



InnovateUK
KTN

Innovation Loans Guidance for Applicants



1. Introduction

This guidance is for UK small and medium-sized enterprises (SMEs) who want to apply for an innovation loan.

Innovate UK's pilot programme of innovation loans started in 2017 and, through seven competitions, has now committed £80 million to over 100 successful applicants.

As part of our coronavirus response package Innovate UK has approved approximately £77 million in innovation continuity loans to nearly 100 SMEs that had a challenge in continuing innovation activity as a result of the COVID-19 pandemic.

Further competitions will be delivered as a further extension to the innovation loans pilot programme during 2021. The delivery of a long-term programme will depend on the allocation of funding in a future government spending review.

Innovation loans aim to provide flexible and patient capital to support business growth through innovation. This will be delivered through Innovate UK Loans Ltd, a wholly-owned subsidiary of UK Research and Innovation.

Innovate UK is working to broaden the range of innovation finance support available to businesses, so they can access funding at all stages of innovation.

You can only obtain an innovation loan by applying into Innovate UK's competitive loans process.

If you would like to apply for an innovation loan, this guidance will help you to find a relevant opportunity and complete an application. It includes information on what happens after you have submitted an application and if you are successful.

You should follow this guidance in conjunction with the overall guidance on applying for a competition on the Innovation Funding Service and specific competition guidance for the opportunity you intend to apply into. Before making an application you should take independent advice.

2. Check if you're eligible for funding

Innovation loans are for research and development (R&D) projects only. You cannot get an innovation loan for general business purposes.

Innovation loans are not for earlier stages of research and development, such as activities covered under the categories of fundamental research or feasibility studies. If your project is at an earlier stage, you may consider applying for alternative funding, such as an innovation grant.

More details on project eligibility, including any specifics relating to the scope, can be found in the brief of the loan competition you wish to apply into.

2.1 Understanding if your business is eligible for an innovation loan

Only single UK-registered SMEs may apply for an innovation loan.

By UK-registered, we mean that your business must be registered with Companies House. We expect you to carry out the bulk of your project work and to exploit the results from or in the UK.

By single, we mean that only one business can apply per application. Collaboration with other individuals or organisations cannot be funded through an innovation loan. You may subcontract work to an individual or organisation as part of the project if you can justify why doing so is critical to the delivery of the project.

For more information on company sizes, please refer to the [company accounts guidance on GOV.UK](#).

This is a change from the [EU definition](#) unless you are applying under State aid. If your business does not fall within the definitions given here then you will not be eligible to apply.

You can apply for an innovation loan if you have an existing award from Innovate UK, so long as you are not applying for the same innovation project and we consider that you have made substantial effort to exploit any previous award.

3. Costs we fund

You could get an innovation loan for up to 100% of your eligible project costs, as defined in the brief for the loan competition you wish to apply into.

The minimum and maximum amount of loan available to you will be specified in the specific competition you are applying into.

Money borrowed may be spent on the project only. Guidance on what costs are eligible and on how to complete the project costs information is provided in our [costs guidance for non-academic organisations](#).

Eligible costs for the usage of capital equipment include the cost of equipment only where used in the innovation project for which you have received a loan. If you intend to also use this equipment in other work, the amount of the loan you can borrow towards the equipment will reflect this. The amount of this eligible cost can be borrowed when you need it towards the purchase cost of the equipment.

You will need to fund any project costs that are not considered eligible by Innovate UK. You will also need to cover other day-to-day activities that are not part of the project.

Please note, innovation loans are a form of subsidy. This is because they have favourable terms, such as the discounted rate of interest, which over the life of the loan will be equivalent to a grant.

To comply with UK Subsidy Control and, if appropriate, State aid rules, the level of this 'grant equivalent' must fit within the criteria of the competition you are applying into.

