Innovation Centres

Supported by The Scottish Funding Council, Highlands and Islands Enterprise and Scottish Enterprise.

Innovation Centres

Business planning and appraisal guidance – Phase Two

Overview

This guidance has been prepared by the Scottish Further and Higher Education Funding Council, Scottish Enterprise, and Highlands and Islands Enterprise (the partners). It describes the single process (the phase two appraisal process) by which business plans from Innovation Centres (ICs) seeking sustained public sector investment beyond their initial phase one funding will be appraised by the partners. It also provides some good practice guidance to assist ICs in preparing detailed business plans which will be the primary source of evidence for appraisal.

Programme Vision

The partners have agreed the following refreshed vision for the IC programme. Business plans should clearly demonstrate how the proposed model and priorities will deliver this.

Innovation Centres bring the expertise and capabilities of Scotland's universities, research institutes, colleges and businesses, to address industry demand led opportunities that support growth of the Scottish economy. Innovation Centres should support transformational opportunities for industry and work collaboratively to develop Scotland as a world-leading entrepreneurial and innovative nation.

Aims and objectives

The main aim of the IC programme is to deliver routes to economic benefits through increased levels of collaboration between business and academia which target business or sectoral growth and/or improved delivery of public services in Scotland. Each IC may achieve this by addressing most, if not all, of the following objectives:

- working in partnership across the respective sector or sub-sector to stimulate, and then support the delivery of, industry/market demand-led collaborative projects between businesses and academic that target business innovation and result in the growth of businesses across Scotland;

- working in partnership across the respective sector or sub-sector to stimulate, and then support the delivery of, demand-led collaborative projects between the public sector and academia that target innovation to enhance public services delivery across Scotland;

- delivering the above demand-led collaborative projects in a manner which brings mutual benefits to all project partners, whether academic, industrial or public sector, thereby helping inspire further collaborations Scotland-wide and internationally;

- delivering collaborative knowledge exchange activities that exploit academic research to help solve industry defined problems while also stimulating and challenging the Scottish research base;

- working collaboratively with other partner organisations across the business innovation landscape in Scotland (including, but not limited to, SE, HIE, SDI, Business Gateway, City Deal Partnerships, Innovate UK, Interface, KTP and KTN) to ensure businesses are directed to the right place to help address their business needs;

- helping Scottish-based projects win competitive innovation and applied R&D funding from the rest of the UK and international sources which aligns with industry challenges and requirements at the sectoral or sub-sectoral level;

- helping secure inward investments into Scotland that support the growth of businesses in Scotland, and attracts businesses to locate in Scotland, through promoting Scotland's strengths in academia-business collaboration;

- helping grow an environment that supports the development of the next generation of business innovators, academics and entrepreneurs in Scotland and which promotes the value of collaborative working.

In delivering the above, ICs should work to minimise unnecessary complexity and duplication within the business support landscape of Scotland and, furthermore, ensure their activities do not displace activities of the private sector.

Routes to Economic Impact

IC Teams should build a robust case for economic impact for Scotland with either (or both) of the following routes to impact:

- Collaborations between academia and business (and wider) which support business innovation as a driver of economic benefit and impact;

- Collaborations between academia and the public sector which support public sector innovation (for example, in healthcare) as a driver of improvements in delivery of public services leading to economic benefit and impact.

For Innovation Centres that seek further public investment into their business plans, these plans must provide a clear strategic rationale for ongoing public investment. The plans must also articulate the scale of economic impact that is expected from the two above routes to economic impact for Scotland. These two routes are considered in further detail below:

- Where ICs target business innovation, they should be effective in engaging academia with business led challenges, either at company level or sectoral level, to help businesses to compete successfully across domestic and international markets. Success will be measured by the effectiveness, and demonstrable value-for-money, of ICs in contributing to sustainable economic growth of the sectors or sub-sectors they target.

- Where ICs target innovation in public sector delivery, they should be effective in engaging academia with societal public sector challenges. An example of this would be in healthcare through delivering projects which achieve measurable performance improvements such as improved healthcare outcomes, a healthier and more productive workforce, improved cost effectiveness of healthcare delivery, and faster diagnosis and treatment leading to improved quality of life.

Appraisal process

After inviting an IC to submit its business plan, the partners will use a single multi-partner appraisal process following recognised good practice, aligned with HM Treasury Green Book, Scottish Government (Gateway) and UK Cabinet Office Assurance. This builds on Scottish Enterprise's project lifecycle process which has been used extensively.

The appraisal will be carried out using a three stage process based on a five case methodology. These five cases are shown in table one below.

