Department for Communities and Local Government

European Union
European Regional Development Fund

2014 to 2020 European Structural and Investment Funds Growth Programme

Call for Proposals
European Regional Development Fund

Priority Axis 1: Promoting Research and Innovation

Managing Authority:	**Department for Communities and Local Government**
Fund:	**European Regional Development Fund**
Priority Axis:	**Priority Axis 1: Promoting Research and Innovation**
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Local Enterprise Partnership Area	**Black Country**
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1. Call Context

The 2014 to 2020 European Structural and Investment Funds bring the European Regional Development Fund, European Social Fund and part of the European Agricultural Fund for Rural Development together into a single European Union Structural and Investment Funds Growth Programme for England supporting the key growth priorities of innovation, research and development, support for Small and Medium sized Enterprises, low carbon, skills, employment, and social inclusion.

The Funds are managed by the Department for Communities and Local Government for European Regional Development Fund, Department for Work and Pensions for European Social Fund and the Department for Environment Food and Rural Affairs for European Agricultural Fund for Rural Development. In London, the Greater London Authority acts as an Intermediate Body for the European Regional Development Fund and European Social Fund programmes. Unless stated otherwise, the term "Managing Authority" will apply to all these organisations. The Managing Authorities work closely with local partners who provide;

- Practical advice and information to the Managing Authorities to assist in the preparation of local plans that contribute towards Operational Programme priorities and targets;
- Local intelligence to the Managing Authorities in the development of project calls (decided by the Managing Authorities) that reflect Operational Programme and local development needs as well as match funding opportunities; and
- Advice on local economic growth conditions and opportunities within the context of Operational Programmes and the local European Structural and Investment Funds Strategy to aid the Managing Authorities' assessments at outline and full application stage.

This call is issued by the Department for Communities and Local Government and invites outline applications in respect of the European Regional Development Fund. European Regional Development Fund is specifically focussed on investment to support economic growth and job creation. The call invites proposals in respect of Priority Axis 1 of the European Regional Development Fund Operational Programme: "Promoting Research and Innovation" against the requirements set out in this call document.

1.1. National Context

The European Regional Development Fund Operational Programme in England recognises that there are needs and challenges common to all parts of the country. In particular, 'Smart Specialisation in England' recognises that geographies and

patterns of innovation are complex and variable and that more needs to be done to ensure that firms and research institutions are not hindered by artificial or administrative geographies.

The types of actions needed to address England's challenges in terms of converting excellent research into innovation and economic outcomes are the same across the country, regardless of the category of region. The objective of improving how Small and Medium sized Enterprises commercialise research and how they collaborate with research institutions will be taken forward through activities such as knowledge exchange, business engagement, networking and investment support in all parts of England, with the choice of sectors and technologies reflecting the approach of smart specialisation.

The private sector plays a strong role in investing in research and development and accounts for the overwhelming majority of total innovation spend in the United Kingdom. Despite this, Small and Medium sized Enterprises are not participating proportionately - according to the Innovation Survey, only 21.6 per cent of enterprises (with more than 10 employees) were engaged in either product or process innovation. This ranged from 20.5 per cent in smaller firms with between 10 and 49 employees and 29.8 per cent in larger firms (with between 100 and 249 employees). So barriers exist for Small and Medium sized Enterprises in their capacity and propensity to innovate and invest in internal capacity.

Particular barriers include a lack of awareness of the benefits of investing in innovation, its cost and uncertainty about the value that will accrue to the company. These development needs are compounded by a lack of access to appropriate finance, with nearly half of innovation-active Small and Medium sized Enterprises experiencing difficulties obtaining finance. Under Priority Axis 1, activity will seek to strengthen research and technological development and innovation by a range of capital and revenue focused interventions.

The Operational Programme identifies two Investment Priorities which will strengthen research, technological development and innovation:

- Investment Priority 1a – Enhancing research and innovation infrastructure and capacities to develop research and innovation excellence, and promoting centres of competence, in particular, those of European interest; and
- Investment Priority 1b - Promoting business investment in research and innovation; developing links and synergies between enterprises, research and development centres and the higher education sector, in particular promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation; and supporting technological and applied research, pilot lines, early product validation actions, advance manufacturing

capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies.

