

**DPS FRAMEWORK SCHEDULE 4: LETTER OF APPOINTMENT AND CONTRACT TERMS**

### Part 1: Letter of Appointment

Dear Sirs

## Letter of Appointment

This letter of Appointment dated Wednesday 10<sup>th</sup> March 2021, is issued in accordance with the provisions of the DPS Agreement (RM6018) between CCS and the Supplier.

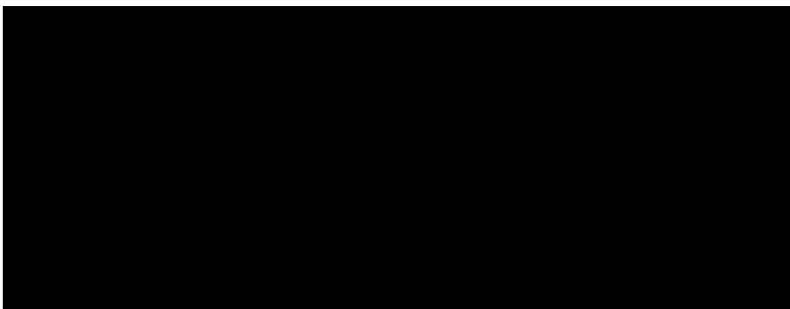
Capitalised terms and expressions used in this letter have the same meanings as in the Contract Terms unless the context otherwise requires.

Order Number:	CR21026
From:	UK Research and Innovation (UKRI), Polaris House, North Star Avenue, Swindon, SN2 1FLT ("Customer")
To:	SQW Limited, Oxford Centre for Innovation, New Road, Oxford, OX1 1BY ("Supplier")

Effective Date:	Monday 15 <sup>th</sup> March 2021
Expiry Date:	Thursday 30 <sup>th</sup> September 2021

Services required:	<p>Set out in Section 2, Part B (Specification) of the DPS Agreement and refined by:</p> <ul style="list-style-type: none"> <li>· the Customer's Project Specification attached at Annex A and the Supplier's Proposal attached at Annex B; and</li> </ul>
--------------------	--

Key Individuals:	[REDACTED]
------------------	------------

Contract Charges (including any applicable discount(s), but excluding VAT):	<p>£151,342.00 excluding VAT in alignment with AW5.2 price schedule Contract. The payment schedule can be found in Contract Terms Schedule 6 Annex 1.</p> 
Insurance Requirements	<p>Public liability insurance to cover all risks in the performance of the Contract, with a minimum limit of £5 million for each individual claim</p> <p>employers' liability insurance with a minimum limit of £5 million indemnity</p> <p>professional indemnity insurance adequate to cover all risks in the performance of the Contract with a minimum limit of indemnity of £2 million for each individual claim.</p> <p>Product liability insurance cover all risks in the provision of Deliverables under the Contract, with a minimum limit of £5 million for each individual claim</p>
GDPR	Please see Contract Terms Schedule 7 (Processing, Personal Data and Data Subjects).
Liability Requirements	<b>Suppliers limitation of Liability (Clause 18.2 of the Contract Terms);</b>
Customer billing address for invoicing:	All invoices should be sent to should be sent to finance@uksbs.co.uk or UKSBS, UK Research and Innovation (UKRI), Polaris House, North Star Avenue, Swindon, SN2 1FLT.

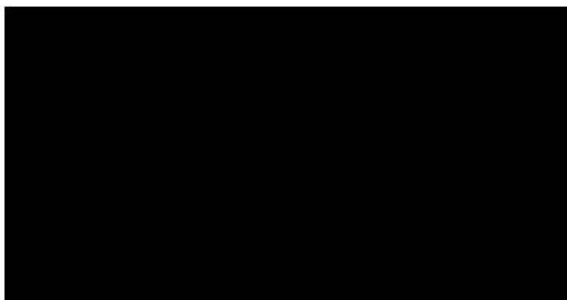
## FORMATION OF CONTRACT

**BY SIGNING AND RETURNING THIS LETTER OF APPOINTMENT (which may be done by electronic means) the Supplier agrees to enter a Contract with the Customer to provide the Services in accordance with the terms of this letter and the Contract Terms.**

