



Innovate UK Innovation Loans

Project finance guidance

JULY 2025



Innovate
UK

Innovation Loans - Costs guidance for non-academic organisations

If you are a non-academic organisation claiming funds from Innovate UK, you must complete your projects finances section and include all your eligible project costs.

If your organisation is subject to State Aid Regulations under [the Windsor Framework](#) (which includes companies registered in Northern Ireland), you are not eligible for all of the following. [Please refer to this link.](#)

This document will give you guidance on what information you must provide and what costs are eligible for an Innovation Loan.

The finances section asks you to submit information about your:

- Project costs
- Project location
- Organisation
- Funding

In certifying your organisation status, please pay particular attention to organisation ownership. Make sure you follow the [company accounts guidance on GOV.UK](#) when establishing your organisation size. This is a change from the EU definition unless you are applying under State Aid.

If State Aid applies to your organisation, then you will follow [the EU definition for company size on the European Commission website.](#)

1. Your Project Costs

In this section you must list your eligible costs for each category.

Businesses subject to UK Subsidy Control Act 2022 Framework	Businesses subject to State Aid Regulations under the Windsor Framework (this includes businesses registered in Northern Ireland)
<p>All UK businesses will be able to apply for a loan of up to £5million.</p> <p>Eligible costs will include those in GBER Article 25, in addition to:</p> <ul style="list-style-type: none"> • Labour costs of staff involved in pre-commercial sales and 	<p>All UK businesses will be able to apply for a loan of up to £5million.</p> <p>Eligible costs will remain within the current framework of those in GBER Article 25 in addition to:</p>

<p>marketing activities to exploit the results of the research and development (R&D) project.</p> <ul style="list-style-type: none"> • The full costs of capital equipment used in the exploitation of the results of the R&D project. We will allow drawdowns throughout the project period. • The full costs of tooling and materials for development of demonstration / inventory to prove the results of the R&D in a fully commercial setting. We will allow drawdown throughout the project period. • An element of working capital finance in the loan to support cashflow prior to fully profitable exploitation of the results of the R&D project. 	<ul style="list-style-type: none"> • The full costs of capital equipment used in the exploitation of the results of the R&D project. We will allow drawdowns throughout the project period. • The full costs of tooling and materials for development of demonstration / inventory to prove the results of the R&D in a fully commercial setting. We will allow drawdowns throughout the project period. <p>The main differentiation is that pre-commercial labour costs, marketing activities and working capital will not be eligible for these businesses.</p>
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1.1 Labour costs

This section asks for details of employed staff working directly on the project. All listed staff should be on your payroll and subject to PAYE. If you are a micro company, sole trader or partnership not running PAYE go to the guidance below.

Note: you may be required to supply employee information in the event of a formal or assurance review on costs being claimed for individuals.

We need to establish the day rate for the role or roles of each person working on the project. This is calculated by the number of working days per year less bank holidays and your organisation's annual leave entitlement.

We also need to understand the length of time your organisation will be working on the project. This is not necessarily the length of the total project, as your organisation's involvement may only be for a defined period of time.

You can include direct staff in this tab (such as engineers, scientists and project managers) as well as any indirect, back-office staff who are identified to be directly supporting the project activities (such as budgeting, project reporting and recruiting).

The gross employee costs should be calculated based on your PAYE records. They should include gross salary, employer's National Insurance (NI), company pension contribution, life insurance and other non-discretionary package costs.

Ineligible labour costs include:

- Use of blended labour rates inclusive of overheads.
- Discretionary bonuses or performance related payments of any kind.
- Time spent not working directly on the project (for example sick, non-productive time or training days and maternity pay).
- Overtime or time off in lieu.
- Dividend payments.
- Forecasted pay increases.
- Apprenticeship levy.

If an employee is part-time, you should enter their costs as a full-time equivalent. You should enter the number of staff in each grade. If you are unable to specify personnel at the point you apply, we will accept an average grade based on the band or job family.

The finance form will calculate the day rate that will be applied to the number of days your staff are allocated to the project, based on the information you have added.

Claims must be for actual costs incurred and paid.

All claims will need supporting documentation for the individuals allocated to and working on the project. When making grant claims against labour costs, actual costs claimed must be supported with either timesheets, project records or both, for those individuals who have worked on the project. These must be authorised by the project manager.