3.1 Understanding the project and loan periods

The total period for an innovation loan is set out in the brief for the competition you are applying into. This is broken down as:

1. A period where you can draw down money every three months to carry out your research and development, known as the availability period. The duration of this period will be set out in the competition brief. You will not need to make repayments during this period, but you will need to pay interest every three months on the amount you have borrowed. The rate of interest and how this is paid will be set out in the competition brief. Interest is calculated only on the actual amount you have borrowed, not on the total amount committed in the loan.
2. A further period to focus on the route to market and commercialisation of your innovation, known as the extension period. The duration of this period will be set out in the competition brief. You won't be able to make any more drawdowns, and you also won't need to start repayments during this period. You will need to pay interest during this period. The rate of interest and how this is paid will be set out in the competition brief.
3. A period to repay your loan, known as the repayment period. The duration of this period will be set out in the competition brief. You will need to make repayments of the total amount you have borrowed, plus any interest deferred during the availability and extension periods. You will also have to pay interest every three months on the amount outstanding. The rate of interest and how this is paid will be set out in the competition brief.

The availability period and the extension period together are considered to be your project. You will need to propose the most suitable timings for your project and business.

The longest periods we will consider in each of these periods and for the overall term of the loan will be set out in the competition brief.

4. The application process

Loan competitions will be run through our [Innovation Funding Service](#). To find a current loan competition, search for 'loan' in the Innovation Funding Service's keywords search bar.

Loan competitions may be open to any type of project, or they may be themed. In a themed loan competition, your innovation project will need to fit the specific scope criteria outlined in that competition brief. If your innovation project does not meet these criteria then you will not be eligible to apply for this specific opportunity.

Once a loan competition has closed you will no longer be able to apply into it. Only one application is permitted from a business per loan competition.

4.1 Applying for an innovation loan

There are three parts to applying for an innovation loan. The part of the application on the Innovation Funding Service will be used to assess how innovative the project is.

Another part of the application, in the form of a survey, will be used to consider the whole business and how suitable that business is for an innovation loan.

Business and financial information

This includes a link from the Innovation Funding Service to questions, in the format of a survey, that you must answer about your business and to a spreadsheet template that you must fill in to provide financial information about your business for the full period of your loan request.

Project questions

These are questions that you must answer about your proposed innovation project.

Project finances

This is information about the costs of your proposed innovation project.

Before you start

You will need to create an Innovation Funding Service account before you can apply for an innovation loan.

4.2 Your application on the Innovation Funding Service

Business and financial information

The business information part of the application will be used by us to consider the suitability of your business for a loan. This will take the form of a survey that you will need to complete online. As part of this, we will use the start-up high growth index that has been developed by Early Metrics to provide qualitative and quantitative information about your business.

In this part of the application, you will be expected to answer questions about your business and its ability to pay interest and repay a loan.

Within your answers to the questions you will need to outline your preferred loan conditions and explain why you need an innovation loan for the amount and time requested.

The questions include a mixture of:

- requests for specific information (for example on monthly revenues or number of employees)
- selection of category responses (for example on the stage of development of your product or service)
- self-assessment scoring (for example on the level of important challenges to your growth)
- text (for example to allow you to provide a description of your business model).

The financial information submission part of the application will also be used by us to consider the suitability of your business for a loan. This will take the form of a spreadsheet template that you should download and complete offline and then upload at the end of the business information survey.

You must use the template provided to complete the financial information submission form.

In the financial information submission form you will need to provide us with:

- historical financial information (your profit and loss and balance sheet) for the last three years (or since incorporation, if shorter)
- forecast financial information (your profit and loss, balance sheet and cashflow forecasts) for the full period of your proposed innovation loan.

The spreadsheet template has input cells in “repayment calculator” worksheets that will allow you to enter your proposed loan periods and quarterly drawdown amounts, which will pre-populate information about the innovation loan in the profit and loss, balance sheet and cashflow forecasts.

The template also has input cells for sales, cost of sales and gross margins in a “sales assumptions” worksheet that will allow you to enter your assumptions and which will pre-populate information in the profit and loss forecasts, if this is helpful to you.

The template also has worksheets that will calculate the ‘grant equivalent’ of your proposed innovation loan.

The core worksheets in the financial information submission form have a number of cells for calculations that cannot be changed. This is so that we can ensure the accuracy of important calculations. There are also some built-in checks, for example, to highlight if the balance sheet does not balance. Additional information can be provided in extra tabs in the spreadsheet.

