



European Union

European Regional
Development Fund

2014 to 2020 European Structural and Investment Funds Growth Programme

Call for Proposals
European Regional Development Fund

Financial Instruments – Urban Development and Energy Efficiency

Managing Authority:	Department for Communities and Local Government
Fund:	European Regional Development Fund
Priority Axes:	Priority Axis 1: Promoting Research and Innovation Priority Axis 3: Enhancing the Competitiveness of Small and Medium Sized Enterprises Priority 4: Supporting the Shift Towards a Low Carbon Economy in All Sectors Priority 6: Preserving and protecting the environment and promoting resource efficiency
Call Reference:	OC15R15F0225
Local Enterprise Partnership Area:	Greater Manchester

Call Open:	6 October 2015
Call Closes:	23:59 Monday 03 November 2015

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1. Introduction

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. These Departments are the Managing Authorities for each Fund. 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 the Operational Programme and the local European Structural Investment Fund Strategy to aid the Managing Authority’s 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 for England 2014 to 2020.

2. Call Context

On behalf of the national Growth Programme Board, the Department for Communities and Local Government (the Managing Authority) invites applications seeking European Regional Development Fund support to establish Financial Instruments in the areas of Urban Development and/or Energy Efficiency (non-domestic).

2.1 National Context

This call to establish Financial Instruments focusing on Urban Development and Energy Efficiency (non-domestic) builds on the experience gained establishing JESSICA (Joint European Support for Sustainable Investment in City Areas¹) structures under the 2007-2013 programming period. Significant progress has been made in the development of the model in the United Kingdom with significant private sector leverage generated and a range of employment and low carbon outcomes being delivered.

A Financial Instrument may be established to focus on Urban Development and/or Energy Efficiency (non-domestic) to deliver the following investment activities:

- **Urban Development:** the creation and/or refurbishment of urban infrastructure including the development of employment and regeneration sites, the provision of new commercial premises and employment promotion by creating the physical conditions to attract private sector investment;
- **Energy Efficiency (non-domestic):** creating a low carbon economy by retrofitting of public and private non-domestic buildings and enabling “whole place” energy solutions (for example, smart buildings and neighbourhoods).

The rationale for establishing Financial Instruments with a focus on Urban Development is driven by the lack of accessible and affordable commercial finance to support urban projects. Speculative property development with high regeneration credentials can struggle to secure bank finance unless strong relationships already exist with lenders and schemes are in attractive locations. In addition, the risk appetite of traditional lenders has constrained with the loan to cost ratio of senior debt estimated to be 50-65%, creating a funding-gap in many projects².

The supply of commercial lending for development projects has also been restricted due to the perceived risks of this type of activity. Regeneration projects can involve

¹ JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative of the European Commission developed in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). It supports sustainable urban development and regeneration through financial engineering mechanisms. See more at:

http://ec.europa.eu/regional_policy/en/funding/special-support-instruments/jessica/#1

² CBRE (2014) “UK Development Funding: is it available?”

significant upfront preparatory costs and lengthy construction projects resulting in long timescales for repayment. Lenders can also be reluctant to lend without pre-let commitments and certainty on future revenue streams. A number of projects may involve the need to address deliverability issues including land assembly, contamination and remediation which lenders may not be prepared to fund in isolation. Projects can also take place in areas of regeneration need where undeveloped markets provide lenders with little certainty over projected revenue streams³. In addition, banks may also be reluctant to lend to sector specific property development, like research and innovation schemes, because occupiers can often lack the necessary covenant strength.

Financial Instruments focused on Urban Development provide an opportunity to address clear market failures and unlock major investment in towns and cities as the economy and the development market continue to recover⁴.

Financial Instruments focused on Energy Efficiency may also provide a sustainable and efficient opportunity to deliver the objectives of the Operational Programme. The European Union has made carbon emission reductions, energy efficiency and renewable energy key priorities from a policy and investment perspective through the Europe 2020 Strategy. It aims to create a resource efficient and greener economy through objectives focused on climate change and energy. The Government has a broader low carbon policy agenda which includes improving energy security, reducing fuel poverty, developing renewables and energy efficiency measures and developing a functioning low carbon market that will support job creation.

Estimates of the scale of investment required to deliver low carbon infrastructure vary significantly. It is an emerging market, spanning a wide range of technologies and supply chains, which stands to grow as the requirement to find efficiencies become more critical to businesses⁵. The wealth of current, emerging and future energy efficiency solutions will require appropriate sources of financing to support other complementary funding sources.