For Innovation Loans, the eligibility criteria have been expanded to include labour costs for certain commercialisation activities. This may include the salaries, wages, and related employment expenses of employees working to exploit the results of the research and development (R&D).

Examples include staff carrying out activities such as:

- Market research
- Customer discovery
- Developing marketing strategies
- Testing market readiness
- Gathering customer feedback

These activities must occur **before** the product or service is launched commercially and must be clearly linked to the exploitation of the innovation.

How to enter labour costs:

For each person or group of employees, you must:

1. Enter their role/title.
2. Calculate a day rate:
 - Use their gross annual salary, including employer's NI and pension.
 - Divide this by the number of working days in a year (excluding weekends, bank holidays, and your organisation's annual leave entitlement).
 - This gives you the daily cost rate.
3. Estimate the number of days they will spend working on the project.
4. Multiply the daily cost rate by the number of days to get the total labour cost for that person or staff group.

What labour can be included:

You can include staff time for:

- Late-stage R&D (experimental development) activity.
- Pre-commercial activities to exploit the outcomes of R&D (as permitted under the updated Innovation Loan criteria).

Examples of eligible pre-commercial labour activities include:

- Market assessment.
- Customer discovery.
- Market testing.
- Planning and testing marketing strategies.
- Preparing for product/service launch.
- Activities to develop routes to market.

These must occur before the point of full commercial launch, within the Innovation Loan-funded project period.

Specific staff groups you can include:

- Technical or project staff working directly on R&D and pre-commercial tasks.
- Customer-facing or operational staff involved in validating or preparing for commercialisation.
- Board and senior management, only where they are directly contributing to project delivery or commercialisation planning.

- Finance and admin staff, if supporting eligible project activities (provided your organisation is not subject to the [Windsor Framework](#) restrictions).

Staff you must not include:

- Time spent on governance, oversight, general management, or fully commercial activity (e.g. live selling, generating profit, post-launch work).
- Sales, marketing, or account management staff working on post-launch or profit-generating tasks,
- Any staff whose work is not linked to eligible costs within the start and end dates of the project.

Micro companies, sole traders and partnerships not operating a PAYE scheme

If you do not currently operate a company PAYE scheme and are working directly on the project, you can include your labour as an eligible cost. This should be in line with the Innovate UK rules and is subject to the following conditions:

- Your labour costs must be calculated using a maximum of eight hours per day (at £22 per hour), up to 40 hours per week.
- Your costs must be recorded through the business accounts
- Your project time must be supported by timesheets and project records.

Any claims for loan drawdowns must comply with these criteria.

1.2 Overheads

We understand that organisations calculate overheads in different ways.

You can select from three options for overhead costs:

1. No overheads. You can select this option if you are not incurring or claiming grant for your overheads.
2. The 20% of labour costs option allows you to claim 20% of your labour costs as overhead. This includes both direct and indirect overhead. Selecting this option allows us to review a successful loan application much faster as no further documentation is needed from you.
3. The calculate overheads option asks you to complete calculations for claiming direct and indirect overheads. Any value claimed under this method will need to be reviewed by our project finance team if your application is successful. This is so we can assess the appropriateness of the overhead value you are claiming.

Overhead elements included within this cost should be restricted to those that will directly impact and support the project, but cannot be identified as a direct cost.

Once the overhead is calculated and approved, it cannot be exceeded at any time throughout the project life.

For option three you must download and complete the overhead calculation spreadsheet from the overhead's costs section of the application form.

The spreadsheet has two sections to fill:

- Indirect (administration) overheads.
- Direct overheads.

Once each section is completed the 'Total overheads' will calculate your total amount.

Indirect (administration) overhead

Selecting the indirect (administration) overheads link will take you to a template you'll need to complete to calculate these costs.

We class indirect overheads as those costs associated with back-office functions (such as finance, HR, administration staff) whose primary function is to support the running of a business enterprise. Typically, these costs are not directly related to a particular product or service production.

Indirect overhead costs are eligible for inclusion if they are incurred directly as a result of undertaking the project. They must be additional, which means over and above your business-as-usual costs.

Where you have already identified specific 'indirect' individuals working directly on the project, these should have been captured in the labour costs (tab 4) together with their attributable overhead.

