Department for
Business, Energy
& Industrial Strategy

Alex Chisholm
Permanent Under-Secretary of State
1 Victoria Street
London
SW1H 0ET
T:+44 (0)20 7215 5916
E: permanentsecretary@beis.gov.uk

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Meg Hillier MP
Chair, Committee of Public Accounts
House of Commons
London
SW1A 0AA

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Dear Chair,

NORTON MOTORCYCLES

Thank you for your letter of 13 February 2020 regarding Norton Motorcycles. I appreciate that you may have only had media reports and so I am grateful for the opportunity to set out the facts. I have liaised with my counterpart at the Ministry of Housing, Communities and Local Government (MHCLG) to provide a single response.

Advanced Manufacturing Supply Chain Initiative (AMSCI) grant funding

In 2014, the British Motorcycle consortium received a grant of £4.2m from the Advanced Manufacturing Supply Chain Initiative (AMSCI), of which £1.8m was awarded to Norton as the lead partner in the consortium, and a further £1m was awarded to British Motorcycle Manufacturing Academy (BMMA) as a member of the Norton Group. The aims of the project were i) to establish a new Academy (BMMA) to train and supply the next generation of engineering apprentices to Norton Motorcycles, other supply chain partners and the wider motorcycle industry, ii) build a new manufacturing facility, to enable expansion of the manufacturing footprint, provide a working/training environment for BMMA apprentices and allow for some storage of parts and, iii) develop a new v4 motorcycle engine and bike, establishing and building capability in a UK supply chain to help deliver this, focusing on re-shoring the volume supply of production parts for the motorcycle industry.

AMSCI is delivered on behalf of BEIS by Birmingham City Council, who appointed Finance Birmingham, their wholly-owned FCA-approved Investment Fund Manager, to manage the programme. Prior to any awards being made, AMSCI conducts an independent financial review to highlight the relative financial position of potential grant recipients. Should an application progress, a further comprehensive review is carried out including examination of public and management accounts and interviews with the applicant. Any highlighted risks are assessed, mitigations considered and, where necessary, terms applied to the grant offer. Additionally, all applications are reviewed to ensure compliance with the prevailing EC State Aid regulations, which includes an Undertaking in Difficulty test which is again conducted prior to the award being made.

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. Norton's financial position was deemed to be sufficient to pass all of these checks. A value for money assessment was also undertaken by the Department's professional economists.

As with all AMSCI projects, a monitoring officer from Finance Birmingham was assigned and monitoring meetings were held with Norton and their consortium members on a quarterly basis during the defrayal and drawdown of the grant monies. At these meetings, Norton and the consortium members provided updates on their progress, successes, any problems arising and their plans to mitigate or resolve those problems. Finance Birmingham tracks project and programme performance based on data collected from quarterly monitoring reports against key performance indicators. During the monitoring meetings, Norton reassured AMSCI that early manufacturing issues were being resolved and that the employment impacts would start to be realised as manufacturing production has started. AMSCI were also informed that Norton had substantial orders for the new motorcycle, with deposits held and that this would support the increase in manufacturing and deliver the jobs. Since the drawdown period ended, there have been a number of meetings and telephone conversations to check on progress and to receive updates, but these have been on an ad-hoc basis.

The funding agreement between AMSCI and the consortium included the creation and safeguarding of jobs. The AMSCI grant to Norton was principally related to the Research and Development (R&D) of the development of a new motorcycle and, as is normally the case with R&D projects, the employment impacts follow after the R&D (in this case, once the motorcycle went into production). The publicly available road version of the motorcycle was launched in January 2019 and Norton had received orders for the bike and taken some deposits, which would have also had a positive impact on the consortium supply chain companies. Subject to Norton continuing to trade, the target jobs would hopefully be deliverable.

The Academy (BMMA) element of the project got off to a good start with a total of 100 apprentices recruited. However, unfortunately, a change in the funding structure with the local Further Education colleges led to a change in circumstance with Norton unable to meet the upfront costs, previously covered by the Further Education colleges. Accordingly, the work of the Academy was temporarily suspended whilst they explored other funding options. Norton was always adamant that the Academy would be reinstated at the first opportunity, as it was key to the continued growth of both Norton and the UK Motorcycle sector and its supporting supply chain.

Norton were made aware of the potential for clawback of funding and recently Birmingham City Council have approved a claim with the Norton administrators to try and recoup £1.3m (c.46%) of the grant award. It is important to note that while Norton's financial position was deemed at the time of the award to be sufficient in the context of the AMSCI programme, we always recognised that AMSCI was intentionally designed to be a programme that would support companies with strong potential but which could not fully realise that potential without government support.

Advanced Propulsion Centre (APC) grant funding

In 2016, Norton was awarded an R&D grant of £2.1m, as lead partner on the 'Superlight Twin' project, through the Advanced Propulsion Centre (APC) as part of its fifth funding competition. The grant was to produce a supercharged version of the 650 Superlight Norton bike, with a power increase, weight reduction, and decrease in tailpipe CO2 emissions.