The European Regional Development Fund Operational Programme for England 2014 to 2020 sets a clear aspiration to increase the support for Financial Instruments, compared to the 2007-13 programming period.

Financial Instruments are designed to deliver equity, loan, guarantees and mixed investments and other financial products to support the delivery of economically viable projects. Financial Instruments are revolving by nature so when investments

³ CBRE (2014) "UK Development Funding: is it available?"

⁴ Regeneris Consulting (2014) "England ERDF Programme 2014-20: Review of Case for Financial Instruments"

⁵ Regeneris Consulting (2014) "England ERDF Programme 2014-20: Review of Case for Financial Instruments"

are returned, the resources are then reinvested into additional projects to bring long-term benefits. This increases the efficiency and sustainability of European Structural and Investment Funds which is particularly powerful in the context of sustained pressure on public resources. They are a mechanism for attracting expertise and leveraging additional private and public investment to deliver European Union and national policy objectives.

The Managing Authority is inviting applications seeking European Regional Development Fund support to establish a 'Fund of Funds', previously referred to as Holding Funds under the 2007-13 programming period, in the areas of Urban Development and Energy Efficiency (non-domestic). The Fund of Funds will act as an overarching fund which has been established to allow investment in more than one sub-fund.

This model can allow the Fund of Funds to achieve sufficient size to attract match-funding and achieve economies of scale. The Managing Authority is inviting applications to establish Fund of Funds which comprise of two or more sub-funds.

Applications must be submitted in response to an ongoing or completed Ex-Ante Assessment. This is a compulsory requirement to ensure that the establishment of Financial Instruments under the ERDF 2014-20 programming period is supported by sound evidenced based decision-making⁶. See the Ex-ante Assessment guidance: Vol. I - General methodology⁷, Vol. V - Financial Instruments for urban and territorial development⁸, and Vol. IV - Supporting the shift towards low-carbon economy⁹. A fully completed Market Analysis (Block 1) must be submitted with an Outline Application for consideration by the Managing Authority.

2.2 Operational Programme

The **European Regional Development Fund Operational Programme for England 2014 to 2020** sets out how the European Regional Development Fund will focus on investment to support economic growth and job creation.

Any application for funding will be required to clearly demonstrate that it meets the requirement of, and makes a meaningful contribution to, the delivery of the relevant Priority Axis or Axes of the [European Regional Development Fund Operational Programme](#).

⁶ Common Provisions Regulations EC Regulation 1303/2013, Article 37(2)

⁷ https://www.fi-compass.eu/sites/default/files/publications/manual_vol-I_ex-ante-assessment-general-methodology.pdf

⁸ https://www.fi-compass.eu/sites/default/files/publications/manual_vol-V_ex-ante-assessment-fi-urban-development.pdf

⁹ https://www.fi-compass.eu/sites/default/files/publications/manual_vol-IV_ex-ante-assessment-support-low-carbon-economy.pdf

The Managing Authority is inviting applications seeking European Regional Development Fund support to establish Financial Instruments covering one or more of the Priority Axes and Investment Priorities identified at Section 3.3 of this call.

In addition, applications will be expected to meet the identified local development need, as expressed at Section 3.1 and 3.2 of this call, and as set out in the [Greater Manchester](#) European Structural and Investment Funds Strategy.

Applicants are advised to familiarise themselves with the detail of the Operational Programme, the local European Structural and Investment Funds Strategy and the relevant documentation listed in Sections 5 through to 8 **prior to** submitting an Outline Application.

3. Scope of the Call

3.1. Scope

This call invites Outline Applications seeking European Regional Development Fund support to establish Financial Instruments in the areas of Urban Development and/or Energy Efficiency (non-domestic). Proposed Financial Instruments are expected to support the delivery of **Priority Axes 1, 3, 4 and/or 6** of the European Regional Development Fund Operational Programme, respond to a completed Block 1 – Market Analysis of an Ex-Ante Assessment and respond to the local development needs set out in the [Greater Manchester Local Enterprise Partnership Area European Structural and Investment Funds Strategy](#).

