



Innovate  
UK

# Innovation loans



## Innovation Loans – FAQs

### ***Who is eligible for an Innovation Loan?***

Innovation loans are available to SMEs for later stage R&D with a clear route to commercial success where they can evidence that their business is suitable to take on a loan and there is a need for public sector support.

### ***How much can I borrow?***

Innovation Loans are available from £100,000 to £2m or up to 100% of eligible costs of the project.

### ***How long can I borrow for?***

The maximum term of an Innovation Loan is 7 years. This can be made up of any structure of the following:

Stage 1: availability period of up to 3 years during which drawdowns will be permitted.

Stage 2: extension period of up to 2 years during which no further drawdowns will be permitted.

Stage 3: repayment period of up to 5 years.

### ***What is the interest rate and when is interest payable?***

The interest rate is 7.4% per annum. Interest is payable in the availability and extension periods, at 3.7% pa on amounts drawn, with interest at 3.7% pa deferred to the repayment period. Interest is payable in the repayment period at 7.4% pa, together with repayment of amounts drawn and the deferred interest.

We believe that innovation loans will stimulate and support innovation while also providing value-for-money for the taxpayer.

### ***What can an Innovation Loan be used for?***

The funding is available for late-stage R&D (experimental development) projects.

An innovation loan can cover up to 100% of the eligible project costs of your project. The guidance for applicants describes 'eligible costs' in detail: [Guidance for Applicants](#) and [Project Finance Guidance](#)

### ***Can the loan be used for capital equipment needed for the R&D project?***

Usage of capital equipment in the project is an eligible cost. This is described in the guidance for applicants: [Guidance for Applicants](#) and [Project Finance Guidance](#). The amount of eligible cost relating to usage of capital equipment in the project can be drawn down when needed to fund the purchase of the equipment.



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## ***Will the innovation loan be secured?***

We will take security over the assets of the company in the form of a debenture. The innovation loan does not depend on the value of the assets as security.

Where there is a charge in favour of a senior secured commercial lender (now or in the future), we will expect to be subordinated and cede priority through a deed of priority. Since they can participate in the 'upside' of the growth of the business, we do not consider equity holders to be senior secured commercial lenders, so we would expect to have priority over any charge that they may have (for example if there is a secured convertible loan) and would require them to cede priority to us by way of a deed of priority.

IP / intangible assets do not need to be valued. The debenture is a fixed and floating charge over all assets of the company, without ascribing any particular value.

We will not require any personal guarantees from founders / directors / shareholders etc. We will not take security over personal property.

## ***Are there any ongoing requirements during the period of the loan?***

You will be required to adhere to some covenants:

- Liquidity Ratio of 1.1x throughout the loan. This means the business' current assets exceed its current liabilities by 10% and shows the business is able to meet the interest payments in in the availability and extension periods and thereafter meet loan repayments.
- Debt Service Coverage Ratio of 1.2x throughout the repayment period. This shows your earnings before interest, tax, depreciation and amortisation (EBITDA), effectively your free cash flow, will be 1.2X your interest and repayments.

The financial Covenants are tested quarterly.

- Project monitoring – This will be through a Project Monitoring Officer. They will make sure that your project is on track and performing well to achieve success at the end of the project.
- Provision of Quarterly management accounts
- Provision of Annual accounts (within 6 months of year-end)

Failing to meet the covenants would constitute a breach of the terms of the loan agreement. If not rectified within the period permitted in the loan agreement, this is likely to constitute a default, which might lead to a demand for repayment. Please read our guidance for further information: [What Happens if you Default on the loan](#)

## ***When can I make drawdowns on the innovation loan?***

Drawdowns will be staged and paid quarterly in advance based on project milestones. Drawdowns will be subject to project progress, monitoring officer sign-off and financial and reporting covenants being met. The full amount cannot be drawn at the outset.

We will baseline the drawdown profile up front. If the requirement changes, this will be managed through the monitoring officer.