Investment Priority 1a - *Enhancing research and innovation (research and innovation) infrastructure and capacities to develop research and innovation excellence, and promoting centres of competence, in particular, those of European interest.*

Specific Objective: *Increase investment in research and innovation infrastructure that catalyses collaboration with the research community especially in sectors identified through smart specialisation.*

The purpose of support under this Investment Priority will be to build or enhance infrastructure that in due course will contribute to the greater commercialisation of products, services and processes. This requires that the infrastructure is used directly by enterprises (on an open access basis) or that there is effective cooperation between researchers and the private sector. Enhanced infrastructure and capacities will also underpin activity under the other Investment Priority selected within this Priority Axis.

Investment Priority 1b – *Promoting business investment in research and innovation; developing links and synergies between enterprises, research and development centres and the higher education sector, in particular promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation; and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies.*

Specific Objective: *Increase investment in research and innovation by small and medium sized enterprises, particularly in sectors and technologies identified through smart specialisation.*

Specific Objective: *Increase the number of small and medium sized enterprises engaged in knowledge exchange, collaborative and contract research and innovation with research institutions, public institutions or large enterprises in order to help them bring new products and processes to market.*

The focus of activity under this priority axis is improving commercialisation of new or enhanced products or services by small and medium sized enterprises, whether through increased investment or better collaborations, but this requires the involvement of a much wider group including larger firms in cooperation with their supply chains and other small and medium sized enterprises, higher education institutions, public sector institutions and research centres, Catapult Centres and other centres of excellence.

1.2 Local Development Need

This call will focus on Investment Priorities 1a and 1b. Where the expectation is that the outcome of this call will result in the award of a single contract, applicants may wish to bid individually, as part of a consortium or a partnership (in line with European Regional Development Fund Eligibility Rules Guidance). Bids which deviate from this will be received, but should provide an explanation for this approach. See below for further details

The Black Country currently performs poorly on key innovation benchmark, ranking 37th out of 39 Local Enterprise Partnership areas in the number of patents per 100,000 residents. In order to become more competitive and to stay competitive, Black Country companies need to engage with the knowledge base and engage in greater levels of innovation and Research and Development.

The sub-region is developing a Smart Specialisation approach to developing innovation and of the 11 national industrial strategy sectors, the Black Country as competitive strengths in four areas:

- Automotive;
- Aerospace;
- Construction; and
- Research base in life sciences.

The Black Country suffers particular barriers to innovation that need to be solved in order to improve the innovation eco-system across our priority sectors, including:

- Absence of well-developed innovation brand
- Lack of critical mass of knowledge led firms or behaviours
- A need for a coherent and integrated support service for businesses, including access to loan and equity finance
- A serious lack of foresight capacity and capability in Small and Medium sized Enterprises
- A need for physical and virtual incubation and innovation space
- A lack of leadership and collaboration across key assets/sectors and the ability for Small and Medium sized Enterprises to access publicly funded research (including the National Health Service).

1.3 Scope of Activity

Applicants will need to demonstrate that proposed projects do not duplicate existing national provisions, demonstrating in particular how operations will complement and align with smart specialisation, e.g. limited set of evidenced-based priorities, collaboration, links with national policies for innovation, to deliver additional outcomes.

This call responds to the needs as defined on the European Regional Development Fund England Operational Programme and the Black Country Local Enterprise Partnership area strategy under **Priority Axis 1** Investment Priorities 1 (a) and 1 (b)

1.3.1 Investment Priority 1a - Enhancing research and innovation (research and innovation) investment infrastructure and capacities to develop research and innovation excellence, and promoting centres of competence, in particular, those of European interest.

Specific Objective: Increase investment in research and innovation infrastructure that catalyses collaboration with the research community, especially in sectors identified through smart specialisation.

Indicative actions to be supported by the European Regional Development Fund may include:

- Specialist infrastructure/facilities/centres linked to smart specialisation including enhancements to science parks and to improve access to these facilities through digital and physical links;
- Investment in the development and upgrading of innovation space, with capability to serve as a platform or host for innovation and innovative relationships;
- Improved incubation space to enable research and development and innovation;
- Shared use research laboratories and facilities, particularly targeted at the Great Eight technologies as set out in “Smart Specialisation in England” Development of enterprise, innovation and technology hubs and centres of excellence, in line with the approach set out in “Smart Specialisation in England”; and
- Development and upgrading of appropriate test facilities and deployment infrastructure.

In all cases, actions may include provision of appropriate equipment and staff resources.

Local Context:

Providing enhanced knowledge based assets and innovation workspace at the heart of the Black Country to support growth of its transformational sectors, increasing innovation-led growth (addressing positive externality market failures).

