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Subject: SA.40761 (2015/N) – Innovate UK (Technology Strategy Board) Research, Development and Innovation Scheme 2014 - Evaluation plan.

Sir,

1. PROCEDURE

- (1) By electronic notification of 30 January 2015, registered by the Commission on 3 February 2015, the United Kingdom submitted a summary information sheet pursuant to Article 11(a) of Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty¹ (hereinafter "the GBER") on the aid scheme "Innovate UK (Technology Strategy Board) Research, Development and Innovation Scheme 2014" (hereinafter "the aid scheme"), which it plans to implement until the end of 2020. This submission was registered as SA.40761 (2015/X).
- (2) The aid scheme was put into effect on 1 January 2015 pursuant to Article 1(2)(a) concerning the scope of application of the GBER and Chapter III, Sections 2, 3 and 4 of the same regulation concerning aid to SMEs, aid for access to finance for SMEs and aid for research and development and innovation.
- (3) The aid scheme has an annual budget of GBP 600 million, thus constituting a large scheme within the meaning of Article 1(2)(a) of the GBER. Under this provision, those aid schemes whose "average annual State aid budget exceeds EUR 150

¹ OJ L 187 of 26.6.2014, p.1.

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million" are exempted from the notification obligation only for a period of six months after their entry into force. This exemption can be prolonged for a longer period authorised by the Commission following the assessment of an evaluation plan notified by the Member State concerned.

- (4) To obtain that prolongation, the United Kingdom notified an evaluation plan for the aid scheme on 30 January 2015, which was registered by the Commission on 3 February 2015.
- (5) By letters of 3 March and 19 May 2015, the Commission asked for supplementary information, which has been provided by the United Kingdom by letters of 21 April and 28 May, as well as by email of 3 June 2015.

2. DESCRIPTION OF THE NOTIFIED EVALUATION PLAN

2.1. Objectives of the aid scheme

- (6) The main objective of the aid scheme is to stimulate economic growth through the support of innovative businesses, in particular SMEs, across all sectors of the economy as well as research organisations.
- (7) Other objectives of the aid scheme are the increase of the knowledge transfer and creation, the development of skills and understanding of innovation, and the production of novel goods and services. The aid scheme in particular aims to encourage collaboration and effective co-operation between companies and research organisations, including higher education institutions, to raise both the level and the quality of commercially relevant R&D&I activities. Furthermore, the aid scheme should contribute to increase R&D&I expenditure in businesses and higher education institutions as well as the number of businesses performing R&D&I.
- (8) The granting authority is Innovate UK², an executive non-governmental public body sponsored by the Department of Business, Innovation and Skills. The funding mechanisms operate on the basis of a competitive application process, and projects are evaluated by a panel of independent assessors taking into account their technical feasibility, the risks involved, the viability of the commercialisation and exploitation plans, and the necessity for government support.
- (9) The beneficiaries are undertakings of all sizes, as well as research organisations, public sector organisations and charities. There are no set budgets for each group of beneficiaries, although there are elements of the aid scheme targeted only at SMEs.
- (10) The aid scheme will cover the following aid measures: aid for consultancy in favour of SMEs (Article 18 of the GBER), aid to SMEs for participation in fairs (Article 19 of the GBER), aid for start-ups (Article 22 of the GBER), aid for scouting costs (Article 24 of the GBER), aid for research and development projects (Article 25 of the GBER), investment aid for research infrastructures (Article 26 of the GBER), aid for innovation clusters (Article 27 of the GBER), innovation aid for SMEs (Article 28 of the GBER), aid for process and organisational innovation (Article 29 of the GBER) and aid for research and development in the fishery and aquaculture sector (Article 30 of the GBER).

² www.innovateuk.org.

- (11) Funding may be provided in the form of grants, loans and repayable advances within the maximum aid intensities set out in GBER.

