



[REDACTED]

12 May 2023

Dear [REDACTED],

Freedom of Information request: FOI2023/00121

Thank you for your Freedom of Information request received on the 10 March in which you requested the following:

Your request:

I am requesting under the Freedom of Information act the following, to aid with my understanding of the current process for assessing and determining an organization's suitability for funding with regards to the Innovation Loan competition stream - including the credit analysis steps.

*In a similar vein to (FOI2022/00161 and subsequent IR2022/00188), I am seeking the including the assessor scoring matrix and training materials relating to the Innovation Loans Future Economy Competition – Round 8 (Competition opens: Friday 13 January 2023
Competition closes: Wednesday 8 March 2023 11:00am).*

Specifically, I am writing to request:

1) the scoring criteria / assessment matrix for the assessment of the Application questions (1-6) within the Innovate UK portal (1. Applicant location (not scored); 2. Project proposal; 3. Market opportunity; 4. Project delivery; 5. Project risks; 6. Project costs and value for money).

2) the scoring criteria / assessment matrix for the assessment of the Business and financial information (Part B of your loan application)

3) A detailed step-by-step description of the process decision pathway followed by the employee/representative of Innovate UK Loans Ltd's credit team to assess the organisation suitability to receive a loan - including a detailed description of the financial / risk calculations performed in order to determine:

- * affordable to your business*
- * appropriate for debt finance*
- * supported by a management team with sufficient technical, financial and commercial expertise*
- * in need of financial support from the public sector.*

Where relevant please include the absolute parameters considered and minimum threshold values/assessment criteria for financial health.

4) A detailed step-by-step description of the process decision pathway and assessment parameters for the detailed credit analysis phase.

5) The training documentation provided to IUK employees for performing credit analysis.

If information relating to round 8 is not available due to active assessment, information from a previous closed round (4, 5, 6, 7) will likely work.

Our response:

I can confirm that UK Research and Innovation (UKRI) hold information relevant to your request. Please see the information below and attached.

1) The scoring criteria / assessment matrix for the assessment of the Application questions (1-6) within the Innovate UK portal (1. Applicant location (not scored); 2. Project proposal; 3. Market opportunity; 4. Project delivery; 5. Project risks; 6. Project costs and value for money).

Please find attached the document “Assessor Guidance Feb 2022” that has been used consistently for all 8 rounds of the innovation loans future economy programme.

2) The scoring criteria / assessment matrix for the assessment of the Business and financial information (Part B of your loan application)

The business and financial information is used to carry out an initial credit evaluation to determine the suitability of the applicant's business to take on an innovation loan. We do not use scoring criteria or an assessment matrix. The answers to many of the business questions are used in conjunction with the [Early Metrics High Growth Startup Index¹](#) to provide ‘benchmarking’ in the areas of:

- team and company structure
- technical and product development
- finance and funding
- commercial activity

This is considered in relation to an overall population of early-stage technology-led businesses. This benchmarking informs the Credit team but is not a scoring matrix.

The Credit team will also determine a notional ‘credit rating equivalent’ based on standard underwriting criteria. The Credit team will also identify ‘flags’ for characteristics that may indicate likely credit issues. The Credit Specialist will form a judgement based on the information provided and make a recommendation to the Credit Committee of Innovate UK Loans Ltd.

The Credit Committee will make a decision based on the Credit Specialist's input with 4 possible outcomes:

- Recommend
- Marginal recommend
- Marginal decline
- Decline

At the “progress panel”, the assessors’ average score and the initial credit evaluation are brought together to determine which applications will progress to detailed credit evaluation. For this decision, a matrix is used, which can be found on page 13 of the attachment “*Innovate UK Innovation Loans Credit Process_Redacted*”.

All applicants will receive assessor feedback. Unsuccessful applicants will receive feedback from the Credit Committee.

3) A detailed step-by-step description of the process decision pathway followed by the employee/representative of Innovate UK Loans Ltd's credit team to assess the organisation suitability to receive a loan - including a detailed description of the financial / risk calculations performed in order to determine:

- * affordable to your business
- * appropriate for debt finance
- * supported by a management team with sufficient technical, financial and commercial expertise
- * in need of financial support from the public sector.

Where relevant please include the absolute parameters considered and minimum threshold values/assessment criteria for financial health.

¹ <https://earlymetrics.com/what-we-do-startup-rating-and-market-research/startup-ratings-valuation/>

The overall process for our decisions is shown in the diagram on page 2 of the attachment *“Innovate UK Innovation Loans Credit Process_Redacted”*.

We do not carry out specific financial/risk calculations for affordability, suitability, quality of team or need for public support, with the exception of the standard liquidity and debt service covenants included in our loan documentation. The liquidity ratio required throughout the period is 1.1x – i.e., the current assets (cash, debtors, inventories and other current assets) must exceed current liabilities (trade creditors, short term loans and other current liabilities) by 10%. The debt service coverage ratio throughout the repayment period is 1.2x – i.e., the EBITDA (earnings before interest, tax, depreciation and amortisation) must exceed the debt service (interest payments and repayments of principal on all loans) in each period by 20%.