We have provided cost categories in the template. The list below provides our definition for each category:

- **Board and senior management** - You may include a proportion of salary costs (including employer's NI) for board members and senior management where they are engaged in strategic or administrative tasks directly related to the project. For Innovation Loans, this can also include time spent on pre-commercial activities that support the exploitation of the R&D, such as leading on commercialisation strategy, developing market engagement plans, or overseeing activities that help move the innovation towards market readiness. Do not include time spent on general oversight, governance, or fully commercial activities such as routine sales or business-as-usual operations. You may include board or senior staff directly involved in delivering the project or supporting pre-commercial activities, for example, those contributing to R&D, customer engagement, or preparing for market entry.

- Administrative staff – You may include the salary costs (including employer's NI) of administrative staff who are directly supporting the delivery of the project. This may include staff assisting with project-related coordination, reporting, or logistics. For Innovation Loans, you can also include administrative staff supporting pre-commercial activities such as those assisting with sales, marketing, account management or customer engagement functions – provided these activities are part of the funded project and support the exploitation of R&D outcomes. Not applicable if your organisation is subject to the [Windsor Framework](#). It is your responsibility to ensure compliance with subsidy control rules.
- Human resources staff – The salary costs (including employer's NI) of human resource staff.
- Employed estates staff – The salary costs (including employer's NI) of employed cleaning, maintenance, security and other estates staff.
- Finance department staff – You may include the salary costs (including employer's NI) of finance staff directly supporting the delivery of the project, such as those involved in payroll, accounts payable, or project-related financial reporting. For Innovation Loans, you can also include finance staff supporting pre-commercial activities, such as those assisting with budgeting or financial planning for sales, marketing, or customer engagement, where this work contributes to the exploitation of R&D outcomes and is part of the funded project. Not applicable if your organisation is subject to the [Windsor Framework](#). It is your responsibility to ensure compliance with subsidy control rules.
- Administrative support temporary/agency staff costs – You may include fees paid for the provision of temporary or agency staff in administration or support services, where these roles directly contribute to the delivery of the project. For Innovation Loans, this can also include temporary or agency staff supporting pre-commercial activities that help exploit the outcomes of R&D. This may include operational roles in areas such as marketing, sales, engineering, quality assurance, research and development, or supply chain – provided the work forms part of the funded project. Not applicable if your organisation is subject to the [Windsor Framework](#). It is your responsibility to ensure compliance with subsidy control rules.
- General office IT services – You may include costs for general IT services that support the whole organisation, where they contribute to the delivery of the funded project. This could include shared systems used by project or commercialisation staff involved in eligible activities. Do not include IT costs that relate solely to non-eligible staff or activities such as manufacturing, production, or fully commercial (revenue-generating) operations. Not

applicable if your organisation is subject to the [Windsor Framework](#). It is your responsibility to ensure compliance with subsidy control rules.

- General postage – You may include postage and courier costs related to general administration or activities that support the delivery of the funded project. For Innovation Loans, this can include postage or courier services linked to pre-commercial activities, such as customer engagement, market research, or early product testing – provided they are part of the project and support the exploitation of R&D outcomes. Do not include postage related to product delivery, sales fulfilment, routine marketing, or ongoing account management once the innovation has launched. Not applicable if your organisation is subject to the [Windsor Framework](#). It is your responsibility to ensure compliance with subsidy control rules.
- Office supplies, printing and stationery costs – You may include general office supplies and stationery used to support the delivery of the funded project. This includes items such as paper, business cards, corporate stationery, and office equipment for eligible support or admin staff. For Innovation Loans, you may also include specific supplies or printing costs related to pre-commercial activities such as materials for market testing, customer engagement, or product literature, where these form part of the funded project and support the exploitation of R&D outcomes. Do not include costs related to product delivery, general sales fulfilment, or commercial marketing materials once the product or service has launched. If your organisation is subject to the [Windsor Framework](#), you are not eligible to the pre-commercial costs. It is your responsibility to ensure compliance with subsidy control rules.
- Security and safety costs – Include costs associated with site and staff safety and security including signage and health and safety costs.
- Building maintenance: administration office facilities only – Include general repair and maintenance costs of administration facilities. Do not include repair and maintenance of manufacturing/production facilities and exceptional items such as new works or extensions which are not eligible for inclusion in this section.
- Building rental: administration office facilities only – Where office space is leased you may include rental costs that support project delivery (including staff involved in R&D or pre-commercial activities). Do not include rental costs relating to manufacturing or production facilities, or the cost of any deposits or penalties.
- Contracted site services: administration office facilities only – Costs of contracted services relating to administration facilities such as cleaning of offices. Do not include contracted service costs related to manufacturing or production facilities.