We look for applications that show:

- an appropriate borrowing proposal from a suitable business
- a clear route to commercial success
- a strong management team
- why you need public funding in order to be able to carry out your project
- why you are unable to fund the project from your own resources or other forms of private-sector funding such as equity investment, commercial lending or lending supported by the [British Business Bank](#) and other similar agencies.

Project information

In the project proposal part of your application, you will be expected to answer questions on the details of your proposed project. You will also need to provide details of the costs for your project.

We look for project proposals that:

- are highly innovative
- have strong market potential
- show solid delivery capability
- have a clear route to commercial success
- represent value for money for the business and the taxpayer.

You will need to answer all mandatory scored and unscored sections in order for us to assess the quality and suitability of your application. The specific loan competition guidance will elaborate on the type of information we are seeking under each section.

4.3 Submitting an application for an innovation loan

A person with authority to act on behalf of the company must submit the application. Your business and financial information and your project proposal must be submitted through the Innovation Funding Service.

If you have any difficulties in submitting your application

Contact customer support services

Telephone: 0300 321 4357

Email: support@innovateuk.ukri.org

Please note that by submitting an application, you are providing authority for Innovate UK, or any subsidiary or agent acting on our behalf, to undertake checks on the financial standing of your business.

This might include but will not be limited to checks with credit reference agencies (which might be recorded on your record) to determine your credit standing, identity, beneficial ownership and control, and source of existing funds.

To find out how we handle your personal information please see [Innovate UK's personal information charter](#).

Declaration

By submitting an application for an innovation loan, you will be confirming that you agree to the innovation loans declaration that is included in the competition brief on the Innovation Funding Service.

This declaration recognises that entering into a loan agreement with us is a significant financial commitment. It requires you to confirm that:

- the loan is for business purposes, is the right approach to financing your business, and that you have authority to make this assessment
- you consent to any necessary and relevant financial checks, including checks on key persons in the business
- you understand that any information provided in the application that is proven to be false or misleading may lead to a breach of the loan agreement
- you understand that an innovation loan agreement is not a regulated agreement under the Financial Services and Markets Act 2000 or the Consumer Credit Act 1974 and is not subject to the same benefits or protections
- you understand that it is a legally binding obligation and that you should seek independent advice.

You should consider taking independent advice on the content of this declaration.

Summary heads of terms

By submitting an application you will confirm that you have read and agree to the innovation loans summary heads of terms. These are part of the terms and conditions you will agree to during your application.

The summary heads of terms describe the main terms that apply to an innovation loan agreement with Innovate UK Loans Ltd. They provide an outline that reflects the typical nature of the loan agreement that Innovate UK Loans Ltd would consider making available.

The summary heads of terms for innovation loans:

- act as written confirmation of the main terms of the innovation loan
- outline the parties involved and their obligations relating to the innovation loan.

These terms are subject to detailed due diligence.

Please note, the summary heads of terms are indicative and not exhaustive. If required, they may be amended or withdrawn at any time. You should read the heads of terms carefully and take the time to understand them, including seeking independent advice.

5. How we assess your application

Once the deadline for the loan competition has passed your application will be sent for assessment in Innovate UK's competitive assessment process.

5.1 Assessing the quality of your project

If in scope, your Innovation Funding Service application will be sent to up to five assessors who are experts in innovation in the field of your project.

The assessors will review your application against scoring matrices. Only projects that meet the quality threshold will go through to the next stage to be considered for detailed credit evaluation.

5.2 Assessing the suitability of your business to receive a loan

If in scope, the project proposal in your application on the Innovation Funding Service, the business information and the financial submission, together with an analysis of your responses to the business information questions by Early Metrics will be sent to Innovate UK Loans Ltd's credit team for consideration.

The credit team will consider if your application is:

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

5.3 Progress to detailed credit analysis

If your application is deemed to have a suitably innovative project proposal and your business is considered likely to be suitable for a loan, it will progress to detailed credit analysis.

In some cases, you may be contacted during this time if further information is required, including any additional information required to complete a full credit assessment and specific consents for credit reference checks. Full instructions will be provided.

The credit committee of Innovate UK Loans Ltd will determine whether to offer an innovation loan after detailed credit analysis. The final terms of any loan offer will be decided by the credit committee. These may not be the same as the terms proposed in your application.