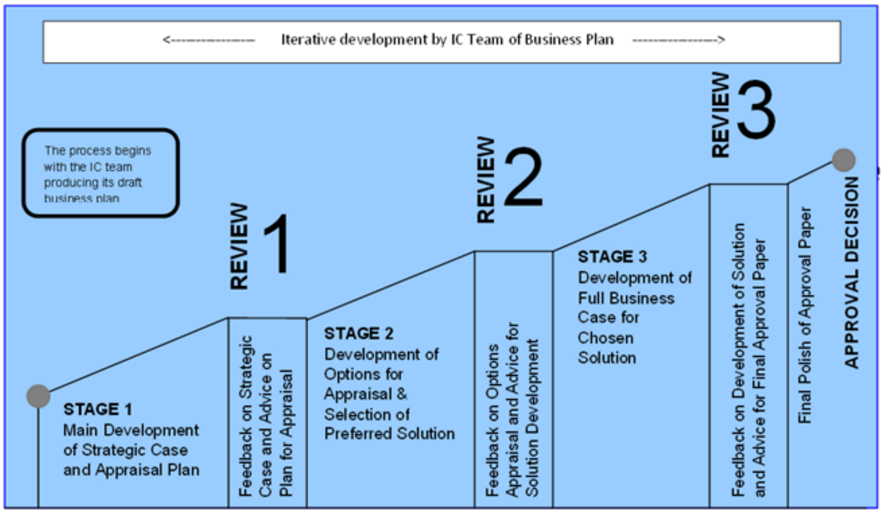
Table one: overview of the five case model for appraising the business case for public investment into ICs.

1	**Strategic case**	there is a robust case for change
2	**Economic case**	value for money
3	**Commercial case**	commercial viability
4	**Financial case**	financial affordability
5	**Management case**	can it be delivered successfully

The appraisal process is described in diagram one below. This is intended to show an iterative process by which the IC develops its detailed business plan for proposed future investment. The development of the plan will be reviewed at three review points. The process will conclude with each organisation making a 'conditional' approval decision on its contribution towards centre costs[1]. It is important to note the roles and responsibilities and this is described in table two below.

[1] This guidance does not cover the process for reviewing funding beyond the five year period of phase two business plans. Further guidance on this will be provided in due-course. The partners have agreed that a key principle in any final funding model should be recognition that any funded IC will require a lead time of at least two years to manage either a go or no go decision following each subsequent review.

Diagram one – the appraisal process



STRATEGIC CASE	✓✓	✓✓✓	✓✓✓
ECONOMIC CASE	Plan	✓✓	✓✓✓
COMMERCIAL CASE	Plan	✓✓	✓✓✓
FINANCIAL CASE	Plan	✓✓	✓✓✓
MANAGEMENT CASE	Plan	✓✓	✓✓✓

These 5 cases will be produced by the Appraisal team with information derived from the IC Business Plan.

Roles and Responsibilities

Three groups will be established for each IC. These are the IC Team; the Appraisal Team; and the Review Panel (see table two below).

Table two: roles and responsibilities

The IC Team (develops and owns the business plan)	The Appraisal Team (prepares the 5 cases for review)	The Review Panel (reviews the 5 cases)
Assembled and led by the IC CEO with guidance from the admin hub university, IC board and others as appropriate. The IC Team shall be responsible for drafting, developing and owning the business plan throughout its lifecycle.	A multi-partner team drawn from the partners – managed by a project manager and senior responsible owner, with oversight and accountability of the process on behalf of all partners. The Appraisal Team shall be responsible for preparing each of the five cases for presentation to the review panel based on the evidence in the business plan. The team will advise and guide the IC Team at each stage of the development of the business plan. The Appraisal Team, guided by feedback from the review panel, may advise the funding partners	The Review Panel will comprise representatives from each of the partners, Scottish Government, and relevant organisations. These representatives should be independent of the IC, the Appraisal Team and the approval decision making process. The panel will convene at each of the three review points to review the Appraisal Team's cases. The panel will provide feedback to the Appraisal Team to ensure the appraisal is robust and complete.

	that the appraisal evidence is not sufficiently strong to support an IC progressing to the next stage.	

The iterative three stage process should enable a high level of coordination between the IC Team and Appraisal Team to ensure creative/innovative business plans are developed while, at the same time, achieving alignment with national and organisational priorities. The IC Team may choose to update their Business Plan during this appraisal, for example, as the result of discussions with the Appraisal Team, and for example, as the result of diligence reports, market evidence etc. Throughout the three stages of appraisal, the Appraisal Team will work closely to support the IC Team.

The time required to move through the stages will vary from IC to IC. However, time spent developing the IC's Detailed Business Plan prior to formal commencement of the appraisal exercise will help streamline the appraisal timelines.

