

## Investment Framework for Action Area 2-2 – Encouraging Innovation to Improve Productivity in All Companies

### Generic Purpose of IFs

- 1.1 The NWOP Programme Monitoring Committee has agreed to the development of a series of Investment Frameworks. The purposes of these are to:
- Develop further the context for each of the action areas within the NWOP and focus on specific investments which the ERDF Programme will support
  - Encourage all project sponsors to seek guidance from the relevant policy leads and/or the European Programme Team before embarking on the development of a project idea
  - Provide guidance for projects sponsors when developing their ideas and projects in relation to the NWOP
  - Set out what outputs and results are expected to be delivered.
- 1.2 All Investment Frameworks (IFs) have been developed with input from regional and local stakeholders across the region during late 2007. The IFs will be subject to a monitoring and evaluation process to ensure that they continue to be fit for purpose and aligned with the NWOP and relevant regional and sub regional strategies. The NWOP Programme Executive will be able to provide further guidance in relation to the IFs.

### Specific Purpose of this Investment Framework

- 1.3 This Investment Framework is designed to guide the use of the resources under the NWOP that have been indicatively allocated to this Action Area as part of Priority 2 "Exploiting Innovation and Knowledge" which aims to target performance change within the region's businesses and institutions by driving forward the take-up of knowledge and innovation.
- 1.4 At present the indicative resources covered by this Investment Framework amount to around €92m (or around £62m) over the life of the programme comprising around £19m to be spent on activities in the Merseyside phasing-in area and around £43m in the rest of North West<sup>1</sup>.
- 1.5 This Investment Framework will provide support to raise SME competitiveness by improving the exploitation of Intellectual Property, accelerating the implementation of new processes and expanding the development of new products for market using new technologies and new leadership and management capabilities and approaches. It focuses on the introduction to and use of innovation, technology and ICT within SMEs to improve their productivity and future sustainability. The Investment Framework will focus on both:
- Higher Value Priority Sectors (as set out in the Investment Framework for Action Area 1-2); and
  - Businesses in any eligible sector with growth potential, a competitive edge in the market and a commitment to new ways of working.

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<sup>1</sup> These figures include an element of resources which will be delivered via a regional Venture Capital and Loan Fund (VCLF) Investment Framework. The figures are based on an assumed exchange rate of €1.4845 to £1.00

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- 1.6 The Investment Framework is therefore focused on those SMEs in the region that have growth potential through better adaptation of knowledge and innovation via a range of innovation improvements in processes and products. Support for the use of ICT is included in this Investment Framework as part of general support for innovation.
- 1.7 Innovation is a key strand of business development. Global competitive pressures have increased the need for businesses to continually innovate in their products and processes. The bulk of R&D in North West businesses is concentrated in a small number of major companies. Although the DTI UK Innovation Survey (2005) suggested that the proportion of 'innovation-active' businesses in the North West (58%) was fairly high and had improved since 2000 when it was one of the UK's lowest (43%), the gap between innovation-active large and small firms remains pronounced.
- 1.8 There are four strands of activity supported under this Investment Framework:
- **Strand 1:** Innovation Brokerage
  - **Strand 2:** Manufacturing Advisory Service/Agenda for Change
  - **Strand 3:** Knowledge to Innovate
  - **Strand 4:** Other Advice Services.
- 1.9 In addition, Venture Capital and Loan Fund (VCLF) support for R&D and innovation activities, which is an eligible activity for this Action Area, is supported via the Programme-wide Investment Framework for VCLF activity.
- 1.10 This draft Investment Framework has been produced for consultation with Sub-Regional Partnerships and other partners, prior to being submitted to the new NWOP Programme Monitoring Committee (PMC) in March 2008.

## 2. Partner Engagement

- 2.1 This document has been circulated to all sub-regional partners, North West University Association and North West HEIs. Following this, meetings were held between NWDA and each of these groups, followed by the issue of a further draft for consultation.