**The Parties hereby acknowledge and agree that they have read this letter and the Contract Terms.**

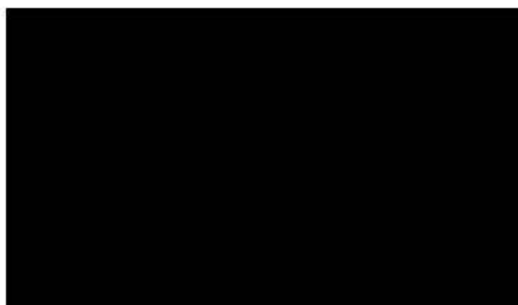
**The Parties hereby acknowledge and agree that this Contract shall be formed when the Customer acknowledges (which may be done by electronic means) the receipt of the signed copy of this letter from the Supplier within two (2) Working Days from such receipt**

**For and on behalf of the Supplier:**



Date: 15th March 2021

**For and on behalf of the**



Date: 25th March 2021

## ANNEX A

### Customer Project Specification

#### 1. Background

This specification outlines the background and requirements for the development of a follow-on interim evaluation for the Innovation Loans Programme. We invite suppliers to provide their approach to best evaluate this programme within the context of the delivery of the extended pilot and the original evaluation framework for the programme.

The scope of the evaluation is to assess the extent to which Innovation Loans is making or has made an impact, taking into account its original aims. The evaluation needs to test the extent to which the programme will deliver the outcomes and impact and the extent to which these are attributable to the support and funding. Where outcomes have not yet materialised, for example due to long lead times, the evaluation should consider whether there are interim outcomes that provide an indication of future impact and to help Innovate UK and UKRI build the evidence base on 'what works' in business level public R&D support. As part of this invitation to tender, bidders are expected to provide a comprehensive proposal indicating how they will undertake this project, their overall understanding of the innovation landscape and environment, timescales and the best approach to fulfil the requirements set below.

The estimated evaluation should commence February 2021 and provide a final report in Autumn 2021.

Innovate UK is part of UK Research and Innovation, a non-departmental public body funded by a grant-in-aid from the UK government.

We drive productivity and economic growth by supporting businesses to develop and realise the potential of new ideas, including those from the UK's world-class research base.

With a strong business focus, we drive growth by working with companies to de-risk, enable and support innovation. We connect businesses to the partners, customers and investors that can help them turn ideas into commercially successful products and services and business growth. We fund business and research collaborations to accelerate innovation and drive business investment into research and development.

Our support is available to businesses across all economic sectors, value chains and UK regions.<sup>1</sup>

In the 2015 Spending Review it was announced that the UK Government would introduce new finance products to support innovation. Innovate UK worked with the Department for Business, Energy and Industrial Strategy (BEIS) and other partners to develop a new repayable finance product – innovation loans – with the objective of bridging the funding gap for innovative businesses whilst also providing value for money for the taxpayer. Government funded loans for innovation are new to the UK and the Innovate UK pilot ran over two years across financial years 2018/19 and 2019/20. An initial funding amount of £50 million was available for commitment to business innovation projects, with UK small or medium-sized enterprises (SMEs) able to borrow between £100,000 and £1 million. In 2019, the pilot was extended with £25m additional funding. In 2020-2021, an innovation continuity loans programme was delivered as part of Innovate UK's coronavirus support package. However, since this programme is still in its delivery phase, it is outside the scope of this project.

The innovation loans were delivered by Innovate UK, with Innovate UK Loans Ltd (a wholly owned subsidiary of UKRI) as lender, through five competitions, covering

---

<sup>1</sup> [Innovate UK Delivery Plan](#) , [Innovate UK](#)

sectors as well as open competitions, plus two additional competitions covering the pilot extension. These were for SMEs that want to scale up and grow by developing new or improved products, processes or services. The innovation loans can be used for late-stage research and development (R&D) projects that have a clear route to commercialisation. The aim is for innovation loans to align with other public and private finance sources on offer to provide a continuum of finance options – not to compete with existing market finance but to enhance the finance landscape.