2.2. Evaluation questions and result indicators

- (12) The notified evaluation plan sets out the specific questions to be addressed by the evaluation. The questions cover both the direct and indirect impacts of the aid scheme. Where appropriate, the evaluation will include the assessment of cross-sector impacts, as well as sector-level impacts. Evaluation questions will examine the level of competition in the markets supported, the novelty of the innovations produced with support of the scheme, and the impacts the aid has on competitors, both positive and negative.
- (13) The evaluation will in particular allow examining each delivery mechanism of the aid scheme, as well as any differences in impact across beneficiaries (e.g. by company size, sector, location). Specific questions relating to the aid scheme's *direct impact* will cover input additionality (private sector investment), attitudinal additionality (changing attitudes and understanding around innovation), behavioural additionality (increased levels of innovation activity, changing nature of the businesses, increased implementation of innovation strategies), output or outcome additionality (increased innovative outputs such as new products, processes or services, new intellectual property created, increased employment of skilled labour, increased ability to attract private finance, increased exporting or capital investment, increased turnover) and impact additionality (increased value added in the beneficiary companies).
- (14) As regards the *indirect impact*, the evaluation will investigate in particular whether there have been any spillover impacts of the scheme, particularly to consumers, suppliers, competitors or the wider economy, whether the scheme impacted on wider policy objectives and whether the scheme has any impact on competition and trade. For the assessment of such impacts, the results indicators will include: the proportion of old vs. young firms (to assess whether support is more likely to aid incumbents or new entrants); the proportion of micro, small, medium and large firms (to assess whether aid is more likely to support market actors with more power); changes in employment or activity in non-supported companies or sectors (to assess sectoral bias); the level of displaced activity within beneficiaries (to assess market distortion); and the sector-split of support (to assess sectoral bias).
- (15) With regard to the *proportionality*, the evaluation will investigate whether the same impacts could have been realised with less aid. To this end, a comparative analysis of situations where different amounts of aid have been granted will be undertaken, in order to assess whether the outcomes differ across aid amounts.
- (16) In order to examine the *appropriateness* of the instruments used (in particular in the case of grants), the evaluation will consider whether alternative delivery mechanisms, such as loans or repayable advances, might have been more appropriate. The evaluation exercise will include a comparative analysis of the different mechanisms used within the aid scheme in light of the objectives addressed. The evaluation will also consider any evidence from similar schemes (in the UK or in other countries) based on information received from other innovation agencies across Europe.

2.3. Envisaged methodology to conduct the evaluation

- (17) The scheme has a key objective of targeting support and stimulating business-led innovations. In particular, targeting support for R&D projects, both to individual SMEs as well as collaboration projects between companies, including those carried out together with research organisations. However, since the scheme is composed of a variety of interventions³, all attuned to specific barriers faced by innovative businesses, it is necessary for the evaluation to look not only at the overall impact of the scheme, but also the impact of the individual measures covered by the scheme. In light of the above, consistent core questions on the direct and indirect impacts, complemented with tailored questions are included in order to examine whether each measure covered by the scheme is achieving its own objectives. An analysis will then be conducted at the level of each individual measure to understand the actual direct and indirect impacts, as well as the appropriateness and proportionality of the intervention. A synthesis of the evaluation evidence carried out at the measure level will then look across the entire aid scheme to examine its impact as a whole. The common monitoring data and harmonised survey approach will therefore allow for the evaluation to examine not just the impacts at the aid scheme's level, but how these build up from the interventions carried out at the level of each measure.
- (18) In particular, for the assessment of the aid scheme's *direct impact* the selected control group will consist of unsuccessful applicants to the scheme and the envisaged method to estimate the impact is Regression Discontinuity Design (RDD). Should RDD prove statistically unfeasible, difference-in-differences (DID) will be applied.
- (19) To this purpose, it will be necessary to ensure that there are no systematic differences between unsuccessful and successful applicants that could bias the results. In particular, as funding is awarded on the basis of excellence, it will be necessary to delineate the impact of the aid scheme from the effect of the successful applicants having “better” scheme from the effect of the indeed, it might be expected that an applicant who receives top marks on their application might perform better than an applicant with bottom marks regardless of the provision of support. RDD methods will thus be applied by building on the existence of a set threshold for funding provision; a score above which funding is provided. It can be assumed that applications falling just above the threshold are similar to those falling just below.
- (20) The scheme's *indirect impact* will be evaluated using samples of unsuccessful applicants, non-applicants and upstream and downstream market competitors. Spillover impacts will be estimated by applying DID analysis combined with detailed qualitative evidence from case studies. Competition distortions will be assessed by an analysis of the structure of the affected markets, combined with information on the aid scheme and evidence of the impact of the scheme.