## 3. Linkages to Other Strategies

- 3.1 The Investment Framework sits squarely inside the UK's 10-year "*Science & innovation investment framework 2004-2014*" published by HM Treasury and the then DTI and DfES. This framework has several strands; one of which is to increase innovation and use of R&D in business:
- *Increased business investment in R&D, and increased business engagement in drawing on the UK science base for ideas and talent:*
    - Increase business investment in R&D as a share of GDP from 1.25 per cent towards goal of 1.7 per cent over the decade
    - Narrow the gap in business R&D intensity and business innovation performance between the UK and leading EU and US performance in each sector
- 3.2 The recent review of government science & innovation policies (*Sainsbury Review: The Race to the Top, October 2007*) has been fully accepted by government. The report discusses a move

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away from "service vs. manufacture" to "high value and low value businesses" where the UK has made the most significant progress in the last 10 years compared to its major rivals. It recognises that although service industries don't do R&D, they still innovate, and that manufacturing also has high hidden innovation (e.g. Lean, 6 Sigma etc which are not R&D).

- 3.3 A new role was announced for the Technology Strategy Board to lead innovation activity for the UK, by coordinating the efforts of RDAs, Research Councils and Government Departments. The TSB is expected to expand from its current technology driven agenda to a wider Innovation role, particularly in service industry areas with high technology content. This will be driven forward by a package of support worth £1 billion over the next 3 years and using significant new resources drawn from Central Government, Research Councils and RDAs. RDAs will be running and funding a new High Tech nationally approved proof of funding scheme, funding a doubling in Knowledge Transfer Partnerships (KTPs) and introducing new schemes to support high technology entrepreneurs. They will be expected to concentrate on 4 areas of Innovation
- 1/ User driven collaborative R&D
  - 2/ Knowledge Transfer
  - 3/ Clusters; and
  - 4/ Start up and growth of new businesses.
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### Regional Policy

- 3.4 The current regional Economic Strategy (RES) identifies seven key factors linked to improving business competitiveness in the region, of these three are directly relevant to this Investment Framework:
- Innovation to improve productivity in all companies and to exploit the higher education base of the region
  - Exploiting the science/research and development base of the region.
  - Using ICT more effectively and efficiently
- 3.5 There are several RES priority actions which are supported by the Investment Framework, most notably:
- RES Priority Action 12. Enable businesses to understand and implement business process and product/service innovation, both internally and through their supply chains;
  - RES Priority Action 13. Enhance Business/Higher Education Institution (HEI) collaboration and knowledge transfer
- 3.6 In addition there is a RES Action aimed at improving the use of ICT in companies:
- RES Action 20. Support companies to use and harness the benefits of ICT and digital technologies, and the development of digital content

## 4. Key Principles to Support Project Prioritisation and Design

- 4.1 There are a number of important principles which will inform project selection and how the resources allocated under this Investment Framework will be used:

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- The majority of activity under this Investment Framework is to be organised and procured through regionally organised projects to maximise efficiencies and overall impact, which may involve sub-regional delivery.
  - These initiatives will target all businesses with scope to improve their innovation performance though businesses which aim for a low carbon economy may receive priority.
  - Those aspects of this Investment Framework which fall within the scope of the Business Support Simplification Programme will accord closely with its priorities and principles. In practical terms this means:
    - Business Link North West is the primary access channel for these services: all services will be maximise access through Business Link's brokerage service to ensure an efficient and effective customer journey.
    - Any Information, Diagnostic and Brokerage (IDB) service, including the highly specialised, will either be delivered through Business Link North West, or with their agreement by other delivery organisations. Marketing of the services will need to be co-ordinated by and compatible with BLNW's own marketing programme so confusion, duplication and waste are all minimised.
    - Where a range of providers is involved, there will be a regional /national approach to branding across each service/strand.
    - Services will be located in one (or more) of the approved business support products: they will support the stated objective of that product(s) and be under-pinned by an appropriate market failure assessment.
    - All services will be based on a clear and convincing rationale, with supporting evidence on effectiveness and business demand: BLNW will help ensure services respond to identified needs.
    - NWDA will coordinate business support to ensure on-going consistency with BSSP and promote fit to regional economic strategic priorities.
    - Legacy schemes which are not consistent with the portfolio but which cannot be immediately terminated for wider strategic reasons will cease as soon as is reasonably practicable.
- 4.2 Business support activity supported under this Action Area sits within the draft national Business Support Simplification Product Framework and relates to four products:
- **Innovation Finance** – *Help to develop and commercially exploit innovative ideas.*
  - **Business Expertise** – *Help to get expert advice for targeted small-medium businesses to grow.*
  - **Innovation collaborations** – *Help for companies to work together with the science and research base to increase innovation.*
  - **Business Collaboration Networks**– *Help for businesses to work together to improve performance and exploit market opportunities and new knowledge.*
- 4.3 The current national summary of these products is included as Appendices A to D.