## ***Can you revise your project forecast timetable so that drawdowns match actual spend rather than forecasts made up to 2 years in advance?***

Yes, there is a project change request and drawdown change request process.



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## ***Can the loan be repaid early without penalty?***

Yes - no early repayment fees apply.

## ***Is there a minimum revenue requirement?***

There is no minimum revenue requirement. We consider the overall suitability of the business for an innovation loan.

## ***Can you have partners in the application?***

No. This is for single applicants only, not for collaborative R&D.

## ***How will the applications be assessed?***

The project proposals will be assessed on the quality of the innovation by Assessors who will have the necessary expertise in your innovation area to assess the project. Assessors are briefed and given specific guidance on the scope of the competition, as well as a scoring matrix.

The Business and Financials assessment will be undertaken by the Credit Team of Innovate UK Loans Ltd (IUKL) with final decisions resting with the Credit Committee of IUKL. We consider both historic and forecast information in our credit evaluation. It's about understanding how you will grow the business through innovation to get to profitability - and telling that story in a credible way.

## ***What do I need to do if I have been told I have been successful?***

Upon notification of a successful application, applicants will have received a link to electronic loan documentation for review and e-signature.

## ***Can I appeal if I get turned down?***

The decision of the Innovate UK Credit Committee is final and there is no right of appeal.

If you are dissatisfied with the process leading to the decision then you should follow Innovate UK's standard process set out here: <https://www.gov.uk/government/organisations/innovate-uk/about/complaints-procedure>.

## ***What do you think the success rate will be for applicants?***

In the extended pilot and innovation continuity loans competitions we had about 1000 applications and made about 200 loans, giving an overall success rate of about 20%

## ***Can I use the loan to (partially) refinance more expensive debt?***

Refinancing existing debt is not an eligible cost for which an innovation loan can be used. This would also not demonstrate the required value add or 'additionality' of government funding.



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## ***Are there limitations to when the company can start the commercialisation of the products that will come out of the project funded by the loan?***

We expect that 'pre-commercial' activity will occur in the extension period and that 'fully commercial' activity will occur in the repayment period. The extension period ends when the first commercial sales from the exploitation of the results of the project funded by the loan are achieved.

## ***By "scale up" rather than "start-up", does this mean an innovative idea that already has some progress on technology readiness levels, or does it mean a business that has traded for some years, and might have some new innovation they want to fund?***

Innovation loans are for late-stage R&D (experimental development), where progress on TRL levels will already have been made.

Further innovation by established businesses would be within the scope as well as new innovation by less established businesses.

## ***Why do I have to provide so much financial information?***

You must provide historic and forecast financial information so that we can form a judgement about your suitability to take on a loan of the amount and for the period you have requested. We recognise that forecasts will involve judgements and we are interested in the assumptions that you use in your forecasts, as set out in the narrative answers to the survey questions. We want you to be sure that you can demonstrate to your own business (including for example your Board and your shareholders), as well as to us, that a loan is suitable for you.

## ***Why will I have to provide quarterly financial information?***

It is important that regular financial information is provided to us so that we can be sure of the financial health of your business. If you fail to meet any of the regular financial tests of liquidity and/or debt service, we may have to withhold any further drawdowns of the loan until the situation is rectified and may need to take further steps to recover the loan and enforce our security. This is described in the loan agreement and it is important that you take legal advice before you enter into the loan agreement.

## ***Will you undertake stress analysis of our financial information?***

Yes. We will consider scenarios that are appropriate for the business, which will typically include delays and reductions in revenue generation, reductions in gross margins, delays and reductions in capital raising.

## ***Does balance sheet need to have IP value included? (past and future)***

We do not require this.

## ***In the financial spreadsheet, should we show only financials, such as sales, cost of sales, etc for the project we are applying the innovation loan to cover, or everything in the company?***

The business financial spreadsheet should cover the entire business, not just the project and its outcomes.



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## ***Can I get help to complete the business information survey?***

The business information survey contains a link to detailed guidance to help you complete this.