It is estimated that the lead times for impacts to materialise in full are quite long, as the loans can have a term of up to 10 years. While impacts can be expected to begin prior to final loan repayments, the full impact evaluation cannot be delivered for at least ten years. However, to ensure timely evidence to inform policy, an interim evaluation was commissioned to understand the progress the loans programme had against its original objectives. The scope of the interim follow-on evaluation was limited as not all impacts would have materialised, with many projects still underway, and repayment continuing. The final report on the interim evaluation was published in September 2019. This follow-on interim evaluation will build on the findings of the interim evaluation to assess the logic model impacts and value for money of the policy.

This invitation to tender is to conduct the follow-on interim evaluation of the Innovation Loans programme reviewing the longitudinal impacts of the pilot cohort (Five Competitions) as well as those participating in a £25m programme extension. This evaluation builds on the initial scoping study commissioned by BEIS and conducted by SQW, working with the Enterprise Research Centre and St John's Innovation Centre to produce an evaluation framework<sup>2</sup> and on the Final Interim Report on Innovation Loans (2019)<sup>3</sup>

---

<sup>2</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/668999/BEIS\\_format\\_scoping\\_pilot\\_and\\_impact\\_evaluations\\_innovation\\_finance\\_SQW.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668999/BEIS_format_scoping_pilot_and_impact_evaluations_innovation_finance_SQW.pdf)

<sup>3</sup> <https://www.gov.uk/government/publications/evaluation-of-innovation-loans-interim-report>

## 2. Requirement

This project will cover the follow-on interim evaluation of the £50m innovation loans pilot and the £25m extension. It will cover all 7 competitions of the extended £75m pilot programme. The project will report to the end of this period, to inform policy decisions.

To be clear, this requirement does not include the longer-term economic impact evaluation, but will require some foundation work for this, and to leave data and other evaluation materials in a reasonable state for other parties to conduct the full evaluation. However, there is the expectation to assess the extent to which the Innovation Loans programme is on track to achieve its objectives and the changes in outputs and outcomes since the interim evaluation. It is expected that during the assessment quantification of impacts (where possible) is done with high levels of robustness and only when appropriate.

This follow-on interim evaluation will follow the framework and the Interim Evaluation Report (mentioned above). The framework sets out the guiding principles and overarching approach for both the interim and impact evaluations of Innovation Loans which evaluators should follow. Based on these existing documents, it is expected that the successful bidder will deliver against these key principles, however there is the opportunity to suggest alternative approaches that will mould better to the current context and the overall stages. Bidders are expected to recognise the difference in timings for the different groups to be evaluated. In other words, it is expected that the evaluation will look at how the initial pilot cohort is doing since the interim evaluation in terms of their progress across the theory of change, and also to include applicants in the later competitions in the extended pilot, to baseline and understand their key principles and motivations for applying and taking on an evaluation loan. The innovation continuity loans programme, undertaken as part of Innovate UK's coronavirus support package in 2020-2021, is outside the scope of this work.

The objective of the interim evaluation was to assess the delivery of innovation loans using a formative approach and to make an early assessment of progress towards intended outputs and outcomes. The objective within this specific project remains unchanged, albeit the appropriate considerations will be taken to account for the progress of projects and the time since the last evaluation happened and moving from the process to more material outputs and outcomes.

The follow-on interim evaluation will assess to the degree in which the extended Innovation Loans Pilot has delivered against its original objectives and to the extent to which the underlying assumptions and narrative in the theory of change remains valid. This will require a mixture of looking at the processes and the actual mechanism (loans) as well as assessing initial activities, outputs and outcomes and making an early assessment of progress short term impacts.

The findings from this evaluation will provide an opportunity to evolve and refine the programme to better achieve policy objectives during any wider roll out.

