in the Early Additionality Report published alongside this process evaluation.

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<sup>1</sup> <http://www.financebirmingham.com/amsci/>



**Table 1.1 Framework of Process Evaluation Questions**

| <b>Framework of Process Evaluation Questions</b>   |  |
|--|--|
| <b>Application process</b>   |  |
| How effective and efficient were the AMSCI marketing and communications activities in raising awareness of AMSCI amongst potential applicants?                           |  |
| Was the application process effective and efficient in generating a pool of high quality and relevant bids?  |  |
| Were the marketing and communication activities coherent and effective in making clear the AMSCI objectives, eligibility criteria and application process to applicants? |  |
| How effective was the guidance offered by BIS, TSB and/or FB to applicants?  |  |
| If known, what reasons were given by potential applicants for not applying to AMSCI? To what extent were they put off by the costs involved?                             |  |
| <b>Appraisal and project selection process</b>   |  |
| Overall, how effective and efficient was the appraisal process (scope check, value for money assessment and technical assessment)?                                       |  |
| How effective was the overall appraisal process for identifying projects that would not have gone ahead without AMSCI funding?   |  |
| Overall, how effective were the support mechanisms in guiding the appraisal process?   |  |
| How effective and efficient were the quality assurance mechanisms to support project appraisal?  |  |
| How coherent, effective and efficient was the selection process?   |  |
| <b>Contracting and due diligence process</b>   |  |
| Overall, how effective and efficient was the process for issuing Conditional Offer Letters and the information contained in the Conditional Offer Letters?               |  |
| How effective and efficient was the process for financial due diligence?   |  |
| How effective and efficient was the process for examining State Aid compliance?  |  |
| Have the financial and State Aid due diligence processes become more effective over time and between rounds?   |  |
| How effective and efficient was the process for finalising the Unconditional Offer Letter and underlying contract?   |  |
| <b>Monitoring</b>  |  |
| How effective and efficient is the monitoring process?   |  |
| How effective are the kick-off meetings in setting out the process for monitoring? What improvements could be made to the kick-off meeting?                              |  |
| Are applicants able to effectively and efficiently manage the reporting requirements?  |  |
| How effective and efficient are the processes for managing performance and risks? If issues occur, to what extent are these linked to insufficient risk management?      |  |
| How effective and efficient is the process for making payments to applicants?  |  |
| <b>Project Impacts and Additionality</b>   |  |
| How far have projects progressed in terms of delivering their expected impacts?  |  |
| What other sources of finance are available to applicants?   |  |
| If projects would have gone ahead without AMSCI, what form would they have taken?  |  |
| What has been the impact of the project on your competitors?   |  |
| What is the added value of AMSCI to applicants?  |  |
| <b>Aggregate performance management</b>  |  |
| Does the monitoring information collected through the system enable effective performance management of AMSCI?   |  |
| What barriers have been identified that limit the efficient implementation of AMSCI?   |  |

### 1.3 Methodology

The methodology for the process evaluation has focussed upon the collection of qualitative and quantitative data from stakeholders involved in managing AMSCI processes and project beneficiaries through interviews, survey and desk research approaches. The data collected were analysed and triangulated to gain a 360 degree perspective of the performance of AMSCI from those both internal and external to the initiative.

The applicant survey received 207 responses (the response rate was 57 per cent) and the data have been integrated in the report in the context of examining specific issues relating to AMSCI processes. A breakdown of the number of survey respondents by round is indicated in Table 1.2.

**Table 1.2: Overview of Survey results**

|              | Total      | Successful Applicants | Unsuccessful Applicants | Both (i.e. a multiple applicant of successful and unsuccessful bids) |
|--------------|------------|-----------------------|-------------------------|--|
| Round 1      | 20         | 14                    | 6                       | 0  |
| Round 2      | 55         | 31                    | 17                      | 7  |
| Round 3      | 26         | 2                     | 19                      | 5  |
| Round 4      | 98         | 26                    | 58                      | 14   |
| WMLCR        | 8          | 6                     | 2                       | 0  |
| <b>Total</b> | <b>207</b> | <b>79</b>             | <b>102</b>              | <b>26</b>  |

The survey applicants were responded to a wide range of questions relating to AMSCI processes. The results relating to the most relevant questions were selected for assessment by the process evaluation to reinforce some of key findings and to complement some of the points made by interviewees.

To examine in-depth the perception of AMSCI processes by applicants and to gain understanding of the issues around additionality and project impacts, ten projects were selected for case study research. The case studies selected were chosen on the basis of representing an appropriate coverage of rounds and sectors. The case studies were separated into two groups – five case studies focused on process five case studies focused on additionality and impact – and questionnaires were designed for each group. However, there were some overlaps in the questionnaires to ensure that core information could be collected from all interviewees.

For each case study, the project leader was interviewed. Depending on the number of consortium members, one or two project collaborators were also interviewed for bids received from consortia. A total of 20 firms were interviewed. The vast majority of case



study interviewees initially selected agreed to be interviewed although two replacement case studies had to be identified for various reasons.<sup>2</sup>

The in-depth data received through the case study research have helped to understand the reasons why applicants hold certain perceptions towards AMSCI. Detailed explanations have been provided on the performance of key processes and this has supported the consultants to make judgements on the progress of AMSCI overall.

A total of eight in-depth interviews were conducted with stakeholders responsible for AMSCI processes (this included the communication and application, appraisal, contracting and due diligence and monitoring process). To ensure sufficient coverage of these processes, interviews were held with stakeholders from BIS, Finance Birmingham, Innovate UK and the Independent Investment Board. A long list of relevant representatives from these organisations was initially reviewed and a shortlist of interviewees was proposed by the consultants.

These interviews provided insight into the workings of AMSCI processes from an internal perspective. Interviewees were requested to explain how key processes developed over time and to make a judgement on their performance. Due to the relatively small scale nature of the programme, a limited number of officers are involved in each stage of the process. As a result, the findings from stakeholder consultations are necessarily based on a small number of responses. This caveat has been highlighted in the report as appropriate. However, it should be stressed that as far as possible, the key findings from these interviews have been triangulated with the survey and interview data collected from applicants.

The data from these three sources have been triangulated leading to an analysis of key findings and development of recommendations where issues have been identified.

## 1.4 Structure of this Report

The structure of this report allows for each of the main processes to be evaluated in turn. In each chapter, an explanation of the process is provided initially. Subsequently, the data collected from stakeholders and applicants are presented and analysed. At the end of each chapter, a summary of the results is presented against the main process evaluation questions. Additionally, Chapter 2 provides an assessment of AMSCI based on programme level monitoring data. The structure of the report is as follows:

- Chapter 2: Progress of AMSCI;
- Chapter 3: Marketing and communications and the application process;
- Chapter 4: Appraisal and selection;
- Chapter 5: Contracting and due diligence;
- Chapter 6: Monitoring and project performance;
- Chapter 7: Conclusions and recommendations.

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<sup>2</sup> It was found that one case study project initially selected was not eligible for funding and was deselected during the due diligence phase. In relation to another case study project, the key representative from the lead project firm was not available for interview during the case study research phase.

## 2.0 Progress

This section provides an overview of the progress of the AMSCI programmes in delivering contracted expenditure and outputs based on the latest available monitoring reports.

### 2.1 Progress with AMSCI projects

Monitoring data have been provided by Finance Birmingham to indicate the progress of AMSCI across the various Rounds as follows:

- At programme level<sup>3</sup> data were provided on:
  - The overall target for jobs created and safeguarded and total loan and grant commitments;
  - The forecasted targets for September 2014 (i.e. jobs created and safeguarded and total funds drawn down);
  - The certified results for August 2014 (i.e. jobs created and safeguarded and total funds drawn down).
- At project level<sup>4</sup> data were provided on:
  - The total amount of loan, grant and overall funding, and the amount of funds released;
  - The forecast and actual number of jobs created and safeguarded;
  - The project implementation status and risk rating data.

These data shed light on the general progress of programme and project implementation. However, a more precise analysis could be performed if data on programme and project deadlines were available in the project monitoring documents and if budgeted targets were provided rather than forecasted targets (the forecasted targets are adjusted based on project progress and what applicants are expected to deliver in the short term). This would allow assessment of progress against initially planned deadlines for the amount of funding drawn down and the number of jobs created and safeguarded.<sup>5</sup>

Table 2.1 shows the project implementation status information for all successful applicants in the competition rounds completed so far:

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<sup>3</sup> The data were collected from the Finance Birmingham AMSCI Checkpoint Report August 2014

<sup>4</sup> The data were collected from the Finance Birmingham AMSCI Management Control Sheet June 2014

<sup>5</sup> However, it was mentioned by Finance Birmingham that using budgeted data for monitoring purposes would not be helpful. There are often natural delays in the due diligence process given the robustness of the process and the level of evidence required by applicants to demonstrate compliance of the requirements. The process is complex and invariably the applicants do not have the detailed information required immediately available (see chapter 5). A more appropriate comparison would be to highlight projects that are behind schedule following completion of due diligence and the start date being agreed. Any material slippage in this regard will be captured by the existing risk register.

**Table 2.1: Overview of the number of projects supported and their progress**

| Round        | Number of Projects receiving support | Number of projects withdrawn | Indicated Status   | RAG rating <sup>6</sup>   |
|--------------|--------------------------------------|------------------------------|--|---|
| Round 1      | 2                                    | 0                            | <ul style="list-style-type: none"> <li>2 projects are operating</li> </ul>   | <ul style="list-style-type: none"> <li>2 Green</li> </ul>   |
| Round 2      | 11                                   | 1                            | <ul style="list-style-type: none"> <li>11 projects are operating</li> <li>1 project is currently subject to special supportive measures</li> </ul>   | <ul style="list-style-type: none"> <li>5 Green</li> <li>4 Green / Amber</li> <li>1 Red / Amber</li> <li>1 Red (this project is subject to special supportive measures)</li> </ul> |
| Round 3      | 4                                    | 1                            | <ul style="list-style-type: none"> <li>2 projects are operating</li> <li>2 projects are at the due diligence stage</li> </ul>  | <ul style="list-style-type: none"> <li>4 Green</li> </ul>   |
| Round 4      | 9                                    | 0                            | <ul style="list-style-type: none"> <li>9 projects are undergoing due diligence</li> </ul>  | <ul style="list-style-type: none"> <li>9 Green /Amber</li> </ul>  |
| Round 1.2a   | 7                                    | 3                            | <ul style="list-style-type: none"> <li>7 projects are operating</li> </ul>   | <ul style="list-style-type: none"> <li>5 Green</li> <li>2 Green / Amber</li> </ul>  |
| WMLCR        | 15                                   | 0                            | <ul style="list-style-type: none"> <li>1 project is operating</li> <li>14 projects are subject to due diligence</li> </ul>   | <ul style="list-style-type: none"> <li>The one project that is operating has a green rating.</li> <li>13 Green / Amber</li> <li>1 Amber / Red rating</li> </ul>                   |
| <b>Total</b> | <b>48</b>                            | <b>5</b>                     | <ul style="list-style-type: none"> <li><b>22 projects are operating</b></li> <li><b>25 projects are undergoing due diligence</b></li> <li><b>1 project is receiving supportive measures</b></li> </ul> | <ul style="list-style-type: none"> <li><b>17 Green</b></li> <li><b>22 Green / Amber</b></li> <li><b>1 Amber</b></li> <li><b>2 Amber /Red</b></li> <li><b>1 Red</b></li> </ul>     |

The project monitoring data received for June 2014 indicate that so far 48 projects are currently receiving support. It appears that the majority of these projects (25) are undergoing due diligence but a similar proportion (22) are now operating. As indicated in the following section, given that many of the projects have yet to commence, this impacts on the amount of funds drawn down to date. In addition, many projects have commenced relatively recently and given their long project durations of several years it will take some time to draw down funds. For example, in terms of the projects that have drawn down funding, most of the projects have returned their Unconditional Offer Letters relatively recently (e.g. the two Round 1 projects returned their Unconditional Offer Letters in 2012 and 2014, all of the Round 2 projects that are operating returned their Unconditional Offer Letters in 2013 and the one WMLCR project that is operating returned its Unconditional Offer Letter in 2013).

The monitoring data suggest that most projects appear to be progressing successfully or are relatively free from major risks. Out of the 48 projects receiving support, 39 are

<sup>6</sup> RAG ratings are used to categorise project implementation performance: Green = the project is operating as planned. Amber = There are minor issues that are being dealt with. Red = There are significant issues with the project.

classified under the RAG rating system as Green or Green / Amber. The one project classified as Red is currently receiving targeted supported.

Moreover, a total of five projects have withdrawn from the initiative. This seems to be for various reasons. For example, one case study interviewee confirmed that as the company was changing its strategic focus as a result of a takeover of a competitor, it could no longer provide the necessary resources to manage the project. Another company indicated that a State Aid issue identified during the due diligence process resulted in the company withdrawing from the initiative. It was confirmed through the stakeholder consultations that no funding has been paid to applicants involved in projects that have been withdrawn.

## 2.2 Progress with Expenditure

From an overall budget of £245 million over the first four rounds, monitoring data show that £176 million has been committed to successful applicants in the form of grants and loans, suggesting that the level of relevant investment is likely to be lower than planned.

Programme level expenditure data were collected for assessment. As anticipated, given that many projects are still undergoing the due diligence procedure or have commenced relatively recently over the previous two years, the amount of funds drawn down to date is a small proportion of the total grant commitment. A total of 15.3 per cent of the overall grant and loan commitment (£175.65m) was certified as drawn down in August 2014 (see Table 2.2).

**Table 2.2 Overall grant and loan commitment and the level of funding drawn down**

|  | Round 1 and Round 2 <sup>7</sup> | Round 3 | Round 4 | Round 1.2a (Regional Round) | West Midlands and Liverpool City Region |
|--|----------------------------------|---------|---------|-----------------------------|---|
| Total grant commitment                                     | £68.9m                           | £20.2m  | £49.3m  | £4m                         | £2.9m                                   |
| Total loan commitment                                      | £6.7m                            | £5.35m  | £2.0m   | £1.1m                       | £15.2m                                  |
| Forecasted drawdown for September 2014:                    | £18.8m                           | 2.8m    | £0.49m  | £4m                         | £9.2m                                   |
| Certified as drawdown August 2014:                         | £14.6m                           | 2.3m    | £0.16m  | £3.8m                       | £6.0m                                   |
| Total grant commitment for all Rounds above                | £145.3m                          |         |         |                             |   |
| Total loan commitment for all Rounds above                 | £30.35m                          |         |         |                             |   |
| Total forecasted amount to be drawdown for September 2014: | £35.29m                          |         |         |                             |   |
| Total Certified as drawdown August 2014: <sup>8</sup>      | £26.86m                          |         |         |                             |   |

<sup>7</sup> The data received were aggregated for Rounds 1 and 2

<sup>8</sup> It has not been possible to compare data for the same months

In addition, some of the projects that have recently commenced were progressing slightly more slowly than expected. Under Rounds 1 and 2, the general explanation for the delays relate to the applicant's timing of payments for capital expenditure or underspend on labour relative to what was originally anticipated (as projects are progressing more quickly than expected). In a minority of cases projects are progressing less quickly than expected.

Given that many projects are still in their initial phases, Finance Birmingham confirmed that it is too early to identify whether there are any issues related to progress with expenditure. However, to mitigate any short comings in project delivery, the RAG rating system is used to flag any areas of risk including slippage in expenditure. Such issues would be identified as they emerge.

## **2.3 Progress with the numbers of jobs created and safeguarded**

Similarly, in relation to the data collected for the numbers of jobs created and safeguarded, as can be expected there is still progress to made before the overall targets are met (11.5 per cent of the overall target for the number of jobs created has been met and 42 per cent of the number of jobs safeguarded). Again this can be explained by the fact that the projects have a long duration but many have only recently commenced over the last two years or are undergoing due diligence (see Table 2.3).<sup>9</sup>

Many projects are already generating employment impacts linked to investments made in R&D activities (certified results for August 2014 have surpassed the forecasted targets). Nonetheless, many projects will require some time before their commercial objectives are realised and therefore further job creation and safeguarding on the basis of increased sales will take time to emerge.

Again it is too early to detect any slippage in the area of the number of jobs created and safeguarded given that many projects are in their early stages. If problems emerged, issues would be dealt with accordingly under the monitoring system by identifying risks and introducing mitigating measures.

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<sup>9</sup> Monitoring jobs outputs is undertaken against the certificates provided by the beneficiaries. Applicants therefore determine when they have created or safeguarded a job. Applicants are provided with guidance on how to calculate this in the Guidance for Applicants and the Conditional Offer Letter. If a job is safeguarded or created it is for a minimum of 12 months – after that it falls out of the (formal) monitoring process.

**Table 2.3: Overall and forecast targets and certified results for the number of jobs created and safeguarded**

|   | Round 1 and Round 2 <sup>10</sup> |                  | Round 3 and Round 4 |                  | WMLCR and Round 1.2a<br>(Regional Round) |                  |
|---|-----------------------------------|------------------|---------------------|------------------|--|------------------|
|   | Job Created                       | Jobs Safeguarded | Jobs Created        | Jobs Safeguarded | Jobs Created                             | Jobs Safeguarded |
| <b>Overall Target:</b>  | 1584                              | 1488             | 1473                | 2398             | 780                                      | 599              |
| <b>Original forecasted dates</b>                                    | 31/3/17                           | 31/3/17          | 31/3/18             | 31/3/18          | 31/3/17                                  | 31/3/17          |
| <b>Forecasted for September 2014:</b>                               | 249                               | 1037             | 13                  | 87               | 137                                      | 777              |
| <b>Certified as of August 2014:</b>                                 | 275                               | 1050             | 12                  | 81               | 155                                      | 787              |
| <b>Total target jobs created and for all Rounds above</b>           | 3837                              | 4485             |                     |                  |  |                  |
| <b>Forecasted end date (in line with the end of Rounds 3 and 4)</b> | 31/3/18                           | 31/3/18          |                     |                  |  |                  |
| <b>Total target forecast for September for all Rounds above</b>     | 399                               | 1901             |                     |                  |  |                  |
| <b>Certified as of August 2014 for all Rounds above</b>             | 442                               | 1918             |                     |                  |  |                  |

## 2.4 Overall assessment of progress made

As indicated, out of the 48 projects that have received support, 25 are currently subject to due diligence procedures and 22 have only recently started with the vast majority of these returning their Unconditional Offer Letters in 2013 or 2014. As a result, the progress made against the overall targets is quite limited. In addition, among the projects that have commenced, there have been delays in implementation in some cases.

However, as confirmed by the case study research, the projects that have started are generating positive impacts and AMSCI is recognised as being central to the strengthening of supply chain manufacturing activities. Some of the findings of the case study research are indicated below:

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<sup>10</sup> The data received were aggregated for Rounds 1 and 2, Rounds 3 and 4, and WMLCR and Round 1.2a (Regional Round)

- The *Construction Supply Chain* project was restructured after the project was awarded funding (two of the prime firms that submitted the application indicated that they wished to establish separate projects). This caused some delays in commencing the project among other issues (for example given the structure of the project a very large number of supply chain firms were subject to due diligence procedures and this process took some time to complete). The lead applicant indicated that the project was delayed by approximately one year but since the project has started it has progressed as anticipated. Several of the project collaborators indicated that the project is likely to generate positive results and is central to strengthening R&D activities and new product development in the participating firms.
- The *Chariot* project commenced six months ago. The project has not faced any major barriers since it received support but the activities are still centred on R&D inputs. Therefore the lead applicant indicated that the project results are yet to be realised.
- One of the WMLRC projects (*Capital Investment Optimisation and Funding Support for Medium/Long-term Capacity and Business Growth*) commenced in summer 2014. The due diligence process took slightly longer than expected given that the extent of the procedure was not fully appreciated. However, the project has already secured £5 million of sales (and the firm is in the process of meeting fulfilling its contractual obligations with its clients) but the firm needs to make much more progress to meet its target of £15 million of further sales.
- The *Urban Vehicle Range* project commenced in July 2014 and it is estimated that four jobs have been safeguarded and two created. It is considered that the project is probably ahead in terms of job creation targets but slightly behind in terms of funds invested. However, the ambitious targets for job creation (1306) and R&D are still considered feasible given that the project is running relatively smoothly and no major risks have been identified.
- The lead applicant of the project *Indigenous Sustainable Manufacturing Supply Chain for Solid State Lighting* confirmed that the R&D activities are slightly behind schedule as result of unidentified issues emerging during the research process. However, these issues were seen as quite normal factors and not overly problematic and the project is generally in line to meet its targets. So far 11 jobs have been created and four safeguarded against an overall target of 90 jobs created and six safeguarded. The project is recognised as having a highly positive impact on the firm, generating new opportunities with clients.

Finance Birmingham commented that, while in some cases projects are slightly behind schedule, often this relates to changes in commercial priorities or unanticipated issues emerging (e.g. problems with planning permission procedures connected with investments in buildings or delays in contractual procedures). During the course of the case study research applicants indicated that Finance Birmingham has a commercially aware approach to managing projects and without this mind-set project impacts would not be as great.



The in-depth interviews with applicants suggest that AMSCI will have a significant impact on many supply chains linked to positive job creation and safeguarding effects. So far, it appears there is a relatively positive outlook regarding the potential for successful project implementation. However, at this stage in the life of the initiative it is too early to reach a concrete conclusion as to whether the overall targets (e.g. the amount of funds drawn down and job creation and safeguarding targets) will be met.

### **Recommendation – High priority**

For the reasons discussed in this chapter, overall progress has been limited so far and considerable progress is required before the programme achieves its aggregate spending and output targets. While ongoing monitoring processes are identifying delivery risks at a project level, the aggregate monitoring data available do not enable a conclusive assessment to be made of whether or not the programme as a whole is on course to achieve its overall targets.

As a result, based on an assessment of the situation by the consultants, it is suggested that strong engagement takes place between the Monitoring Board and Finance Birmingham to ensure that the project risk rating system is appropriately positioned to identify whether any slippage will occur in terms of programme level outputs by the relevant deadlines for each Round.