## 5. Investment Framework targets

- 5.1 The main objective of this Investment Framework is to improve regional GVA, rather than employment creation. The businesses supported therefore need to have the potential to make a significant contribution to net additional regional GVA through the use of knowledge.
- 5.2 The key desired outcome is to increase the contribution of the region's base of innovating companies and the economic impact of the innovation undertaken. Innovation improvements should lead to increases in GVA per worker but also to GVA overall in benefiting businesses and sectors as they become more competitive, however there are many businesses in the region who need to innovate simply to stand still.
- 5.3 The indicators that will be used to measure progress are as follows<sup>2</sup>:
- **Outputs:** No. of businesses assisted to improve their performance; Firms becoming engaged in collaborations with UK knowledge base; Private sector investment levered (£m) and private sector investment in R&D (£m).
  - **Results:** No. of gross jobs created; No. of gross jobs safeguarded; No. of businesses with improved performance; New or upgraded floorspace built/upgraded to BREEAM excellent or very good at current standards (sq m); Reduction in annual CO<sup>2</sup> emissions from Programme interventions (tonnes pa).
  - **Impacts:** Net additional GVA overall in region (£m); Net additional employment overall in region; Net change in overall CO<sup>2</sup> emissions (tonnes pa). [Note these impact indicators are programme-wide impact indicators, the contribution of all Investment Frameworks to these overall targets will need to be measured].

## 6. Investment Framework Approach

- 6.1 As stated above, four strands of activity are proposed under this Investment Framework:
- **Strand 1:** Innovation Brokerage
  - **Strand 2:** Manufacturing Advisory Service/Agenda for Change
  - **Strand 3:** Knowledge to Innovate
  - **Strand 4:** Other Advice Services.
- 6.2 These are described in more detail below.

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<sup>2</sup> Unless otherwise stated the indicators all are consistent with the national set of indicators and definitions produced by CLG and the RDAs

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- 6.3 There may also be scope for a small number of inter-regional projects in this Investment Framework, provided the project has developed from the region's participation in an EU Fast Track network or inter-regional or trans-national networks of regional significance. Such projects should influence programme delivery.

### **Strand 1 - Innovation Brokerage**

- 6.4 Description of activity supported. A regional initiative to provide the region with a specialist IDB service for innovation. A service is currently being developed which will offer 5-6 days of diagnostic investigation delivered through the NW Business Link. This additional investment would be used to purchase additional diagnostics.
- 6.5 Design principles. A regional initiative is currently being developed by NWDA and Business Link to deliver a regional Innovation Brokerage service. This strand will supplement this initiative by adding to the volume of diagnostic interventions and/or support the development of a system based on accredited standards for suppliers. There will be an initially intensive two year period of capacity building assistance from the private sector to assist Business Link acquire the internal competence required to deliver this service.
- 6.6 Outputs. At present there are no specific targets for this Strand, these will need to be developed
- 6.7 Match Funding. The ongoing NWDA Single Programme Investment will provide match funding for this regional initiative. There may be scope to draw in SME cash contributions as match funding too.