Investing in required capital to support new innovation and knowledge transfer opportunities, particularly linked to priority growth sectors.

1.3.2 Investment Priority 1b – *Promoting business investment in research and innovation, developing links and synergies between enterprises, research and development centres and the higher education sector, in particular promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation, and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies.*

Specific objective: *Increase investment in research and innovation by small and medium sized enterprises, particularly in sectors and technologies identified through smart specialisation.*

Specific Objective: *Increase the number of small and medium sized enterprises engaged in knowledge exchange, collaborative and contract research and innovation with research institutions, public institutions or large enterprises in order to help them bring new products and processes to market.*

Indicative actions to be supported by the European Regional Development Fund may include:

- Support for smart specialisation collaborative and contract research and development including initiatives stimulating and facilitating productive innovation partnerships;
- Support for the commercialisation of new products and business processes and initiatives, particularly targeted to aid innovation in the Great Eight technologies as set out in Smart Specialisation in England;
- Collaborative and contract research and development programmes;
- Applied research programmes, particularly targeted at sectors and technologies set out in smart specialisation in England;
- Innovation vouchers for Small and Medium sized Enterprises;
- Innovation support programmes for product design and development and systems integration;
- Initiatives simulating the demand for new or improved services, processes and products including business-led and public procurement programmes;
- Schemes providing practical, financial and material support for the innovation process within businesses;
- Schemes stimulating and enabling graduate start-up and spin out from universities, colleges and research institutions;
- Technology support programmes and demonstrator projects and programmes for current and future technologies;

- Knowledge transfer programmes, particularly linked to priority growth sectors and the technologies set out in Smart Specialisation in England;
- Support to engage more businesses in knowledge transfer and innovation, develop links to wider Higher Education Institutions and research institutions and demonstrate the benefits of working with knowledge base partners;
- Support for innovation ecosystems including business-led networks and open innovation ecosystems that reduce the complexity of interaction within and between organisations; and
- Activities promoting a smart specialisation approach and initiatives that develop the supportive environment for innovation in Small and Medium sized Enterprises including the promotion of networks and industry groups in key sectors.

Local Context:

Innovation performance of Black Country firms is low compared to most Local Enterprise Partnership areas. To increase this and realise the growth benefits of innovation, requires greater engagement between businesses and the knowledge base (addressing imperfect information and positive externality market failures)

2. Call Requirements

- An *indicative* budget of £10 million has been allocated to this call. This is intended as a guide and may be reviewed;
- All applications are competitive. Proposals can only contain activities which are eligible for European Regional Development Fund;
- Proposals should be for a minimum of £500,000 European Regional Development Fund;
- Applicants will need to have eligible match funding for the balance of costs which must be from a source other than the European Union;
- Projects should be capable of providing coverage of the whole of the Black Country Local Enterprise Partnership area;
- All procurement must demonstrate compliance with European Union regulations;
- Applicants must demonstrate compliance with State Aid law; and
- All expenditure and activities will be subject to rigorous audit and non-compliance may lead to financial penalty.

European Regional Development Fund cannot be used to duplicate existing activities or activities that do not address market failure. European Regional Development Fund can only be used to achieve additional activity or bring forward activity more quickly. Applicants must be able to demonstrate that what they are proposing is additional to what would have occurred anyway or enables activity to be brought forward and delivered quicker than otherwise would be the case.

The proposed project must not duplicate or undermine existing business support services operating nationally or locally.

For projects including premises, applicants will be required to demonstrate that there is demand that is not met by existing supply. There are further additional requirements for business incubators set out in the Operational Programme 'Guiding Principles' section for Priority Axis 1.

3. Required Deliverables

Operations will be expected to achieve the following Programme Deliverables, the definitions of which can be accessed at the European Regional Development Fund Operational Programme.

ID	Indicator
C1	Number of enterprises receiving support
C2	Number of enterprises receiving grants
C4	Number of enterprises receiving non-financial support
C5	Number of new enterprises supported
C6	Private investment matching public support to enterprises (grants)
C26	Number of enterprises cooperating with research entities
C28	Number of enterprises supported to introduce new to the market products
C29	Number of enterprises supported to introduce new to the firm products
P1	Number of researchers working in improved research or innovation facilities
P2	Public or commercial buildings built or renovated

Applicants will need to be able to demonstrate how they will achieve the deliverables committed to within their proposal along with any methodology used to record it.