Future programmes of this nature should ensure that robust monitoring systems are in place that allow for continual and accurate monitoring of progress at an aggregate level, and that appropriate contingencies are put in place to mitigate the risks of project and programme slippage



## 3.0 Marketing and communications and the application process

This section examines the marketing, communication and application processes adopted in the management and administration of AMSCI. The primary objectives of these processes as indicated by the stakeholders administering the relevant processes are to:

- Promote the scheme to ensure that the quantity and quality of bids received is sufficient;
- Ensure marketing and communication coverage of relevant advanced manufacturing sectors;
- Ensure that the information contained in the marketing, communication and guidance activities and materials supports the preparation of eligible bids;
- Establish clear processes for the submission of applications;
- Develop strong relations with applicants ensuring that there is a duty of care in addressing individual concerns around the preparation and submission of applications.

This section seeks to explore how far these objectives were met, as well as to answer the key evaluation questions set out in Section 1, namely:

- How effective and efficient were the AMSCI marketing and communications activities in raising awareness of AMSCI amongst potential applicants?
- Was the application process effective and efficient in generating a pool of high quality and relevant bids?
- Were the marketing and communication activities coherent and effective in making clear the AMSCI objectives, eligibility criteria and application process to applicants?
- How effective was the guidance offered by BIS, Innovate UK and/or Finance Birmingham to applicants?
- If known, what reasons were given by potential applicants for not applying to AMSCI? To what extent were they put off by the costs involved?

### 3.1 Overview of AMSCI Marketing and Communication Activities and the Application Process

Communication and marketing activities have played a key role in promoting and ensuring strong interest in AMSCI. The main activities that have the aim of meeting the objectives above have included:

- Launch and regional roadshow events have been held (where AMSCI was presented by Finance Birmingham alongside other BIS initiatives). The roadshow events have increased in number between rounds and it appears that the format has strengthened (e.g. introduction of one to one sessions with applicants and presentation of State Aid requirements). These have been designed to raise awareness of the objectives and application requirements of AMSCI among potential applicants. They are also used to build direct relationships with potential applicants and to explain wider support on offer by Finance Birmingham such as the helpdesk for applicants.
- Finance Birmingham has developed relations with industry associations, Local Enterprise Partnerships (LEPs), the Manufacturing Advisory Service and similar intermediary bodies with a view to promoting AMSCI through industry networks and to encourage attendance of applicants at Roadshow events.
- Finance Birmingham has designed and disseminated promotional materials (e.g. a five page glossy brochure has been made available since Round 3 and a one page key feature sheet was published for AMSCI 2014). These have been disseminated to stakeholders and at roadshow events to provide brief informative summaries of the purpose of AMSCI and the requirements of applying for funding.
- An AMSCI web-site has been established for the application process, which signposts applicants to the helpdesk, provides access to the guidance document and application form, and enables applicants to submit their bids online.<sup>11</sup>
- A guidance document (recently revised for AMSCI 2014) is available to help applicants understand the scope and eligibility criteria of AMSCI. This is available online and provides in-depth information on the objectives of AMSCI, the framework for the application process, how applications will be assessed and the requirements that applicants need to meet
- An application form is available online to provide applicants with a standardised framework to present their bids. This has been adapted in Round 3 and for AMSCI 2014 with the aim of clarifying the information requirements. The AMSCI 2014 version also takes into account the need to follow the HM Treasury five case models for project appraisal.<sup>12</sup>
- A telephone helpdesk has been made available by Finance Birmingham since Round 3 which applicants can call to receive tailored clarifications on the application process and AMSCI requirements. The helpdesk is also used to build relationships with applicants.
- Given that AMSCI 2014 follows a “rolling approach” to the submission of proposals (there are no specific submission deadlines for bids), advice can be provided to applicants after they have submitted their proposals. For example, if bids have been declined for funding, this process can be used to advise applicants on how to

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<sup>11</sup> <https://www.financebirmingham.com/amsci/>

<sup>12</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277345/green\\_book\\_guidance\\_on\\_public\\_sector\\_business\\_cases\\_using\\_the\\_five\\_case\\_model\\_2013\\_update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277345/green_book_guidance_on_public_sector_business_cases_using_the_five_case_model_2013_update.pdf)

strengthen their project ideas to meet AMSCI requirements. This process also helps to build relations with applicants.

- Communication activities by BIS have included developing brand awareness, using the press office, attending trade shows and briefing local and national press. BIS Local teams have been used to disseminate information about AMSCI locally while BIS sector teams have publicised the programme within relevant sectors. A Communication Strategy was introduced in 2014 to help strengthen the overall approach.

### 3.2 Overall assessment of the performance of communication, marketing and application activities

Before each of the elements of marketing and communication process above are examined in further detail, we initially explore the extent to which communication activities were effective in meeting their objectives overall.

A key indicator of the effectiveness of communication activities is the quantity and quality of applications received. As shown in Table 3.1, the number of applications has been rising from round to round. Moreover, evidence from three stakeholder interviews suggests that all AMSCI Rounds have been over-subscribed, in terms of the number and value of bids received relative to the funds available.

**Table 3.1 – Number of applications by Round**

| Round        | Number of applications received | Number considered by IIB | Number approved by IIB |
|--------------|---------------------------------|--------------------------|------------------------|
| WMLCR        | 20                              | 19                       | 19                     |
| Round 1.1    | 10                              | 5                        | 3                      |
| Round 1.2    | 22                              | 9                        | 9                      |
| Round 2      | 41                              | 14                       | 13                     |
| Round 3      | 24                              | 11                       | 5                      |
| Round 4      | 51                              | 15                       | 9                      |
| <b>Total</b> | <b>164</b>                      | <b>73</b>                | <b>58</b>              |

Source: AMSCI Monitoring Data

Findings from three stakeholder interviews indicate that marketing and communications activities have been successful in increasing level of awareness of the initiative over time, which is evidenced by an increase in the number of firms that have made the initial step to register on the AMSCI web-site (from Rounds 1 to 4 around 300 companies registered but to date 400 companies have registered under AMSCI 2014).

However, this may also reflect a general improvement in the economy over this period, leading to increased appetite for investment among target firms.

The fact that committed expenditure over the first four rounds is lower than the £245 million overall budget may suggest lack of demand, although it is the view of the evaluation team that this is more likely to be due to high levels of scrutiny at the appraisal stage (discussed in the next chapter) rather than low levels of awareness or interest from industry.

A key objective of marketing and communications activities has been to promote the scheme amongst a broad range of sectors. In Round 4, bids came from 15 sectors including seven of the 11 industrial strategy sectors (Table 3.2).

**Table 3.2 – Round 4 applications by sector**

| Sector                                  | Number |
|---|--------|
| Automotive                              | 14     |
| Construction                            | 7      |
| Aerospace                               | 4      |
| Life sciences                           | 3      |
| Oil and gas                             | 3      |
| Information economy                     | 2      |
| Agricultural technologies               | 1      |
| Other (non-industrial strategy sectors) | 21     |
| Total                                   | 53     |

*Source: AMSCI 2014 Business Case*

Applications received under Rounds 1 and 2 were focused on a narrower set of sectors (mainly aerospace and automotive). Since Rounds 3 and 4, the sectoral mix has included a greater share of other advanced manufacturing industries as outlined in the table above. The sectorial spread of applications has therefore increased over time and stakeholder consultations have confirmed the role of marketing and communication approaches in meeting this ambition (for example BIS sector teams and Finance Birmingham played a role in promoting AMSCI to a greater variety of sectors in subsequent rounds).

However, given that automotive and aerospace sectors are generally seen as including some of the most developed and extensive supply chains in the UK, and are hence best placed to benefit, it is the view of one of the stakeholders involved in the AMSCI process that these sectors will continue to be represented strongly. The aim of AMSCI communications is not to attract bids from the whole manufacturing sector, but to

ensure that supply chains from appropriate sectors are encouraged to apply, and the evidence suggests that this is happening.

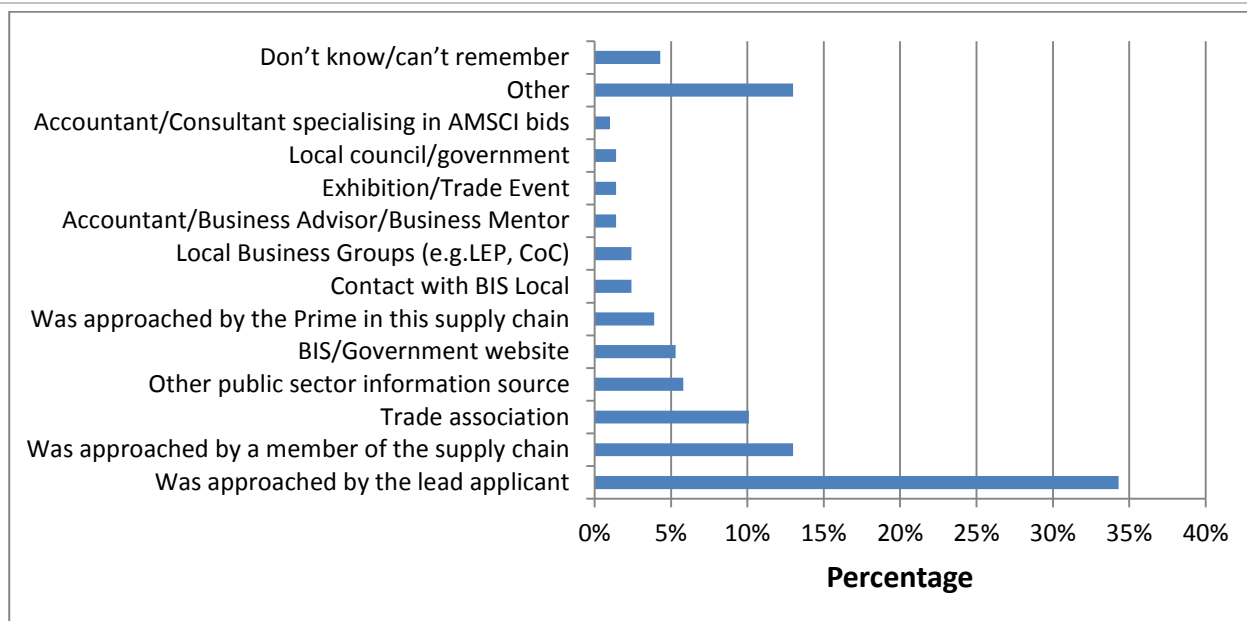
In the views of three stakeholders interviewed for this research, the applications have been of sufficient quality. However, the evidence from appraisal documentation is mixed in terms of whether the quality of bids has improved over time. As shown in Table 3.3, more than half (55 per cent) of all applications in Round 4 received a “green” rating on the technical appraisal, the highest of any Round. However, the percentage awarded a “green” rating on the value for money appraisal in Round 4 (33 per cent) was the lowest of any Round.

**Table 3.3 – Percentage of bids awarded green, amber and red ratings after appraisal**

| Round     | Technical appraisal |       |     | Value for money appraisal |       |     |
|-----------|---------------------|-------|-----|---------------------------|-------|-----|
|           | Green               | Amber | Red | Green                     | Amber | Red |
| WMLCR     | n/a                 | n/a   | n/a | n/a                       | n/a   | n/a |
| Round 1.1 | n/a                 | n/a   | n/a | 100%                      | 0%    | 0%  |
| Round 1.2 | n/a                 | n/a   | n/a | n/a                       | n/a   | n/a |
| Round 2   | 44%                 | 7%    | 49% | 82%                       | 0%    | 18% |
| Round 3   | 38%                 | 46%   | 17% | 50%                       | 4%    | 46% |
| Round 4   | 55%                 | 22%   | 24% | 33%                       | 16%   | 51% |
| Total     | 49%                 | 21%   | 30% | 49%                       | 10%   | 41% |

*Source: AMSCI Monitoring Data*

To provide an assessment of the relative importance of different communication channels in raising awareness of AMSCI, Figure 3.1 shows how applicants first heard about the programme, as reported through the survey of successful and unsuccessful applicants. Over a third (34 per cent) of applicants were initially approached by the lead applicant in their bid while 13 per cent were approached by a member of the supply chain and 10 per cent were made aware through a trade association. Only a minority initially found out about the scheme directly from a Government source, suggesting the importance of word-of-mouth within industries and supply chains.

**Figure 3.1 How applicants first heard about AMSCI**

Source: Applicant survey. Base = 207

Evidence from the case studies also suggests that applicants first heard about AMSCI from a variety of channels. A number were already engaged with Government, including BIS and Innovate UK, while others undertook a search of funding opportunities before coming across AMSCI. However, in at least four case studies out of ten the lead applicant first heard about AMSCI through industry bodies suggesting the importance of marketing the programme through private sector channels.

## Assessment

- How effective and efficient were the AMSCI marketing and communications activities in raising awareness of AMSCI amongst potential applicants?
- Was the application process effective and efficient in generating a pool of high quality and relevant bids?

While the volume of applications and diversity of sectors represented have been sufficient and have increased over time, it is unclear whether the marketing, communications and application processes have generated an improved average quality of bid (although the bids submitted were relevant to the scheme). The overall commitment of funds over the first four rounds of AMSCI is lower than budget, suggesting a lower than anticipated level of high quality bids being approved by the Independent Investment Board.

### 3.3 Road show events

AMSCI has used roadshow events to communicate and publicise the scheme. These have taken place alongside the promotion of other BIS initiatives and normally entail a formal presentation of AMSCI followed by questions and answers and one-to-one sessions. Although the impact of roadshow events has not been monitored precisely, it is recognised by Finance Birmingham that a significant number of the companies that have requested further information at the events have subsequently registered on the web-site. Roadshows are primarily publicised by Finance Birmingham through existing local, regional and sectoral networks including the Manufacturing Advisory Service, Local Enterprise Partnerships and industry associations. BIS Local also has a role in publicising these events among businesses at a local level.

Two stakeholder interviews indicated that take up of invitations to events has been positive with up to 100 stakeholders and potential applicants attending individual roadshow events. However, the survey of applicants found that 56 per cent of lead applicants and 34 per cent of collaborators attended a regional event or roadshow providing information on AMSCI. Although in absolute terms attendance at roadshows has increased over time, the evidence from the survey suggests that, in relative terms the percentage of applicants attending a roadshow has decreased. Over half (54 per cent) of Round 2 applicants (including both lead applicants and collaborators) attended a regional event compared to less than a third (30 per cent) of Round 4 applicants.

As indicated by one stakeholder, this relatively moderate level of attendance among applicants may be related to the fact that there are residual issues around attracting private sector attendees to roadshow events. Given that Finance Birmingham is required to work through partner organisations to attract companies to attend the events such as relevant public sector bodies, the Manufacturing Advisory Service, Local Enterprise Partnerships and industry associations, one observation was that invitations are not spread as widely as they could be. However, in some cases, trade associations that have been contacted to promote the event are not forthcoming in providing support suggesting that stronger links need to be developed. It is also relevant to indicate that four case study interviewees learned of AMSCI through industry association networks and the results of the survey above (see Figure 3.1) highlight the significance of these information routes. This suggests the usefulness of promoting AMSCI through industry bodies.

As many applicants explore private finance opportunities prior to applying to AMSCI, it is the view of the consultants that publicising the scheme through private sector finance institutions may attract more interest in AMSCI from eligible applicants.

Although this is a relatively resource-intensive activity, Finance Birmingham noted that the most effective communication activity has been the roadshow events. Feedback received indicates that the questions and answers and one-to-one sessions are effective in providing some explanation of the detailed requirements that applicants need to meet, identifying whether potential project ideas are aligned with the scope of AMSCI and building relations with potential applicants.



Although many case study respondents had not attended a roadshow event, those that had attended found them to be useful, including one applicant who viewed a webinar on AMSCI (based on a recording of an AMSCI event).

### Assessment

- Were the marketing and communication activities coherent and effective in making clear the AMSCI objectives, eligibility criteria and application process to applicants?

Roadshow events are considered by stakeholders and applicants to be an effective forum to communicate information about the scheme, including the application process, eligibility criteria and due diligence. However, just over half of lead applicants and a third of collaborators actually attended a roadshow suggesting that more could be done to promote these events. Survey and stakeholder evidence suggest that the focus should be on promoting the events through private sector channels.

### Recommendation (High priority)

Efforts should be concentrated on ensuring that AMSCI, and AMSCI events, are publicised effectively through private sector channels, including industry associations, LEPs and private finance institutions, so that more applicants from different advanced manufacturing sectors (with limited current engagement with Government) are made aware of the roadshows. This applies to future programmes of this nature to ensure that marketing and communication activities are targeted towards relevant potential applicants.

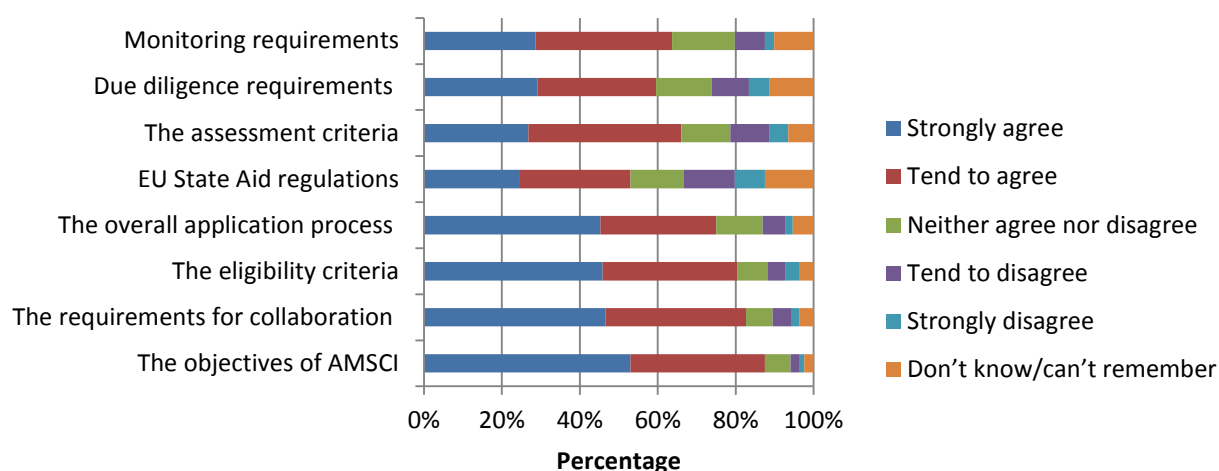
## 3.4 Application guidance

A guidance document is provided via the AMSCI web-site to provide detailed information to applicants on the objectives, scope and eligibility criteria of AMSCI including reference to the State Aid regulations, the application process and the process for assessment of applications. The guidance has been recently updated for AMSCI 2014. Evidence from the survey suggests that in general applicants feel that the information provided to support their application provided a clear explanation of the AMSCI process. As shown in Figure 3.2, 80 per cent agreed that the eligibility criteria were made clear, 66 per cent agreed that the criteria against which bids would be assessed were made clear and about half (53 per cent) agreed that EU State Aid regulations were made clear.

Evidence from the case studies was more mixed. One applicant from Round 4 commented that the AMSCI guidance was significantly more complex than the guidance supporting other Innovate UK grant programmes, which they had applied to without the need for external consultants. It should be noted, however, that other Innovate UK programmes are funded under different State Aid rules, so this may be



**Figure 3.2 Extent that applicant agrees or disagrees that information provided to assist in application was helpful**



Source: Applicant survey. Bases lie between 147 and 164

driving the comparison. Another case study interviewee suggested that the guidance document is good in providing a useful starting point but applicants need to engage with the application form to gain a full understanding of what is expected of them in terms of presenting their project ideas

Conversely, however, another Round 4 applicant with prior experience of applying for government funding commented that the guidance document was “clearer than comparable documents for other grant programmes”, suggesting that perceptions of the AMSCI guidance may be dependent on applicants’ previous experience of similar processes.

In general, the area of guidance which caused the most problems for applicants was relating to State Aid. These guidance notes are produced externally to AMSCI by the State Aid Unit in BIS and are legal documents that must set out the law in full. However, the AMSCI team can help applicants to understand and interpret this guidance.

This also relates to a key finding in Chapter 5, suggesting that many applicants are not fully prepared for the requirements of due diligence, including the likely impact that will have on the anticipated start date of their project. We suggest that more could be done to make applicants aware of the due diligence process and their obligations prior to submitting their application.

It appears significant to note that in two case studies, both involving a repeat bid to AMSCI, the applicants felt that the feedback they received from the original unsuccessful bid was much more helpful than the guidance in informing them about what the appraisers were looking for. This helped them to submit a subsequent higher quality bid.

## Assessment

- How effective was the guidance offered by BIS, TSB and/or FB to applicants?

Most applicants were happy that the application guidance was clear, although changes have been made to simplify guidance documents for AMSCI 2014. Direct feedback from Finance Birmingham provided to unsuccessful applications has been deemed helpful as guidance for repeat bids, while a greater emphasis on ensuring applicants are prepared for the due diligence process would be a helpful enhancement.

## Recommendation – Medium Priority

There may be a case to review the extent to which the guidance provided to first-time bidders is consistent with the feedback provided to unsuccessful applicants to ensure that applicants are made more aware of what appraisers are actually looking for in the application form.

### 3.5 Application form

Applicants are required to use a standardised application form to submit their bids. This has evolved over the course of AMSCI with revisions of the document being made for Round 3 and AMSCI 2014. This has had the aim of clarifying the information requested from applicants and the version for AMSCI 2014 follows the HM Treasury five case model for project appraisal with a view to aiding the appraisal process.<sup>13</sup>

The survey reveals that about three quarters (72 per cent of lead applicants and 78 per cent of collaborators) of applicants agreed that the application form made clear what was required in completing the form. Successful applicants were more likely to agree that the form enabled them to express the need or justification for public funding (81 per cent, compared to 70 per cent of unsuccessful applicants) and the expected results and impacts (75 per cent, compared to 62 per cent of unsuccessful applicants). This may suggest that applications were more likely to be successful if the applicant found it easy to express the additionality and expected impacts of their project through the application form.