### **Strand 2 – Manufacturing Advisory Service/Agenda for Change**

- 6.8 Description of activity supported. MAS/AfC provides specialist advice and support to the region's manufacturing sector businesses. It is an established service built upon the national core MAS offer to provide supplementary days of free support time for clients. The Investment Framework would support an enhancement of levels of activity over and above those supported by core NWDA funding and possibly complement the service to include further forms of process innovation.
- 6.9 Design principles. Delivery of this regional service is tied to the core MAS offer. Contracting should correspond with the pre-standing approach to MAS.
- 6.10 Outputs. At present there are no specific targets for this Strand, these will need to be developed.
- 6.11 Match Funding. NWDA's Single Programme investment in MAS/AfC provides match-funding alongside contributions from benefiting businesses.

### **Strand 3 – Knowledge to Innovate (K2I)**

- 6.12 Description of activity supported. An extension of the existing regional service which aims to build innovation capacity of SMEs in NWDA's six priority growth sectors. As well as support for new product and process development, K2I offers a tailored programme of consultancy support in areas such as innovation leadership, innovation strategy development, embedding innovation within company practices and organisational and cultural change. The scheme will support businesses with potential wherever they may be and will endeavour to ensure provision is available right across the region.

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- 6.13 This Strand would expand the number of K2I interventions and extend its reach beyond the priority sectors.
- 6.14 Design principles. This regional service will be contracted and delivered regionally in line with the existing service.
- 6.15 Outputs. At present there are no specific targets for this Strand, these will need to be developed.
- 6.16 Match Funding. NWDA's Single Programme investment in K2I provides match-funding alongside contributions from benefiting businesses.

### **Strand 4 – Other Services**

- 6.17 Other advice, support and brokerage services will emerge as Regional policy documents are completed. It is important to preserve the flexibility to implement these as they occur.

## **7. Procurement Method for the Investment Framework**

7.1 The proposed procurement methods will vary by Strand as follows:

- **Strand 1 Innovation Brokerage:** non competitive selection- Business Link assumes full responsibility.
- **Strand 2 Manufacturing Advisory Service/Agenda for Change:** tied in with existing provider arrangements i.e. The Manufacturing Institute. When the existing MAS/AFC contract is re-tendered a competitive selection process should be adopted.
- **Strand 3 Knowledge to Innovate:** tied in with existing provider arrangements WME/CTech. When the existing K2I contract is re-tendered a competitive selection process would be adopted.
- **Strand 4 Other Advice Services:** procurement method to be decided.

## **8. Spatial Level of Delivery**

8.1 All strands will be regionally commissioned, designed, managed and delivered (with appropriate sub-regional input). Those responsible for designing and delivering the regional programmes of activity will need to work closely with appropriate /relevant sub-regional bodies to ensure relevant input into design and management).

### **Merseyside**

8.2 In the case of the regional programmes that are to be enhanced under this Investment Framework the design of these programmes will need to ensure that the relevant outputs, activity and spend linked to the ring-fenced Merseyside allocation is delivered. This means that there will need to be separate targets for Merseyside.

## **9. Financial Context**

9.1 The NWOP has a total allocation of approximately €755m or around £521m. This is split between Merseyside as a 'phasing in' area (approximately €308m or £210m) and the rest of the NW region (€448m or £308m). The NWOP also fixes an allocation for each priority, including Technical Assistance, which cannot be changed. The NWOP is subject to a fixed financial profile and strict spend targets which must be met.

9.2 The NWOP overall and priority level intervention rate is set at 50%, but this is likely to vary according to individual projects. Match funding is expected to come from a variety of sources, both public and private, depending on the action area.

### **Sources of Match Funding**

9.3 In summary, potentially these are:

- The NWDA Single Programme
- Private sector.

## **10. Guidance Documentation, Including Cross Cutting Themes**

10.1 The NWOP has two agreed cross cutting themes: environmental sustainability and equality & diversity. The intention is to mainstream the delivery of the themes, building on best practice. The cross cutting themes should not be seen as an add-on, and be used in the design and the delivery of each project. All projects funded by ERDF will be expected to deliver against Cross-Cutting Theme (CCT) related outputs and results, some of which have been embedded into the NWOP.