Applications for APC funding are subject to both a technical assessment, conducted by Innovate UK (a component entity of UK Research and Innovation), and a value for money assessment, conducted by professional economists within my Department who assess the expected value for money of the project as per HM Treasury Green Book and Managing Public Money. In order for HM Treasury to release funds for grants, the value for money of each project must reach an acceptable threshold. This has been agreed as a minimum benefit cost ratio (BCR) of 2:1. HM Treasury have delegated financial approval to my Department for any APC project below £20m.

Following a successful application and interview stage and prior to the awarding of a grant through the APC, Innovate UK sends out a conditional grant offer letter. The letter sets out the provisional terms of the contract and requests that the applicant submits a number of documents to support the contracting and due diligence process, including financial forecasts for each consortium member and an exploitation plan setting out how the project team will exploit the results of the project to increase the economic growth and quality of life of the UK. Innovate UK then undertakes financial checks on each of the project participants, involving cost reviews and financial viability checks, based on the latest accounts filed at Companies House, although additional information may also be required from the organisations themselves. Solvency checks and an Undertaking in Difficulty test are also part of the Innovate UK due diligence process, which is conducted internally by their finance team.

Innovate UK provides each project with a monitoring officer, who is responsible for reviewing all aspects of project performance and providing advisory inputs through the life of the project. The general objective of the monitoring process is to ensure that projects are successful in meeting their specified aims and that public money is appropriately invested in project activities. Although the project has fallen short of what was originally planned, it has had clear benefits in terms of accelerating product introduction, building an in-house design team, investing in manufacturing capacity and supporting the overall company operations. Further to this, the capability is now there to proceed with further product development should the opportunity arise, and there have been benefits from knowledge sharing with partners in the sector.

MHCLG Local Enterprise Partnerships (LEPs) loan funding

In 2018, Norton were successful in a bid to access £750,000 of Growing Places Fund (GPF) loan funding to help finance the building of a new manufacturing facility at Donington Hall to support the development of a new range of motorcycles and create over 80 new jobs, mainly in highly-skilled engineering roles. GPF was allocated to Local Enterprise Partnerships (LEPs) across England by the Ministry of Housing, Communities and Local Government (MHCLG), under a Section 31 (Local Government Act) grant, to establish revolving infrastructure capital loan funds to address constraints to economic growth in their area. The Leicester and Leicestershire Local Enterprise Partnership (LLEP) board agreed the loan in principle, on the basis that the proposal was consistent with the ambitions of the emerging Local Industrial Strategy and the business case was supported by robust evidence and market analysis.

The LLEP board delegated authority to LLEP officers, in consultation with the accountable body (Leicester City Council), to negotiate and agree the loan repayment schedules, at an interest rate of 2.5% and to secure adequate security for the loan. The LLEP board reported that the accountable body would need to be satisfied that the loan security offered was robust prior to determining an agreement with Norton.

At the LLEP Board decision stage, an overview of the investment request was provided, which included details of officer appraisal, accountable body financial checks, and queries raised by the Review Panel. Details of the project, the rationale for intervention, breakdown of funding and expected outputs and outcomes from the business case were also reported. As part of the financial checks, the accountable body undertook a credit check on the company. This drove the rationale for the repayment schedule and this schedule was deemed acceptable by the LLEP Board.

In respect of loan security, the LLEP reported that a personal guarantee from the Chief Executive Officer of Norton had been offered and, in addition, the bank were content with the principle of the LLEP taking security of the building, with the company agreeing to make the loan repayments in accordance with the schedule. It was also noted that supplementary information sought by the Review Panel had been provided concerning the status of the company's order book and confirmation of the demand for the product. In response to questions and concerns relating to the cash-flow of the company and to the repayment to creditors at the LLEP board, it was confirmed that the financial checks had suggested that although there had been previous problems in late repayments made by Norton in the past, the ownership of the company and the intention to pay the loan in 'staged payments' against invoices received on behalf of the company was clarified. It was agreed by the Board and noted that this method of payment ensured that the loan could only be used for its intended purpose.

LLEP is responsible for the monitoring process, including receiving and reviewing quarterly finance reports, updated risk registers and project plans. Under the terms of the funding agreement, Norton was also required to confirm on a monthly basis to LLEP that the project remains within the programme and the budget detailed in the previous quarterly report. Leicester City Council is currently completing a review of the decision to make sure that any lessons learnt from the process are identified.

Conclusion

None of the individual grants noted above were subject to explicit HM Treasury notification or approval because they fell below the Department's delegated approval limits. The GPF funds to LLEP would however have required MHCLG to seek HM Treasury approval for use of Section 31. For each of the above-mentioned funding awards, the Department was not aware of anything within the data publicly available nor

the data that was disclosed to the Department that would have given the Department grounds to intervene in the progress or continuation of the projects.
It is undoubtedly the case that not all these projects succeeded in meeting their original ambitions. However, the Department recognises that companies like Norton are relatively high risk/high reward entities with strong potential for growth and exports. The programmes outlined above, from which Norton has benefitted, need to be set against the wider background of responding as quickly and flexibly as we can to the needs of small and medium-sized enterprises, supporting regional manufacturing, and encouraging innovation.

I am content that appropriate checks and balances were in place to ensure that public funding released to Norton Motorcycles by my Department was awarded and utilised appropriately. However, the Department also recognised in releasing these funds that sometimes innovation fails.

I hope you find this clarification helpful.

Yours ever,

Alex Chisholm

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