Although in many cases the application process was considered to be relatively straightforward, the case studies revealed that some applicants did experience problems with the application form (although these comments mainly relate to earlier Rounds when an earlier version of the application form was in use). For example, one

<sup>13</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277345/green\\_book\\_guidance\\_on\\_public\\_sector\\_business\\_cases\\_using\\_the\\_five\\_case\\_model\\_2013\\_update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277345/green_book_guidance_on_public_sector_business_cases_using_the_five_case_model_2013_update.pdf)

lead applicant, overseeing a very complex project, said that it was difficult to convey the complexities of the project through the application process and felt that the Independent Investment Board was not provided with sufficient detail to enable them to understand fully what the project was trying to achieve, until the applicant was invited to present to the Board and answer questions.

According to the survey, on average each applicant organisation spent 15 working days putting together the bid (consisting of an average of ten days for the survey respondent and five days for other internal colleagues),<sup>14</sup> suggesting that the average cost of applying is around the £10,000 figure.<sup>15</sup> A point was made by one applicant in the case studies that the application process itself represents a business risk to applicants as a significant amount of time and money is invested in the application process without knowing whether grant funding would be awarded. However, the view of most applicants consulted in the case studies (including lead applicants) was that the application process was relatively straightforward, particularly in comparison to the subsequent due diligence process. This suggests that, from the point of view of some applicants, the amount of time and money invested in applying is not disproportionate in relation to the levels of subsidies received and the probability of success.

## Assessment

- How effective was the guidance offered by BIS, TSB and/or FB to applicants?

Generally the application form and application process were considered straightforward for applicants. While substantial resource was committed by applicants to the application process, this does not appear to be disproportionate in relation to the subsidies received.

## 3.6 Advisory and support activities

### *Support from AMSCI team*

Advisory and support services are provided directly to applicants on an individual basis to help them prepare tailored and high impact projects. These services include:

- Since Round 3 a helpdesk has been provided by Finance Birmingham that applicants can call to seek advice on any queries they may have; applicants are encouraged to use the service to receive advice on how to meet AMSCI requirements and the approach to addressing the application form questions.

<sup>14</sup> The quoted figures are the median estimates from all survey responses. The mean time spent was 13 days for the respondent and a further 13 days for other internal colleagues. This suggests that these averages are skewed by a small number of applicants incurring a very high amount of time on the application.

<sup>15</sup> Assuming average day rates of around £500-£1000

- Advice is provided by BIS sector teams as part of their engagement activities with industry in relation to indicating AMSCI support available to business.
- Under AMSCI 2014, the rolling nature of the programme (applications can be submitted at any point over the course of this round) permits Finance Birmingham to provide advice to applicants after they have submitted their bids to enable them to further develop their project ideas if their request for funding is rejected initially. This can lead to further refinements and resubmission of applications enhancing the chances that bids will be successful and preventing applicants from dropping out of the process.

The survey indicates that across all rounds, 57 per cent of lead applicants and 15 per cent of collaborators contacted the BIS sector team while 55 per cent of lead applicants and 12 per cent of collaborators contacted the AMSCI helpdesk prior to making an application. The survey suggests, however, that use of this personal support has not increased over time nor does it vary between successful applicants and unsuccessful applicants.

Evidence from the case studies suggests that applicants have found the advice and support provided by the AMSCI team at Finance Birmingham, as well as BIS, during the application process to be very helpful. This was mentioned by applicants in all rounds and appears to be one of the key factors in improving applicants' experience of the application process (although there were perceptions from two Round 2 applicants that personalised support was not available).

Interviews with three stakeholders indicates that the changes introduced for AMSCI 2014 ensure that unsuccessful applicants do not "walk away" from the initiative and encourage the fine-tuning of bids that can be resubmitted to meet AMSCI requirements. However, support of this nature should be weighed against the potential increased cost to the programme of increased engagement with applicants and a higher degree of iteration in appraising bids.

The evidence from case study research and interviews with three stakeholders suggest that the provision of personalised support should be a key feature of AMSCI going forward.

### *Support from external sources*

The majority of applicants also used other sources of support to put together their application. According to the survey, two thirds (67 per cent) of applicants consulted a third party or external organisation to assist with the preparation of the bid, with a third (33 per cent) using universities, 26 per cent using Local Enterprise Partnerships and 25 per cent using consultants. Where third parties were used, in 90 per cent of cases the consulted organisation suggested information to include in the bid while in 51 per cent of cases, the organisation was used to prepare the application in part or in full. Similarly, two case study interviewees indicated that they could not complete the application form without external support. However, four case study respondents particularly those familiar with bid preparation activities did not require external assistance to prepare their bids. Overall, these findings suggest the need for BIS and Finance Birmingham to maintain their advisory support activities for applicants

## Assessment

- How effective was the guidance offered by BIS, TSB and/or FB to applicants?

While not all applicants used the one-to-one support made available by the BIS sector teams and AMSCI helpdesk, where this support was used it was considered to be helpful for the application process, and enhanced the quality of bids to the programme.

## Recommendation – High priority

In relation to AMSCI and other similar programmes, the importance of personalised support to help applicants navigate the complex guidance and improve the quality of their applications should not be underestimated. Although the costs of this support should be considered, Finance Birmingham should continue to ensure that the helpdesk is well resourced and signposted.

### 3.7 Experience of collaborators

As with other parts of the programme, the satisfaction expressed by collaborators regarding the application process depended in part on how well the lead applicant coordinated and communicated with the partners. According to the survey, collaborators were much less likely than lead applicants to access online guidance, communicate with the AMSCI helpdesk or attend a roadshow.

Evidence from the case studies suggests that, although they often had a minimal role in the application process, collaborators were generally satisfied with their involvement. However, efficient transfer of information to all collaborators has not occurred in all cases. On one very complex project, some collaborators considered that they have not had a full overview of the application process and AMSCI due diligence requirements until after the bid was submitted.

### 3.8 Benefits of the application process

The case studies explored the extent to which the process for applying to AMSCI has added value to projects, even if the application had been unsuccessful. One lead applicant, overseeing a very large consortium of several sub-projects, reported that the process of bringing together the partners to examine new business ideas would have been beneficial even if the bid had not been successful. Another applicant suggested that the process of working together on the application would have led to the emergence of new business partnerships even if funding had not been provided.

However, a small number of other case study interviewees suggested that the initial preparation activities, including assembling the consortium and development of the

technical understanding of the project, were undertaken prior to application and therefore the application process itself did not add value.

### 3.9 Reasons why potential applicants do not submit bids

The stakeholder consultations explored the reasons for firms deciding not to apply to AMSCI. It should be noted, however, that there is not much contact between programme stakeholders and non-applicants and therefore this question was slightly difficult to answer for some officials. Moreover, it was beyond the scope of this study for the evaluation team to approach non-bidders to assess these reasons directly.

In the process of undertaking communication activities, Finance Birmingham has learned that the main reason for applicants not applying for funding relates to the AMSCI application requirements that companies need to meet. For example, one reason given is that the types of projects that some non-eligible companies would like to have funded are too small (i.e. they would not meet the minimum £1 million threshold) suggesting that there would be demand for a variant scheme for smaller projects. In addition, some companies tend only to consider how projects can benefit their own firm and do not consider project ideas from a supply chain perspective.

It was suggested by stakeholders that some SMEs do not have the time or money to prepare complex applications. To better accommodate the needs of SMEs, the WMLCR Round was introduced with criteria that was tailored to this business category (e.g. single applicant bids could be submitted although applicants had to demonstrate support from the supply chain).

In addition, the nature of the rolling programme under AMSCI 2014 should help to better accommodate the needs of SMEs. For example, if their initial bid is rejected, further support to refine the bid can be offered. The case study interviews indicate that there is also a strong argument that the collaborative supply chain nature of AMSCI makes it more accessible to SMEs on the basis of cooperation with a Tier 1 manufacturer.

#### Assessment

- If known, what reasons were given by potential applicants for not applying to AMSCI? To what extent were they put off by the costs involved?

There is little evidence to suggest that potential applicants with eligible projects have been put off applying due to the costs involved, or any other factors, although it was noted by stakeholders that more could be done to enable SMEs to access these kinds of schemes.



### 3.10 Assessment

| Key Evaluation question   | Findings  |
|---|---|
| <p>How effective and efficient were the AMSCI marketing and communications activities in raising awareness of AMSCI amongst potential applicants?</p>                           | <p>Consultations with stakeholders involved in AMSCI and analysis of application data suggest that awareness of the programme has grown over time and the number of bids has increased. In particular, there has been an increased diversity of bids across different sectors.</p> <p>It is noted that significant investment has been made in the marketing and communication activities (particularly the roadshows). While the numbers attending roadshows have increased over time in absolute terms, evidence from the survey suggests that the percentage of applicants attending a roadshow has fallen.</p> <p>Moreover, many case study interviewees confirmed that applicants hear about the programme from an industry association rather than a Government source, supporting the suggestion that more needs to be done to publicise AMSCI events through private sector channels. Interviews with Finance Birmingham have echoed the point that more could be done to promote AMSCI through strengthened links with intermediary organisations.</p> <p><i>Recommendation (High Priority): Efforts should be concentrated on ensuring that AMSCI, and AMSCI events, are publicised effectively through private sector channels, including industry associations, LEPs and private finance institutions, so that more applicants from different advanced manufacturing sectors (with limited current engagement with Government) are made aware of the roadshows.</i></p> |
| <p>Were the marketing and communication activities coherent and effective in making clear the AMSCI objectives, eligibility criteria and application process to applicants?</p> | <p>Evidence from the survey and case studies suggests that communication efforts are generally satisfactory in indicating AMSCI requirements. However, some (albeit a minority of) applicants were overwhelmed and confused by the application guidance, mainly due to the necessary complexity and length of the documents. State Aid guidance is identified as being particularly complex. We recognise, however, that Finance Birmingham has already taken considerable steps to address this issue by creating shorter summary guides to complement the detailed guidance.</p> <p>Based on feedback from case study interviews, where applicants have made repeat bids to the programme, it was felt that the feedback provided from the original unsuccessful bid was a significant factor in enabling applicants to complete the application more effectively second time round.</p> <p><i>Recommendation (Medium Priority): There may be a case for Finance Birmingham / BIS to review the extent to which the guidance provided to first-time bidders is consistent with the feedback provided to unsuccessful applicants to ensure that applicants are made more aware of what appraisers are actually looking for in the application form.</i></p>  |
| <p>Was the application process effective and efficient in generating a pool of high quality and relevant bids?</p>  | <p>The evidence from stakeholders suggests that the bids have been increasing in quality and are being sourced from a wider range of sectors where the programme can add value to the supply chain. However, there is not quantitative evidence of the quality of bids improving over time.</p> <p>Moreover, the fact that the total amount of grant and loan committed over the first four rounds of the programme is below the budgeted £245 million suggests that the number of sufficiently high quality bids coming forward is lower than anticipated.</p>   |

| Key Evaluation question   | Findings   |
|---|--|
| <p>How effective was the guidance offered by BIS, TSB and/or FB to applicants?</p>  | <p>The personal guidance provided to applicants from AMSCI officials, particularly Finance Birmingham, is identified as a key strength of the application process. As evidenced by the case study research and interviews with Finance Birmingham, where applicants have used the helpdesk, this was considered to add significantly to applicants' understanding of the programme and how to complete the application form successfully.</p> <p>The rolling application approach introduced for AMSCI 2014 presents an opportunity for bidders to receive more support from the AMSCI team, including the opportunity to re-submit bids, without the pressure of an application deadline.</p> <p>The evaluation team feels that the application guidance (including the written guidance and the personalised support offered by the AMSCI team) could be strengthened to ensure that applicants are fully prepared for the requirements of due diligence. This is explored further in Chapter 5.</p> <p><i>Recommendation (High Priority): The importance of personalised support to help applicants navigate the complex guidance and improve the quality of their applications should not be underestimated. Although the costs of this support should be considered, Finance Birmingham should continue to ensure that the helpdesk is well resourced and signposted.</i></p> |
| <p>If known, what reasons were given by potential applicants for not applying to AMSCI? To what extent were they put off by the costs involved?</p> | <p>It is acknowledged that AMSCI is not suitable for all firms, due to the strict eligibility criteria and minimum funding. There is a concern that SMEs may be excluded from opportunities but these concerns are being addressed in the evolving design of the programme. To make the scheme more accessible to inexperienced applicants, in AMSCI 2014 applicants do not have a fixed deadline for submitting applications and are able to resubmit their bid without waiting for a future round if they are initially unsuccessful. In particular, there is an appreciation that the supply chain approach makes it easier for SMEs to access government funding as collaborators, as long as they have the support of the major players in the supply chain, without having to devote a prohibitive amount of time in the application process.</p>  |



## 4.0 Appraisal and Selection

This chapter provides an evaluation of the appraisal and selection process for applications received under AMSCI. As indicated in the AMSCI guidance document (and based on feedback from four stakeholders) the objectives of the appraisal and selection process are to:

- Ensure applications are in line with the scope of AMSCI;
- Identify projects with strong technical merits in terms of the feasibility, novelty and usefulness of the project to the relevant UK advanced manufacturing sector;
- On the basis of a standardised methodology, determine the value for money of project applications to ensure that projects deliver benefits to the UK that significantly exceed the public costs of the project (taking into account issues such as additionality, displacement, substitution and leakage, benefits and risks);
- Review and select project proposals deemed suitable for AMSCI support that have passed minimum technical and value for money thresholds while further examining the evidence available relating to project compliance with the programme objectives, technical merits, value for money for the taxpayer, employment protection and growth, feasibility, level of risks and distribution of project funding across the consortium.

To assess the appraisal and selection processes, a number of evaluation questions were considered:

- Overall, how effective and efficient was the appraisal process (scope check, value for money assessment and technical assessment)?
- How effective was the overall appraisal process in identifying projects that would not have gone ahead without AMSCI funding?
- Overall, how effective were the support mechanisms in guiding the appraisal process?
- How effective and efficient were the quality assurance mechanisms to support project appraisal?
- How effective and efficient was the technical assessment at identifying projects that were genuinely innovative and technically feasible?
- How coherent, effective and efficient was the selection process?

Please note that given that the processes examined here are internal to AMSCI, the information collected has been gained primarily from officials and stakeholders responsible for these activities.

## 4.1 Overview of the appraisal and selection process

With the aim of meeting the appraisal and selection process objectives indicated above, key steps in the process include:

- An initial scope check of bids based on a review of application forms against a checklist of criteria to ensure that applications meet basic AMSCI requirements. Under AMSCI 2014, this includes whether projects request a minimum £1 million loan and/or grant, a minimum of two organisations per consortia, evidence of commitment to the project from a prime or Tier 1 company and whether funds will be drawn down and loans repaid in an appropriate timeframe. During Rounds 1 to 4, the scope check was conducted by Innovate UK. Under AMSCI 2014, the scope check is managed by Finance Birmingham with quality review inputs from BIS.
- A technical assessment of applications conducted in the context of a standardised scoring framework underpinned by technical assessment criteria and performed by five independent industry experts. From Rounds 1 to 4, Innovate UK managed the process and the five independent experts were selected on a rotating basis for each project appraisal from a database of experts depending on the relevance of their expertise. Under AMSCI 2014, Finance Birmingham manages the process and has been granted access to Innovate UK's database of experts. However, in this case, two industry experts (or home assessors) are used for all project appraisals and the team is strengthened by a further three industry experts selected from the database on a rotating basis, on the basis of the relevance of their expertise.
- A value for money assessment conducted by BIS to ensure that projects merit public investment determined on the basis of a standardised methodology drawn from government guidelines.<sup>16</sup> The value for money of a project is determined by the ratio of its benefits (i.e. economic, social and environmental benefits) to public sector costs. To determine whether a project attains an acceptable estimated level of value for money, BIS economists need to be provided with evidence of high additionality, low displacement and acceptable risk. Wider supply chain benefits are also examined including direct and indirect job creation, inward investment or re-shoring benefits, training benefits, R&D spill over benefits and other benefits (e.g. environmental benefits). Applicants need to achieve a minimum benefit cost ratio

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<sup>16</sup> The key metrics used to determine whether AMSCI project proposals are value for money are as follows:

- *Additionality* - to what extent would project benefits be realised anyway, in the absence of government support.
- *Displacement, Substitution and Leakage* – Displacement takes into account to what extent will government support lead to a reduction in benefits enjoyed by companies that do not receive support. For example, unsupported businesses might lose market share. Substitution considers examination of replacement of existing or planned investments or employment as a result of government support. Leakage analysis assesses displacement of employment from other geographical locations that are not targeted for support.
- *Benefits* –the project's economic, social and environmental benefits affecting those inside and outside of the supply chain are identified and examined in terms of their impact and timescale.
- *Risk* - what is the likelihood that the benefits would be achieved on the scale outlined by the company / or other type of organisations?

(BCR) threshold to pass the value for money assessment. Over the course of AMSCI, BIS has aimed to strengthen the processes to applying the value for money methodology on the basis of identification of good practice, encouraging consistency in the analytical approach applied by BIS officials and introducing quality control and review mechanisms.

- A final review and selection process examining all applications passing minimum quality thresholds (on the basis of the value for money and technical assessments). This is managed by the Independent Investment Board consisting of expert volunteers from industry and academia. The Board reviews standardised documentation containing a summary of project value for money and technical assessments. This leads to a discussion among the members of the Board on the suitability of the bid for AMSCI support and the results of a subsequent voting procedure indicate whether the project proposal should receive funding. Key factors that are considered include the project compliance with the programme objectives, technical merits, value for money for the taxpayer, employment protection and growth, feasibility, level of risks and distribution of project funding across the consortium. In relation to borderline cases, applicants may be invited to attend a Board meeting to clarify their case for AMSCI support. Over the course of AMSCI, the process has been reviewed with the aim of strengthening its effectiveness.

From a review of the monitoring data, Table 4.1 provides average appraisal metrics for applications that were: successful at the Independent Investment Board; unsuccessful at the Independent Investment Board; received a “green and amber” rating in the appraisal process, thereby “just missing out” on consideration by the Independent Investment Board; and all unsuccessful applications, regardless of whether they passed the technical appraisal and VFM appraisal or not. This analysis suggests that:

- Successful bids in comparison to unsuccessful bids: Unsuccessful projects received lower technical appraisal scores and (where applicable) lower value for money scores in the appraisal process. Unsuccessful projects tended to be larger, involve smaller contributions from the public sector (as a percentage of cost), and involve higher levels of risk and rates of product market displacement. Unsuccessful projects also tended to involve a higher proportion of benefits driven by R&D spill-overs and training (and a lower proportion through jobs created indirectly).
- Successful bids in comparison to those rejected at IIB: Unsuccessful projects making it to the Independent Investment Board were substantially more similar in their characteristics to successful projects. Again, these projects tended to be of a greater scale, with a smaller public contribution to project costs, and higher estimated rates of product market displacement. These bids also involved a higher share of benefits being driven by “wider benefits” which often represented cost savings (that in many cases might be claimed as additional profits by the firms concerned).
- Successful bids in comparison to those receiving a “green and amber” combination: The small number of projects classified as “just missing out” on being considered by the Independent Investment Board were similar to successful applicants in many respects, though with a substantially higher proportion of total benefits being driven by wider benefits and greater estimated risk. Technical appraisal scores also

tended to be lower (with greater levels of uncertainty across independent appraisers, as measured by the “spread” metric).

**Table 4.1: Average appraisal scores by type of applicant**

| Application                                   | Successful | Rejected at IIB | Bids with a 'Green' and an 'Amber' | All unsuccessful |
|---|------------|-----------------|------------------------------------|------------------|
| Number of cases                               | 58         | 15              | 6                                  | 110.0            |
| Technical appraisal score                     | 76.1       | 74.0            | 71.4                               | 63.2             |
| TSB Spread                                    | 21.7       | 29.7            | 38.5                               | 35.1             |
| Total project cost (£s)                       | 21,860,977 | 61,288,408      | 51,437,956                         | 105,121,364      |
| Private Funding (% of total cost)             | 56         | 87              | 91                                 | 87               |
| <b>Additionality measures</b>                 |            |                 |                                    |                  |
| Deadweight                                    | 54         | 55              | 53                                 | 50               |
| Factor Market Displacement                    | 26         | 29              | 30                                 | 28               |
| Product Market Displacement                   | 18         | 27              | 18                                 | 31               |
| Substitution Effects                          | 7          | 13              | 9                                  | 16               |
| Risk Factor (%)                               | 60         | 45              | 39                                 | 37               |
| BCR   | 4.28       | 2.78            | 1.93                               | 1.49             |
| <b>Decomposition of Benefits (% of total)</b> |            |                 |                                    |                  |
| Jobs Created                                  | 20         | 16              | 13                                 | 19               |
| Jobs Safeguarded                              | 17         | 11              | 8                                  | 14               |
| Indirect Jobs                                 | 32         | 29              | 20                                 | 21               |
| R&D Spill-overs                               | 7          | 11              | 8                                  | 17               |
| Training                                      | 8          | 7               | 13                                 | 10               |
| Wider benefits                                | 15         | 26              | 39                                 | 19               |

Source: Technical Appraisal from 'Panel Sheets' (TSB), VFM appraisals (BIS), and minutes of the Independent Investment Board

## 4.2 Scope check

The aim of the scope check is to quickly determine whether applications received are compliant with the scope of AMSCI, on the basis of a review of application documentation against a checklist of criteria. For example, this process reviews the information applicants have provided in terms of the value of funding requested, the extent to which applications meet supply chain obligations, whether there is evidence of sufficient supply chain commitment from a Tier 1 or Prime firm and the timeframe for project delivery.

Under AMSCI 2014, the scope check is managed by Finance Birmingham with quality review inputs provided by BIS. Given the experience gained of managing AMSCI by

Finance Birmingham, one stakeholder confirmed that the scope check is regarded as easy to follow and quick to undertake. Finance Birmingham and BIS have quickly agreed on which applications do or do not comply with the scope criteria (so far one application out of twelve received has been excluded at this stage). Based on interview responses from two stakeholders, this process appears to be working well reflecting the competency levels of staff at Finance Birmingham. As a result, this process does not seem to require adjustment.