**Table 1: Innovation loans – registrations, applications submitted and progressed**

	<b>Registrations</b>	<b>Applications</b>	<b>Total in competition</b>	<b>Commitment</b>	<b>Drawdown</b>	<b>Repaid Loans</b>
Competition 1	281	47	11	£6,600,849	£6,348,828	

Competition 2	269	32	16	£11,802,513	£11,315,254	2-£1,400,000
Competition 3	815	95	14	£10,588,859	£9,549,742	1-£691,874
Competition 4	497	104	16	£10,693,896	£9,559,844	
Competition 5	517	115	14	£9,111,646	£8,300,656	
Competition 6	TBC	104	17	£12,430,912	£5,771,761	
Competition 7	TBC	110	14	£8,599,045	£3,049,239	

Specifically, the interim evaluation will seek to answer the following key evaluation questions:

Bidders should note that the experiences and expectations from businesses in the initial pilot and in the pilot, extension will differ and that some of the research questions below might be relevant to only one group.

**1. What is the interest in, and demand for Innovation Loans? (extension cohort only)**

- Some of those taking up loans will be Innovate UK's existing customer base, but it is also expected that there will be take-up from businesses new to Innovate UK. This is because loans will target a different part of the innovation market than grants, one that is closer to the point of commercialisation.
- Is there a continued drive to apply for Innovation Loans?

**2. What is the nature of the businesses applying, and the projects which form the focus of the applications for funding? (extension cohort only)**

- Age, size, sector, stage of innovation project, financial health, and typical loan sizes are key variables to collect and analyse. Through this, we will seek to gain a better understanding of the customer base, in particular to improve estimates of likely default and impairment rates (information on actual future default behaviour will fall beyond the scope of the follow-on interim evaluation).
- How 'fundable' are the projects that businesses wish to undertake? Are loans the most suitable form of finance for the projects that require funding?
- What is the credit suitability of loans for potential applicants? Are applicants who are not creditworthy for loans better suited for grants or equity, for example?
- What have businesses done before applying for the loan product? For example, have they applied for or received funding from other sources?

**3. What would have happened to the innovation projects supported if they had not been offered these loans?**

- What is the finance additionality of the new innovation loan?
- How much deadweight will be attracted to the loan product?

**4. How effective are the processes of implementation and what are the experiences of the customer journey?**

- How does the expected customer journey compare to the actual experiences of the application phase and drawdown period of the loan product? This can be extended to the whole portfolio as the engagement and communication with the Innovation Loans Team has continued.

- How effective/timely/burdensome are the application, decision-making, and monitoring processes for both successful and non-successful applicants, and how does the process compare with private providers of related products? (extension cohort only)
- To what extent have the marketing, application and decision-making processes encouraged greater equality, diversity and inclusion in innovation businesses (in terms of regions, sectors and characteristics of founders / leadership teams such as gender, ethnicity, disability, social background and other relevant forms of 'under-served' communities). This can be extended to the whole portfolio.

**5. What evidence is there of progress towards the achievement of intended outputs, outcomes, and impacts?**

- What have businesses done after their innovation project? Is there an indication of bridging the 'Valley of Death' and does the loan product speed up the innovation/commercialisation process?
- Are there any 'early warning' indicators for defaults, or actual defaults?
- What has been the effect in R&D spending & employment?
- Has the funding enabled follow-on funding to be secured?
- Has the funding increased firm level performance?
- To what extent has the funding influenced the behaviour around R&D investment and activity?
- To what extent has the innovation loans programme decision-making supported equality, diversity and inclusion in business-led innovation and growth.

The following 4 questions are expected to build on the interim and follow-on evaluations and to be the focus of the impact evaluation at the end of the pilot programme. While this follow-on evaluation should be focused on the 5 questions above, bidders should also take these additional questions into account as falling within the overall evaluation framework.

6. What has been the 'additional' effect of the loan product on outcomes and impacts, covering in particular the effects on innovation behaviour and performance as well as business performance?
7. To what extent can spillover effects be identified from the innovation projects that have been supported by the loan product?
8. Has there been any crowding out of private R&D investment amongst firms supported? Has there been any crowding in/out of lending or other investment by finance providers? Can potential counterfactuals be identified to assess the degree of displacement?
9. From a government finance perspective, what potential default and impairment profiles and rates can be expected in innovation loan programmes?