Commencement of the process does not guarantee a positive funding decision, and all participants need to recognise that the appraisal may be halted or terminated at any stage of the review if the appraisal evidence is not sufficiently compelling. Where it becomes clear that ICs are unlikely to be able to secure forward support through this programme approach, it is clearly beneficial to share early decisions to this effect.

Development of the IC's Detailed Business Plan

As indicated above, the IC Team should focus on the development/refinement of the IC's Detailed Business Plan (see annex A). The Appraisal Team will take responsibility for preparation of appraisal documents for review using the five case methodology.[2] However, there will be a requirement on both the IC Team and the Appraisal Team to provide clarity on information sought, and response timelines, in order to ensure the appraisal exercise is carried out in an effective, timely manner and is proportionate to the level of public investment sought.

Stage 1

During stage 1, the IC Team's focus should be on arguing the detailed strategic case for the IC in the business plan. The strategic case should clarify the transformational opportunity which the IC is seeking to address. It should provide an assessment of market demand from the business base across Scotland and describe how the IC plans to address this demand, indicating how this will lead to economic impacts and describing the Scottish research base assets relevant to these plans. Financial figures should be split between 'centre costs' and, where appropriate, the funding required from competitive sources to deliver 'demand-led projects'. There should be a clear articulation of the level of industry contribution to project costs and, where appropriate, what types/sources of public funding will be sought as matching contributions. Evidence of industry commitment/support should be included. There should be a clear link between the formats of projects proposed, and how these will address the identified strategic opportunity. The finances should be framed in terms of a five year funding horizon, with the expectation, subject to strong performance, that stable longer term funding can be maintained.

Outcomes from stage one:

[2] The ICs are not required to read the green book but should refer to the programme partners for advice.

- establish the strategic context for the proposal
- evidence the case for change
- establish the way forward

Stage 2

During stage 2, the IC Team's focus should be on development/refinement of the IC Detailed Business Plan. This will be required early in stage 2, in a format which is robust and which is ready for diligence. The diligence may be carried out by a mix of internal and/or external assessors.

The Appraisal Team will liaise with the IC Team through stage 2, including coordinating with the IC Team on matters relating to the assessment of market evidence and the diligence report. The Appraisal Team will draw on this information in preparing appraisal documentation for the stage 2 review. In addition, the Appraisal Team in discussion with the IC Team will provide an assessment of the range of implementation options considered, and provide assessment of how the preferred solution was identified. This may include implementation options which are not based on the IC model as well as considering specific options for delivery as described within the IC's Detailed Business Plan.

Outcomes from stage 2:

- revisit the strategic case assumptions
- establish the preferred option/s
- determine value for money

Stage 3

During stage 3, the IC Team should assist the Appraisal Team in responding to any areas of appraisal which require increased robustness. It will be for the Appraisal Team to consider how best to address any specific questions/concerns raised within the stage 2 review and this may require further information from the IC Team, or it may simply require a more detailed presentation of information already contained within the Detailed Business Plan. The Appraisal Team will prepare the stage 3 review documentation. This should demonstrate how questions/concerns raised earlier during the stage 2 review have been addressed. Assuming strong progress, any feedback from the stage 3 review should be addressed through details of contractual arrangements, however, if significant concerns remain there may be circumstances where a further business plan iteration would be required. It is expected that IC Teams and partner organisations will work together to seek to avoid any scenario which would negatively impact on timelines and efficiency.

Outcomes from stage 3:

- revisit strategic case assumptions and main findings
- evidence that the most value for money solution is identified
- confirm the deal structure and contract conditions
- establish that the management arrangements for successful delivery are in place

Phase Two Investment Model

ICs should structure their financial forecasts within their business plans into two separate investment streams defined as '**centre costs'** and '**project funding'** (see table three). The partners have agreed that the 'Phase Two Investment Model' should balance the requirement for stable longer term investment towards centre costs with the requirement to support delivery of more impactful business-led projects that attract competitive funding from industry, private and public sources.

For **centre costs** it is assumed that the partners will be the primary funders and that this investment for successful ICs, subject to satisfactory progress and availability of funds, will be sustained. It is also possible that ICs may be able to supplement or identify additional sources of investment for this purpose such as from membership fees.

For collaborative **project funding** the phase two model puts much greater emphasis on the programme's original objective of ICs securing investment in demand-led projects primarily from industry, and competitively won funding from a range of UK and wider sources. It is recognised that for some ICs this represents a major shift from current business models where bespoke project funding streams are currently the primary mechanism for building collaborations[3].