### Assessment

- Overall, how effective and efficient was the appraisal process (scope check)?

The scope check performed by Finance Birmingham and quality review input from BIS are working well in terms of quickly and accurately identifying applications that meet the basic eligibility criteria of the AMSCI. There appears to be little need to recommend any changes to the process.

## 4.3 Value for money assessment

After applications are identified as in scope, they are subject to a value for money assessment managed by BIS economists.<sup>17</sup> The value for money of a project is determined by the ratio of its benefits (i.e. economic, social and environmental benefits) to public sector costs and takes into account aspects such as additionality,<sup>18</sup> displacement, substitution and leakage<sup>19</sup>, and risks.<sup>20</sup> With the assistance of a standardised spreadsheet informed by an economic model to examine impacts internal and external to the supply chain, the evidence provided by applicants is examined in detail. The model generates a benefit cost ratio (BCR) based on an estimate of the monetary value of the social benefits (including employment effects, skills and training benefits, R&D spillover benefits and wider benefits) divided by the opportunity cost of the grant or loan to the public sector. The BCR enables BIS to rank bids according to their quality on the basis of green, amber and red categories.

Interviews with two stakeholders involved in the process indicate that BIS has aimed to strengthen the value for money assessment with a view to ensuring the consistency and

<sup>17</sup> In Round 1, only bids that passed the TSB technical assessment were appraised by BIS. From Round 2 onwards, all bids received a VFM appraisal.

<sup>18</sup> Additionality assessments examine to extent would benefits be realised anyway, in the absence of government support.

<sup>19</sup> Displacement assessments examine to what extent will government support lead to a reduction in benefits enjoyed by companies that do not receive support? For example, unsupported businesses might lose market share or see workers with scarce skills become more expensive. Substitution considers displacement or replacement of existing or planned investments or employment. Leakage considers displacement of employment from other geographical locations that are not targeted for support.

<sup>20</sup> Risk assessments examine: what is the likelihood that the benefits would be achieved in the quantities outlined by the company?

quality of its application by BIS economists. It was suggested that these measures have been introduced by BIS so that the process is better placed to meet its objective of identifying projects that are “value for money” given that information provided by applicants may be subject to potential optimism bias. Key areas of development have included:

- Given that in earlier Rounds inconsistencies were identified in some of the methodologies used by analysts (e.g. examination of deadweight and benefits); efforts have been made to strengthen the consistency of the application of the methodology, e.g. through stronger managerial coordination and strengthening guidance documents.
- Efforts have been made to try to capture as many impacts as possible linked to job creation and safeguarding data and spending on R&D and skills. For example, this has included (since Round 2) capturing wider benefits, such as productivity improvements and for the launch of AMSCI 2014, the application form was strengthened to gather more detailed information on project benefits.
- Given that shortcomings and information gaps were identified with some of the data provided by applicants, since Round 3 BIS approached applicants to clarify their answers by telephone. This has mainly related to applications initially categorised as “amber” or high scoring bids where the information provided is regarded as “too good” (i.e. expecting a high level of benefits).
- The identification of projects that would not have gone ahead without AMSCI support has been challenging and in earlier Rounds information was examined in the context of the general additionality data provided. However, in preparation for Round 3, to strengthen the information provided, the application form was improved upon (and was informed by the approach used by the application form for the Regional Growth Fund). Under AMSCI 2014, the application form follows the five case model for project appraisal and again the method for data collection has been improved upon.<sup>21</sup> In addition, increased efforts have been made to draw upon the expertise of BIS business analysts to gather wider information on market failures linked to specific subsectors.
- The spreadsheet used to perform value for money calculations has been strengthened (e.g. introducing a version control page, correcting errors associated with some formulae and ensuring that the calculations are easy to follow for users of the document).
- Since Round 2, efforts have been made to consistently rank bids on the basis of a colour coded ranking system (green, amber and red). This is supported by the identification of project impacts in a summary sheet.

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277345/green\\_book\\_guidance\\_on\\_public\\_sector\\_business\\_cases\\_using\\_the\\_five\\_case\\_model\\_2013\\_update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277345/green_book_guidance_on_public_sector_business_cases_using_the_five_case_model_2013_update.pdf)



Despite the use of a colour coded ranking system, one stakeholder commented that early stage innovation investments are sometimes difficult to assess in terms of forecasted business growth and wider benefits as inevitably there is uncertainty around the extent of project results. While these uncertainties are factored into the value for money assessment, the result of the assessment involves a point estimate of the BCR. An alternative approach could be to incorporate uncertainty by presenting the BCR as a range.<sup>22</sup> This could provide additional useful information for the Independent Investment Board, as it provides a measure of risk.

As explored in the Early Additionality Report, around half of successful applicants responding to the survey suggested that their project would not have gone ahead at all without AMSCI funding (with most of the rest saying that the project would have otherwise progressed at reduced scale or scope or over a longer time period). Moreover, around half of unsuccessful applicants were able to (or were planning to) take their project forward without AMSCI funding. Taken together, these results are broadly supportive of the judgements being made at the appraisal stage: the average estimate of deadweight applied in the appraisal process was 50 per cent among unsuccessful applicants, rising slightly to 55 per cent for successful applicants. However, given the propensity of a small share of applicants to pursue (or suggest they would pursue) private finance options following rejection, coupled with the finding that 70 per cent of applicants had not sought debt finance to fund the project prior to applying to AMSCI, this reinforces the possible need for more stringent tests of financial constraints at the appraisal (or due diligence) stage (such as requiring applicants to demonstrate that they have been rejected for finance).

## Assessment

- Overall, how effective and efficient was the appraisal process (value for money assessment)?
- How effective was the overall appraisal process in identifying projects that would not have gone ahead without AMSCI funding?

It is recognised that the value for money assessment is challenging as it may be the case that applications are optimistically biased. However, this particular assessment of AMSCI projects follows a recognised approach established by Government and this has been strictly followed.

Evidence from the survey on the additionality of projects broadly supports the average deadweight assumptions applied in the value for money assessments, suggesting that the appraisal process is, at least on average, generally effective in identifying and measuring project additionality. However, the evidence suggests that the appraisal process could be

<sup>22</sup> This would not be expected to adversely impact upon the application of a Fuzzy Regression Discontinuity Design approach to evaluating the impact (see the Economic and Impact Evaluation Scoping paper) as long as there were still a minimum scoring threshold for the central estimate of the BCR below which bids would not be considered.

### Assessment

more stringent in ensuring that applicants have fully explored private finance options for their project prior to applying to AMSCI.

At the same time, to ensure that further improvements can be made to the value for money assessment in the context of AMSCI, the methodology has been subject to ongoing review and the approach to identifying projects that would not have gone ahead without AMSCI support has strengthened over time.

However, it seems that some residual improvements could be made to reflect the uncertainty inherent in the estimates of project impact.

### Recommendation – Medium Priority

Although uncertainties are factored into the assessment, the process leads to a point estimate of the BCR. It may be beneficial to consider presenting the BCR as a range to reflect the overall uncertainties involved. This could provide useful information to the Independent Investment Board as it will provide a measure of risk.

Other programmes of a similar nature may consider using this approach to reflect the uncertainties inherent with certain types of projects, particularly those involving R&D investments with high risk around future commercialisation.

### Recommendation – Medium Priority

There is a suggestion that more stringent tests of financial constraints should be applied at the appraisal stage to ensure that only projects that would not otherwise be funded privately are recommended for selection.

Since the outset of AMSCI, the value for money methodology and assessment process has been subject to quality review and control procedures in order to strengthen the consistency of the approach. For example, this has included:

- the development of an evolving guidance document and ensuring its even interpretation;
- moderation exercises with the central appraisal team to generate a common understand of best practice approaches;
- quality checks of draft final assessments ensuring the accuracy of results;
- a “buddying system” to ensure consistency in the assumptions around deadweight and additionality for similar sectors etc.;



- Since Round 3, a senior official from BIS signs off the value for money assessments with a view to ensuring the overall consistency of results.

An issue that impacts on the efficiency of the value for money assessment is that it has been difficult to manage large volumes of applications submitted immediately after the deadline for proposals. However, when necessary, additional BIS analysts have been drafted in to help manage the increase in workload. Under AMSCI 2014 the workload is more evenly spread as applications are submitted on a rolling basis. It was mentioned that the reduced intensity of the workload under AMSCI 2014 may also help to strengthen the quality of the analysis.

One stakeholder indicated that the current methods and quality assurance procedures used for AMSCI 2014 should be allowed to mature before any major changes are introduced.

However, further measures to strengthen quality assurance mechanisms could be considered. For example, wider sectoral expertise available in BIS could be further drawn upon when examining additionality issues in the context of wider industry trends. In addition, a telephone interview with all applicants (and not just the ones relating to areas where there are doubts with the information provided) could be introduced to quality check the information provided.

In addition, it was mentioned that in the near future, government auditors will review the value for money assessment quality assurance procedures and provide suggestions for their further development. The outcome of this process should be followed.

### Assessment

- Overall, how effective were the support mechanisms in guiding the appraisal process?
- How effective and efficient were the quality assurance mechanisms to support project appraisal?

The support and quality assurance mechanisms supporting the value for money assessment are numerous and the evidence suggests that these are well coordinated and are robust. It seems that these have helped to strengthen the quality and consistency of the analysis over time. However, further improvements could be made to strengthen the quality of the value for money assessment (see below).

### Recommendation – High Priority

A forthcoming government audit of the value for money assessment will provide a good opportunity to examine the approach in detail. The recommendations proposed by the audit should be taken on board to further strengthen the quality assurance mechanisms.

### Recommendation – Medium Priority

The value money assessment (used by AMSCI and other similar programmes) would also benefit from in-depth methods of data collection to support the analysis of each application. This could include a telephone interview with all applicants to quality review the information provided and further use of BIS business analysts to clarify industry trends to support assessments around additionality.

## 4.4 Technical Assessment

A technical assessment is conducted on all compliant applications. This examines the feasibility, novelty and usefulness of the project to the relevant UK advanced manufacturing sector. This requires assessment of the suitability of the methodology to facilitate innovation and product development, the extent to which the technology will produce a better outcome compared with rival technologies and the readiness of the technology to be placed on the market. The assessment is conducted by five independent technical experts using a standardised scoring framework.

Under Rounds 1-4, Innovate UK managed the technical assessment process. A team of five independent technical assessors were used for the appraisal of each bid identified from a database of experts. Technical assessors would self-select themselves if they considered their expertise as relevant. If more than five technical assessors came forward, the technical assessors were selected at random from this group.

One stakeholder commenting on Rounds 3 to 4 reported that the framework for technical assessment was effective in identifying technically strong projects. Each bid was scored by independent assessors against appropriate scoring criteria with an average overall score calculated for each bid. This approach enabled the professional technical benchmarking of projects, and judgements could be made about the potential of applications to meet AMSCI objectives. This process was supported by the provision of technical guidance on the scoring framework and a training webinar was made available to technical assessors.

However, a comment made by one stakeholder in relation to Rounds 3 to 4 was that consensual decision-making between technical assessors was frequently used to reach final judgements on technical scores, rather than a further moderation step.

In addition, one stakeholder commented that during Rounds 3 to 4 there were occasional feelings among Independent Investment Board members that a small number of the technical assessors did not have complete understanding of the project subject matter, suggesting that the process did not work as intended in all cases.

Under AMSCI 2014, Finance Birmingham used a different approach to assessment. To ensure continuity in the approach to technical assessment, two of the technical assessors are used for every assessment (known as the home assessors) whereas three rotating technical assessors are selected from the database based on their sectoral expertise. The

rationale is that by using two home assessors the approach to technical assessment is conducted on a more consistent basis with support provided to the remaining assessors who may be less familiar with the process.

To assist the process of technical assessment, an updated assessment template has been developed to assess applications against the main scoring criteria. A guidance note has been developed by the home assessors that explains the approach to applying the scoring framework.

Rather than using a consensual approach to decision-making, an average score is generated for each question. If the application passes the technical assessment, it is regarded as suitable for assessment by the Independent Investment Board. If the application does not pass but has only just missed the threshold, a moderation meeting takes place between the technical assessors with a voting procedure used to determine whether it is suitable for submission to the Independent Investment Board.

Based on a review of information received by two stakeholders commenting on different rounds, it appears that the process for technical assessment under AMSCI 2014 is an improvement on earlier processes. Under AMSCI 2014, the home assessors provide continuity in the approach to technical assessment. In addition, the consensual decision-making approach appears to have been replaced by the use of average scoring which would seem to address any issues with dominant personalities shaping the scoring process.

One stakeholder commented that it is too early to determine if the technical assessment process under AMSCI 2014 requires adaptation and therefore suggestions for improvement could not be made. However, it would be timely to conduct a review of the process at the end of AMSCI 2014 with the experience gained feeding into further AMSCI rounds or similar programmes. In addition, given that quality issues were identified with some technical assessors during previous rounds, it is also suggested that the database of experts should be reviewed with poor performers removed if necessary.

## Assessment

- Overall, how effective and efficient was the appraisal process (technical assessment)?
- Overall, how effective were the support mechanisms in guiding the appraisal process?
- How effective and efficient were the quality assurance mechanisms to support project appraisal?
- How effective and efficient was the technical assessment at identifying projects that were genuinely innovative and technically feasible?

Over the course of AMSCI, the technical assessment has been subject to a number of quality assurance mechanisms to identify appropriate and genuinely innovative projects. This has included using suitably qualified industrial experts and a consistent scoring

### Assessment

framework. As such, it is our judgement that the approach has largely met its objectives.

The approach to the quality assurance seems to have been relatively appropriate throughout AMSCI but has been strengthened for AMSCI 2014. Currently, to ensure continuity in the process, two technical assessors are used for all assessments, average scoring is used instead of a consensual approach to evaluating projects and borderline cases are subject to a further review.

However it seems that the quality of some technical assessments was not always up to standard. It is suggested that there needs to be stronger communication with the Independent Investment Board to ensure that the independent technical experts employed are evenly qualified to perform the task.

### Recommendation – Medium Priority

The technical assessment process should be reviewed at the end of AMSCI 2014 with a view to examining if the quality assurance mechanisms can be strengthened (e.g. the experience gained could lead to a review of the guidance document).

One area of improvement (for AMSCI and other similar programmes) could be to ensure ongoing evaluation of the database of experts for technical assessments. Given that some issues have been raised with regard to the quality of the scoring produced under earlier Rounds, ongoing feedback could be provided to Finance Birmingham. Based on the information received, Finance Birmingham may wish to remove underperforming experts from the database.

## 4.5 Independent Investment Board

The Independent Investment Board has the role of making a final judgement on all applications passing minimum quality thresholds on the basis of the value for money and technical assessments.

The Independent Investment Board consists of a chairperson, industry experts and academia (all of which are volunteers) and the current composition ensures that there is wide representation of a number of different sectors. The Board operates according to a Terms of Reference, setting out its responsibilities for project review. While the results of technical assessment and value for assessment are examined during this process, the Board focuses on the viability of the business plan very broadly speaking before considering selecting projects for AMSCI support.

Evidence suggests that the Board has a critical approach to examining applications for funding. For example, during Round 4, out of the 17 bids which passed the minimum BCR

threshold and were thought technologically innovative, eight did not meet the expectations of the Board. During Rounds 1 to 4, it is suggested that approximately 50 per cent of bids failed to secure funding at this stage.<sup>23</sup> There is no requirement for the Board to commit all funding allocated to a particular Round.

As shown in Table 4.1 above, bids rejected at the Independent Investment Board stage tend to have a lower technical appraisal score (average of 74.0 compared to 76.1 for successful projects) and a lower BCR (average of 2.78 compared to 4.28 for successful projects), suggesting that the Board's assessment is broadly consistent with the results of the technical and value for money assessments, but that it is effectively applying a higher threshold for projects to be deemed suitable for support. However, it should also be noted from Table 4.1 that on average bids rejected at IIB stage were of significantly higher value than those approved, which could explain the evident under-commitment of funds relative to the programme budget.

Comments received from two industry experts involved in the Independent Investment Board suggest that the selection process is coherent in identifying suitable projects. Key elements of this process include:

- In summarised and consistent format, the appraisal results from the value for money and technical assessments based on standardised metrics are provided to the Board prior to the meeting for review.
- Examination takes place of project compliance with the programme objectives, the best value for money for the taxpayer, employment protection and growth and whether the project is feasible in the timeframe proposed. Assessment of the distribution of funding is made ensuring that the lead applicant has requested an appropriate share.
- The impact of the project on the supply chain is examined, examining whether the funding requested is the right solution for the company.
- In later rounds, consideration of re-shoring of production and export benefits have been prioritised.
- If there is uncertainty around borderline cases, applicants may be invited to a Board meeting to present or discuss their application in more detail.
- If the proposal appears to be "too good" then the Board may decide not to allocate funding as the supply chain should be supporting the type of activity proposed without government funding.
- If the risks are perceived as too low, the application may be rejected as the supply chain should be able to access financial support. The industry experts also examine whether the risks are acceptable given their own experience of risk taking.
- The use of a voting procedure ensures that individuals are unable to steer the process towards their own points of view

One stakeholder commenting on the elements of the review process suggested that while assessment of appropriate risk taking is essential, on some occasions the Board is slightly conservative with regards to examining acceptable levels of risk. It could be inferred that the conservative approach to risk taking is impacting to some extent on the number of applications selected for support which is relatively moderate (i.e. around 50 per cent of all

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<sup>23</sup> BIS (2013) Business Case for AMSCI 2014

bids considered by the Board are selected for AMSCI support).<sup>24</sup> In our view, this high level of scrutiny from the Board (in which about every other project passing the technical and value for money assessments is subsequently rejected) may be driving the overall under-commitment of funds relative to programme budgets.

One stakeholder mentioned that under AMSCI 2014, the rolling approach to the programme has reduced the burden of reviewing a large number of applications submitted after the submission deadline. Currently, the Board meets every six weeks to review a relatively smaller number of bids and this approach was welcomed.

Stakeholders were invited to provide suggestions on how the Board could be improved. However, it was mentioned that the process is mature as a result of experience gained and reviews taking place at the end of each round. It was suggested therefore that a further review should take place at the end of AMSCI 2014 to examine how the process can be further strengthened if at all. However, while the consultants suggest that this recommendation should be followed it may be appropriate to consider whether the approach to examining risks is too conservative and could be made slightly more flexible, to enable more projects to be approved.

### Assessment

- How coherent, effective and efficient was the selection process?

The selection process operated by the Independent Investment Board has matured over time and seemingly offers a robust approach to project selection. Key aspects include selecting appropriate individuals with relevant industry backgrounds as Board members, applications are examined against a number of metrics and a voting system is in place for the selection of bids. Bids that are considered as “too good” or too low risk are deemed inappropriate for AMSCI as funding should be available from non-governmental sources.

However, in view of the fact that a large proportion of applications considered are turned down for support, despite passing the technical and value for money assessments, and that the programme’s committed expenditure is currently below budget, there is a case to suggest that the Board is adopting a conservative approach to risk taking.

### Recommendation – High Priority

While only very minor adaptations are likely to emerge, it would be useful to undertake an internal review of the Independent Investment Board at the end of AMSCI 2014. One area to explore (for AMSCI and other similar programmes) could be the extent to which selection panels are adopting a conservative approach to risk, and the subsequent impact

<sup>24</sup> BIS (2013) Business Case for AMSCI 2014



## Recommendation – High Priority

on project selection.