Within the context of this evaluation, bidders should consider the extent to which current events (Covid-19, EU-exit) may play a role in the achievement of the original objectives of Innovation Loans, as well as the direct effect these events have had on the companies and their innovative activities.

Submitted proposals should clearly set out how they will address each of the research questions, including what data will be collected, as well as how the proposal will help support the future economic impact evaluation.



## Evaluation approach

### *Follow-On Interim evaluation*

Bidders are expected, alongside the methodology originally proposed in the scoping study, to use theory-based techniques using a combination of methods. Bidders should assess the degree to which the implementation of quasi-experimental tools are suitable for the assessment of impact for those parts of the pilot cohort, building on the existing body of work and literature.

Any quasi-experimental approach suggested for the evaluation would form part of a mixed methods approach for the follow-on interim evaluation, where the results are triangulated from different sources to help overcome these issues and challenges. The other parts of the mixed methods approach are made up of a formative assessment which will explore the process issues of the loan product and its intended outcomes, and then a theory based approach to test the extent to which early outcomes/changes in behaviour are being caused by the loan product (in line with the theory of change). A theory-based evaluation approach provides

*“an overarching framework for understanding, systematically testing and refining the assumed connections (i.e. the theory) between an intervention and the anticipated impacts.”*

<sup>4</sup>

On that basis a theory-based approach is considered the most suitable methodology for the follow-on interim evaluation as it examines why a policy or activity has worked, and under what conditions, based on the theory that has been developed in the logic model. Instead of examining *“what would have happened in the absence of the intervention?”* such approaches ask *“is there strong evidence that the intervention – rather than other factors – was critical in causing the outcomes observed/reported?”* It examines every link identified in the logic model, proposes a theory of change and identifies any additional factors that need to be in position for a successful outcome. Evaluation theory offers a number of options for investigating a theory of change, however this framework uses contribution analysis in light of the evaluation challenges previously outlined and as recommended by the scoping study.

Although quantitative evaluation methods, such as difference-in-difference analysis, are expected to form part of the initial thinking of the evaluation framework at these stages, their utilisation will be more prominent at the economic impact evaluation stages, given the identified evaluation challenges, timings and other constraints. As suggested by the scoping study, theory-based techniques are adopted to complement the impact evaluation and assess the cause and early effects of the pilot and the extension.

Innovate UK recognise that some long-term impacts of the programme will not be realised within the lifetime of the evaluation. Therefore, the proposal should clearly set out a realistic proposition of the intermediate longitudinal effects that might be present for Innovation Loans Pilot participants and it should clearly describe the degree to which progress against the Theory of Change has been realised and what expected impacts may become apparent beyond the evaluation period.

### *Evaluation metrics*

The logic model developed (See SQW 2019) proposed the core indicators that will aid evaluation of any new innovation loans. The indicators need to be comprehensive and measure the activities and effects of the programme over the extended pilot period to support the decision-making process for consideration of a full programme roll out. The purpose of the evaluation metrics is to aid understanding of how innovation loan beneficiaries are evolving and how the pilot is achieving its objectives.

---

<sup>4</sup> [HM Treasury \(2020\) The Magenta Book: Guidance for Evaluation](#)

The expected evaluation metrics and core indicators are set out in full in the reports mentioned above, along with an overview of expected data to be collected at the application stage. The successful bidder may have an opportunity to influence what data is collected at the various stages of the customer journey if the programme is developed further.

An early task in the evaluation will be to work with the programme team to confirm the final data collection and reporting requirements.