### **Environmental Sustainability Cross Cutting Theme**

10.2 The NWOP aims to grow the economy of the region providing for more value added activities and securing current and additional jobs. The inclusion of the Environmental Sustainability CCT in the programme is central to ensuring that negative environmental impacts are minimised, or mitigated, and that positive impacts are maximised.

10.3 Key messages of the CCT are to improve:

- energy efficiency and related carbon mitigation measures;
- air and water quality;
- protection of the local environment (green spaces, biodiversity, quality of life);
- resource efficiency to minimise waste and encourage recycling;
- sustainable transport; and
- sustainable construction.

10.4 All potential projects will be evaluated via the appraisal process to determine the perceived benefit to the region against both the Action Area objectives and consistency with the messages of the CCT. Projects will be supported that can demonstrate they have taken all practicable measures to reduce or eliminate negative environmental impacts arising as a result of the project and measures to enhance positive environmental impacts. Projects, which can demonstrate a positive contribution to environmental sustainability under the themes above, are more likely to be successful on application for funding.

10.5 To ensure delivery of the Environmental Sustainability CCT, all project applicants will be contractually required to:

- Complete an environmental assessment at the Development and Appraisal stage. This will include evidence of the existence of a Green Transport Policy and a Sustainable Procurement Policy/Plan/Strategy as well as evidence of implementation of both within the applicant organisation
- All business assist projects will be contractually required to refer companies that they have assisted (that meet the requirements of agreed criteria) to Enworks and collect evidence that the business assisted has contacted Enworks.
- All appropriate infrastructure projects will be required to comply with the NWDA Sustainable Buildings Policy.

10.6 As well as the initial assessment of project benefits as highlighted, a specific global target to support a 25% reduction in additional CO<sub>2</sub> emissions generated by the NWOP has been defined.

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Therefore, the Carbon emissions of all projects will be monitored and aggregated up so that the impact of the programme as a whole can be measured.

- 10.7 The following set of six generic indicators has also been established to track delivery of the cross Cutting Theme throughout the life of each project:
- Energy (tonnes CO<sub>2</sub>)
  - New Green Infrastructure Created / Ha
  - % of projects with Green Travel Plans and evidence of implementation and practice change
  - % of Projects with Sustainable Procurement Policies / Plans / Strategy evidence of implementation and practice change
  - Number of new environmental products supported
  - Number of Environmental Business supported
- 10.8 Not all of the indicators may be applicable to each project and at the evaluation stage the relevant indicators will be chosen for the project. However for this Investment Framework this may include incorporating the following into the project design:
- BREEAM assessment of buildings
  - Reclamation of Brownfield land
  - Waste Minimisation
  - Water Efficiency
  - Use of renewable resources
  - Use of low carbon technologies
  - Development of new environmental product / business stream

### **Equality & Diversity Cross Cutting Theme**

- 10.9 The diversity of the Northwest's people and communities is an economic as well as cultural and social asset. In spite of the great strides made some equality groups are still subject to discrimination and experience exclusion from the benefits of economic growth. This is reflected in low levels of skills, educational attainment, employment and entrepreneurship among certain communities in the Northwest. This is an economic as well as social concern as poverty and lack of opportunity inhibits the region's potential growth and threatens community and social cohesion.
- 10.10 Promoting Equality and Diversity plays a fundamental role across the programme's priority and action areas. The guiding principle is that all policies, programmes and projects should be designed, developed and monitored with the diversity of the region in mind, and should proactively tackle barriers to economic participation and success.
- 10.11 The programme will also actively promote Equality and Diversity amongst all the agencies it works with in order to encourage wider engagement with the principles of equality and diversity beyond the programme itself.
- 10.12 The key messages of the Equality and Diversity CCT are to ensure that all potential projects:

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- are designed and delivered in a way that promotes equality and diversity with specific indicators and measurable targets set.
  - recognise the business case for promoting equality and diversity not only in terms of social and economic impact, but also how it can help to increase the number of businesses.
  - reflect current and likely future changes in legislation.
  - make equality and diversity integral to the project throughout its life cycle.
  - take responsibility for having access to expertise and resources designed to further the programme's equality objectives.
  - have robust monitoring and evaluation processes that include assessing the Programme's key Equality and Diversity objectives.
- 10.13 Using the current evidence base and taking into account relevant legislative requirements, the following Equality and Diversity strands have been identified as constituting priorities with regard to the NWOP and to which all potential projects will be expected to have established key performance targets against<sup>3</sup>:
- Gender
  - Race and ethnicity
  - Age
  - Disability
- 10.14 Not all of the above equality strands may be relevant or applicable to each project and at the appraisal/evaluation stage the relevant indicators will be chosen for the project. However for this Investment Framework this may include incorporating the following principles into the project design:
- Demonstration of how equality and diversity are integral to the design of the project.
  - Demonstrate how the project will, where relevant, meet the needs of women, black and minority ethnic (BME) communities, disabled people and people aged 50 and over.
  - A clear understanding of the needs of the targeted group(s), the barriers that they face and how the project links into established best practice with regard to promoting equality and diversity.
  - Ensuring that the management body for the project are sensitive to the needs of the targeted group(s) and that it ensures the accessibility of the project to disabled people, older people, women and the ethnic communities that they are targeting.
  - How the project will be monitored, reviewed and evaluated to ensure that it promotes equality and diversity.
  - Demonstrate that the applicant has in place steps to address any negative impact identified as a consequence of conducting an Equality Impact Assessment.

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<sup>3</sup> Although not identified as part of the priority groups for which we will be collating monitoring information on, we would encourage projects and programmes where appropriate and applicable to take into consideration the needs of Lesbian, Gay, Bisexual and Transgender people as well as faith and religious communities. However currently the priority within the programme in relation to the collection of monitoring data will be Race, Age, Gender and Disability. We will not therefore be expecting monitoring data for the other two strands.

## **11. Compliance**

- 11.1 All projects being taken forward within this Investment Framework will be required to comply with EU and national rules such as state aids, public procurement and publicity underpinning any ERDF application. The implementing provisions of the NWOP sets out a number of such compliance issues. The ERDF offer letter will specify the detail. Additional advice and guidance will be available from relevant experts within the NWDA - please contact the European Programme Team in the Agency.

## **12. Evaluation and Monitoring for Investment Frameworks**

- 12.1 All the Investment Frameworks will be evaluated during 2009-10 to ensure that learning and best practice can be identified. This will allow the PMC to change, amend and update all or any of the Investment Framework to fit with delivery of the NWOP, EU and government policy at the mid term. If there are significant policy changes in an area covered by the Investment Framework which requires an earlier review and evaluation, this will be carried out by the European Programme Team and then brought forward for approval by the PMC.
- 12.2 The Policy Lead for this investment Framework is Dr George baxter. Further information is available from the NWDA ERDF Programme Executive 01925 400 121 or [www.erdfnw.co.uk](http://www.erdfnw.co.uk)

28 February 2008

## Appendix A Innovation Finance - Finance to assist a business to develop and exploit new ideas

### **Purpose**

1. To stimulate productivity, environmental sustainability and economic competitiveness through increased UK innovation (i.e. exploitation of 'new' ideas) within businesses; and to encourage businesses to innovate and realise the benefits of innovation for the business, and more widely for the economy and the environment.

### **How will this be achieved?**

2. By providing financial assistance to increase businesses ability to engage in a range of early-stage research and development (R&D) activities in potentially important fields, but where there are significant risks and uncertainties around the expected results and ability to secure commercial benefits.

### **Why offer public sector support?**

3. Government funding can act to extend the UK's portfolio of research or development projects by supporting firms directly with promising lines of development, which have fallen at the risk aversion or due diligence hurdles in private capital markets, and where the problem is not rectified by the debt and risk finance interventions. That is, the state takes on a limited risk pooling function to increase the share of national resources devoted to innovation progress, but distributed across a wide range of relatively small firms, increasing the spread of opportunities "sampled".