Applications are assessed on individual merit, however, to ensure a spread of projects we may choose to apply a portfolio approach to the assessment.

All applications that meet the innovation quality threshold and credit evaluation will be considered to build a portfolio that:

- has high-quality projects
- spans a range of businesses that are of suitable credit quality
- spans a range of strategic themes, as described in the scope of the loan competition
- represents a potential return on investment both for the business and the UK.

5.4 Presentation to the credit committee

If your application is deemed suitable and we are considering making a loan offer, you may be invited to present to Innovate UK Loans Ltd's credit committee as one of the conditions of the loan offer.

You will be contacted at the email address provided in your application to confirm a date, location and who should attend. We expect that this presentation will take place at your business location if this is practical.

5.5 How you are notified

Applicants will be contacted by the date stated in the loan competition brief and informed of the initial outcome of their application. We will email you on the address provided in the application form. This notification will either indicate that your application has been unsuccessful or may indicate that your application will progress to further detailed credit analysis.

If your application progresses to further detailed credit analysis, you will be notified after the credit committee of Innovate UK Loans Ltd has made a decision whether or not to offer you a loan.

Assessor feedback on your project proposal will be available to you on the Innovation Funding Service after notification of the initial outcome of your application. If your application is unsuccessful, we will give feedback on our credit decision approximately four weeks after you have been notified of the decision.

6. What happens if you're successful

In order for us to offer you an innovation loan you will need to return all specified information and satisfactorily pass all checks. Your project cannot progress without this information.

We will carry out a series of checks, such as checks to verify the identity of your business through the 'know your customer' process. These will include:

- anti-money laundering checks on the identity of the people in the company identified as key stakeholder and beneficial owners
- commercial due diligence on the information in your business plan
- enhanced due diligence for businesses of increased risk, such as those with politically exposed persons.

6.1 Setting up your project

If you are successful in being offered an innovation loan, you will receive an email from the Innovation Funding Service prompting you to enter the information required for your project setup.

You will need to complete the following steps in your online project setup.

Project details

- the target start date
- the project location
- the name of the project manager.

Finance contact

You must provide the name of a finance contact. This person is responsible for supplying any additional information we may need to complete our detailed credit analysis on your organisation. This person will also be responsible for submitting drawdown requests when your project is live.

Bank details

You must supply your organisation's bank details so that we can validate them.

Project finance checks

We will check the eligibility of your project costs. If we have any queries around your finances we will use this section to contact you.

Spend profile

Once we have confirmed your project spend is eligible, we will ask you to profile your costs across the duration of the project.

During the project setup we will also finalise the loan agreement. This includes setting the project baselines for cost, schedule and scope and any specific conditions to be set out in the loan agreement, including corporate authorisations. This may not be the same as that set out in your application.

6.2 Security taken by Innovate UK

In entering into a loan agreement you grant permission for Innovate UK to take security during the lifetime of the loan agreement.

Security might include:

- a general corporate debenture
- charges over a specific asset or assets that have been purchased with the loan
- charges over intellectual property developed with proceeds of the loan.

Specific terms will be set out as part of the loan agreement. Further legal agreements may be needed to cover these forms of security.

We will not require you to provide personal guarantees.

You should take independent advice.

6.3 If you are not successful

You will be notified of your application being declined on the application submission system with feedback as to why. No additional feedback can be provided. You cannot appeal this decision.

6.4 Carrying out your project

Drawing down your loan

During the availability period you will be able to draw down money from your loan facility every three months in order to deliver your project.

The amount you draw down will be based on your forecast expenditure on eligible project costs for that three month period. Costs are only eligible if they are incurred and paid between the project start and end dates.

You will need to complete Innovate UK Loans Ltd's standard request template in order to request to draw down the money. Your drawdown request will only be granted if it meets our project progress conditions and financial and reporting conditions.

We may stop drawdowns at any time if:

- a project is not performing as expected or appears to be going significantly off target
- the financial health of the business has significantly deteriorated
- the business is not meeting its obligations of the loan agreement – for example, by providing financial information when required.

Under all circumstances, we would discuss this in detail with you first.