Applicants will also need to ensure robust systems are in place, and be able to describe them, to capture and record the targets and to report qualitative and quantitative performance across the Local Enterprise Partnership area of the Black Country**.** All operations will be required to collect data and report progress against the deliverables with each claim. Where an operation underperforms against their deliverables, they may be subject to a performance penalty.

There must be a fully evidenced audit trail for all contracted deliverables.

4. General Information

Essential information to support the drafting of an application and delivery of a successful European Regional Development Fund funded project is available at the European Growth Funding website pages.

4.1 Compliance and Eligibility

When developing an application, Applicants should refer to guidance on eligible Applicants, activities and costs. These are for guidance only and Applicants should take their own specialist advice if in doubt. It is the responsibility of the Applicant to ensure that the rules and guidance are adhered to both at application stage and following approval.

European Structural and Investment Funds are governed by European regulations and national rules. Applicants are advised to familiarise themselves with the relevant documentation listed in the 'key documents' section prior to submitting an outline application. If successful, Applicants will enter into the standard Funding Agreement and must abide by the standard terms and conditions contained therein. Applicants are therefore strongly advised to read these terms and conditions to ensure that they would be able to enter into such an agreement prior to responding to the call. Once a Funding Agreement has been issued it should be signed and returned within a short timescale.

4.2 Intervention Rate & Match Funding

European Regional Development Fund is the funding which is used where no other funding can be obtained (the funder of last resort). The maximum European Regional Development Fund contribution rate for the operation is 50%. This means European Regional Development Fund can contribute **up to** 50% of the total eligible project costs subject to State Aid regulations. The level of European Regional Development Fund awarded will be the minimum in order for the project to proceed. The remaining 50% or more must come from other eligible sources.

European Regional Development Fund is not paid in advance and expenditure must be defrayed prior to the submission of any claims. Applicants may be asked to demonstrate how they are able to cash flow the operation.

4.3 Applicants

Applicants must be legally constituted at the point of signing a Funding Agreement, and be able to enter into a legally binding Funding Agreement. The Applicant will be the organisation that, if the application is successful, enters into a contract for European Regional Development Fund and therefore carries the liability for ensuring that the terms of the European Regional Development Fund Funding Agreement are met by them and to all delivery partners. If there is more than one organisation applying for the funds, a lead organisation must be selected to become the Applicant. It is this organisation that carries the responsibility and liability for carrying out a compliant project.

The Managing Authority will consider the Applicant's track record, both positive and negative. If the Applicant has been involved in the delivery of previous European grants and any irregularities with this (these) grant(s) have been identified, the Managing Authority will look into these and expect to see how and what steps have been taken to ensure that these have been addressed to mitigate the risk of further irregularities in the future. It is acknowledged that some organisations will be new to European Structural and Investment Funds funding and will not have a track record.

4.4 Cross Cutting Themes/Horizontal Principles

All applications received under this call should demonstrate how the Cross Cutting Themes have been addressed in the project design and development. Cross cutting themes for European Regional Development Fund are 'equality and anti-discrimination' and 'sustainable development'. Further information is available in the European Regional Development Fund Operational Programme.

4.5 State Aid & Revenue Generation

Applicants are required, in the Outline Application, to provide a view on how their proposal complies with State Aid law. Applicants must ensure that projects comply with the law on State Aid.[1] Grant funding to any economic undertaking which is state aid can only be awarded if it is compatible aid, in that it complies with the terms of a notified scheme or is covered by the De Minimis Regulation. Guidance for grant recipients, explaining more about State Aid, is available; it is important that Applicants take responsibility for understanding the importance of the State Aid rules and securing their full compliance with them throughout the project, if it is selected into the Programme.

The Managing Authority is not able to give legal advice on State Aid. It is the responsibility of the Applicant to ensure that the operation is State Aid compliant.

[1] Article 107(1) of the Treaty on the Functioning of the European Union provides that: "Save as otherwise provided in the Treaties, any aid granted by a Member State or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market."

Where the Applicant does not perceive that there is any State Aid, it should state whether or not it considers Articles 61 and 65(8) of regulation 1303/2013 to apply. This revenue should be taken into account in calculating eligible expenditure. Article 61 refers to monitoring revenues generated after completion of the project, and Article 65(8) how to deal with differences in the forecast and actual revenues at the end of the operation. The details of this will be tested at the full application stage.

4.6 Funding Agreement

The Funding Agreement is a standard, non-negotiable and legally binding document. Any successful Applicant will be subject to the terms and conditions contained within this agreement. Applicants are strongly advised to seek their own advice to ensure that they would be able to enter into and abide by the terms of the Funding Agreement.