- Site property taxes: administration offices facilities only – Property taxes and charges relating to office space. Do not include manufacturing or production facility property taxes and charges.
- Utilities: administration office facilities only – Electricity, gas, water, waste disposal, telecoms costs relating to administration office facilities.

Note for organisations subject to the [Windsor Framework](#):

- If your organisation operates in Northern Ireland and is subject to the Windsor Framework, you may only claim costs relating to capital usage and tooling/materials.
- It is your responsibility to ensure that all claimed costs comply with the requirements of the [UK Subsidy Control Act 2022](#) and the [Windsor Framework](#)

1.3 Materials costs

The costs of materials purchased from third parties to be used directly on your project are eligible. These may be for R&D activities or pre-commercial work that helps you exploit the results of your innovation (e.g. customer testing, validation, early-stage tooling).

If any material retains a residual or resale value at the end of the project, you must reduce the claimed cost accordingly.

If materials are supplied by associated companies or other consortium members, they must be listed at cost only, excluding any profit or margin.

Software purchased specifically for use during your project should also be included here. If existing software is reused, only additional costs incurred and paid between the project start and end dates can be claimed. Examples of eligible costs include installation, training, customisation, manuals, or bespoke configurations – these should be broken down and allocated to the relevant cost categories.

Note for organisations subject to the [Windsor Framework](#):

If your organisation is affected, only costs related to capital usage and tooling/materials may be claimed. It is your responsibility to ensure compliance with the [UK Subsidy Control Act 2022](#) and the [Windsor Framework](#).

1.4 Capital usage

You can claim the usage costs of capital assets (such as machinery, equipment, tools, or facilities) that are needed to deliver your project, including activities that support the exploitation of your R&D outcomes, provided the following conditions are met:

- They have a useful life of at least one year.
- They are stand-alone, clearly definable and moveable.
- They conform to your organisation's capitalisation policy.

Please calculate the usage value for all equipment and tools bought for use on your project with the following calculation:

- Original purchase price (excluding VAT) divided by depreciation period in months (as per your current capitalisation policy) = monthly depreciation charge.
- Project capital usage cost = (monthly depreciation charge x number of project months) x percentage of time used on project.

Worked example

An enterprise has a capital item with an original purchase price of £305,000. Their accounting policy states the cost would be depreciated over four years. This item is to be used on the project for 15 months for 15% of the time only. The calculation for the direct project-related costs of this item would be:

£305,000 divided by 48 months equals £6,354. Therefore, the cost to the project should be £6,354 multiplied by 15 project months. Applying 15% utilisation would equal £14,296.

Note for Innovation Loans:

Capital usage costs can now support both late-stage R&D and eligible pre-commercial activities, such as using equipment for early production scale-up or to validate a product in real-world settings. You can now drawdown these costs throughout the project period.

1.5 Subcontract costs

You can claim costs relating to work carried out by third-party organisations that are not part of your project team. The work must:

- Be essential to the success of your project.
- Involve expertise that does not exist within the project team.
- Involve skills that it is not practical to develop in-house for your project.

You should name the subcontractor (where known) and describe what the subcontractor will be doing and where the work will be undertaken.

Subcontracted work can include eligible activities that support the exploitation of R&D outcomes, such as customer testing, product validation, market engagement, or early production support, so long as it aligns with the updated cost eligibility for Innovation Loans.

Any work supplied by associated companies should be charged at cost. Where subcontractors are non-UK based, please justify why you are unable to use a UK alternative.

There may be exceptional circumstances where a partner can also be a subcontractor within a project. In these circumstances we would need a full explanation as to why this option has been chosen over claiming the costs within the relevant partner organisation's own application.

Subcontract services supplied by partner companies should exclude any profit element and be charged at cost. Where a partner is also a subcontractor within a project, it is important that a company in receipt of the project funding stays within state aid limits.

This does not include independent auditor or accounting reports (IARs) which are required as part of IUK terms and conditions for project assurance and compliance. IARs and accounting services are an ineligible cost and therefore, are unable to be claimed under any cost category.