#### *Evaluation methods*

Proposals should clearly set out what analytical methods will be used to deliver the review, and why these have been chosen as the most appropriate ones. The most rigorous methods feasible in the timescales provided should be deployed, so long as they are proportionate in terms of cost and burden on stakeholders (particularly businesses). Bidders may wish to consider a combination of data collection and analysis methods. Proposals should set out how different data collection and analysis methods will be deployed and will be combined to produce the final findings. Further, the proposal should set out how the data collection and analysis methods will address the evaluation questions and in a robust manner. The evaluation is expected to draw on data from both quantitative and qualitative sources:

- Desk research and document review
- Stakeholder interviews
- Surveys to beneficiaries & non-beneficiaries
- Case studies
- Data linking
- Engagement with businesses, including primary data collection
- Counterfactual Analysis incl. Econometric Analysis
- Use of secondary datasets (e.g. Beauhurst, Pitchbook) to assess firm and sector level outcomes.

The selection of specific approaches should be justified and related to specific evaluation and research questions.

The specific sample sizes for surveys and number of case studies are to be determined by the bidder in regards to the size of the population, the different competition areas and any other factors that might want to be brought into consideration e.g. firm size, location. As a minimum a census survey and 15 case studies are expected with a few of them selected from the previous evaluation to enable the development of a longitudinal case study approach.

The evaluation framework sets out how these different forms of data link to the evaluation questions, how the data is to be collected and how frequently, when it will be available, and who is responsible for collecting the data.

Proposals may suggest alternatives to any of this, but any alternatives must be strongly justified.

Proposals also should highlight where Covid-19 might create challenges in delivering against the evaluation requirements and what specific mitigation strategies will enable a successful delivery.

#### Peer review

The winning proposal and any output/deliverable produced through the evaluation may be put to an external, independent peer review group of academic evaluation experts. The successful bidders will be expected to consider and, if appropriate, respond to any comments from peer reviewers. This process may be repeated with draft reports throughout the project and any published reports will have peer review comments published alongside them. The successful bidder will be expected to make amendments or respond to comments before publication.

#### Deliverables

Proposals should set out how they will deliver the following:

- An initial evaluation framework, concise report setting out the milestones of the interim evaluation project, following an inception meeting, including the agreed data collection requirements and appropriate methodologies and a review of the changes following the interim evaluation report. By April 2021
  - Following the successful completion of the evaluation framework, it would be expected that a series of interim deliverables are submitted as the project progresses, these includes, initial analysis of management information, research tools e.g. topic guides, survey questionnaires and any emerging findings from data gathering exercises.
- The framework should include a brief assessment of the current portfolio status based on the availability of information from external data sources that are being put forward as part of the study. This should be a standalone deliverable alongside the framework.
- A draft report setting out emerging findings in July 2021 following field work activity, highlighting key findings and initial recommendations to feed into the final report.
- A final report by August 2021. This report should also include any conclusions or recommendations relating to the implementation of the full economic evaluation.

At the end of this phase of the evaluation, all datasets provided, compiled, or used, along with all analysis and reporting relating to them, must be made shareable in a convenient format, such that it will be possible to hand over, in full, either to Innovate UK or another contractor, as appropriate. Proposals must state how this will be achieved, including how any data protection issues will be resolved.

All reports, aside from the initial one, should include an executive summary and a PowerPoint version of key points. Any analysis carried out for the reports must be clearly set out in the report although these can be contained in a technical annex. The main body of the report should be concise and clear, understandable by non-technical readers.

Case studies should be written up in full, and submitted alongside the final or interim report, and proposals should set out the format and expected length of these case studies.

Data sets including all data collected and used in the evaluations must be provided alongside the reports. It is anticipated that the majority of data, including survey responses, will not be anonymised, and will be provided to the Economics and Performance team at Innovate UK with business identifiers included. The future use of this data will be restricted to research and evaluation, and such assurances will be given to businesses responding.

Where data does need to be anonymised, the contractor will be expected to conduct the anonymisation and provide the dataset alongside the other deliverables. In addition, all contact details, must be shareable at the end of this follow-on interim evaluation with another supplier for the subsequent economic impact evaluation.

For non-anonymised data, unique identifiers should be included to enable matching to Innovate UK data. Any code used to develop analysis should also be provided, in a suitable format, to enable findings to be verified.

**ANNEX B**

**Supplier Proposal**













































## Part 2: Contract Terms



Contract Terms v6.0