Failure to meet any of the conditions of the agreement or the commitments within the application will result in claw back of funding.

Applicants should be aware that additional provisions and securities may be included within the Funding Agreement to protect the investment. These will be further discussed if relevant following the Full Application stage.

4.7 Procurement

All costs delivered by the Grant Recipient (the Applicant) and/or delivery partners must be delivered on an actual cost basis. Other costs must be procured in line with European Union regulations. The most common error identified during audit has been failure to comply with relevant procurement regulations and crucially to maintain a full audit trail to prove that they have complied with the relevant regulation. Robust and transparent procurement is required to ensure that Grant Recipients:

- Consider value for money;
- Maximise efficient use of public money; and
- Maintain competitiveness and fairness across the European Union.

It is recommended that Applicants seek their own legal advice pertaining to their procurement and requirements to publicise any tendering opportunities.

The Managing Authority is not able to give legal advice on procurement. It is the responsibility of the Applicant to ensure the project is compliant in this respect.

5. Application Process & Prioritisation Methodology

There are two stages to the European Regional Development Fund application process; Outline Application and if successful, Full Application. Applicants must fully complete the Outline Application via LOGASnet (section 9 refers). Guidance is

available on the European Growth Funding website pages. Applications will be subject to a Gateway Assessment undertaken by the Managing Authority under the following criteria:

- Applicant eligibility;
- Activity and expenditure eligibility; and
- The fit with the European Regional Development Fund OP and the call.

Proposals that pass the Gateway Assessment will move into the Core Assessment which consists of the following:

- Strategic fit;
- Value for money;
- Management & control;
- Deliverability;
- Procurement / tendering; and
- State Aid compliance.

The Managing Authority will seek advice from partners when considering applications to ensure its assessment is informed by local economic growth conditions and opportunities within the context of Operational Programmes and the local European Structural and Investment Funds Strategy. This will include the relevant Local Enterprise Partnership Area European Structural and Investment Funds Committee and other partners deemed relevant to the application.

The assessment and any prioritisation will be undertaken using only the information supplied as part of the application process. The Managing Authority cannot accept further detail outside this process.

Non-public sector Applicants who are successful at the Outline Application stage may be subject to due financial diligence checks by the Managing Authority, prior to submission of a Full Application. Applicants will be required to submit accounts, and to clarify financial or other organisational information. New Applicant organisations may be required to provide details of a guarantor.

6. Support

Please note that this is a competitive call and to preserve impartiality we are unable to enter into correspondence with applicants over their Outline application. Details of where guidance can be found are contained throughout this calls document. In

exceptional circumstances, if there are issues with accessing this guidance, please contact: WM.ERDFenquiries@communities.gsi.gov.uk.

7. Key Documents

- Outline Application Form;
- Outline Application Form Guidance;
- Local Enterprise Partnership area's European Structural and Investment Funds Strategy;
- Eligibility Guidance; and
- Target Definitions.

8. Document Checklist

Failure to provide the following documentation will result in the application being rejected

Outline Stage:

- Fully completed Outline Application;
- Financial Tables;
- Outputs, Results and Indicators Tables; and
- Three years financial accounts (if private or voluntary and community sector).

9. Document Submission

Completed Outline Applications must be submitted via the LOGASnet system.

Please note that Applicants will require a user ID and password in order to access the LOGASnet system. Details on how to register on the system can be found on the GOV.UK website European Growth Funding website pages. Please allow up to 10 days to receive your login details.

10. Timescales

Launch of Call advertised on gov.uk.	27th March 2015
Deadline for submission of Outline Application	27th May 2015

Outline Application forms not received by the deadline will not be assessed. Outline Applications which are not fully completed will be excluded.

For this call applications will normally be required to **commence delivery/activity within three months** of the award of contract.

Any changes related to the deadline for the submission of the Outline Application form will be notified on the European Growth Funding website pages.

11. Formal Agreement of the European Regional Development Fund Operational Programme

The information and references in the call are based on the latest version of the European Regional Development Fund Operational Programme and are correct at the time of publishing. The Operational Programme may be subject to further amendment during its final negotiations with the European Commission, and subsequent calls will reflect any changes, to the extent that they may affect the terms of calls, that are made. In relation to the present call, the Managing Authority will take the possibility of relevant changes to the Programme into account when assessing outline and full applications, and where such changes occur will notify Applicants of any issues that arise, and propose a method of dealing with them.