### **What will be offered?**

4. Grants / loans will be available for single UK-based businesses (mainly SMEs) who are unable to bear the full cost and to secure sufficient finance to develop technology based product, process, or service innovations. Grants / loans will assist with the cost of:
  - research and development by the business, including obtaining intellectual property rights, 'proof of concept', market research, and capital expenditure linked to prototyping and large scale demonstrators;
  - using third parties, such as consultants, patent agents to undertake the above activities;
  - demonstration projects involving the early adoption of new technologies with a potentially significant environmental benefit, such as to promote low-carbon energy technologies and the better use of energy.

### **Who will be eligible?**

5. Grants / loans would be given to UK-based pre start, start ups and SMEs engaging in Research and development projects in technologies or applications of national or regional importance.
6. Although grants / loans are available mainly to SMEs, larger companies with environmental demonstration projects are also eligible. Assistance will be provided as a grant / loan to reduce administration costs and allow businesses to pursue projects that have the most benefit to the economy and the environment.

## Appendix B Business expertise for growth - Expert knowledge and specialist input for targeted small-medium businesses to grow

### **Purpose**

1. To improve the performance and productivity of businesses in the UK by providing expertise to help small-medium sized enterprises (SMEs) realize their full potential for growth and success.

### **How will this be achieved?**

2. Through mentoring and coaching:
  - at a national level, to meet a national market failure;
  - at a regional or local level to meet market failures that would differ between regions or localities.

### **Why offer public sector support?**

3. The rationale for this intervention varies depending upon whether the underlying problem is national or sub-national.
4. At the national level the intervention would fill in a missing market in business expertise. The intervention would be designed to rectify infrequent but possibly important instances where:
  - there are major advances in business technologies and processes which radically alter the competitiveness of companies, e.g. lean manufacturing;
  - yet markets for UK SMEs to acquire this knowledge are missing; e.g. due to the uneven geographical distribution of new technology and the industrial concentration of some industries;
  - the intervention provides a means for UK SMEs to acquire knowledge of the technology or process until such time as UK based consultants and others make the knowledge available.
5. At the regional and local level there may be specific geographically defined reasons why business expertise is not available. The intervention would be directed to rectifying the local market failure. Since the market failure might vary by locality the required type of expertise might differ from those provided nationally. For this reason the type of expertise will be determined locally after appraisal at regional and local levels to determine the existence of a market failure (as set out in the Treasury 'Green Book'), additionality and value for money.

### **What will be offered?**

6. Subsidised access and provision of quality assured business expertise and specialist and advanced skills to SMEs which they would otherwise not have. The expertise would enable the take up of new technologies, techniques and processes. Broader benefits might include:
  - lower costs;
  - higher productivity; and
  - creation of a market for the supply of mentoring and coaching services in new areas.

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7. The expertise would be provided by an external person or organisation most appropriate to meeting the individual businesses' needs. The expertise would vary and might be highly technical or specialist including advanced coaching for managing the growth of the business.

### **Who will be eligible?**

8. National programmes would target SMEs where there is a:
- new technology or business process which is commercially important and materially affects the competitiveness of enterprises;
  - barrier to acquiring that new technology or process, and where
  - the intervention would be successful in creating a market for the type of expertise and the intervention would be time limited.
9. SMEs would be eligible for programmes targeted at regional and local needs where:
- local or regional appraisal identifies a market failure;
  - there is a well defined set of monitored exit criteria which would limit the duration of the intervention; and either
  - the recipients are located in a deprived area, or
  - the recipients are high growth or high potential companies, or
  - the recipients are one of the selected few priority sectors in the region.

## Appendix C Innovation Collaborations - Finance to assist collaboration to develop and exploit new ideas

### **Purpose**

1. To stimulate productivity and economic competitiveness through increased UK innovation within businesses.

### **How will this be achieved?**

2. By incentivising and facilitating increased knowledge exchange and encouraging technological diffusion between businesses and knowledge base institutions<sup>4</sup> through increased collaborations.