2.4. Data collection requirements

- (21) The notified evaluation plan provides for the consistent monitoring of data to be collected across all interventions of the aid scheme, and business surveys delivered at the measure level. The evaluation will make use of the following three main sources:

³ See paragraph (10) above.

(a) Administrative data:

This is data owned by Innovate UK on the applicants and outcomes of the aid scheme. It includes company reference numbers, names, addresses, contact details, and sector information, grant amounts, match-funding details, payments made, application scores, and project details, including project close-out forms. Access to this data will be provided to the body conducting the evaluation under the Data Protection Act of 1998, on the basis of a non-disclosure agreement.

(b) Survey data from the treatment and control group:

As many indicators are not available in secondary datasets, some will be collected via primary data collection from beneficiaries, applicants, and the wider business population. Surveys will be conducted by independent contractors on behalf of Innovate UK, under the guidance of the market research code of conduct⁴. This survey data will be matched to the administrative data set out above.

(c) Secondary government-owned data sets, including:

- the Community Innovation Survey, providing measures of innovation investment, activities, outputs and outcomes;
- the Business Structures Database, providing key company information such as employment and turnover;
- a database of government-provided business support, owned by the Department of Business Innovation and Skills, which provides details of business take-up of alternative support schemes.

Access to these data sources is governed by the UK Office of National Statistics, and matching of administrative and survey data to these sources will take place within the UK's Virtual Microdata Laboratory.

2.5. Independent body to conduct the evaluation

- (22) The United Kingdom authorities confirmed that Innovate UK will commission a single independent evaluation body via an open, competitive tendering process. The successful bidder will be selected by a Steering Group made up of representatives from Innovate UK and other stakeholders⁵. The body's independence, relevant skills and experience, and quality of the approach will be taken into account.

2.6. Proposed timeline of the evaluation

- (23) The United Kingdom authorities confirmed that two interim reports will be prepared in 2017 and 2018 presenting the emerging findings on the aid scheme's impact of individual interventions and wider indirect impacts on competition and other spillover impacts. The authorities have committed to submit the final evaluation report to the Commission no later than end September 2019.

⁴ https://www.mrs.org.uk/standards/code_of_conduct.

⁵ UK Government Departments (Business, Innovation and Skills and Treasury), as well as the OECD.

2.7. Modalities for ensuring the publicity of the evaluation

- (24) The evaluation plan and the evaluation reports will be published on Innovate UK's website <https://www.gov.uk/government/organisations/innovate-uk>.
- (25) Results and recommendations from the evaluation will be made public, and will be used for the strategic decision making process of Innovate UK. All data collected for the purposes of evaluation will be published alongside the evaluation report, making sure that in practical and legal terms the data's anonymity is safeguarded.

3. ASSESSMENT

- (26) It should be recalled that the correct application of the GBER is the responsibility of the Member State. The Commission decision approving an evaluation plan does not assess whether the aid scheme to be evaluated was put into effect by the Member State in full respect of all applicable provisions of the GBER. It does therefore neither create legitimate expectations, nor does it prejudge the orientation the Commission might take regarding the conformity of the aid scheme with the GBER when monitoring it or assessing complaints against individual aid granted under it.
- (27) Only those aid schemes⁶ falling under the provisions of Article 1(2)(a) of the GBER are subject to evaluation. The annual average budget of the present aid scheme, namely GBP 600 million, exceeds the threshold of EUR 150 million set in Article 1(2)(a) of the GBER and, therefore, it is subject to the obligation of notification of the evaluation plan as a condition for continuing to benefit from the block exemption after the expiry of the transitional 6-month period set out in that Article.
- (28) As the Commission explained in recital 8 of the GBER, the evaluation of large schemes is required "*[i]n view of the greater potential impact of large schemes on trade and competition*". The required "*evaluation should aim at verifying whether the assumptions and conditions underlying the compatibility of the scheme have been achieved, as well as the effectiveness of the aid measure in the light of its general and specific objectives and should provide indications on the impact of the scheme on competition and trade.*" State aid evaluation should in particular allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has led the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and trade respectively. State aid