Please also see the document attached, *“Innovate UK Innovation Loans Credit Process_Redacted”*, for an explanation of the credit evaluation process. A small amount of information has been redacted from page 11 and 12 of this document, as it is an example from an actual application and is therefore out of scope of your request.

4) A detailed step-by-step description of the process decision pathway and assessment parameters for the detailed credit analysis phase.

After the progress panel stage, all applications that have progressed to detailed credit evaluation are reviewed by the Credit team. The allocated Credit team member will use feedback from the Credit Committee at the initial credit evaluation and their own judgement to identify potential queries, and seek clarification (with required evidence) from the applicant. This will typically include discussion of the technology development, commercialisation and funding strategies of the applicant as well as consideration of the breadth, depth and diversity of the team (including hiring plans for gaps) to deliver these strategies for success.

The Credit team will include sensitivity analyses that they consider suitable and appropriate, which will typically include reductions in sales and margins, increases in costs and delays to generation of revenues from the exploitation of the project.

Based on the detailed credit evaluation, the sensitivity analysis, the applicant's responses to the questions and discussions held and the evaluation of the team the Credit team member will propose a credit rating to ensure it fits within the risk appetite. The Credit team member will make a final recommendation to the Credit Committee to decline the application or approve a loan offer. Recommendations for approval may include conditions to be met before the first drawdown (conditions precedent) or to be satisfied within a specified period after the first drawdown (conditions subsequent). The Credit Committee will make a final decision. On occasion, the Credit Committee may require a presentation from the management team prior to making, or to confirm a loan offer. Unsuccessful applicants will receive Credit Committee feedback.

Once a loan offer has been made, all applicants must satisfactorily complete Know Your Customer / Anti-Money Laundering / Politically Exposed Persons / Sanctions checks, carried out by our Loan Administration service provider, GC Business Finance, (GCBF). Applicants must also complete 'baselining' of their project with the allocated Monitoring Officer and confirm the drawdown schedule. The loan agreement and debenture (using standard templates) must be signed. A final "Safe to Lend" opinion is required from GCBF before the first drawdown request can be actioned.

5) The training documentation provided to IUK employees for performing credit analysis.

We believe the information you have requested falls under the scope of Section 43(2) of the FOIA. This exemption is used where disclosure would likely result in a person's (an individual, a company the public authority itself or any other legal entities) commercial interests being prejudiced.

This is a qualified exemption, and a test was carried out to determine whether the public interest in maintaining the exemption outweighs public interest in disclosure.

Public interest in favour of disclosure

- There is a general public interest in the disclosure of this information to ensure transparency and openness of a public organisation.

- There is also a public interest in transparency in order to ensure the accountability of public organisations around how IUK staff are trained in performing credit analyses, that will result in how public money is spent.

Public interest in favour of withholding the information

- The documents are the intellectual property of Innovate UK Loans, and the release of this information would harm their ability to operate as a lending operation. This is because a company or organisation could use this to set up a lending operation to compete with Innovate UK Loans Ltd.
- In addition, the documents reflect the unique position of Innovate UK Loans in the loans market and release of this documents has the potential to damage this unique position through replication.
- The information requested also does not fully explain how judgements and decisions are made by IUK Loans and would therefore give a misleading picture of the process. IUK Loans employees made quality-based judgements which cannot be quantified into a numerical score. Therefore, the information is not of high value to the public.
- There is also the potential for harm from misinterpretation of the documents as applicants may try to use the information in training documents to modify their application in a manner they consider most likely to be successful. This would hinder Innovate UK Loan's ability to receive high quality applications and deliver competitions.

Taking the above arguments into consideration, we reached the decision that the need for commercial confidentiality outweighs the public interest in disclosure; therefore the information is exempt from disclosure.

Innovate UK Loans employees are recruited with suitable expertise for credit evaluation. Innovate UK Loans requires its employees to attend regular external and internal training. External training is at industry standard. Internal training includes, for example, revisiting case studies of previous applications and understanding why certain decisions were reached.

If you have any queries regarding our response or you are unhappy with the outcome of your request and wish to seek an internal review of the decision, please contact:

Head of Information Governance


Email: foi@ukri.org

Please quote the reference number above in any future communications.

If you are still not content with the outcome of the internal review, you may apply to refer the matter to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the review procedure provided by UKRI. The Information Commissioner can be contacted at: www.ico.org.uk.

If you wish to raise a complaint regarding the service you have received or the conduct of any UKRI staff in relation to your request, please see UKRI's complaints policy: <https://www.ukri.org/about-us/policies-and-standards/complaints-policy/>

Yours sincerely,


Information Governance
Information Rights Team
UK Research and Innovation
foi@ukri.org | dataprotection@ukri.org