## ***Can I get help to complete the financial spreadsheet?***

The financial spreadsheet contains a link to detailed guidance to help you complete this.

## ***How much (%) of the project costs can be used for subcontractors/suppliers, and can any (%) of the project costs be for overseas purchases?***

There are no specific percentages. You should demonstrate in your application why subcontractors and/or overseas costs are necessary, proportionate and value for money.

## ***Can you have a team of freelancers rather than employees for the project?***

Yes, but they should be shown as sub-contractors if not employed by the applicant and paid through PAYE.

## ***Are sales and marketing costs applicable?***

Sales and marketing activities are typically considered to be commercial activities and therefore not part of R&D activities - and therefore not eligible project costs.

If you can reasonably demonstrate costs that are 'pre-commercial' rather than 'commercial' then they may be considered to be eligible costs.

## ***What level of management team needs to be on-board?***

You should demonstrate the availability of suitable management resources for your business when required to deliver both project and commercial success.

## ***Can you please clarify how the financial requirements differ from those of a bank?***

We have a very different risk appetite from commercial lenders (as we accept innovation and associated market risk) and a different approach to credit analysis (which is more focused on future cashflows than on historic performance and the availability of collateral). We must be a responsible lender and manage public money, so we do consider suitability and affordability.

## ***I don't like [X] clause in the loan agreement - how do I get it changed?***

It is not our intention to negotiate loan agreements individually.



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## ***What if I can't pay back the loan?***

If your business is unable to make payments of interest when they fall due and/or unable to make repayments of the loan, then we will follow the terms of the loan agreement and the security document. This means that we may withhold further drawdowns under the loan and may need to make a formal demand for repayment and enforce the terms of the agreement and the security document. Our policy is to be a responsible lender and we will work closely with you. We have also included a provision in the loan agreement that permits us, in certain circumstances, to convert the loan and accrued interest into shares in your company if you are, or are unlikely to be able to, repay the loan. The intention of this provision is to enable us to consult with you and seek to find an alternative repayment mechanism if you encounter financial difficulties.

## ***If I take a loan now, what will happen when I need to raise investment in the future?***

The innovation loan will remain in place when you raise new investment, although you are permitted to repay early without penalty if you wish. In the existing innovation loans pilot programme, we have found that our loans have not been a barrier to raising additional investment. If you take on senior secured commercial debt in the future, we will be prepared to cede priority in our security to a commercial lender.

## ***Is there any precedent for pre-revenue early-stage companies getting a loan? If so, how do they typically meet the liquidity criteria.***

Pre-revenue companies may apply. We will consider affordability, based on the capital position of the business and its forecasts for revenue generation, in our credit evaluation to ensure that a loan is suitable.

In some cases, they are able to meet the liquidity criteria through having raised capital from investors.

## ***We are a UK company, but involved in an international project in which Innovate UK funds both our business and our international partners: will we/they be eligible for a loan?***

Only individual SMEs – not consortia, sub-contractors or other project partners (e.g., universities or large companies) – may apply for an innovation loan. Only UK-registered SMEs may apply.

## ***My project is not commercialised yet, so I have no income, why are you asking me to pay interest in the first 2 phases rather than delaying all interest repayment into the Repayment Period.***

Innovation loans, because they are for SMEs who are carrying out projects that are highly innovative, are very risky for government as a funder through Innovate UK Loans Ltd. In our judgement, the deferral of all interest in such a high risk situation is likely to increase the possibility of a borrower being unable to repay loans when the repayment period starts. We wish to be a responsible lender and we will only lend to organisations who we consider to be suitable to take on a significant loan commitment and who are likely to be able to make payments of interest and repayments. In order to reduce the impact on cashflows in the early period of the loan, we have structured the loan to have a partial interest deferral during the availability and extension periods, as well as having the interest-only extension period to provide an opportunity to reach commercial success from the results of the project before repayment begins.