<p>Indicative Fund Allocation:</p>	<p>Indicatively, through this call the Managing Authority expects to allocate up to £65,000,000. The Fund total value (ERDF plus match) may increase to up to £200,000,000 over the lifetime of the Programme.</p> <p>European Regional Development Fund investment is intended to make a significant impact on local growth. Applications are expected to demonstrate appropriate scale and impact, having regard for UK Government and EU policy.</p> <p>The Managing Authority intends to invite one project to submit a Full Application under this call. The Managing Authority reserves the right to increase or decrease the indicative allocation, or support more projects subject to the volume and quality of proposals received.</p> <p>There is no indicative allocation of European Regional Development Fund funding between capital and revenue activity, both capital and revenue is eligible dependent on the nature of activities/Investment Priorities set out in the call.</p>
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Duration of project approvals	It is anticipated that projects will comprise an eight year investment period, with an appropriate period for realising investments and generating returns after this, in accordance with Article 45 of the Common Provision Regulations (Regulation EU No.1303/2013). However, the Managing Authority reserves the right to vary the maximum duration where supported by a satisfactory Ex-Ante Assessment and where this is in accordance with the legislation.
Geographical Scope	All interventions are confined to activity and beneficiaries within England. Projects should predominantly support activity based within the Greater Manchester Local Enterprise Partnership area.
Specific call requirements	All applications must demonstrate strong strategic fit with Greater Manchester Local Enterprise Partnership area priorities.
Call Deadlines	For this call, applications will be assessed after the close of the single deadline – Monday, 03 November 2015. Applications received after the published call close date will not be considered.

3.2. Local Development Need

Projects must deliver activity which directly contributes to the objectives of Priority Axes 1, 3, 4 and/or 6 of the Operational Programme, one or more of the relevant Investment Priorities and meet the **local development need** expressed in the table below.

LOCAL DEVELOPMENT NEED

Local Economic Context:

The Greater Manchester Local Enterprise Partnership (LEP) European and Structural Investment Funds (ESIF) strategy identifies a clear aspiration to exploit the implementation of Financial Instruments (FIs) under the 2014/20 ERDF Programme. The vision is to capitalise on the strong track record of implementing Financial Engineering Instruments (FEIs) under the 2007/13 ERDF Programme in the North West of England and deliver new FIs in the areas of Urban Development, Low Carbon and Access to Finance for SMEs.

The Greater Manchester LEP ESIF strategy proposes the establishment of a Fund of Funds structure with two sub-funds operating beneath; one supporting Urban Development projects and one supporting Low Carbon projects. The Fund of Funds structure will act as a financially sustainable revolving investment fund, enabling the reinvestment of investment reflows and ensuring the long term provision of investment funds in Greater Manchester. This call is seeking applications to deliver this structure-

The need for a Financial Instrument supporting Urban Development builds on the experiences gained from the North West Evergreen Fund, which was created under the North West JESSICA project. The Fund has performed successfully under the 2007/13 ERDF Programme; it has fully allocated its ERDF resources, developed a strong profile, made high-quality investments, leveraged significant match-funding and private sector expertise and generated returns for investment in future projects. The sustained use of Financial Instruments will continue to support the shift from a grant dependency to a focus on revolving investment vehicles.

However, despite the successes of the Evergreen Fund there remain a number of prevalent market dynamics driving the need for a new Urban Development fund. These include but are not restricted to:

- Funding supply – the availability of commercial funding to support Urban Development projects continues to demonstrate signs of constraint. In addition, onerous lending conditions can restrict access to funding for a number of project promoters;
- Market gaps and failures – Urban Development projects can often be perceived as laden with risk. They may involve high preparatory expenditure, the need to address remediation/contamination issues or fail to demonstrate high certainty of repayment. Additional risks can also be found when supporting science and innovation projects; for example, tenants can lack covenant strength or demand high-specification accommodation;
- Market demand – there is growing and changing demand for commercial finance to support Urban Development projects. Limited availability and restrictive lending conditions can leave substantial funding-gaps in projects which demand more structured solutions to unlock proposals with high strategic and regeneration benefits.

It is likely that the Urban Development fund will make investments in the development of sites and premises linked to Greater Manchester's growth sectors. This may include the construction of new/refurbished floorspace, remediation and infrastructure actions and activities that support the diversification of the economic base of town/city centres.

The Greater Manchester LEP ESIF strategy also notes a clear ambition to transition towards a Low Carbon economy to support growth aspirations. Failure to do so will have a detrimental effect on Greater Manchester's ability to compete, can threaten infrastructure and disrupt business and services. The Low Carbon economy also presents huge opportunities to grow the technological and knowledge economies, develop skills, develop strong supply networks and create jobs and businesses.

There is a clear alignment between European Union and national policy for an increased focus on the Low Carbon agenda. This coupled with anticipated rises in energy prices and concerns over the reliability and continuity of supply is creating increased pressure on local areas to contribute to Greenhouse Gas emission targets, take action to reduce fuel poverty and improve energy security and harness the employment creation that could be realised from the Low Carbon sector to drive growth.