⁶ Under Article 2(15) of the GBER 'aid scheme' means "any act on the basis of which, without further implementing measures being required, individual aid awards may be made to undertakings defined within the act in a general and abstract manner and any act on the basis of which aid which is not linked to a specific project may be granted to one or several undertakings for an indefinite period of time and/or for an indefinite amount".

evaluation examines moreover the proportionality and appropriateness of the chosen aid instrument⁷.

- (29) In the light of these considerations, Article 2(16) of the GBER defines as evaluation plan "*a document containing at least the following minimum elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection and the modalities for ensuring the publicity of the evaluation*".
- (30) The Commission considers that the notified evaluation plan contains the minimum elements outlined in Article 2(16) of the GBER.
- (31) The notified evaluation plan provides in concise manner a description of the functioning of the aid scheme and its key objectives, as well as sufficient information to understand its intervention logic. The scope of the evaluation is defined in an appropriate way. It comprises a list of result indicators that are used for the evaluation questions in order to measure the aid scheme's direct and indirect impact on the market and possible distortions on competition. The data gathered by external and internal sources will provide a sufficient basis to collect the evidence necessary to answer the evaluation questions.
- (32) The evaluation plan also sets out the main methods that will be used in order to identify the *direct impact* of the aid, and explains why these methods are likely to be appropriate for the scheme in question. The proposed composition of the control group with non-selected applicants to the aid scheme appears an appropriate way to minimise the selection bias. The scheme's *indirect impact* will be analysed in a descriptive manner taking into account the competitive position of the beneficiaries and non-beneficiaries in relation to general trends of their market segments. Results regarding the scheme's *proportionality* and *appropriateness* will be obtained using the linear regression analysis. The aforementioned methods and practices are fully in line with the Commissions best practices⁸.
- (33) The proposed timeline of the evaluation is reasonable in view of the characteristics of the measures concerned and the projects supported under the aid scheme. Findings of the evaluation can constitute an important source of information for the revision of the scheme.
- (34) The Commission notes the commitments made by the United Kingdom authorities to conduct a single evaluation according to the plan described in the present decision by an appointed independent single evaluation body. The procedures envisaged for selecting such evaluation body are appropriate in terms of independence and skills. Moreover, the proposed modalities for the publication of the evaluation results are adequate to ensure transparency.

⁷ Commission Staff Working Document on Common methodology for State aid evaluation, SWD (2014) 179 final of 28.5.2014.

⁸ Section 3.4 of the Commission Staff Working Document on Common methodology for State aid evaluation, SWD (2014) 179 final of 28.5.2014.

- (35) Finally, the Commission notes the commitment made by the United Kingdom authorities to submit the final evaluation no later than the end September 2019.
- (36) In view of the above, pursuant to Article 1(2)(a) of the GBER, the Commission considers that the exemption for the aid scheme for which the evaluation plan was submitted may continue to apply until 31 December 2020.
- (37) Alterations to this scheme, other than modifications which cannot affect its compatibility under the GBER or cannot significantly affect the content of the approved evaluation plan, are pursuant to Article 1(2)(b) of the GBER, excluded from the scope of the GBER and need therefore to be notified to the Commission.

4. CONCLUSION

- (38) After having assessed the evaluation plan notified by the United Kingdom, the Commission has accordingly decided that:
- Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty will continue to apply to the "Innovate UK (Technology Strategy Board) Research, Development and Innovation Scheme 2014" until 31 December 2020;
 - This decision will be published.

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Your request should be sent electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully
For the Commission

Margrethe VESTAGER

Member of the Commission

CERTIFIED COPY

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Jordi AYET PUIGARNAU

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