## 4.6 Assessment

| Evaluation question  | Findings  |
|--|---|
| Overall, how effective and efficient was the appraisal process (scope check, value for money assessment and technical assessment)? | The scope check appears to be working well. It is quick to undertake and applications that are clearly out of scope are easily identified. BIS provides a second opinion on the process. In our view, there is little need to amend the current approach.   |
| How effective was the overall appraisal process for identifying projects that would not have gone ahead without AMSCI funding?     | <p>The value for money assessment is responsible for identifying projects that would not have gone ahead without AMSCI funding. It is recognised that this particular assessment is challenging as it may be the case that applications are subject to optimism bias. However, the value for money assessment of AMSCI projects follows a recognised approach established by Government and this has been followed particularly well.</p> <p>At the same time, the approach to identifying projects that would not have gone ahead without AMSCI support has strengthened over time. This includes requesting more detailed information from applicants in the application form, contacting applicants directly to collect additional information, strengthening the approach to analysing data in the value for money spreadsheets, establishing consistency in the analysis through the sharing of best practice, drawing upon wider expertise on specific subsectors from BIS business analysts and ensuring that all value for money assessments are signed off by a senior manager.</p> <p>Evidence from the survey on the additionality of projects broadly supports the average deadweight assumptions applied in the value for money assessments, suggesting that the appraisal process is, at least on average, generally effective in identifying and measuring project additionality. However, the evidence suggests that the appraisal process could be more stringent in ensuring that applicants have fully explored private finance options for their project prior to applying to AMSCI.</p> <p><i>Recommendation (Medium Priority): The value money assessment (used by AMSCI and other similar programmes) would also benefit from in-depth methods of data collection to support the analysis of each application. This could include a telephone interview with all applicants to quality review the information provided and further use of BIS business analysts to clarify industry trends to support assessments around additionality.</i></p> <p><i>Recommendation (Medium Priority): There is a suggestion that more stringent tests of financial constraints should be applied at the appraisal stage to ensure that only projects that would not otherwise be funded privately are recommended for selection.</i></p> <p>Stakeholders indicated that government auditors will perform an in-depth assessment of quality assurance procedures around the value for money</p> |



| Evaluation question   | Findings   |
|---|--|
|   | <p>assessment. This will provide the opportunity for a forensic assessment of the process.</p> <p><i>Recommendation (High Priority): A forthcoming government audit of the value for money assessment will provide a good opportunity to examine the approach in detail. The recommendations proposed by the audit should be taken on board to further strengthen the quality assurance mechanisms.</i></p> <p>The nature of projects funded by this kind of programme means that it can be difficult to assess some technically innovative projects given that the likelihood that project results will be realised is difficult to determine. Although uncertainties are factored into the assessment, the process leads to a point estimate of the BCR. Based on this feedback, we suggest that the BCR could be indicated as a range to help those who are responsible for interpreting the data.</p> <p><i>Recommendation (Medium Priority): In order to strengthen the interpretation of the data by those involved in the appraisal process, it may be beneficial to consider presenting the BCR as a range rather than a point estimate to reflect the overall uncertainties involved. This could provide useful information to the Independent Investment Board as it will provide a measure of risk.</i></p> |
| Overall, how effective were the support mechanisms in guiding the appraisal process?  | <p>The second opinion offered by BIS during the scope check ensures that accurate decisions are reached. This guarantees the effectiveness of decision-making.</p>   |
| How effective and efficient were the quality assurance mechanisms to support project appraisal?   | <p>The support and quality assurance mechanisms available to the value for money assessment are well coordinated and seemingly robust. These include the buddying system, guidance, quality checks and staff training. A range of quality assurance mechanisms have been introduced and this has helped to strengthen the quality and consistency of the analysis.</p> <p>The technical assessment has been subject to a series of quality assurance mechanisms. Only appropriately qualified industrial experts have been selected to undertake the technical assessment. A webinar was available to train technical assessors on the technical assessment process. Under AMSCI 2014, to ensure continuity in the process, two technical assessors are used for all assessments. Borderline cases are subject to a further review.</p> <p>It would seem that these processes have provided an element of ongoing quality assurance to the appraisal process.</p>  |
| How effective and efficient was the technical assessment at identifying projects that were genuinely innovative and technically feasible? | <p>It seems that the approach to technical assessment has experienced improvements over time but has been generally seen as robust throughout the programme. Given that Innovate UK has provided seasoned experts to appraise bids, the technical assessment has been appropriately applied in the main. However, interviewees identified some weaknesses (such as the consensual decision making approach under Rounds 3 and 4) and weaknesses in the knowledge base of some assessors. However, the system in place for AMSCI 2014 seems to have addressed some of the earlier weaknesses such as the introduction of home assessors and submission of independent scores which are then aggregated.</p> <p><i>Recommendation (Medium Priority): The technical assessment should be reviewed at the end of AMSCI 2014 with a view to examining if the quality</i></p>  |

| Evaluation question  | Findings  |
|--|---|
|  | <p><i>assurance mechanisms can be strengthened e.g. the experience gained could lead to a review of the guidance document.</i></p> <p><i>One area of improvement (for AMSCI and other similar programmes) could be to ensure ongoing evaluation of the database of experts for technical assessments. Given that some issues have been raised with regard to the quality of the scoring produced under earlier Rounds, ongoing feedback could be provided to Finance Birmingham. Based on the information received, Finance Birmingham may wish to remove underperforming experts from the database.</i></p>  |
| How coherent, effective and efficient was the selection process? | <p>The selection process operated by the Independent Investment Board has matured over time and seemingly offers a robust approach to project selection. Board members are said to have appropriate backgrounds, applications are examined against a number of metrics, applicants relating to borderline cases are requested to attend meetings for cross examination and a voting system is in place for the selection of bids. Bids that are considered as "too good" or too low risk are deemed inappropriate for AMSCI as funding should be available from non-governmental sources.</p> <p>Moreover, the bids rejected by the Independent Investment Board tend to have lower than average technical appraisal scores and lower than average BCRs, suggesting that the Board's decisions are consistent with the technical and value for money assessments but at a higher threshold.</p> <p>However, the evidence suggests that a large proportion of applications are turned down for support and there seems to have been criticisms made of the Board's approach to risk taking. This, alongside the fact some rejected bids were of relatively high value, may be driving the lower than anticipated level of expenditure committed.</p> <p><i>Recommendation (Medium Priority): While only very minor adaptations are likely to emerge, it would be useful to undertake an internal review of the Independent Investment Board at the end of AMSCI 2014. One area to explore (for AMSCI and other similar programmes) could be the extent to which selection panels are adopting a conservative approach to risk, and the subsequent impact on project selection.</i></p> |

## 5.0 Contracting and Due Diligence

Following the appraisal and selection of successful applications, successful bidders enter a contracting and due diligence process managed by monitoring officers from Finance Birmingham. As indicated in the guidance for applicants (and in line with comments made by two stakeholders) the objectives of the contracting and due diligence process are to:

- Ensure AMSCI applicants who have been selected by the Independent Investment Board for support are genuinely able to deliver the job and investment outputs reflected in their application, before they are offered a contract;
- Expose the projects proposed to much greater scrutiny through a process of due diligence on State Aid, financial, additionality and risk issues than was possible through the appraisal process;
- If the project or programme withstands greater scrutiny, establish a tailored set of terms and conditions linked to the final award. As part of the contracting process, clearly define the project obligations and expected deliverables.

This section sets out the evidence from the survey of applicants, case studies and stakeholder interviews in relation to the following evaluation questions:

- Overall, how effective and efficient was the process for issuing Conditional Offer Letters and the information contained in the Conditional Offer Letters?
- How effective and efficient was the process for financial due diligence?
- How effective and efficient was the process for examining State Aid compliance?
- Has the financial and State Aid due diligence processes become more effective over time and between rounds?
- How effective and efficient was the process for finalising the Unconditional Offer Letter and underlying contract?

### 5.1 Overview of the contracting and due diligence process

With the aim of meeting the objectives indicated above, a due diligence and contracting process has been established by Finance Birmingham as follows:

- Upon notification that a project has received support from the Independent Investment Board, the process begins with the drafting and agreement of a Conditional Offer Letter setting out the terms and conditions of the grant or loan (including requirements of the due diligence process). If an applicant applies for both a loan and a grant, two Conditional Offer Letters are sent to the applicant relating to each of these.
- On agreement of the Conditional Offer Letter, the applicant engages with third parties that examine the extent of compliance with financial and State Aid due diligence requirements. Under AMSCI 2014, the financial due diligence process is

managed by Finance Birmingham. The State Aid due diligence process is delivered by a specialist State Aid law firm that is contracted to Birmingham City Council.

- If applicants meet the obligations set out by the due diligence requirements, an Unconditional Offer Letter is submitted to applicants for agreement. This normally contains further conditions that have been determined as necessary during the due diligence process.

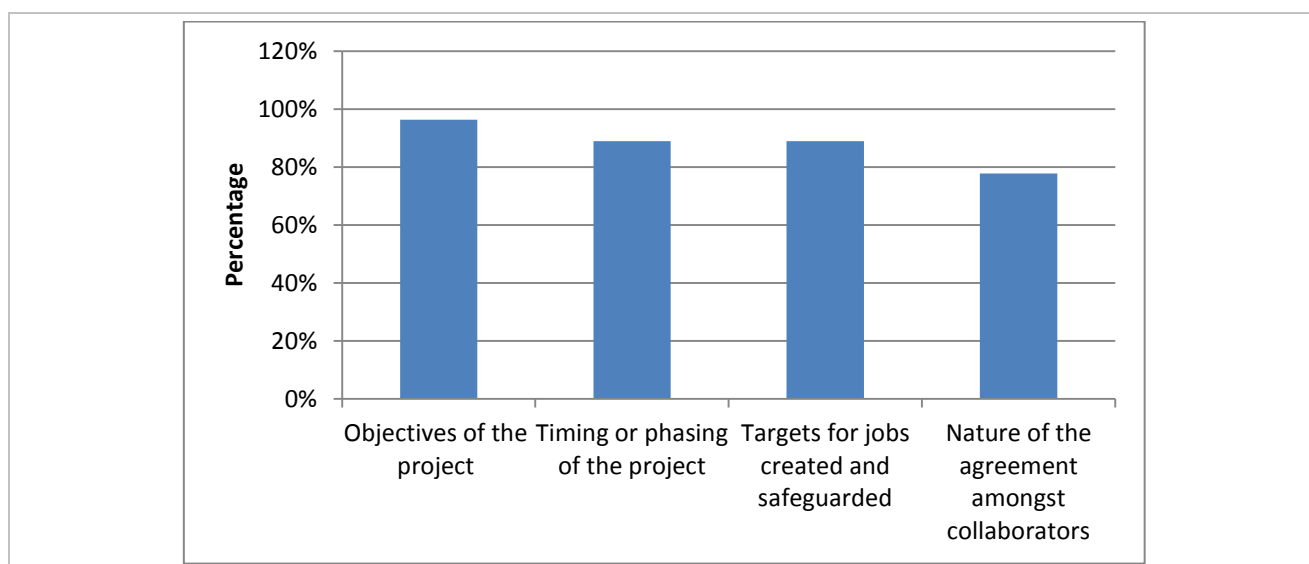
## 5.2 Conditional Grant Offer Letters

The Conditional Offer Letter is a comprehensive document and sets out the terms and conditions of the grant or loan. The Conditional Offer Letter is framed within a standard template letter with relevant sections initially reviewed by the State Aid lawyers working in cooperation with Finance Birmingham. The terms and conditions are legally binding and are specific to each project. Conditional Offer Letters also contain project delivery plans supported by information on individual work packages and monitoring targets linked to job creation and job safeguarding. These are updated during the due diligence process as required.

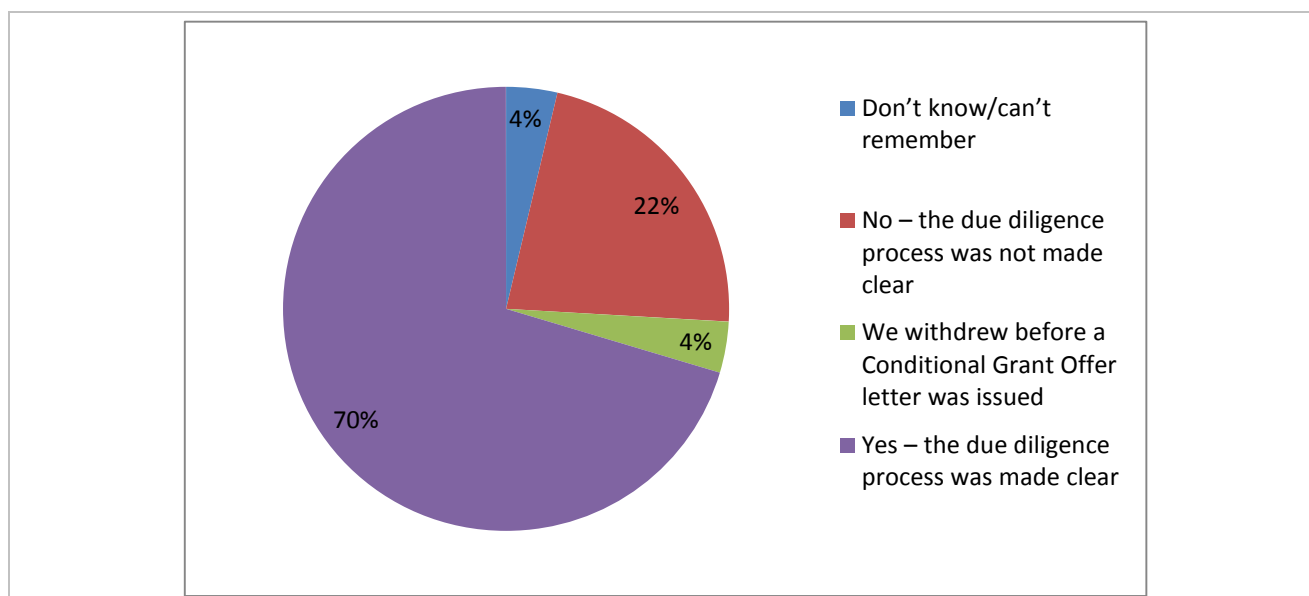
Conditional Offer Letters are lengthy documents and, given the level of detail required to set out the AMSCI requirements, applicants are expected to invest significant time in reviewing the information so that they are fully aware of the conditions.

As shown in Figure 5.1, the majority of successful applicants responding to the survey (lead applicants only) indicated that the objectives of the project, the timing or phasing of the project, targets for jobs created and safeguarded and nature of the agreement between collaborators were correctly reflected in the Conditional Offer Letter.

**Figure 5.1 Reliability of Conditional Grant Offer Letter**



Source: Applicant survey. Base = 27 (successful lead applicants only)

**Figure 5.2 Clarity of being informed of the due diligence requirements**

Source: Applicant survey. Base = 27 (successful lead applicants only)

Figure 5.2 also shows that the survey also finds that the majority of applicants thought that the due diligence process was made clear by the Conditional Offer Letter and Finance Birmingham, although six out of 27 respondents felt that the due diligence process was not made clear.

In terms of efficiently sending the Conditional Offer Letter to applicants, the perception of one stakeholder is that this process has improved between rounds, while the majority of case study respondents felt that there were no issues regarding the Conditional Offer Letters received.

### Assessment

- Overall, how effective and efficient was the process for issuing Conditional Offer Letters and the information contained in the Conditional Offer Letters?

The survey and case study research find generally high levels of satisfaction with the process for issuing Conditional Offer Letters and the information contained therein. Despite being necessarily long documents requiring some time to prepare, the survey results suggest that most applicants were happy that the information in the letters were correct and the due diligence process was made clear.

## 5.3 Financial Due Diligence

AMSCI financial due diligence procedures are implemented by accounting professionals from approved accountancy firms and seek to examine the financial structure and financial health of consortium members, including examination of cash flow, financial projections, defrayment of grants and whether applicants can repay their AMSCI loan.

The accountants involved in undertaking the financial due diligence assessment have been regarded by two stakeholders overseeing the process as performing well in terms of ensuring applicants demonstrate compliance with the requirements. However, it was suggested that the process required strengthening to make it more efficient. As a result, financial due diligence now commences much sooner in the overall process. Key aspects of these changes included:

- During Rounds 1 to 4, applicants selected a financial due diligence provider from a pool of three authorised firms (after Conditional Offer Letters were sent out). To reduce time delays associated with the selection process, under AMSCI 2014, an accountant seconded to Finance Birmingham undertakes the financial due diligence procedure.
- Under AMSCI 2014, financial due diligence services are provided free to applicants whereas previously applicants were required to pay for these services (and this delayed matters as applicants needed to decide how to allocate costs across consortium members).

These stakeholders noted that applicants are sometimes surprised with the depth of financial due diligence. However, by using a seconded accountant, improvements have been made to the level and type of support that can be offered to applicants.

One case study respondent commented that the financial due diligence procedure was more in-depth than expected. However, after the request for information was analysed and understood the firm was able to comply with the process. Based on previous experience of grant funded programmes, one lead applicant on receiving the Conditional Offer Letter made the decision to employ a project manager to work full time on the due diligence process, as there was an expectation that this and subsequent project management responsibilities would be too onerous for existing staff to manage.

However, a minority of other applicants found the due diligence process more straightforward. One lead applicant from Round 1 reported that they knew what questions Finance Birmingham were going to ask and were able to submit their answers before engaging with those undertaking the due diligence procedures.

The feedback from stakeholders and case study interviewees suggest that after being informed of the financial due diligence requirements, applicants can over a period of time comply with the process. However, we suggest that more up-front information could be supplied to applicants prior to receiving the Conditional Offer Letter. For example, a generic list of requirements could be submitted to applicants indicating what should be expected from the process.

## Assessment

## Assessment

- How effective and efficient was the process for financial due diligence?

The third parties involved in implementing the financial due diligence procedures are deemed to have performed well in terms of ensuring applicants comply with the requirements. However, given that there were some issues identified with the efficiency of the process, under AMSCI 2014, a seconded accountant is now used by Finance Birmingham and the services are provided to applicants for free. However, it is clear some applicants were not adequately prepared for what the financial due diligence would involve and how long it would take.

## Recommendation – High Priority

To ensure that applicants are aware of the necessarily level of scrutiny associated with the financial due diligence procedure for AMSCI and similar programmes, a list of generic requirements could be sent to applicants prior to receiving the Conditional Offer Letter, and perhaps prior to submitting their application. At a general level, this would ensure that applicants are informed of the expectations of this procedure at an earlier stage in the process.

## 5.4 State Aid Due Diligence

As AMSCI provides taxpayer-funded resources to private sector organisations, the programme must ensure that all funds defrayed are compliant with EU State Aid rules.<sup>25</sup> In agreement with BIS, Finance Birmingham makes available to applicants a specialist State Aid law firm. Through investigative activities, the State Aid lawyers ensure that the proposed allocation of AMSCI funding is in line with State Aid requirements. Applicants are requested to provide significant detail on the way in which the money will be spent and need to provide information on specific company details and project activities for evaluation against State Aid criteria and thresholds.

Two stakeholders overseeing the due diligence process indicated that applicants are likely to find the State Aid due diligence process challenging and time consuming given that the relevant legislation is highly complex. However, the process was said to ultimately meet its objectives as the specialist State Aid lawyers only approve projects proposed after applicants have complied with the requirements.

Stakeholders interviewed recognised that communication of State Aid requirements cannot be achieved succinctly and applicants are expected to invest time to ensure they are informed of the legislation (indicated to them in the guidance). However, despite Finance Birmingham alerting applicants to the fact that the process will be challenging, it is

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<sup>25</sup><https://www.gov.uk/state-aid>



considered that some applicants struggle with the process, an assessment that was confirmed from the case study interviews.

There appears to be clear time performance differences between firms that engage in the process heavily at the onset and those that take more time to get up to speed with what is expected of them. In addition, large projects involving multinational companies often provide further layers of complexity in demonstrating compliance with the requirements and can add to the time delays.

Given that the State Aid lawyers are tasked to ensure applicants' compliance with the legislation, it would not be appropriate to make the process less burdensome.

It is notable that if an applicant withdraws from the application process, it normally takes place due to findings emerging through the financial or State Aid due diligence procedures that indicate that the application is non-compliant with the requirements.

It is acknowledged by one stakeholder interviewed that Finance Birmingham could do more to communicate to applicants the benefits of the State Aid due diligence process given that it offers a form of legal protection in case any challenges are made at a later stage.

### Assessment

- How effective and efficient was the process for examining state aid compliance?

The State Aid due diligence process as conducted by State Aid lawyers is necessarily rigorous and ensures that all future payments made are State Aid compliant. However, it is recognised that this does incur a burden on applicants given its level of scrutiny. Similarly to financial due diligence, some applicants appeared not to be adequately prepared for the process which caused some dissatisfaction and delays.

### Recommendation – High Priority

While it recognised that the onus is on the applicant to engage with the process and provide required information promptly, clear up-front communication of the State Aid due diligence procedures, including an explanation of the benefits of the process, and a realistic timescale built into the overall project schedule, will help to ensure that applicants to AMSCI or similar programmes are adequately prepared and engaged.

The case study interviews confirmed that many applicants found the State Aid due diligence process burdensome and time consuming. One lead applicant reported that some of the State Aid due diligence requirements “caught them by surprise” and they would have liked to have received more initial information about what is required. Other applicants made reference to the timescales involved in State Aid due diligence, citing how

this has put pressure on their ability to start the project on time and therefore achieve all expected outputs by the fixed end date.

There was no evidence from the case studies that the delays due to due diligence led to any diminishing of planned project activities. The main impact appears to be on delaying the start of the project which is expected to put pressure on project completion and defrayal of funds within the timescales set out in the Offer Letter.

Based on this observation we suggest that clearer communication of the length of time associated with the due diligence process should take place during the application phase. In addition, project start dates indicated in applications and Offer Letters should be adjusted to allow for sufficient time for the due diligence process to be completed.

### Assessment

- How effective and efficient was the process for examining state aid compliance?

Evidence from the case studies underlines the point that applicants are surprised to learn of the level of scrutiny associated with the due diligence process and this seems to be impacting on the initially proposed project start-dates. Further up-front communication on this process is required to ensure that applicants are aware of what is expected and also establishing realistic project start dates.

### Recommendation – High Priority

Programmes such as AMSCI should ensure that the requirements and timescales for due diligence are communicated effectively to applicants at the application stage. In addition, the start dates for projects set out in applications and Conditional Offer Letters should allow a realistic period of time for due diligence to be completed to reduce the incidence of project slippage.

## 5.5 Support during due diligence

According to the survey, the majority (81 per cent) of successful lead applicants reported that they were satisfied with support received from Finance Birmingham during the due diligence process. This was generally confirmed by the case studies. For example, one applicant said that they telephoned Finance Birmingham about every two days during the contracting process and the support received was considered helpful.

### Assessment

- How effective and efficient was the process for state aid and financial due diligence?

Finance Birmingham appears to provide sufficient support to applicants when the due diligence process is initiated. This helps to ensure that the rigorous requirements can be met by applicants.

## 5.6 Experience of collaborators

Some collaborators (in some cases linked to very high value projects) consulted in the case studies felt that communication from lead applicants around due diligence requirements could have been better. For example:

- One collaborator reported “long periods of silence” during the contracting process followed by suddenly being asked by the lead applicant to provide information “at the drop of a hat”.
- Another lead applicant reported that some of its collaborators did not understand the rationale for the due diligence process and “were getting nervous” at the type of questions put forward by the State Aid lawyers. While the lead applicant did provide further explanatory support to their supply chain members, it was felt that more could have been done by Finance Birmingham to assist in this process.

The case study feedback suggests the need for Finance Birmingham to support lead applicants to effectively communicate contracting and due diligence requirements to applicants. Sharing of best practice approaches may assist this process.

### Assessment

- How effective and efficient was the process for financial due diligence?

Project collaborators are not evenly informed of the due diligence process and in some instances need to quickly respond to the request to comply with the procedure without sufficient warning. Better communication from lead applicants could help to address this issue.

### Recommendation – Medium Priority

Perhaps more support could be given by Finance Birmingham (and organisations managing similar programmes) to lead applicants to enable them to manage their consortia through the due diligence process and communicate and coordinate inputs

### Recommendation – Medium Priority

effectively, and hence improve the efficiency of the due diligence process. This might include disseminating best practice across projects.

## 5.7 Unconditional Offer Letter

After successful completion of the due diligence process, an Unconditional Offer Letter is submitted to applicants. The Unconditional Offer Letter is a one page document that indicates the approval of funding subject to meeting the requirements of the Conditional Offer Letter plus any additional requirements or amendments that have been identified during the due diligence process.