The creation of a Low Carbon fund will support delivery of the Greater Manchester Low Carbon project pipeline, including those developed by both the private and public sector. This could include the development of projects such as heat networks, non-domestic retrofit, street lighting and small-scale renewables. The creation of a Low Carbon fund will look to address any sub-optimal investment situations and other prevalent market failures, such as project complexity, insufficient scale or lack of long-term uptake deterring funders, which are limiting support for the project pipeline.

It is envisaged that the Financial Instrument will draw ERDF resources from the following Priority Axes and Investment Priorities (see Section 3.3 and the Operational Programme for further information):

- Priority 1; Investment Priority 1a; indicative ERDF allocation of £33m;
- Priority 3; Investment Priority 3c; indicative ERDF allocation of £2m;
- Priority 4; Investment Priority 4e; indicative ERDF allocation of £15m;
- Priority 4; Investment Priority 4f; indicative ERDF allocation of £10m;
- Priority 6; Investment Priority 6d; indicative ERDF allocation of £5m.

Please note that the indicative ERDF allocations may be subject to change.

Local Priorities:

Proposals should demonstrate alignment with local development need and priorities including:

- Applications should demonstrate how they align with and help to deliver the Greater Manchester Local Enterprise Partnership ESIF strategy;
- Applications should demonstrate how they align with and help to deliver the Greater Manchester Strategy (2013-2020);
- Applications should demonstrate how they complement and align with comparable investment funds operating at a local, regional and national level and will not simply duplicate activity;
- Applications should clearly demonstrate how they will achieve value for money;
- Applicants should demonstrate how they will ensure the creation of a long term financially sustainable revolving investment fund with clear proposals for how legacy funds will be managed and invested.

3.3. Operational Programme Investment Priorities

Applications must specify the activities to be delivered and are expected to directly contribute to **one or more** of the following Investment Priorities:

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.
Specific Objectives	Enhancing research and innovation (R&I) infrastructure and capacities to develop R&I excellence, and promoting centres of competence, in particular those of European interest.
Indicative Actions	<p>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. Under this Investment Priority indicative actions to be supported by European Regional Development Fund may include the provision of equity, loan, mixed investments and other financial products to deliver the following activities:</p> <ul style="list-style-type: none"> • 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”. • Development and upgrading of appropriate test facilities and deployment infrastructure.

Investment Priority	3c –Supporting the creation and extension of advanced capacities for products, services and development.
Specific	Increase the growth capacity of small and medium sized enterprises.

Objectives	
Indicative Actions	<p>Under this Investment Priority indicative actions to be supported by European Regional Development Fund may include the provision of equity, loan, mixed investments and other financial products to deliver the following activities:</p> <ul style="list-style-type: none"> • Provision of land and premises for employment sites, including incubation space, managed workspace, or grow-on space. <p>The Managing Authority will also look to draw on the experience gained establishing JESSICA structures under the 2007-2013 Programme where there are a number of such Financial Instruments now running successfully across England. Although these will target the creation or refurbishment of urban infrastructure through urban regeneration and low carbon projects, this has in past included premises for Small and Medium Sized Enterprises.</p>

Investment Priority	4e – Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures.
Specific Objectives	Increase implementation of whole place low carbon solutions and decentralised energy measures.
Indicative Actions	<p>Under this Investment Priority indicative actions to be supported by European Regional Development Fund may include the provision of equity, loan, mixed investments and other financial products to deliver the following activities:</p> <ul style="list-style-type: none"> • Investments in combined heat and power from renewable sources. • Investments to encourage the adoption of renewable technologies. <p>A strategic approach is particularly important in the area of low carbon transport, whether for sustainable urban mobility, or improving links between urban and rural areas, or connecting dispersed rural communities. Examples of actions include:</p> <ul style="list-style-type: none"> • Investments in actions aimed at improving the capacity at local level to develop and implement integrated and sustainable transport strategies and plans (including for example actions related to modelling data collection, integrated transport management, operations and services, public consultation etc) to reduce transport related air pollution, in particular retrofit or replacement programmes for bus fleets, incentive