1.6 Travel and subsistence costs

You can claim reasonable travel and subsistence costs for those individuals identified in the labour tab. Costs must be necessary and incurred exclusively for the progression of your project. Travel costs must be at economy travel only.

You should provide details and the purpose for the expenditure, including the number of staff involved.

See the [HMRC guidance](#) and the [HMRC employment income manual](#) for more information.

You should provide details and the purpose for the expenditure, including the number of staff involved and mode of transport.

Separate the types of travel on separate lines, for example:

- Car mileage (at 45p per mile)

- Flight ticket
- Taxi
- Hotel accommodation (with breakfast included in price)

Ineligible costs include:

- Purchase of fuel
- First-class travel
- Entertainment or marketing
- Visas
- Unreasonable food costs (overnight stay)

1.7 Other costs

This category can be used for any direct project costs which are not covered in the other categories. Examples of other costs include:

Working capital (Innovation Loans only)

You may include up to 20 percent of the total loan and/or the commercialisation work package to cover working capital costs necessary to support the exploitation of the project outcomes. These costs must relate directly to preparing for or enabling commercialisation and may include:

- Increased stock levels.
- Investment in supply chain processes.
- Temporary increases in operational expenses linked to commercial readiness.

You must provide a clear breakdown of any proposed working capital costs and explain how each cost supports the commercialisation of the project outcomes. Justifications should be included in your application and must be proportionate, specific, and aligned with the delivery timeline.

Note: This is not available to you if your organisation is subject to the [Windsor Framework](#). It is your responsibility to ensure compliance with the [UK Subsidy Control Act 2022](#).

Workshop or laboratory usage charge outs

Costs relating to workshops or laboratories that can be identified specifically as directly attributable to the project can be claimed in this section.

You should provide details of how the workshop or laboratory charge out rates are calculated per hour or day. This can include specific labour (such as staff permanently in place to maintain and run the workshop or laboratory and not considered project specific), rent, rates, maintenance and equipment calibration costs. These should form the overall costs together with the available operational

hours to inform the hourly/daily charge out rates. Each workshop or laboratory will need to be supported with actual usage data to claim costs.

Training costs

These costs are eligible where they are specific to and necessary for your project. We may consider support for management training specific to your project but will not support ongoing training.

Preparation of technical reports

Project costs related to technical reports may be eligible for example, where the main aim of your project is the support of standards or technology transfer. You should show how this report is above and beyond what good project management would produce.

As mentioned above in 1.5 Subcontracting, IARs and associated accounting costs are ineligible.

Market assessment

There is some scope for support of market assessment studies to help understand how your project results are applicable to the intended market. Market research as a promotional tool is ineligible.

Licensing in new technologies

We may consider support where we deem it makes sense to do so, for example, to avoid 'reinventing the wheel'. If imported technology makes up a large part of your project (which is technology valued at more than £100,000) then we expect the development of that technology as part of your project.

Patent filing costs for new intellectual property (IP)

IP costs generated by your project are eligible. This cost is allowable for SMEs up to a limit of £7,500 per partner. These should not include legal costs relating to the filing of trademark related expenditure as these are considered to be marketing/exploitation costs and therefore ineligible.

Regulatory compliance costs are eligible if necessary to carry out your project.

Note on subsidy control and [Windsor Framework](#): If your organisation is subject to the [Windsor Framework](#), your eligible costs may be limited. It is your responsibility to ensure that your claimed costs comply with subsidy control rules.

2. Project location

You will need to state the postcode where most of the project work will take place.

3. Your organisation

You must complete this section with:

- The size of your organisation to determine the level of funding you are eligible for.
- your turnover from the last financial year.
- The number of full-time employees at your organisation.

In certifying your organisation status, please pay particular attention to organisation ownership. Make sure you follow the [company accounts guidance on GOV.UK](#) when establishing your organisation size. This is a change from the EU definition unless you are applying under State aid.

If State aid applies to your organisation, then you will follow the [EU definition for company size on the European Commission website](#).

4. Your funding

You will be asked:

- If you are requesting funding.
- If so, select the percentage of funding you are requesting, based on your organisation size and project research category.
- If you have received any other public sector funding for this project and to provide details if the answer is yes.

Before you complete the 'your funding' section, you must have:

1. Completed all finance sections.
2. Marked all the sections as complete.

The lead applicant must also have chosen the research category and marked it as complete. This can be found in the Project details of your application.

Last updated: July 2025