At this stage, withdrawals from the process are highly unlikely as applicants have invested heavily in ensuring compliance with the due diligence process. Normally, applicants efficiently respond to the Unconditional Offer Letter.

### Assessment

- How effective and efficient was the process for finalising the Unconditional Offer Letter and underlying contract?

The process for finalising the Unconditional Offer Letter is straightforward and time efficient once the due diligence is completed and any changes to the contract agreed. No issues have been identified that merit a recommendation in this area.

## 5.8 Assessment

| Evaluation question  | Findings  |
|--|---|
| Overall, how effective and efficient was the process for issuing Conditional Offer Letters and the information contained in the Conditional Offer Letters? | The survey and case study research finds generally high levels of satisfaction with the process for issuing Conditional Offer Letters and the information contained therein. Despite being necessarily long documents, the survey results suggest that most applicants were happy that the information in the letters were correct and the due diligence process was made clear.  |
| How effective and efficient was the process for financial due diligence?   | <p>The third parties involved in implementing the financial due diligence procedures have performed well in terms of ensuring applicants comply with the requirements. In addition, Finance Birmingham appears to provide sufficient support to applicants when the due diligence process is initiated. This helps to ensure that the rigorous requirements can be met by applicants.</p> <p>However, some applicants were not adequately prepared for what the</p> |

| Evaluation question  | Findings  |
|--|---|
|  | <p>financial due diligence would involve and how long it would take.</p> <p><i>Recommendation (High Priority): To ensure that applicants are aware of the level of scrutiny associated with the financial due diligence procedure, a list of general requirements could be sent to applicants prior to receiving the Conditional Offer Letter, or even prior to submitting their application. At a general level, this would ensure that applicants are informed of the expectations of this process at an earlier stage in the process).</i></p> <p>Project collaborators are not evenly informed of the due diligence process and in some instances need to quickly respond to the request to comply with the procedure without sufficient warning. Better communication from lead applicants could help to address this issue.</p> <p><i>Recommendation (Medium Priority): Perhaps more support could be given by Finance Birmingham (and organisations managing similar programmes) to lead applicants to enable them to manage their consortia through the due diligence process and communicate and coordinate inputs effectively, and hence improve the efficiency of the due diligence process. This might include disseminating best practice across projects.</i></p>   |
| How effective and efficient was the process for examining State Aid compliance?                              | <p>The State Aid due diligence process is necessarily rigorous and ensures that all payments made are State Aid compliant. However, it is recognised that this does incur a burden on applicants. Similarly to financial due diligence, some applicants appeared not to be adequately prepared for the process which caused some dissatisfaction and delays.</p> <p><i>Recommendation (High Priority): While it recognised that the onus is on the applicant to engage with the process and provide required information promptly, clear up-front communication of the State Aid due diligence procedures, including an explanation of the benefits of the process, and a realistic timescale built into the overall project schedule will help to ensure that applicants are adequately prepared and engaged.</i></p> <p>It is difficult to assess at this stage whether the due diligence process has been effective at reducing the risk associated with project delivery. While the programme as a whole is behind target in terms of expenditure (see chapter 2), the evidence suggests that this has mainly been due to slippage in project plans rather than the emergence of financial issues on the part of consortium members.</p> <p><i>Recommendation (High Priority): The programme should ensure that the requirements and timescales for due diligence are communicated effectively to applicants at the application stage. In particular, the start dates for projects set out in applications and Conditional Offer Letters should allow a realistic period of time for due diligence to be completed to reduce the incidence of project slippage.</i></p> |
| Have the financial and State Aid due diligence processes become more effective over time and between rounds? | <p>The financial and State Aid due diligence processes have not altered significantly across the rounds. The main change for AMSCI 2014 is that financial due diligence is now being provided free of charge to applicants and a single accountant (instead of a pool of accountants) is used for the procedure. This has made the process more efficient.</p>  |
| How effective and efficient was the process for finalising the   | <p>The process for finalising the Unconditional Offer Letter is straightforward and time efficient once the due diligence is completed and any changes to</p>   |

| Evaluation question                                 | Findings  |
|---|---|
| Unconditional Offer Letter and underlying contract? | <p>the contract agreed. No issues have been identified that merit a recommendation in this area.</p> <p>Given that business circumstances can change quickly, it should be indicated that Finance Birmingham has a commercially aware attitude towards adapting project delivery plans to meet the needs of applicants and supporting the realisation project objectives.</p> |

## 6.0 Monitoring and Performance Management

Following sign-off of the Unconditional Offer Letter, the project enters the monitoring and performance management phase. The objectives of the monitoring process (as indicated in the guidance for applicants and based on feedback from two stakeholders) are as follows:

- Ensure that individual projects operate on the basis of their Project Delivery Plans and are held accountable to their contractual obligations;
- Undertake a series of monitoring activities to ensure that project performance data can be collected and analysed against programme indicators including job creation and jobs safeguarded targets;
- In the process of monitoring projects, efficiently identify risks and ensure appropriate mitigating responses are defined by Finance Birmingham and the Programme Board, and are implemented by applicants.

With a view to examining whether the objectives above have been fulfilled, the analysis in this chapter addresses the following research questions:

- How effective and efficient is the monitoring process?
- How effective are the kick-off meetings in setting out the process for monitoring? What improvements could be made to the kick-off meeting?
- Are applicants able to effectively and efficiently manage the reporting requirements?
- How effective and efficient are the processes for managing performance and risks? If issues occur, to what extent is this linked to insufficient risk management?
- How are the monitoring data used to enhance programme and project effectiveness and efficiency?
- How efficient is the process for making payments to applicants?

### 6.1 Overview of the monitoring process

In order to fulfil its obligations of meeting the AMSCI monitoring objectives, Finance Birmingham has established the following framework and activities:

- Each project is assigned a monitoring officer from Finance Birmingham.
- A kick-off meeting takes place with the consortium to establish the approach to project implementation and project monitoring in line with the Project Delivery Plan.
- Applicants are required to establish internal monitoring systems to collect data and evidence to meet the requirements of quarterly monitoring reports (e.g. evidence to indicate project expenditure, time inputs and safeguarding of jobs and job creation).
- Quarterly monitoring meetings (often on the basis of site-visits) provide the opportunity for monitoring officers and consortium members to review project performance and identify areas for improvement or adjustment if necessary.



- Monitoring officer approval of quarterly monitoring reports enables applicants to submit a financial claim in-line with the quarterly claim cycle.
- Applicants are expected to devise and implement appropriate systems for identifying, monitoring and responding to risks.
- Finance Birmingham tracks project and programme performance on the basis of data collected from quarterly monitoring reports against key performance indicators (e.g. project targets for the safeguarding of jobs and job creation). Monthly programme monitoring reports are provided to the Programme Board.
- On the basis of profiling project risks, monitoring officers may provide support directly to projects to address emerging issues. However, significant risks are escalated by monitoring officers to the Programme Board to seek advice on how the management of the project should proceed.

## 6.2 Kick-off meetings

At the start of the monitoring process, an on-site half-day consortium kick-off meeting takes place. Kick-off meetings are managed by monitoring officers and are focused on the planning and monitoring activities for the remainder of the project with attention paid to the requirements that applicants need to fulfil (i.e. collecting and providing appropriate monitoring data and implementing the Project Delivery Plan).

In terms of the length of time it takes to establish kick-off meetings, the results from the applicants' survey indicate that about 77 per cent of respondents were fairly satisfied or very satisfied with the time taken. A minority of less than ten per cent were very dissatisfied. Generally speaking, Finance Birmingham appears to be well organised in ensuring monitoring activities commence as soon as possible.

Case study interviewees were broadly satisfied with the approach taken by Finance Birmingham during kick-off meetings. For example, one comment made was that the kick-off meeting was useful in establishing initial working relations and an understanding of the monitoring process and, that generally, good working relations with Finance Birmingham have continued since then.

### Assessment

- How effective and efficient is the monitoring process?

Kick off meetings are viewed as generally useful for indicating what is required for the monitoring process by applicants and Finance Birmingham. They establish initial positive working relations with applicants as underlined by case study interviewees. In the main, the applicant survey results indicate that kick-off meetings are efficiently arranged.

## 6.3 Monitoring resources

Two monitoring officers consulted during the research reported that a process of learning has taken place and this had led to the establishment of a robust monitoring function. Case study interviewees generally regard the process to be working well.

Currently, four staff and two support staff are involved in this process and this is considered as reasonably sufficient. However, monitoring officers suggested this may need to be reviewed in the future if workload increases significantly.

### Assessment

- How effective and efficient is the monitoring process?

The procedures designed to support the monitoring process appear to be functioning adequately and this is supported by an appropriate level of resources. However, this should be closely monitored to ensure the monitoring process can be effectively implemented going forward.

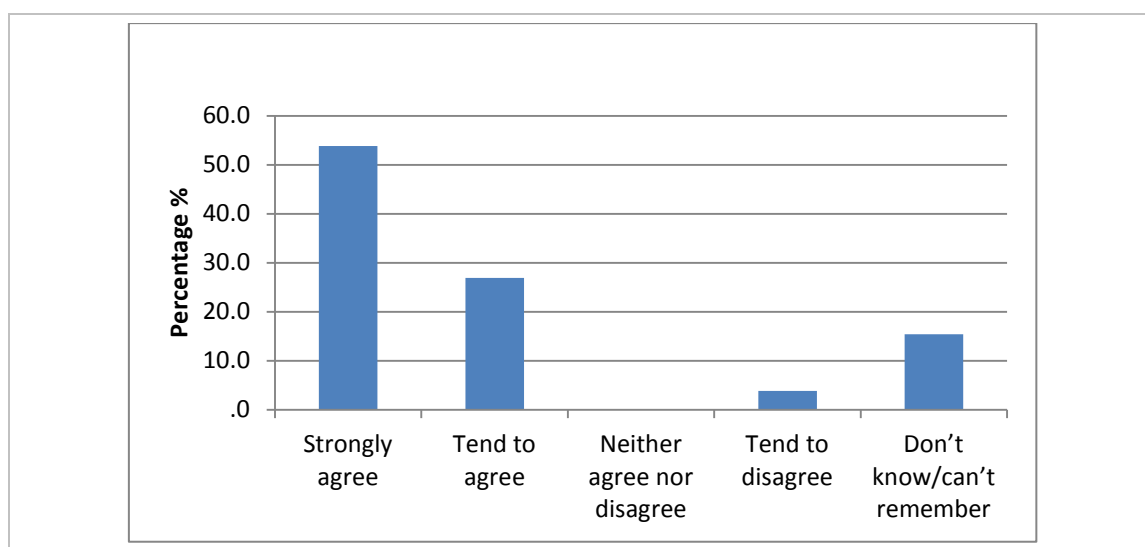
### Recommendation – Medium priority

In the future, as workload increases, it may be appropriate to review the number of staff responsible for monitoring activities to ensure that Finance Birmingham continues to maintain its position of effectively managing the portfolio of projects.

## 6.4 Monitoring officer's understanding of projects

Survey responses from applicants indicate that over 80 per cent agree that monitoring officers generally understand the focus of the projects for which they are responsible (Figure 6.1). Only a minority (5 per cent) consider that the level of understanding was sometimes lacking.

**Figure 6.1 Whether monitoring officer has a good understanding of project**



Source: Applicant survey. Base = 26 (successful lead applicants only)

One case study interviewee commented that sometimes monitoring officers do not have sufficient technical expertise to provide a steer on the more detailed issues around project R&D. To address this issue, it was suggested that monitoring officers could be accompanied by technical experts at quarterly monitoring meetings as is the case with other grant programmes.

### Assessment

- How effective and efficient is the monitoring process?
- How effective and efficient are the processes for managing performance and risks?

Monitoring officers are considered as having a sufficient level of understanding of project objectives generally speaking. However, one comment made was that monitoring officers do not have detailed technical know-how and cannot provide a steer on the technical aspects of R&D. This may have implications in terms of identification of risks and providing advice generally on the management of projects.

### Recommendation – Low Priority

Finance Birmingham should review if there is a need to procure technical inputs from industry experts to help strengthen the monitoring process. Other similar programmes may consider using a combination of technical and project monitoring expertise to ensure effective monitoring of projects.

## 6.5 Project Delivery Plans

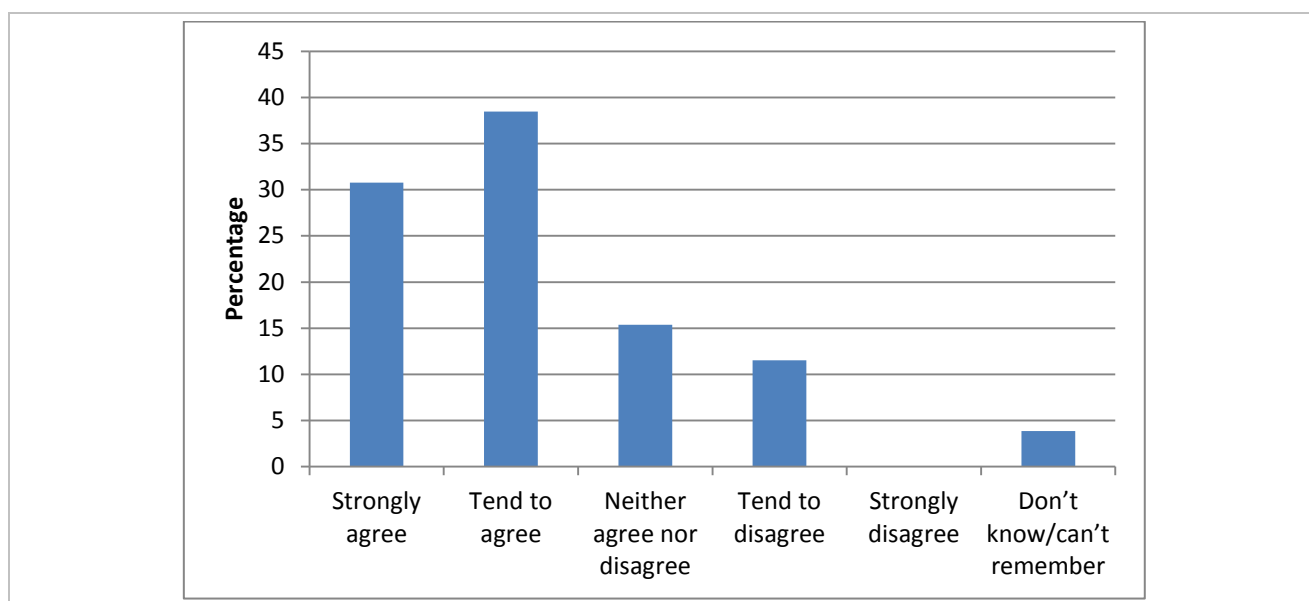
Project applicants are expected to monitor project progress through a Project Delivery Plan on a work package basis. Most applicants responding to the survey (69 per cent) agreed that the Project Delivery Plan is a helpful tool to monitor progress. However, a minority (12 per cent) do not agree with this outlook. It is not clear why a minority believe this to be the case as the case study interviews did not generate any evidence to support this standpoint.

### Assessment

- Are applicants able to effectively and efficiently manage the reporting requirements?

Project Delivery Plans are in the main regarded as useful tools to support applicant's management of the monitoring process. A minority of project applicants have confirmed via the survey that the Project Delivery Plan is not useful to monitor project progress. However, it has not been possible to clarify why this is the case.

**Figure 6.2 Whether agree that the Project Delivery Plan is a helpful tool to monitor progress**



Source: Applicant survey. Base = 26 (successful lead applicants only)

Given the findings in Figure 6.2, the consultants suggest that Finance Birmingham may wish to explore the issue that some applicants consider their Project Delivery Plans as unhelpful.

#### Recommendation – Low Priority

Finance Birmingham may wish to explore why 12 per cent of applicants consider their Project Delivery Plan as unhelpful and develop an improved version.

## 6.6 Performance of applicants to monitor projects

The two monitoring officers interviewed noted that there is some variation in performance between applicants in terms of whether they can fulfil their monitoring duties (i.e. collecting information for quarterly claims). For example, some applicants quickly establish appropriate monitoring systems but others are slower to respond although after a period of time they normally get-up to speed. It is recognised by these stakeholders that a period of education is sometimes required to ensure that applicants collect and present data and evidence using an appropriate method.

Three large case study firms indicated that smaller companies may find the monitoring obligations burdensome for complex projects with high levels of expenditure. While it is considered that larger companies have the resources available to monitor complex projects, smaller firms may need to invest more in setting-up and managing appropriate systems.

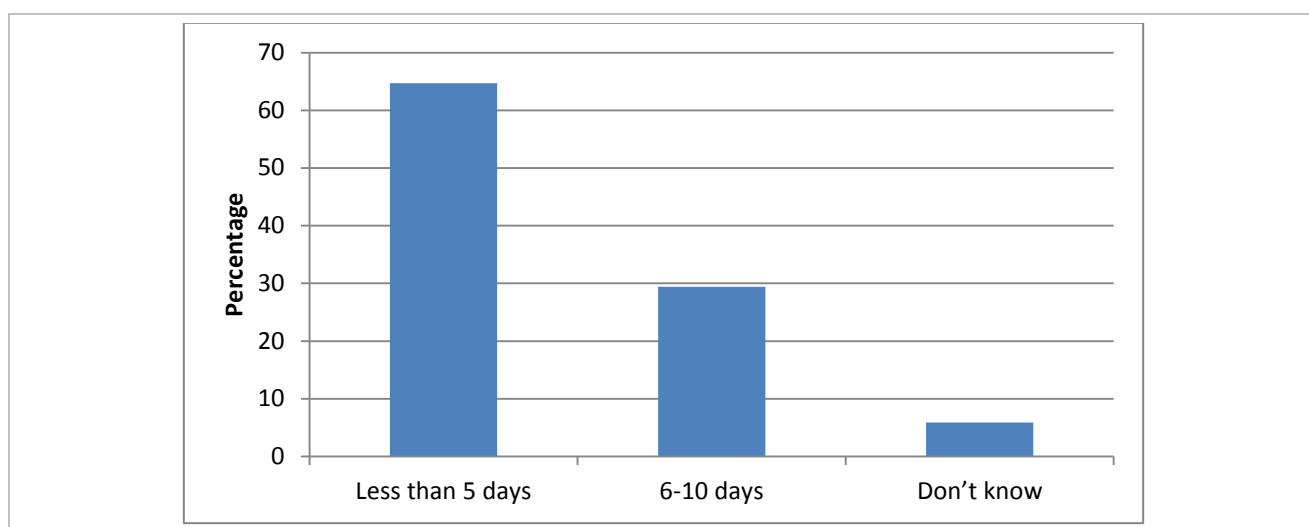
In order to support applicants to fulfil their monitoring duties, monitoring officers suggested that better guidance and support could be provided to support applicants in developing their monitoring activities. This would mainly involve setting out in more detail the information obligations that applicants need to adhere to during the monitoring process. Engaging more strongly with smaller companies may help to overcome any monitoring barriers that disproportionately affect this category of firm.

In response to the survey, applicants generally believe that the claims process is straightforward to manage (82 per cent). Only two out of 17 respondents did not agree that the claim process is straightforward. This seems to reinforce the statement made by Finance Birmingham that after a period of time applicants gain a sufficient level of experience to manage the process effectively.

However, case study interviewees indicated that while the process is generally straightforward, applicants need to invest an appropriate amount of time in establishing a suitable monitoring function. Often this builds upon existing systems that are used to collect relevant data (e.g. expenditure and job creation figures). One case study interviewee confirmed that project management activities combined with monitoring obligations are too time consuming for existing staff to manage efficiently. As a result, a project manager was recruited to manage these tasks.

Figure 6.2 indicates that the applicants' survey indicates that, in terms of the amount of time applicants need to spend on each financial claim, the majority (65 per cent) are able to manage the process in less than five days whereas a significant minority require six to ten days (29 per cent). The ability of firms to manage the process efficiently appears to vary and it is likely that this will be driven by project size, the number of project collaborators and the appropriateness of applicants' internal processes.

**Figure 6.3 Estimated average time spent preparing each quarterly claim**



Source: Applicant survey. Base = 17 (successful lead applicants that had made a claim only)

### Assessment

- What improvements could be made to the kick-off meeting?
- Are applicants able to effectively and efficiently manage the reporting requirements?

The speed at which applicants establish appropriate monitoring systems varies. Stronger advice at kick-off meetings could be provided to ensure that applicant monitoring processes are more quickly established broadly speaking. In addition, SMEs in some cases may find monitoring responsibilities more burdensome than large firms and may require targeted support.

### Recommendation – High priority

Clearer guidance could be developed by Finance Birmingham to be discussed at kick-off meetings to support applicants to more quickly put in place monitoring processes that meet the needs of AMSCI.

Other similar programmes need to be aware of the issues that some applicants experience when attempting to fulfil their monitoring obligations and should provide an appropriate level of support.

### Recommendation – Medium priority

Finance Birmingham could engage more closely with smaller firms to help them to meet their monitoring duties more efficiently.

## 6.7 Risk management

In terms of managing risks, applicants are expected to update Finance Birmingham with Work Package progress identifying the implications of perceived risks to the Project Delivery Plan.

Several case study interviewees confirmed that they have established appropriate risk management tools to identify and manage risks. The information collected feeds into the discussions during quarterly meetings with monitoring officers. For example, one firm has provided a risk register online and all project collaborators are expected to identify and categorise risks on an ongoing basis with mitigating steps identified. An assessment of the case study feedback suggests that new applicants could be provided with insights of risk management approaches developed by other projects.

## Assessment

- How effective and efficient are the processes for managing performance and risks?

Case study interviews indicated that applicants take risk management seriously and have established tools to manage risks. Risk management is viewed as an essential part of project management.

## Recommendation – Medium Priority

Monitoring officers can play a role in sharing lessons on how risks are managed by some of the more complex projects. For example, providing risk registers online ensures that they operate as live documents to be continually monitored by all project members.