	<p>schemes for cleaner transport, improved public transport infrastructure and alternative forms of transport.</p> <ul style="list-style-type: none"> • Investments in actions aimed at introducing innovative environmentally-friendly and low-carbon technologies (for example, alternative fuel stations or charging points). • Investments in actions aimed at developing innovative and multi-modal transport services (for example, intelligent transport systems for travel information and planning, traffic and demand management, smart ticketing, multimodal integrated datasets or cooperative systems). • Innovative transport pricing and user charging systems. <p>These will build on the experience gained in the implementation of financial instruments under the 2007-2013 programmes. Investments may target the creation/refurbishment of urban infrastructure through urban regeneration and low carbon projects.</p>
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Investment Priority	4f – Promoting research and innovation in, and adoption of, low-carbon technologies.
Specific Objectives	Increase innovation in, and adoption of, low carbon technologies.
Indicative Actions	<p>Under this Investment Priority indicative actions to be supported by European Regional Development Fund may include the provision of equity, loan, mixed investments and other financial products to deliver the following activities:</p> <ul style="list-style-type: none"> • Technology centres of excellence and test facilities, including relevant Catapult centres. • Renewable technologies in the United Kingdom renewable energy roadmap. • Research, development, demonstration and adoption of technologies and systems that support low-energy transport and accelerate the establishment of new technologies such as low emissions vehicles (electric, hybrid and hydrogen). • Knowledge transfer with Higher Education/Further Education institutions and Businesses. • Developing financing methods that encourage the adoption of proven low carbon technologies and generate long-term financial savings. • Demonstration and deployment of decentralised renewable energy technologies. <p>Investments may target the creation/refurbishment of urban infrastructure</p>

	through urban regeneration, which may include capital for low carbon projects and research and development facilities.
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Investment Priority	6d – Protecting and restoring biodiversity and soil and promoting ecosystem services, including through Natura 2000, and green infrastructure.
Specific Objectives	Investments in Green and Blue infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend to increase local natural capital and support sustainable economic growth
Indicative Actions	<p>Activity supported to achieve this specific objective will focus on investment in Green Infrastructure; definitions are set out in the National Planning Policy and in Natural England’s Green Infrastructure guide¹⁰. Blue Infrastructure is a sub-set of this and refers to the water-related features (rivers, ponds, lakes etc) that play a crucial role in providing benefits to people and wildlife.</p> <p>Activity can include site clearance, soil de-sealing, decontamination and land remediation, but only where these directly contribute to an area’s Green and Blue Infrastructure/natural capital which are the primary objective of the interventions.</p> <p>Sustainable drainage can be a design function incorporated within Green Infrastructure. It can also make a contribution to the provision of Green Infrastructure, where natural solutions are used to provide such a function. Furthermore the volume and quality of water that flows into blue infrastructure, such as rivers, ponds and lakes, has a fundamental impact on their health and condition. Sustainable drainage can help improve this.</p> <p>Under this Investment Priority indicative actions to be supported by European Regional Development Fund may include the provision of equity, loan, mixed investments and other financial products to deliver the following activities:</p> <ul style="list-style-type: none"> • Investment in green and blue infrastructure such as green corridors in urban areas and waterways. • Sustainable drainage to improve water quality and in some cases local air quality. <p>The Managing Authority will look to draw on the experience gained establishing in the implementation of financial instruments under the 2007-</p>

¹⁰ <http://publications.naturalengland.org.uk/publication/35033?category=49002>

	2013 Programme. Investments may target the creation/refurbishment of urban infrastructure through urban regeneration operations.
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4. Required Outputs under this Call

Projects must deliver against the outputs and results for the relevant Priority Axis or Axes of the European Regional Development Fund 2014 to 2020 Operational Programme. For projects coming forward under this call the expected outputs and results are:

ID	Investment Priority	Output Indicator
C1	1b, 3c, 4e and 4f.	Number of enterprises receiving support
C3	3c	Number of enterprises receiving financial support other than grants
C7	3c	Private investment matching public support to enterprises (non-grants)
C22	6d	Total surface area of rehabilitated land
C34	4e and 4f	Estimated GhG reductions
P2	1a and 3c	Public or commercial buildings built or renovated

Applicants will need to demonstrate how the eligible activity, funded by the European Regional Development Fund, will achieve the deliverables committed to within the proposal. The application should clearly state the methodology used to determine the levels of outputs proposed.

Each Financial Instrument will be required to report at least quarterly on progress toward achievement of targets and funds invested. This will need to include both quantitative and qualitative data relevant to the appropriate geographical areas, and will be subject to periodic review to ensure that the instrument is operating in line with expectation at Local Enterprise Partnership area level.

Applicants will need to explain how they will collect and record this information to maintain a fully evidenced audit trail. It should be noted that if an operation fails to deliver contracted deliverables, a performance penalty may apply.

5. Application Process & Prioritisation Methodology

There are two stages to the European Regional Development Fund application process;

- (i) Outline Application and, if successful
- (ii) Full Application.

Acceptance of an Outline Application to progress to Full Application stage does not in any way indicate or constitute an offer of European Regional Development Fund grant.