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## *Should I be getting an accountant to submit the financial information?*

Whilst this is not a requirement to submit an application for an Innovation Loan, it may allow for a more complete and thorough application. A loan is a significant commitment, so we would always recommend that you take expert legal and financial advice in deciding whether to apply for an innovation loan and in preparing your financial submission. Links to the main accountancy bodies are set out below:

- The Institute of Chartered Accountants in England & Wales (ICAEW) has an online [directory](https://www.icaew.com/about-icaew/find-a-chartered-accountant) of its members across the UK, including those who are also part of the Business Advice Service, which enables SMEs and start-ups to receive an initial consultation at no charge from an ICAEW Chartered Accountant. (<https://www.icaew.com/about-icaew/find-a-chartered-accountant>). Businesses who are also seeking specialist corporate finance advice may also refer to a listing of the [member organisations of ICAEW's Corporate Finance Faculty](http://www.icaew.com/cff) ([www.icaew.com/cff](http://www.icaew.com/cff)).
- The Institute of Chartered Accountants of Scotland (ICAS) has an online [directory](https://www.icas.com/find-a-ca) of its members. (<https://www.icas.com/find-a-ca>).
- Chartered Accountants Ireland (CAI) has an online directory of its members, including those in Northern Ireland. (<https://www.charteredaccountants.ie/Find-a-Firm>)
- The Association of Chartered Certified Accountants (ACCA) has a directory of its member firms. (<https://www.accaglobal.com/an/en/member/find-an-accountant/find-firm.html?isocountry=GB>)

## *Is the loan right for me?*

Innovate UK are not able to offer financial advice. For more information on the types of support available to businesses we recommend the following sources:

- Further advice and support designed to help you grow your business is available from Innovate UK EDGE. This is a key part of the UK innovation agency's investment in the innovative businesses that drive economic growth. They bring together a range of services to help ambitious, innovative SMEs scale and grow and help them with exploiting innovation, entering new markets and sourcing funding [Innovate UK EDGE](#)
- Additional support is also available from [Great Business Gov](#) 0300 456 3565 in England, Invest Northern Ireland [Invest Northern Ireland](#) 0800 181 4422, Business Wales [Business Wales](#) 03000 6 03000, Scottish Enterprise [scottish-enterprise](#) 0845 607 8787 or Highlands and Islands Enterprise [Highlands and Islands](#)
- The British Business Bank website provides information, advice and useful links for smaller businesses that are seeking finance. To understand and identify other finance options to help grow your business you can click here: <https://british-business-bank.co.uk/finance-options/>. The British Business Bank has also designated a number of online finance platforms that the main banks are obliged to refer small businesses to if they reject their applications. While Innovate UK is not a participant in this referral scheme, further information about these finance platforms and links to them can be found at: <https://british-business-bank.co.uk/finance-platform-referrals-designated-platforms/>.
- The UK Business Angels Association and British Private Equity & Venture Capital Association websites also provide useful advice and links for entrepreneurs that are considering raising equity investment to grow their business. The UKBAA services for entrepreneurs can be found here: <https://www.ukbaa.org.uk/services-for-entrepreneurs/>. The BVCA services for entrepreneurs can be found here: [BVCA](#)
- We would like to take this opportunity to remind you of the Government's commitment to promote innovation and to encourage you to remain aware of opportunities offered by future competitions. Details of



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all future competitions are posted on the Innovate UK website

<https://www.gov.uk/government/organisations/innovate-uk>.

## ***Are you regulated by the FCA?***

Innovate UK Loans Ltd is not authorised or regulated by the Financial Conduct Authority. Innovation loans are offered only to corporate entities or large partnerships for business purposes and are therefore not covered by the Financial Services and Markets Act 2000 or the Consumer Credit Act 1974. You should take specific legal advice if your organisation is either a partnership consisting of two or three persons, not all of whom are bodies corporate, or an unincorporated body of persons that does not consist entirely of bodies corporate.

## ***Will there be further innovation loans competitions after this one?***

We will be running a series of innovation loans competitions throughout the year and will publicise these in newsletters, social media, online websites and through our teams and other partner organisations.

*Updated Oct 2022*