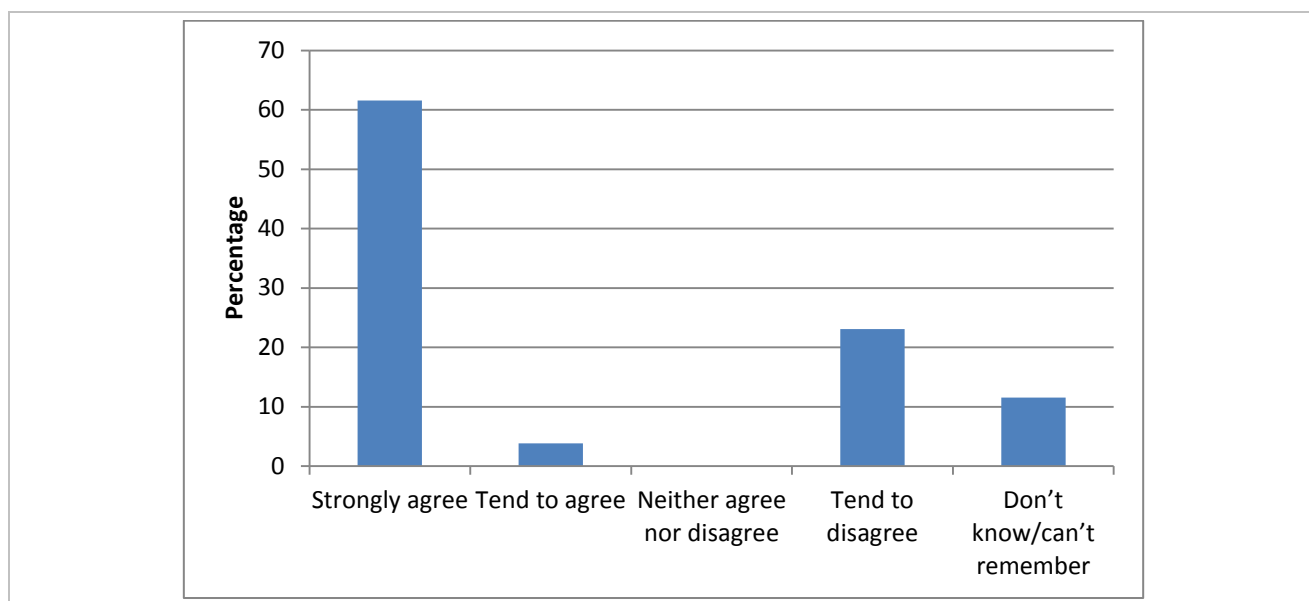
According to stakeholder consultations, the monitoring team at Finance Birmingham feels well placed to identify issues through the collection of monitoring data that feeds into a risk register. Applicants are also free to contact Finance Birmingham to request support on risks. It was highlighted that any problems can be dealt with before payment of claims takes place.

If problems are identified as easy to manage, monitoring offices may propose appropriate solutions directly to applicants. If more serious issues emerge, these are escalated to the Programme Board responsible for programme delivery (consisting of officials from BIS and Birmingham City Council). The Programme Board will consider the issues and propose the course of action to be taken. Projects that are associated with serious failings are indicated as red / failing in the risk register. Monitoring officers manage these projects as appropriate (daily, weekly etc.). Should the Programme Board feel it appropriate it can escalate the situation to BIS.

In terms of applicants' views on the availability of monitoring officers to discuss risks, the majority (65 per cent) agree that monitoring officers are readily available although a sizable minority (23 per cent) tend to disagree.

While it is recognised that Finance Birmingham has strengthened its service focused approach to dealing with applicant's identification of risks, given the feedback from the survey, it would be useful to review this on an ongoing basis.



**Figure 6.4 Availability of monitoring officer to discuss risks and/or challenges**

Source: Applicant survey. Base = 26 (successful lead applicants only)

### Assessment

- How effective and efficient are the processes for managing performance and risks?
- If issues occur, to what extent is this linked to insufficient risk management?

The processes for risk management appear to be well developed and are strong enough to provide adequate responses as risks are identified. However, a minority of applicants consider that Finance Birmingham is not always immediately available to discuss risks.

### Recommendation – Medium Priority

Finance Birmingham could review if its response time to risks identified by applicants is consistent and if not improvements to the process should be identified.

## 6.8 Applicant views on relations with Finance Birmingham

Case study interviewees generally have a positive impression of Finance Birmingham and monitoring officers. Several case studies highlight the point that there is an appropriate level of flexibility to ensure that projects can be adapted to meet changing business needs with a view to ensuring that project objectives are met. One case study interviewee stressed that Finance Birmingham is a commercially aware organisation and does not have a bureaucratic mentality. As a result, projects can be efficiently fine-tuned thereby strengthening their impact.

### Assessment

- How effective and efficient is the monitoring process?

Good working relations have been developed between Finance Birmingham and applicants. This is in part due to Finance Birmingham efficiently responding to applicants' needs and having a commercially aware approach to project implementation.

## 6.9 Payment of funds

Birmingham City Council manages the payment of funds to applicants. After a claim has been approved by Finance Birmingham via the monitoring process, Birmingham City Council is notified and requested to make the payment. In order to ensure that payments are efficiently transferred, individual beneficiaries receive payments (rather than payments being made solely to the lead applicant).

This process is viewed by the two monitoring officers interviewed as being straightforward and efficient (payments are made within three working days). Given that the payment of funds is linked to monitoring activities, the main issue relates to the quality and timeliness of financial information submitted by applicants. As such, applicants that provide the appropriate information efficiently are paid quickly.

Applicants seem to agree with the statements made by stakeholders. The response to the survey indicates that most lead applicants are satisfied with the timescales for payment.

### Assessment

- How efficient is the process for making payments to applicants?

The satisfaction expressed in the applicant survey suggests that the payment system is adequately efficient (payments are made within three working days).

## 6.10 Assessment

| Evaluation question                                    | Findings   |
|--|--|
| How effective and efficient is the monitoring process? | <p>Overall, the monitoring process is perceived by monitoring officers and applicants as generally effective and improvements have been made over time. Monitoring officers are considered by applicants generally to have a sufficient level of understanding of project objectives.</p> <p>The procedures designed to support the monitoring process appear to be functioning adequately and this is supported by an appropriate level of resources. However, this should be closely monitored to ensure the</p> |

| Evaluation question  | Findings  |
|--|---|
|  | <p>monitoring process can be effectively implemented going forward.</p> <p><i>Recommendation (Medium Priority): In the future, as workload increases, it may be appropriate to review the number of staff responsible for monitoring activities to ensure that Finance Birmingham continues to maintain its position of effectively managing the portfolio of projects</i></p> <p>Good working relations have been developed between Finance Birmingham and applicants. This is in part due to Finance Birmingham efficiently responding to applicants needs and having a commercially aware approach to project implementation.</p>  |
| <p>How effective are the kick-off meetings in setting out the process for monitoring? What improvements could be made to the kick-off meeting?</p> | <p>Kick off meetings are viewed as generally useful for indicating what is required for the monitoring process by applicants and Finance Birmingham. They establish initial positive working relations with applicants as underlined by case study interviewees. In the main, the applicant survey results indicate that kick-off meetings are efficiently arranged.</p> <p>However, the speed at which applicants establish appropriate monitoring systems varies. Stronger advice at kick-off meetings could be provided to ensure that applicant monitoring processes are more quickly established.</p> <p><i>Recommendation (High Priority): Clearer guidance could be developed by Finance Birmingham to be discussed at kick-off meetings to support applicants to put in place more quickly monitoring processes that meet the needs of AMSCI.</i></p>   |
| <p>Are applicants able to effectively and efficiently manage the reporting requirements?</p>   | <p>After guidance is received from Finance Birmingham and after applicants have gained some initial experience of the process, applicants seem to be in a relatively strong position to manage the reporting requirements. This normally builds upon existing systems that companies use to collect relevant data although a suitable amount of time is required to tailor the approach to the needs of AMSCI.</p> <p>Project Delivery Plans are in the main regarded as useful tools to support the management of the monitoring process. A minority of project applicants have confirmed via the survey that the Project Delivery Plan is not useful to monitor project progress. However, it has not been possible to clarify why this is the case.</p> <p><i>Recommendation (Low Priority): Finance Birmingham may wish explore this issue in more detail and develop an improved version of the Project Delivery Plan.</i></p> <p>While many firms are able to fulfil their monitoring duties, in some cases SMEs may find monitoring responsibilities more burdensome than large firms and may require targeted support.</p> <p><i>Recommendation (Medium Priority): Finance Birmingham could engage more closely with smaller firms to help them to more efficiently meet their monitoring duties.</i></p> |
| <p>How effective and efficient are the processes for managing performance and risks? If issues</p>   | <p>Monitoring officers at Finance Birmingham are responsible for alerting senior officials of major risks with solutions proposed and/or approved by the programme board. Experience has been gained of risk management</p>   |

| Evaluation question  | Findings  |
|--|---|
| <p>occur, to what extent is linked to insufficient risk management?</p>                                | <p>and issues are discussed within the team. The processes for risk management appear to be well developed and are strong enough to provide adequate responses as risks are identified.</p> <p>Case study interviews indicated that applicants take risk management seriously and have established tools to manage risks. Risk management is viewed as an essential part of project management.</p> <p><i>Recommendation (Medium Priority): Finance Birmingham can play a role in sharing lessons on how risks are managed by some of the more complex projects. For example, providing risk registers online ensures that they operate as live documents to be continually monitored by all project members.</i></p> <p>One comment made was that monitoring officers do not have detailed technical know-how and cannot provide a steer on the technical aspects of R&amp;D. This may have implications in terms of the identification of risks and providing advice generally on the management of projects.</p> <p><i>Recommendation (Low Priority): Finance Birmingham should review if there is a need to procure technical inputs from industry experts to help strengthen the monitoring process</i></p> <p>A minority of applicants consider that Finance Birmingham is not always immediately available to discuss risks. However, at the same time, it is recognised that Finance Birmingham has become increasingly service orientated over time.</p> <p><i>Recommendation (Medium Priority): Finance Birmingham could review if its response time to risks identified by applicants is consistent and if not improvements to the process should be identified.</i></p> |
| <p>How are the monitoring data used to enhance programme and project effectiveness and efficiency?</p> | <p>Monitoring data are collected from all projects and are reviewed before payments are made. If issues are identified they are discussed with the team and flagged up with senior colleagues if relevant. Proposals to address any serious issues are then requested of applicants by Finance Birmingham.</p>  |
| <p>How efficient is the process for making payments to applicants?</p>                                 | <p>The satisfaction expressed in the applicant survey suggests that the payment system is adequately efficient (payments are made within three working days).</p>   |

## 7.0 Conclusions

This chapter summarises the key findings of the process evaluation in relation to the evaluation framework, and identifies some recommendations for potential improvements.

### 7.1 Progress of AMSCI

- For the reasons discussed, overall progress has been limited so far and considerable progress is required before the programme achieves its aggregate spending and output targets. While ongoing monitoring processes are identifying delivery risks at a project level, the aggregate monitoring data available do not enable a conclusive assessment to be made of whether or not the programme as a whole is on course to achieve its overall targets.
- However, as confirmed by the case study research, the projects that have started are generating positive impacts and AMSCI is recognised as being central to the strengthening of supply chain manufacturing activities. However, some projects are behind schedule and this often relates to changes in commercial priorities or unanticipated issues emerging.
- *Recommendation (High Priority): As a result, based on an assessment of the situation by the consultants, it is suggested that strong engagement takes place between the Monitoring Board and Finance Birmingham to ensure that the project risk rating systems is appropriately positioned to identify whether any slippage will occur in terms of programme level outputs by the relevant deadlines for each Round.*

*Future programmes of this nature should ensure that robust monitoring systems are in place that allow for continual and accurate monitoring of progress at an aggregate level, and that appropriate contingencies are put in place to mitigate the risks of project and programme slippage.*

### 7.2 Marketing, communication and application process

- Consultation with stakeholders involved in AMSCI suggests that awareness of the programme has grown over time and the number of bids has increased. In particular, there has been an increased diversity of bids across different sectors.
- The evidence from stakeholders suggests that the bids have been increasing in quality and are being sourced from a wider range of sectors where the programme can add value to the supply chain. However, there is not quantitative evidence of the quality of bids improving over time. Moreover, the fact that committed spending over the first four rounds of the programme is well below the £245 million budget suggests that the number of high quality bids coming forward is lower than anticipated, although this is likely to be due to the scrutiny applied during the appraisal and selection stage rather than low levels of awareness and interest from industry.

- It is noted that significant investment has been made in the marketing and communication activities (particularly the roadshows). While the numbers attending roadshows have increased over time in absolute terms, evidence from the survey suggests that the percentage of applicants attending a roadshow has fallen.
- Moreover, many case study interviewees confirmed that applicants hear about the programme from an industry association rather than a Government source, supporting the suggestion that more needs to be done to publicise AMSCI events through private sector channels. Interviews with Finance Birmingham have echoed the point that more could be done to promote AMSCI through strengthened links with intermediary organisations.
- *Recommendation (High Priority): Efforts should be concentrated on ensuring that AMSCI, and AMSCI events, are publicised effectively through private sector channels, including industry associations, LEPs and private finance institutions, so that more applicants from different advanced manufacturing sectors (with limited current engagement with Government) are made aware of the roadshows.*
- Evidence from the survey and case studies suggests that communication efforts are generally satisfactory in indicating AMSCI requirements. However, some (albeit a minority of) applicants were overwhelmed and confused by the application guidance, mainly due to the necessary complexity and length of the documents. State Aid guidance is identified as being particularly complex. It is recognised, however, that Finance Birmingham has already taken considerable steps to address this issue by creating shorter summary guides to complement the detailed guidance.
- The personal guidance provided to applicants from AMSCI officials, particularly Finance Birmingham, is identified as a key strength of the application process. As evidenced by the case study research and interviews with Finance Birmingham, where applicants have used the helpdesk, this was considered to add significantly to applicants' understanding of the programme and how to complete the application form successfully.
- One area that could be enhanced (relating both to the written guidance and the personalised support offered by the AMSCI team) is the extent to which applicants are made aware of the requirements of the due diligence process and the potential impact of this process on the project, including the anticipated start date.
- Based on feedback from case study interviews, where applicants have made repeat bids to the programme, it was felt that the feedback provided from the original unsuccessful bid was a significant factor in enabling applicants to complete the application more effectively second time round.
- *Recommendation (Medium Priority): There may be a case for Finance Birmingham / BIS to review the extent to which the guidance provided to first-time bidders is consistent with the feedback provided to unsuccessful applicants to ensure that applicants are made more aware of what appraisers are actually looking for in the application form.*

- The rolling application approach introduced for AMSCI 2014 presents an opportunity for bidders to receive more support from the AMSCI team, including the opportunity to re-submit bids, without the pressure of an application deadline.
- *Recommendation (High Priority): The importance of personalised support to help applicants navigate the complex guidance and improve the quality of their applications should not be underestimated. Although the costs of this support should be considered, Finance Birmingham should continue to ensure that the helpdesk is well resourced and signposted.*
- It is acknowledged that AMSCI is not suitable for all firms, due to the strict eligibility criteria and minimum funding. There is a concern that SMEs may be excluded from opportunities but these concerns are being addressed in the evolving design of the programme. To make the scheme more accessible to inexperienced applicants, in AMSCI 2014 applicants do not have a fixed deadline for submitting applications and are able to resubmit their bid without waiting for a future round if they are initially unsuccessful. In particular, there is an appreciation that the supply chain approach makes it easier for SMEs to access government funding as collaborators, as long as they have the support of the major players in the supply chain, without having to devote a prohibitive amount of time in the application process.

### 7.3 Appraisal

- The scope check appears to be working well. It is quick to undertake and applications that are clearly out of scope are easily identified. BIS provides a second opinion on the process. There is little need to amend the current approach.
- The value for money assessment is responsible for identifying projects that would not have gone ahead without AMSCI funding. It is recognised that this particular assessment is challenging as it may be the case that applications are subject to optimism bias. However, the value for money assessment of AMSCI projects follows a recognised approach established by Government and this has been followed particularly well.
- At the same time, the approach to identifying projects that would not have gone ahead without AMSCI support has strengthened over time. This includes requesting more detailed information from applicants in the application form, contacting applicants directly to collect additional information, strengthening the approach to analysing data in the value for money spreadsheets, establishing consistency in the analysis through the sharing of best practice, drawing upon wider expertise on specific subsectors from BIS business analysts and ensuring that all value for money assessments are signed off by a senior manager.
- Evidence from the survey on the additionality of projects broadly supports the average deadweight assumptions applied in the value for money assessments, suggesting that the appraisal process is, at least on average, generally effective in identifying and measuring project additionality. However, the evidence suggests that the appraisal process could be more stringent in ensuring that applicants have fully explored private finance options for their project prior to applying to AMSCI.



- *Recommendation (Medium Priority): The value money assessment (used by AMSCI and other similar programmes) would also benefit from in-depth methods of data collection to support the analysis of each application. This could include a telephone interview with all applicants to quality review the information provided and further use of BIS business analysts to clarify industry trends to support assessments around additionality.*
- *Recommendation (Medium Priority): There is a suggestion that more stringent tests of financial constraints should be applied at the appraisal stage to ensure that only projects that would not otherwise be funded privately are recommended for selection.*
- Stakeholders indicated that government auditors will perform an in-depth assessment of quality assurance procedures around the value for money assessment. This will provide the opportunity for a forensic assessment of the process.
- *Recommendation (High Priority): A forthcoming government audit of the value for money assessment will provide a good opportunity to examine the approach in detail. The recommendations proposed by the audit should be taken on board to further strengthen the quality assurance mechanisms.*
- The support and quality assurance mechanisms available to the value for money assessment are well coordinated and seemingly robust. These include the buddying system, guidance, quality checks and staff training. A range of quality assurance mechanisms have been introduced and this has helped to strengthen the quality and consistency of the analysis.
- We recognise that, due to the nature of the programme, the value for money assessment is made more difficult given that the likelihood that project results will be realised is difficult to determine. Although uncertainties are factored into the assessment, the process leads to a point estimate of the BCR. Based on this feedback, the consultants suggest that the BCR could be indicated as a range to help those who are responsible for interpreting the data.
- *Recommendation (Medium Priority): In order to strengthen the interpretation of the data by those involved in the appraisal process, it may be beneficial to consider presenting the BCR as a range rather than a point estimate to reflect the overall uncertainties involved. This could provide useful information to the Independent Investment Board as it will provide a measure of risk. Other programmes of a similar nature may consider using this approach to reflect the difficulties of applying the value for money methodology where there is considerable uncertainty around the commercialisation of R&D outputs.*
- It seems that the approach to technical assessment has experienced improvements over time but has been generally seen as robust throughout the programme. Given that Innovate UK has provided seasoned experts to appraise bids, the technical assessment has been appropriately applied in the main. However, interviewees identified some weaknesses (such as the consensual decision making

approach under Rounds 3 and 4) and weaknesses in the knowledge base of some assessors. However, the system in place for AMSCI 2014 seems to have addressed some of the earlier weaknesses such as the introduction of home assessors and submission of independent scores which are then aggregated.

- *Recommendation (Medium Priority): The technical assessment should be reviewed at the end of AMSCI 2014 with a view to examining if the quality assurance mechanisms can be strengthened e.g. the experience gained could lead to a review of the guidance document.*

*One area of improvement (for AMSCI and other similar programmes) could be to ensure ongoing evaluation of the database of experts for technical assessments. Given that some issues have been raised with regard to the quality of the scoring produced under earlier rounds, ongoing feedback could be provided to Finance Birmingham. Based on the information received, Finance Birmingham may wish to remove underperforming experts from the database.*

- The selection process operated by the Independent Investment Board has matured over time and seemingly offers a robust approach to project selection, with rejected bids tending to have lower than average technical appraisal scores (average of 74.0 compared to 76.1 for successful projects) and BCRs (average of 2.78 compared to 4.28 for successful projects). Board members are said to have appropriate backgrounds, applications are examined against a number of metrics, applicants relating to borderline cases are requested to attend meetings for cross examination and a voting system is in place for the selection of bids. Bids that are considered as “too good” or too low risk are deemed inappropriate for AMSCI as funding should be available from non-governmental sources.
- However, the evidence suggests that there are large proportion of applications considered are turned down for support, and on average these have a higher value than those approved by the Board. Moreover, there have been criticisms made of the Board’s approach to risk taking. It is our view that this risk averse approach may be driving the lower than anticipated number of projects being selected, and hence expenditure committed by the programme.
- *Recommendation (High Priority): While only very minor adaptations are likely to emerge, it would be useful to undertake an internal review of the Independent Investment Board at the end of AMSCI 2014. One area to explore (for AMSCI and other similar programmes) could be the approach to examining project risk taking by applicants which has been regarded by one interviewee as too conservative on some occasions.*

## 7.4 Contracting and due diligence

- The survey and case study research finds generally high levels of satisfaction with the process for issuing Conditional Offer Letters and the information contained therein. Despite being necessarily long documents, the survey results suggest that most applicants were happy that the information in the letters were correct and the due diligence process was made clear.