Where funding drawn from multiple Priority Axes is required, a separate Outline Application will be required for each Priority Axis covered by the proposed Financial Instrument.

Each application should be consistent and linked to each other, but should separately highlight the nature of delivery, funding required and the number of outputs forecast to be achieved for the relevant Priority Axis.

Applicants must fully complete the [Outline Application](#) which will be assessed by the Managing Authority against the national [Selection Criteria](#) and Financial Instrument requirements as specified in the Common Provisions Regulation¹¹ and Delegated Regulation¹².

Outline Applications will be assessed in two stages, Gateway assessment and Core assessment.

Gateway assessment considers:

- Applicant eligibility;
 - Entitlement to carry out the implementation task under EU and national law;
 - All applicants will be required to confirm that they are not established in, and do not maintain business relations with, entities incorporated in territories whose jurisdictions do not co-operate with the Union in relation to internationally agreed tax standards and to confirm that they will transpose such requirements in their contracts with any selected financial intermediaries;

¹¹ <https://ec.europa.eu/digital-agenda/en/news/regulation-eu-no-13032013-european-parliament-and-council>

¹² http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.138.01.0005.01.ENG

- Activity and expenditure eligibility; and
- Fit with the National Operational Programme and the local development need set out in Section 3.

Proposals that fail the Gateway assessment will be rejected.

Proposals which pass the Gateway assessment will then be assessed against the Core assessment criteria:

- Strategic Fit;
- Value for money;
 - For Financial Instruments, this also includes a review of:
 - The proposed level of costs/fees;
 - Ability to leverage additional resources for investment; and
 - Whether 'Additionality' can be demonstrated.
- Management and control;
 - For financial instruments, this includes checks that any applicant:
 - Has adequate capacity and financial viability;
 - Uses effective accounting systems;
 - Has sound governance and internal controls in place; and
 - Will meet the conditions set out in the Common Provisions Regulation Article 38(4) around money laundering and the prevention of terrorism;
 - Have appropriate measures in place to comply with relevant standards and legislation in relation to tax fraud.
- Deliverability:
 - For financial instruments, this will also include an outline review of:
 - The nature of the fund to be implemented;
 - The body's previous experience of implementing similar instruments and the expertise and experience of its proposed team;
 - The body's operational and financial capacity;
 - The robustness and credibility of its proposals for selecting sub-funds and final recipients;
 - How the findings of Block 1 – the Market Assessment of the Ex-Ante Assessment will be addressed;
 - How management costs/fees will be calculated, paid and the source of match funding for both the investment capital and the management costs/fees;
 - Details of any additional set-up costs/fees and how these will be funded.
- Compliance

- Procurement:
- State Aid:
- Publicity requirements.
- Cross cutting themes:
 - Environmental sustainability;
 - Equal Opportunities.

Having assessed projects against these criteria the relevant Local Economic Partnership area European Structural and Investment Fund Sub-Committee will advise the Managing Authority on the alignment to local economic growth conditions and opportunities within the context of the Operational Programme, and local European Structural and Investment Fund Strategy to aid the Managing Authority's assessments (at Outline and Full Application stage).

The Managing Authority will also, where required, seek advice from other Government departments or agencies, on the alignment with national Government policy and other Financial Instruments or other relevant support available to Urban Development and Energy Efficiency in the Local Economic Partnership area(s).

In addition, the Managing Authority may also, where required, seek advice from or engage with the proposed funders of the financial instrument (such as the European Investment Bank or other funders) to assess the viability of the proposal.

If successful, an Applicant will be invited to submit a **Full Application**, at which point they must include, and demonstrate how they meet Block 2 – Delivery & Management of the Ex-Ante Assessment. In all cases, the Managing Authority must be satisfied that the Ex-Ante Assessment meets the requirements of European Commission guidance and will as a minimum ensure that all of the key points found in the Ex-ante assessment - Quick reference guide¹³ are adequately addressed.

Please note that the Managing Authority's decision is final and there are no appeals. If you wish to complain about the calls and application process, please follow the procedure set out at <https://www.gov.uk/government/organisations/department-for-communities-and-local-government/about/complaints-procedure>

6. General Information

6.1. National Eligibility Rules

When developing an application, Applicants must refer to the [National Eligibility Rules](#) setting out the requirements of the 2014-2020 European Regional Development Fund Programme. It is the responsibility of the Applicant to ensure that

¹³ https://www.fi-compass.eu/sites/default/files/publications/manual_ex-ante-quick-reference-guide.pdf

the Rules are adhered to both at application stage and following approval. Failure to do so can lead to financial penalties leading to recovery of up to 100% of grant.