### **Why offer public sector support?**

3. The UK lags behind its major competitors in capitalising on scientific discovery and technological advancements by turning them into successful commercial products and services. Through its support to knowledge institutions Government has a responsibility and role to play in supporting research and development in technologies that are at a very early stage of development, or which mainly benefit society as a whole.
4. In addition, businesses can under-invest in certain types of research and development due to concerns about spillovers and being able to capture the wider benefits. There are potential external benefits from collaborative research and development. However, many businesses often lack effective mechanisms to develop collaborative working relationships with other businesses and knowledge institutions which leads to the under-development of new ideas.

### **What will be offered?**

#### *Networking for Innovation*

5. Funding for business-facing networks to encourage businesses to build relationships with other businesses, intermediaries and universities to improve knowledge exchange and innovation. Interventions will be proportionate and time limited through well defined exit strategies.

#### *Partnerships for Innovation*

6. Placement and funding of an under-graduate or graduate from a knowledge base institution in a business to share skills and expertise of value to the business via a strategic project.
7. Exchange of staff between businesses and knowledge base institutions.

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<sup>4</sup> Includes UK Public Sector Research Establishments (PRSE) or equivalents, Research and Development Organisations (RDO), Research and Technology Organisations (RTOs), Higher Education and Further Education Institutions.

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### *Collaborative research and development*

8. Collaborative research and development activities where a business works with another business and/ or with knowledge base institutions, to develop key technologies for future needs or for radically new products involving the embedding of key technologies.
9. Large scale demonstrator projects that promote the potential of key technologies to a regional or national business audience.

### **Who will be eligible?**

10. SMEs, larger companies and knowledge base institutions engaging in placement and exchange secondments (see above), collaborative research and development activities or collaborative demonstration projects;
11. Intermediaries to reduce set up and administration costs of networks which allow businesses to pursue innovation collaboration projects that have the most benefit to the economy.

## Appendix D Business Collaboration Networks - Helping businesses to work together to improve performance and exploit market opportunities

### **Purpose**

1. To bring together businesses, to work on common challenges in fields of commercial activities that are essential for developing and strengthening regional economies.

### **How will this be achieved?**

2. By providing a grant to set up and facilitate business collaboration that would:
  - raise awareness of the benefits of collaboration;
  - identify potential participants;
  - facilitate a meeting based discussion forum on a specific topics;
  - facilitate collaborative work groups on particular topics;
  - recording and dissemination of discussion, information and conclusions reached by the group;
  - facilitate inter-linking of similar collaborative groups in other parts of England.

### **Why offer public sector support?**

3. There may be network externalities and spill-overs from collaboration and at the same time barriers to entering collaboration because:
  - potential participants may be unaware of the benefits from collaboration;
  - there may be problems internalising the benefits of the collaboration; and
  - participants may not be able to agree how to divide up the benefits of collaboration (because they don't know what the benefits are).

### **What will be offered?**

4. The subsidy will be to intermediaries to facilitate bringing together groups of new and more established small or medium sized enterprises and relevant key partners in high growth, or sectorally important, or deprived areas to discuss commercial opportunities or ventures.

### **Who will be eligible?**

5. Intermediaries – in general, private sector firms or organisations with relevant experience and a proven track record of successful facilitation of business collaboration. Network participants must centre around small-to medium sized firms to attract any public subsidy to the collaboration.
6. Interventions will be restricted to projects where:
  - focus is on activities highlighted in Regional Economic Strategies;
  - market failure and difficulty in achieving collaboration is identified at the project level;
  - collaboration is necessary to develop and commercialise a business proposition that is outside the scope of supported activities elsewhere (e.g. under the 'Innovation Collaboration' product);
  - business case demonstrates the absence of subsidy to participating large companies; and

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- such networks will not support anti-competitive behaviour.
7. Interventions when they are time limited, will have a clear exit strategy established at project inception and will be at a proportionate level of subsidy. The exit strategies will establish how the benefits of collaboration will become apparent and the networks will be able to become self sustaining. Where benefits are not apparent then there will be no value in maintaining the network. In either case the networks can be expected to have a limited time in which government funding is necessary. Timing of exit would be determined by exit criteria and monitoring results.