- The third parties involved in implementing the financial due diligence procedures appear to have performed well in terms of ensuring applicants comply with the requirements. In addition, Finance Birmingham appears to provide sufficient support to applicants when the due diligence process is initiated. This helps to ensure that the rigorous requirements can be met by applicants.
- However, some applicants were not adequately prepared for what the financial due diligence would involve and how long it would take.
- *Recommendation (High Priority): To ensure that applicants are aware of the level of scrutiny associated with the financial due diligence procedure, a list of general requirements could be sent to applicants prior to receiving the Conditional Offer Letter, or even prior to submitting their application. At a general level, this would ensure that applicants are informed of the expectations of this process at an earlier stage in the process (this approach could be adopted by AMSCI and similar programmes).*
- Project collaborators are not evenly informed of the due diligence process and in some instances need to quickly respond to the request to comply with the procedure without sufficient warning. Better communication from lead applicants could help to address this issue.
- *Recommendation (Medium Priority): Perhaps more support could be given by Finance Birmingham (and organisations managing similar programmes) to lead applicants to enable them to manage their consortia through the due diligence process and communicate and coordinate inputs effectively, and hence improve the efficiency of the due diligence process. This might include disseminating best practice across projects.*
- The State Aid due diligence process is necessarily rigorous and ensures that all payments made are State Aid compliant. However, it is recognised that this does incur a burden on applicants. Similarly to financial due diligence, some applicants appeared not to be adequately prepared for the process which caused some dissatisfaction and delays.
- *Recommendation (High Priority): While it recognised that the onus is on the applicant to engage with the process and provide required information promptly, clear up-front communication of the State Aid due diligence procedures, including an explanation of the benefits of the process, and a realistic timescale built into the overall project schedule will help to ensure that applicants are adequately prepared and engaged.*
- It is difficult to assess at this stage whether the due diligence process has been effective at reducing the risk associated with project delivery. While the programme as a whole is behind target in terms of expenditure (see chapter 2), the evidence suggests that this has mainly been due to slippage in project plans rather than the emergence of financial issues on the part of consortium members.

- *Recommendation (High Priority): Finance Birmingham should ensure that the requirements and timescales for due diligence are communicated effectively to applicants at the application stage. In particular, the start dates for projects set out in applications and Conditional Offer Letters should allow a realistic period of time for due diligence to be completed to reduce the incidence of project slippage.*
- The financial and State Aid due diligence processes have not altered significantly across the rounds. The main change for AMSCI 2014 is that financial due diligence is now being provided free of charge to applicants and a single accountant (instead of a pool of accountants) is used for the procedure. This has made the process more efficient.
- The process for finalising the Unconditional Offer Letter is straightforward and time efficient once the due diligence is completed and any changes to the contract agreed. No issues have been identified that merit a recommendation in this area.
- Given that business circumstances can change quickly, it should be indicated that Finance Birmingham has a commercially aware attitude towards adapting project delivery plans to meet the needs of applicants and supporting the realisation project objectives.

## 7.5 Monitoring

- Overall, the monitoring process is perceived by Finance Birmingham and applicants as generally effective and improvements have been made over time. Monitoring officers are generally considered by applicants as having a sufficient level of understanding of project objectives.
- The procedures designed to support the monitoring process appear to be functioning adequately and this is supported by an appropriate level of resources. However, this should be closely monitored to ensure the monitoring process can be effectively implemented going forward.
- *Recommendation (Medium Priority): In the future, as workload increases, it may be appropriate to review the number of staff responsible for monitoring activities to ensure that Finance Birmingham continues to maintain its position of effectively managing the portfolio of projects.*
- Good working relations have been developed between Finance Birmingham and applicants. This is in part due to Finance Birmingham efficiently responding to applicants' needs and having a commercially aware approach to project implementation.
- Kick off meetings are viewed as generally useful for indicating what is required for the monitoring process by applicants and Finance Birmingham. They establish initial positive working relations with applicants as underlined by case study interviewees. In the main, the applicant survey results indicate that kick-off meetings are efficiently arranged.

- However, the speed at which applicants establish appropriate monitoring systems varies. Stronger advice at kick-off meetings could be provided to ensure that applicant monitoring processes are more quickly established broadly speaking.
- *Recommendation (High Priority): Clearer guidance could be developed by Finance Birmingham to be discussed at kick-off meetings to support applicants to put in place more quickly monitoring processes that meet the needs of AMSCI.*
- After guidance is received from Finance Birmingham and after applicants have gained some initial experience of the process, applicants seem to be in a relatively strong position to manage the reporting requirements. This normally builds upon existing systems that companies use to collect relevant data although a suitable amount of time is required to tailor the approach to the needs of AMSCI.
- Project Delivery Plans are in the main regarded as useful tools to support the management of the monitoring process. A minority of project applicants have confirmed via the survey that the Project Delivery Plan is not useful to monitor project progress. However, it has not been possible to clarify why this is the case.
- *Recommendation (Low Priority): Finance Birmingham may wish explore this issue in more detail and develop an improved version of the Project Delivery Plan.*
- While the evidence suggests that most firms are able to fulfil their monitoring duties, in some cases SMEs may find monitoring responsibilities more burdensome than large firms and may require targeted support.
- *Recommendation (Medium Priority): Finance Birmingham could engage more closely with smaller firms to help them to more efficiently meet their monitoring duties.*
- Monitoring officers at Finance Birmingham are responsible for alerting senior officials of major risks with solutions proposed and/or approved by the programme board. Experience has been gained of risk management and issues are discussed within the team. The processes for risk management appear to be well developed and are strong enough to provide adequate responses as risks are identified.
- Case study interviews indicated that applicants take risk management seriously and have established tools to manage risks. Risk management is viewed as an essential part of project management.
- *Recommendation (Medium Priority): Finance Birmingham can play a role in sharing lessons on how risks are managed by some of the more complex projects. For example, providing risk registers online ensures that they operate as live documents to be continually monitored by all project members.*
- One comment made was that monitoring officers do not have detailed technical know-how and cannot provide a steer on the technical aspects of R&D. This may have implications in terms of the identification of risks and providing advice generally on the management of projects.

- *Recommendation (Low Priority): Finance Birmingham should review if there is a need to procure technical inputs from industry experts to help strengthen the monitoring process.*
- A minority of applicants consider that Finance Birmingham is not always immediately available to discuss risks. However, at the same time, it is recognised that Finance Birmingham has become increasingly service orientated over time.
- *Recommendation (Medium Priority): Finance Birmingham could review if its response time to risks identified by applicants is consistent and if not improvements to the process should be identified.*
- Monitoring data are collected from all projects and are reviewed before payments are made. If issues are identified they are discussed with the team and flagged up with senior colleagues if relevant. Proposals to address any serious issues are then requested of applicants by Finance Birmingham.
- Survey responses suggest that the payment system is highly efficient (payments are made within three working days).



# Annex 1

This section provides a description of the key AMSCI processes that were subject to evaluation as follows:

- Communication and marketing;
- Application process;
- Appraisal process;
- Contracting and due diligence
- Monitoring.

## Communications and Marketing

Managed by Finance Birmingham, communication activities have played a key role in promoting and encouraging strong interest in AMSCI. In addition, there have been conscious efforts to ensure the strengthening of the scale and type of such activities between Rounds. This has included:

- Establishing a communications strategy for AMSCI 2014 to encourage consistent submission of quality bids;
- Launch and regional roadshow events where AMSCI is presented (up to 100 participants normally attend) in group and one-to-one formats;
- At the events, state aid lawyers are also made available to present and answer questions on the state aid requirements;
- A helpdesk has been provided since Round 3 which offers one-to-one support to applicants in order to address any specific queries with applying to AMSCI;
- Cooperating with BIS Local and sector teams to disseminate information;
- Since Round 3 a five page glossy brochure highlighting the focus and scope of AMSCI has been distributed at roadshow events;
- Under AMSCI 2014, a one page key feature sheet disseminated at roadshow events enables applicants to quickly assess if they are eligible for AMSCI and whether the initiative meets their needs;
- A new guidance document has been developed for AMSCI 2014 indicating in detail the rationale of the initiative, the processes supporting the implementation of AMSCI and the requirements that applicants need to meet. This document is available online;
- An online web-site provides a short summary of the initiative, detailed guidance, application documents, contact details for the helpdesk and a facility for submitting proposals online;<sup>26</sup>
- AMSCI has been communicated to a range of industry associations and other bodies (e.g. Local Enterprise Partnerships) with a view to strengthening awareness of the initiative across industry networks;
- AMSCI has been promoted in regional and national press.

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<sup>26</sup> <https://www.financebirmingham.com/amsci/>



While communication and marketing materials have sought to highlight the scope and eligibility criteria of AMSCI, the activities have also focused on building relationships with applicants through personalised advice and support (e.g. via the helpdesk and one-to-one discussions at the roadshow events). In addition, given that under AMSCI 2014 applications can be submitted over the duration of the initiative (rather than prior to specific deadlines as was the case under previous Rounds) detailed feedback can be provided to applicants that have not been selected for support with a view to examining if bids can be strengthened and resubmitted.

## Application process

AMSCI funds are allocated on the basis of appraisal of applications against a range of criteria. To commence the application process, applicants access the AMSCI web-site and after entering their organisational data (contact details, sector, number of SMEs involved in the bid etc.) applicants are presented with the application form and two appendices (A and B).

The application form has been subject to a number of improvements between rounds in order to improve the clarity of the form and to collect tailored information from applicants. For Rounds 1 and 2, the application form was informed by a model used by Innovate UK. However, since then it has been revised twice in preparation for Round 3 and AMSCI 2014.

Under the current Round, the application form requests detailed organisational information, project financial data, confirmation that the funding requested falls in the scope of the AMSCI criteria, and 1000 word explanations of the strategic, economic, commercial, financial and management cases for AMSCI support. The new version of the application form is in line with the HM Treasury five case model for project appraisal.<sup>27</sup>

The management case should be supplemented by a work plan and an outline of the project work packages. Appendix A requests detailed information on the total amount of funding sought, project expenditure and research and development (R&D) expenditure, the number of people benefitting from training, the number of jobs created and safeguarded, the wider economic, social and environmental benefits and identification of project risks. The application form and Appendix A need to be completed by the lead applicant.

Appendix B needs to be completed by all organisational participants in the proposed project and requests information on the holding company and geographical details, whether other public funding has been applied for successfully or unsuccessfully, the proposed use of the funding across capital investment, R&D, training and other elements and identification of the firm's Standard Industry Classification (SIC) code.

After completing the application form and appendices, applicants are required to submit the documents online.

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<sup>27</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277345/green\\_book\\_guidance\\_on\\_public\\_sector\\_business\\_cases\\_using\\_the\\_five\\_case\\_model\\_2013\\_update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277345/green_book_guidance_on_public_sector_business_cases_using_the_five_case_model_2013_update.pdf)

As mentioned, during Rounds 1-4, applications had to be submitted by a set date and were assessed in batches. However, AMSCI 2014 bids may be submitted at any time during the open period and are assessed on an ongoing basis.

## Appraisal

### Scope Check

After the application documents have been received, the first step of the post-application submission stage involves a series of checks to examine if the application for funding complies with the requirements of AMSCI. The scope check is managed by Finance Birmingham with inputs provided by BIS. The scope check criteria for AMSCI 2014 are as follows:

- The application must be for a minimum of a £1 million total loan and/or grant;
- Two or more organisations should be involved in the proposed project, one of which must be a manufacturing company;
- There needs to be commitment from a customer, prime or tier 1 company. Strong evidence of commitment to buy any products is preferred. A formal contractual relationship is considered ideal. If the project involves early stage R&D then strong letters of support will be acceptable;
- The project must draw down all AMSCI funding before the end of Financial Year 31 March 2019;
- Loans must be drawn and repaid in full by 31 March 2019;
- Bids seeking to manage a programme are not in scope.

Applications that meet the criteria are subject to further reviews as part of the appraisal process. If these criteria are not met, the application is regarded as unsuccessful and the applicant is informed of the outcome along with the reasons for the decision.

### Technical Assessment

The technical assessment aims to examine the technical merits of applications received. Prior to AMSCI 2014, Innovate UK managed the process on the basis of providing five independent technical assessors to perform the assessment for each project. The technical assessors were selected from a database of experts. Taking into account the focus of specific applications and their sectoral expertise, experts proposed themselves to act as independent assessors when relevant. If more than five experts came forward for a single assessment, the technical assessors were selected at random. The technical assessors would score the technical merits of applications on the basis of consensual decision-making.

Under AMSCI 2014, Finance Birmingham manages the technical assessment. Innovate UK has made available its database of experts to support the process. Five technical experts are selected to examine each application but two experts are used for each assessment (these are known as home assessors) with the remaining three selected according to their specific expertise. The technical assessors supply the results of their assessment to Finance Birmingham and an aggregated score is calculated (the threshold is 70 per cent). Borderline cases (i.e. those achieving an aggregate score of between 65

and 69 per cent) not meeting the threshold for support are subject to further review. This involves discussions between the technical assessors and a vote as to whether the application should be submitted to the Independent Investment Board. The technical assessors that have offered the highest and lowest scores for each question discuss the rationale of their decisions. The application is subsequently subject to a vote as to whether it is suitable for submission to the Independent Investment Board.

Each application is subject to the same scoring criteria. This relates to the technological feasibility, novelty and usefulness of the project in the context of the relevant UK manufacturing subsector. Technical issues examined include:

- The technical approach and methodology described, to ensure they are appropriate to the needs of the project and whether the steps to encourage innovation are achievable through the proposed approach;
- A description of why the proposed approach will offer a better outcome, compared to rival technologies and alternative strategies;
- The readiness and timeliness of the technology to meet the needs of the target market;
- The details provided for the project plan to ensure that they are sufficient in comparison to the complexity of the project;
- Demonstration of sufficient resource commitment and capability to undertake the project;
- Identification of clear management reporting lines;
- Where the proposal is largely R&D, evidence provided to show that it pushes boundaries over and beyond current leading-edge world science and technology.

While considering these aspects, the independent project assessors examine the applicant's assessment of the strategic, economic, commercial, financial and managerial cases for the project proposed (in line with the HM Treasury five case model for project appraisal).

### Value for Money assessment

A key element in the application review process is to ensure that the proposed project offers value for money, namely that the project delivers benefits to the UK that exceeds the public investment costs. This assessment is undertaken by BIS economists.

The value for money assessment is applied to all bids that comply with the scope check and is performed at the same time as the technical assessment. However, under Rounds 1 and 2, only bids that passed the technical assessment were subject to a value for money assessment. In addition, the bids reviewed under the regional Rounds were not subject to a value for money assessment.

The standard metrics used to determine the value for money are drawn from established government guidelines. These are:

- Additionality - to what extent would these benefits be realised anyway, in the absence of government support.

- Displacement, Substitution and Leakage – Displacement takes into account to what extent will government support lead to a reduction in benefits enjoyed by companies that do not receive support. For example, unsupported businesses might lose market share or see workers with scarce skills become more expensive. Substitution considers examination of replacement of existing or planned investments or employment as a result of government support. Leakage analysis assesses displacement of employment from other geographical locations that are not targeted for support.
- Benefits –the project's economic, social and environmental benefits affecting those inside and outside of the supply chain are identified and examined in terms of their impact and timescale.
- Risk - what is the likelihood that the benefits would be achieved on the scale outlined by the company / or other type of organisations?

To determine whether a project attains an acceptable estimated level of value for money, BIS economists need to be provided with evidence of high additionality, low displacement and acceptable risk. Wider supply chain benefits are also examined including direct and indirect job creation, inward investment or re-shoring benefits, training benefits, R&D spill over benefits and other benefits e.g. environmental benefits. Applicants need to pass a minimum threshold to pass the value for money assessment examined in the context of a benefit cost ratio (BCR). Based on the assessment, applications are graded according to a colour screen (green, amber and red) regarding their estimated level of value for money. (If a bid passes the technical appraisal, but receives an “amber” rated BCR, this triggers a follow up conversation with the applicant to explore how far any adjustments may be required once the appraiser has accumulated greater knowledge about the project).

Given that the approach to examining BCRs takes into account the extent of external benefits in relation to public sector costs, applicants are required to point out sources of other public funding if applied for. If applicants request large sums of public money, they are more likely to fail the value for money test than applicants that have requested smaller amounts while seeking to deliver a similar level of benefits. Applicants requesting a loan are more likely to pass the value for money test than those seeking a grant if similar benefits will be realised. This is because private costs (and benefits) are excluded from the analysis.

Organisations that fail the value for money test are notified and provided with an explanation of the reasons the application was unsuccessful.

Applications submitted under AMSCI 2014 for the first time include an emphasis on re-shoring and inward investment, so this will also form part of the appraisal criteria.

## Selection

If the application passes both the technical assessment and value for money assessment, the results and further advice are provided to the Independent Investment Board. If unsuccessful, the application is withdrawn from the review process and the applicant is informed of the outcome along with an explanation of the reasons for the decision.

The Independent Investment Board undertakes the final step in the appraisal process which involves a review of applications for funding and formulation of a decision to support

the project or not. The Board is made up of experts from different advanced manufacturing sectors with relevant technical and commercial knowledge of the industry. The Board members are volunteers and act on an independent basis. Finance Birmingham and BIS attend Independent Investment Board meetings but do not have voting powers.

The role of the Independent Investment Board is to make a final judgement on all applications that passed the value for money and technical assessment. A detailed examination is made of the results of the value for money and technical assessments. This information is presented in a summary document prepared by policy stakeholders involved in the early stages of the appraisal process. Since Round 2, Board members have also been able to view the full application forms of each applicant. The Board also takes into account other recent or current funding applications (to AMSCI or other Government schemes) made by the applicant. In AMSCI 2014, the Board will consider the extent to which the bid is line with wider Government policy. In regard to borderline cases, the lead applicant and project collaborators may be invited to attend the meeting for questioning.

The Independent Investment Board provides an independent judgement on the merits of each application and makes the final selection decisions based on the available evidence. Voting is used by the Board to make final decisions but an initial consensus may be reached through discussions prior to voting.

To ensure their independence of the Board, members are invited to indicate any conflicts of interest in relation to specific applications on the basis self-nomination (e.g. if they are a customer of the bidder etc.). If a member indicates that they are in conflict of interest position they are still permitted to present their points of view on the bid but they are not permitted to vote.

## Contracting and due diligence

### Conditional Offer Letter

Successful applicants receive a “Conditional Offer Letter” which sets out the terms and conditions that apply to the grant or loan and any preliminary conditions that have to be met before any payments can be made (normally the letter and supporting document are around 30 pages long). During Round 1, the Conditional Offer Letter was prepared by the Innovate UK but since then letters have been prepared by Finance Birmingham. The initial template for grants offers was based on a model developed by Innovate UK but the template was revised prior to Round 3 to enhance the clarity of the document. Conditional Offer Letters specify requirements for:

- Submission of an up to date project delivery plan and work packages demonstrating the participants’ ability to achieve the milestones set out in the application, including employment outcomes;
- A collaboration agreement signed by all applicants to the project;
- If a loan is requested, a debenture and/or parental guarantee or parental undertaking to support an applicant which is part of a group may be requested in certain circumstances;

- Confirmation of loan repayment terms including payment of arrangement fee (where relevant) at 2% of the loan amount capped at £25,000;
- Should the lead applicant or applicants wish to publicise the project in any way whatsoever they must first contact their designated Project Monitoring Officer before doing so and email any publicity plans, press releases and articles etc. for prior approval;
- Requirements for the financial and state aid due diligence process (see below).

From the date of the Conditional Offer Letter, lead applicants are given one month to sign the Conditional Offer Letter and three months to complete the due diligence process. There are two main elements to due diligence.

### Financial due diligence

Prior to AMSCI 2014, external accountants were made available for the financial due diligence process. After Conditional Offer Letters were sent out, applicants were directed to a pool of three accountancy firms to request a quote for financial due diligence services. Applicants were required to pay for the services and the process of requesting and selecting the preferred quote and commencing work took around one month. For AMSCI 2014, an accountant has been seconded to Finance Birmingham to provide free services to applicants. The process also commences much sooner with some initial information feeding into the work of the Independent Investment Board.

Financial due diligence focuses on the structure and financial health of the consortium members. This exercise examines whether applicants can provide their defined contribution to the project, can cash flow the defrayed nature of the grant and can repay any AMSCI loan. This process can lead to some changes in consortium members or the addition of further conditions to funding.

### State Aid compliance

The second step is to examine whether the application is compliant with State Aid Guidelines. This is undertaken by State Aid lawyers appointed by and funded by the AMSCI programme.

To perform this task Finance Birmingham makes available to applicants a specialist state aid law firm. Through investigative activities, the State Aid lawyers ensure that the proposed allocation of AMSCI funding is in line with State Aid requirements.<sup>28</sup> Applicants are required to detail the way in which the money will be spent and need to provide information on specific company details and project activities for evaluation against state aid criteria and thresholds.

### Unconditional Offer Letter

On completion of due diligence, an Unconditional Offer Letter is sent out to applicants by Birmingham City Council. This is a short letter which simply refers to the details and conditions set out in the Conditional Offer Letter, highlighting any changes if necessary.

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<sup>28</sup> <https://www.gov.uk/state-aid>



## Monitoring

Each project is assigned a monitoring officer from within the Finance Birmingham team.

The monitoring of the project starts with a kick-off meeting with the consortium. This sets out the process for monitoring and delivering the project according to the Project Delivery Plan. This start date triggers the timing of the quarterly claim cycle with the first claim, and monitoring report, due three months from the start date. Grants are paid in arrears once valid expenditure has been made.

The schedule for defraying loans does not necessarily follow the quarterly claims cycle. Loan payments are made according to the project delivery schedule so that applicants can have access to the finance when they need it.

The templates for the quarterly monitoring returns are included in the Conditional Offer Letter. Applicants must provide details of all project-related expenditure and report on jobs created and/or safeguarded. For each job created, the applicant must provide details of the employee's name, start date and qualification (NVQ) level. Any capital expenditure must be supported with invoices. Time sheets for employee inputs on projects are also required.

At the end of the fourth quarter, all applicants must commission an annual independent accountants' report to verify the submitted monitoring data.

Applicants are expected to provide an updated project delivery plan and claim schedule. Applicants are expected to identify and manage risks. Any emerging risks identified by applicants should be escalated to Finance Birmingham. The monitoring officer with the support of his/her immediate colleagues may be able to propose a solution to address the risk. However, if risks are deemed to be material, these are presented to the Programme Board, which has operational oversight for the programme and can intervene where necessary. Grant funding can be clawed back or entire projects cancelled if necessary.

Due to the R&D nature of AMSCI projects, some inherent risks are largely unavoidable. Investment in R&D may not deliver the desired results in terms of a technically or commercially viable new product or process.

Aggregate monitoring is undertaken by Finance Birmingham using a spreadsheet system. Monthly monitoring reports are provided to the Monitoring Board.



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Department for Business, Innovation and Skills  
1 Victoria Street  
London SW1H 0ET  
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