Applicants are strongly advised to seek specialist advice if in doubt on any requirement.

European Regional Development Fund eligibility rules apply to **all** project spend within the eligible costs, including match funding.

The European Regional Development Fund is governed by European regulations and national rules. Applicants are advised to familiarise themselves with the relevant documentation, (Section 8 Key Document refers) prior to submitting an Outline Application. If successful, Applicants will enter into a Funding Agreement and must abide by the terms and conditions contained therein. The Funding Agreement will include (as a minimum) the provisions set out in the Annex IV of the Common Provisions Regulation and Article 6 of the Delegated Regulation, alongside standard provisions set out in the standard Funding Agreement.

Once a Funding Agreement has been issued it should be signed and returned within 30 days, unless otherwise agreed with the Managing Authority.

6.2. Eligible Applicants

Section 4 of the [National Eligibility Rules](#) sets out who is eligible to apply.

Please note, all Applicants proposing to deliver or manage a Financial Instrument will be assessed for suitability to receive European Regional Development Fund in accordance with Public Procurement law and State Aid law (at each level of potential aid), and the proposed model will need to demonstrate it has the characteristics of grant funding, as set out in [Commission Guidance Note No.2](#)¹⁴.

Applicants must be legally constituted at the point of signing a Funding Agreement. If the application is approved the Applicant organisation will enter into a legally binding Funding Agreement and therefore will carry the liability for ensuring that the terms and conditions of the Funding Agreement are met.

If there is more than one organisation applying for the funds, a lead organisation must be selected to become the Applicant with the remaining organisation(s) acting as Delivery Partner(s). In this situation the Applicant would be responsible and liable for the Delivery Partner(s) and ensuring the project is operating compliantly.

During the application process the Managing Authority will consider the Applicant's track record, both positive and negative. If the Applicant has been involved in the

¹⁴ Guidance Note No. 2 - COCOF 08/0002/03-EN FINAL (22/12/2008), see Section A, 1.2 (http://www.eib.europa.eu/attachments/documents/jessica_cocof_guidance_note2_en.pdf)

delivery of previous European grants and any irregularities have been identified, the Managing Authority will expect to see how and what steps have been taken to ensure that the risk of further irregularities in the future is mitigated. It is acknowledged that some organisations will be new to European Structural and Investment Funds funding and will not have a track record.

6.3. Contribution Rate & Match Funding

European Regional Development Fund is normally expected to intervene where no other funding can be obtained (i.e. the funder of last resort). The level of European Regional Development Fund awarded will be the minimum in order for the project to proceed.

The maximum Contribution Rate is 50% of the total eligible project costs subject to State Aid regulations.

The remaining 50% or more must come from other eligible sources as specified under Section 6 of the National Eligibility Rules. This may include, but is not limited to, 'legacy funds' accrued from prior public investments supported by Single Programme or European Regional Development Fund in previous funding periods, other public funds, or loans from public or private sources. Other European Union funds cannot be used as a source of match funding.

Applicants will need to demonstrate that they will have eligible match funding in place (subject to exceptions for co-investment fund models) at the point of approval for the balance of costs – including for management costs and fees for the Fund. At Outline stage, Applicants will be required to demonstrate active engagement with potential funders of costs, fees and investment capital.

European Regional Development Fund investment is limited by State Aid regulations and where the award of European Regional Development Fund would constitute State Aid covered by a block exemption the European Regional Development Fund grant rate may fall below the 50% maximum.

Applicants should familiarise themselves with Article 13 of the Delegated Regulation¹⁵ and should take note of the thresholds in relation to the management costs and how the provisions for claiming such costs will apply.

6.4. Project Timescales

European Regional Development Fund funding for Financial Instruments will normally be approved for up to five years, however the Managing Authority reserves the right to extend the contract term where this is supported by a satisfactory Ex-Ante Assessment.

¹⁵ http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.138.01.0005.01.ENG

Projects approved through this call are expected to:

- Submit a detailed and complete Full Application within three months of formal selection at Outline stage. Projects which fail to meet this deadline may be withdrawn;
- Commence delivery (defraying European Regional Development Fund eligible costs) within three months of formal approval. Projects which fail to meet this deadline may be withdrawn, and
- Have typically completed investing by June 2023, with a clearly articulated fund realisation period, underpinned by appropriate policies and procedures.

6.5. 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](#).