Table three: Illustrative overview of the separate investment streams defined as 'centre costs' and 'project funding'

Centre costs	Project funding
To cover operational costs: for example, business development staffing costs; office costs; administrative functions; marketing and promotion etc. Costs associated with the identification and shaping of industry demand-led projects and development of linkages between academia and business. Cluster development and innovation capacity building activities where appropriate to the needs of the sector/sub-sector. Events.	For industry/demand led project activities. Competitively won cash and in-kind funding from industry. Competitively won public sector investment from sources such as the Scottish enterprise agencies, Innovate UK, European funding programmes, and where appropriate the UK research councils, UK Industrial Strategy related funding etc. Skills development funding from appropriate sources.

[3] The SFC's board noted on 23 June 2017 that some ICs may wish to make a case for transitionary project resources in this context.

Annex A

Business Planning Guidance – Phase Two

August 2017

Innovation Centres are encouraged to develop their **Detailed Business Plans** in consultation with their sectoral stakeholders (including key representation from industry, academia, enterprise agency sector teams and others), their Governance Board and in coordination with their administrative hub university.

Detailed Business Plans should respond to the high level aims and objectives of the IC Programme and provide clear indication of how economic impacts will be delivered for Scotland. In general IC business plans should demonstrate:

- There is a clear strategy and purpose.
- The strategy responds to transformational opportunities and/or step-change opportunities.
- The approach is industry demand led, evidenced, and will drive sectoral growth.
- The approach is open and encouraging of creative new solutions to sectoral opportunities.
- The case for public sector contribution should be compelling, ambitious for Scotland, and represent good value for money.

Innovation Centres are encouraged to hold workshops with key sectoral stakeholders and to engage strongly with their Governance Boards, and the IC Programme Partners in developing their Detailed Business Plan. A clear strategy and purpose should be agreed early in the planning exercise.

To assist with business planning, the following outline check-list is shared to assist with the high level shaping of the IC's Detailed Business Plan (with further details in Attachment 1). This Detailed Plan will be required as an early input into the Multi-partner appraisal of the business case for public investment into each Innovation Centre.

1. **Executive Summary**
2. **The Proposition**
3. **The sector, the Innovation Centre and its role, and planned products and services**
4. **Market Research, Evidence and Analysis**
5. **Financial Projections (for 5 years) – should be in an integrated format**
6. **Revenue Sources**
7. **Performance and KPIs**
8. **Marketing Plan**
9. **Critical Risks and Problems**
10. **Management Team**
11. **Appendices**

Attachment 1: IC Detailed Business Plans – key areas to be covered.

1. **Executive Summary**
    a. Including summary of financial projections
2. **The Proposition**
    a. Strategy and purpose
    b. Target Market and Projections
    c. Value proposition (offering) to industry
    d. Value proposition (offering) for public investment
3. **The sector, the Innovation Centre and its role, products and services**
    a. The sector or sub-sector
    b. The Innovation Centre
    c. Role, products and services (and how these will be delivered in partnership with the university and college sectors)
    d. Alignment with other support/delivery organisations
    e. Strategy for Growth and Economic Impact in Scotland
4. **Market Research, Evidence and Analysis**
    a. Customers
    b. Market Size and Trends
    c. Competition
    d. Estimate of accessible Market and Sales
    e. Market position (current and future
    f. Ongoing Market Evaluation
5. **Financial Projections (for 5 years) – should be in an integrated format**
    a. Assumptions
    b. Cashflows, Income&Expenditure (P&L) and balance sheets etc should correlate.
    c. Approach should separate out the ‘centre costs’ and ‘project costs’
    d. Performance Against Break-Even
    e. Sensitivity Analysis
6. **Revenue Sources**
    a. Proposed investment towards ‘centre costs’
    b. Proposed income towards ‘projects’ showing industry, academia or public sources.
    c. Other Income streams
7. **Performance and KPIs**
    a. Proposed performance against Programme level KPIs (for 5 years)
    b. Narrative linking proposed KPIs with the case for delivery of economic impact and indicative timelines.
8. **Marketing Plan**
    a. Overall Marketing Strategy
    b. Sales Tactics
    c. Service and Warranty Policies
    d. Advertising and Promotion
    e. Distribution
9. **Critical Risks and Problems**

10. Management Team

a. Organisation
b. Key Management Personnel
c. Management Compensation
d. Key investors and stakeholder
e. Incentives and Employment Agreements
f. Governance Board – (membership and implementing programme level guidance)
g. Supporting Professional Advisers and Services
h. Equality and Diversity Policy – assessments and actions.
i. Compliance – state aid, public procurement, FOI etc.

11. Appendices (may include items such as):

a. Lists, specs, pictures of products, systems, software
b. List of customers, suppliers, references
c. Appropriate location factors, facilities, or technical analyses
d. Independent reports by technical experts, consultants
e. Detailed resumes of key personnel
f. Critical regulatory, environmental or other compliance matters for example requiring specific licenses or approvals.