Monitoring and reporting on your project

You will be assigned a monitoring officer for the duration of your project. They will help to make sure your project complies with our terms and conditions. They are not responsible for overall project management.

The monitoring officer will meet with you every three months to ensure your project is on track.

We will also need to receive financial updates from you in the form of credit reviews every three months through our credit team. This is in addition to you providing an annual credit review.

7. Paying back your loan

You will be required to pay interest at the rate set out in the competition brief for the competition you're applying into on the amount that you borrow.

During the availability period and extension periods, you may pay interest on the amount that you borrow every three months from the date that your project starts and also accrue interest that will be deferred until the repayment period.

During the repayment period, you will pay interest on the amount that you borrow, including any interest accrued and deferred from the availability and extension periods.

Interest is payable only on the amount of money you have borrowed at the time the interest is due, not the total amount of money you intend to borrow.

For example, if the interest rate is set at 7.4%, with part payable and part deferred, if you draw down £10,000 in the first three months from a total loan amount of £100,000, you will need to pay interest (at 3.7% per year) on the £10,000 only. You will also accrue interest (at 3.7% per year) that will be deferred until the repayment period.

The rate of interest is fixed, but is subject to any restructuring or extension of the loan agreement.

Payments should be made by direct debit to Innovate UK Loans Ltd via the loan administrator.

7.1 Payment schedule

You will need to repay your loan during the repayment period. We expect that this will be when you are exploiting the results of your project commercially through selling your product or service.

You will need to repay the balance of the full amount that you have borrowed, including any deferred interest from the availability and extension periods, with interest at the rate set out in the brief for the competition you apply into, every three months, spread over the repayment period. The amount you will pay back will be as agreed as part of your loan agreement.

Payments must be made via direct debit to Innovate UK Loans Ltd via the loans administrator.

The loans administrator will send you a notification on the status of your repayments every three months, which will include the outstanding amount of payment due. You will also receive a yearly overview of your progress.

When the total amount borrowed is paid off, you will receive written notification from the loan administrator.

During this period you will continue to provide financial information on your business every three months, plus an annual credit review, to our credit team to ensure that the conditions in the loan agreement are met.

If you want to repay the loan early, you will be able to do so without penalty. Speak to our credit team.

7.2 If you encounter problems with paying back your innovation loan

If you encounter any issues relating to paying back your innovation loan or expect to do so under the agreed terms you will need to discuss this with our credit team immediately. We will work with you to agree on a way forward.

7.3 If you default on your loan

Events of default on an innovation loan may include:

- missed payment, if not rectified within the time periods set out in the loan agreement
- failure to comply with obligations set out under the loan agreement
- change of control of the business, without our prior written consent
- the departure of a key person from the business or project, without our prior written consent
- cross-default, if you default on another loan agreement
- insolvency
- if it becomes unlawful to comply with obligations set out under the loan agreement.

If you encounter any issues relating to your innovation loan or expect to do so under the agreed terms you will need to discuss this with our credit team immediately. We will work with you to agree on a way forward.

In the case of default, we will work through our loan administration service provider to recover any amounts due. This may include enforcing security over assets, such as intellectual property or other assets purchased, that you have pledged to us under the loan agreement.

We may engage a collection agency to act on our behalf to recover costs. In terms of where we rank against other creditors in the debt waterfall, we expect to rank ahead of junior lenders such as loans from company shareholders or directors, unsecured trade creditors and shareholders. We would expect to rank behind preferred creditors and commercial senior secured lenders.

If you still have questions about innovation loans

Telephone: 0300 321 4357

Email: support@innovateuk.ukri.org

You should also take independent advice.

Updates to innovation loans guidance

This guidance was first published on 20 February 2018 and last updated on 5 May 2021.

5 May 2021

Guidance amended to reflect changes in the application process using the Innovation Funding Service.

18 August 2020

Guidance amended to apply more broadly to innovation continuity loans as well as the initial innovation loans pilot and extension.

9 September 2019

The loans application process is going onto the Innovation Funding Service so the guidance about submitting documents to a file upload site is no longer relevant. Guidance amended accordingly.

8 July 2019

Updated innovation loans information.

20 February 2018

First published.