6.6. Technical Assistance

Technical Assistance may be used to support those start-up costs not covered by management costs and fees. This may include, subject to eligibility:

- Support work for 'Block 2' of an Ex-Ante Assessment, covering delivery and management options, where it has not already been funded by the Managing Authority;
- Analysis and engagement activity to support the completion of fund design and a financial model;
- Other relevant preparatory costs, including preliminary legal and other professional advice and identification of match funding opportunities.

This list is indicative only.

Technical Assistance is not expected to support the costs of activities forming part of Financial Instrument delivery activities, such as product fund manager procurement or fees, arrangement fees for external finance, or other supporting services.

Typically, Technical Assistance activity should be completed no later than the operational start of the related Financial Instrument.

Applicants anticipating incurring such costs are advised to consider submitting a complementary Technical Assistance application, alongside an Outline Application to this call. The next submission date for Technical Assistance applications is 30 October 2015.

Applicants should note that Technical Assistance will typically only be available for start-up costs where a Financial Instrument application has also been invited to submit a Full Application.

6.7. Additionality, Duplication and Displacement

Additionality is a core principle of European Regional Development Funding. Applicants must be able to demonstrate that the activity paid for out of European Regional Development Funding adds value to new or existing activity. Projects need to demonstrate that without the support of European Regional Development Funding the activity would not have taken place.

European Regional Development Funding cannot support activities that duplicate existing provision/services within the region.

Applications need to identify and evidence the beneficiaries will use the service and demonstrate that the project does not displace other activity available in the market place.

6.8. 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 Aid¹⁶. 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.

The Managing Authority will also need to be satisfied that any Financial Instrument will not give rise to a conflict of interest. As a result:

- A Fund of Funds (or any public body sitting behind a newly set up Fund of Funds) must not participate in the investment decisions of the financial intermediary/ies or have any direct, decisive influence over the financial

¹⁶ 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."

intermediaries. The governance arrangements must establish a clear separation of functions.

- A Fund of Funds shall select financial intermediaries through an open procurement process that complies with the Public Procurement Directive, where relevant, and may only participate as a limited partner in any Limited Partnerships set up beneath the Fund of Funds.

6.9. 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 relevant advice to ensure that they would be able to enter into and abide by the terms of the Funding Agreement.

The Funding Agreement will include (as a minimum) the provisions set out in the Annex IV of the Common Provisions Regulation and Article 6 of the Delegated Regulation, alongside standard provisions set out in the standard Funding Agreement.

Applicants are advised that additional provisions and securities may be included within the Funding Agreement to protect the investment. Detailed advice will be given if appropriate at the Full Application stage.

Failure to meet any of the conditions of the Funding Agreement or the commitments within the application will result in claw back of the Grant (which may include interest).

6.10. Procurement

All costs claimed by the Applicant (Grant Recipient and/or Delivery Partner(s)) must be recovered on an actual cost basis. Other costs must be procured in line with National (including [Public Contracts Regulation 2015](#)) and European Union regulations.

Procurement will be subject to audit and verification and any irregularity will result in financial penalty of up to 100% of the grant paid. 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 **strongly recommended** that Applicants seek and follow legal advice in respect of procurement requirements. Procurement irregularities remain the most substantive cause of error and clawback of grant.

7. 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: NW.ERDFENQUIRIES@communities.gsi.gov.uk.

8. Key Documents

- European Regional Development Fund Operational Programme;
- Outline Application Form;
- Outline Application Form Guidance;
- Local Enterprise Partnership area's European Structural and Investment Funds Strategy;
- Eligibility Guidance;
- Common Provisions Regulation (EU) No. 1303/2013;
- Delegated Regulation (EU) No. 480/2014;
- Committee on the Coordination of the Funds (COCOF), Guidance Note No. 2 – 08/0002/03;
- Short Reference guide for MAs on Financial Instruments¹⁷;
- Ex-ante Assessment guidance: Vol. I - General methodology; Vol. V - Financial Instruments for urban and territorial development; and Vol. IV - Supporting the shift towards low-carbon economy;

¹⁷http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

- 2014-20 ERDF Financial Instruments: Routes to Delivery Information Note – July 2015;
- Target Definitions.

9. Document Checklist

Incomplete applications will be rejected. Please ensure the following information (documents) are submitted.

Outline Stage:

- Fully completed Outline Application;
- Financial Tables;
- Outline Financial Model and Investment Profile;
- Outputs, Results and Indicators Tables;
- Match funding evidence;
- Block 1 – Ex-Ante Assessment.

10. Document Submission

Completed Outline Applications must be submitted via **email** to the address in Section 7.

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 Funding Agreement.

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