

State Aid – funding for businesses

State Aid guidance: For applications hosted by business or collaborating with business

UKRI supports UK research organisations and businesses to invest in research, development and innovation. Some of the support we provide that involves a business or undertaking can be considered to be 'State Aid', which must operate under European Commission State Aid rules. This will be the case if a business is the host of the fellowship or receives grant funding through the fellowship and may be the case if there is significant collaboration with a business even where the Host is a research organisation.

What is State Aid?

State Aid is a term used by the European Commission. It describes assistance from a public body or publicly-funded body given, on a selective basis, to Organisations who take part in commercial activity.

The State Aid rules are designed to regulate subsidies and stop public authorities from distorting markets. They are also designed to help public authorities make sure that public resources are being targeted to where they are most needed. The State Aid branch of the Department for Business, Energy & Industrial Strategy (BEIS) has lead responsibility within the UK for coordination and development of State Aid policy. The [BEIS State Aid guidance](#) has further information.

What does it mean in terms of funding?

The UKRI FLF scheme will fund at a level in accordance with prevailing State Aid guidance. This will be based on the type of research and/ or innovation undertaken and the size of business or commercial entity involved in the application (see below).

For all fellowships where State Aid is confirmed, UKRI will notify the appropriate bodies at point of award, as required by prevailing State Aid guidance. Additional financial reporting may be requested at intervals during the duration of the fellowship.

When will State Aid apply?

Business hosts

For this purpose, a business is defined as any organisation undertaking commercial activities, which can include some charities or not-for-profit entities. In most cases, this will be an organisation eligible to apply to Innovate UK and not eligible to apply to UKRI at an fEC level, and nor is a Research Council Institute or Catapult.

Where a fellowship is hosted by a business (where funds are paid directly from UKRI into a business without passing through an eligible research organisation) direct State Aid will be assumed to apply. The funding levels and any additional reporting and governance associated with the grants will apply.

Host Organisations eligible to apply for fEC (HEI/IRO/UKRI Institute) in collaboration with one or more businesses.

Where the fellowship is hosted by an academic, research or other organisation which is usually funded at fEC rates, State Aid may apply if they are collaborating with a business (under the definition of business above).

In general, State Aid will not be deemed to be a concern where:

- The business partner does not seek a pre-negotiated right to any academically generated foreground project Intellectual Property (IP)
- Where a business partner is being paid full market rate for their services (i.e. a subcontractor) and Intellectual Property Rights (IPR) are not deemed a concern, and are wholly owned by the academic partner
- Any IPR generated by the academic partner are fully allocated to the academic partner
- The data generated from the research can be placed in the public domain within a reasonable timeframe.

Under these circumstances, the business partner may have a right to negotiate for access (at a fair market price) to the academic party's IPR but terms cannot be agreed until the project is completed.

UKRI does not deal with IP rights arising from research funded by grants for extramural research. Ownership and responsibility for the exploitation of intellectual property generated through the activities of the academic party rests with the academic party's institute, who have a responsibility to ensure that value for money is sought.

State Aid is likely to apply where:

- The industry partner wishes to pre-negotiate access to or own academically generated foreground project IP
- The industry partner is the only party with a plausible path to exploit academically generated foreground project IP (e.g. development of a software tool based on a commercial platform).

Where State Aid concerns apply, UKRI can only provide a set proportion of the total project cost, with the remaining funding to be met by the partner(s). This contribution should make up an appropriate proportion of the total project cost (industry plus academic costs) calculated using the table in section three.

Fellows, Host Organisations and their collaborators should assess whether they believe State Aid will be a factor before application and seek to agree draft terms prior to submission of the proposal. Host Organisations should highlight in their Cover Letter if they believe State Aid will apply and details of Partner contribution should be included in the Letters of Support attached to the application.

For all applications with business involvement, applicants will be expected to complete a Future Leaders Industry Collaboration Agreement (FLICA) form. These will assist in defining the relationship between the parties; allowing partners to work out and clearly specify arrangements for relative responsibilities, governance, regulatory approvals, indemnity, intellectual property rights, reporting, and access to data and samples before a project starts. These processes will also allow UKRI to define whether the proposed collaboration arrangements are eligible under EU State-Aid regulations for UKRI funding.

The FLICA process will only be started once an application has been recommended for funding, regardless of whether an applicant has declared that State Aid will apply. It will ask applicants and their partners to set out:

- Details of the lead fellow and industrial partner
- The objectives of the collaboration
- The collaborators and their contributions
- The type of research and/ or innovation within the proposal
- How the results of the collaboration will be disseminated

- Whether the academic applicants have a direct or indirect interest in the industrial collaborator(s) and, if so, how conflicts of interests between the parties are being managed.
- The value of the industrial party's contribution
- How IP emerging from the collaboration will be managed
- A draft 'heads of terms document' which provides a draft agreement between all parties and their proposals for provision of intellectual assets

Only one FLICA form will be required to cover all partners to the research. Each FLICA will be independently assessed to determine the suggested funding level.

Where State Aid is found to be a concern and it was previously undeclared, or where UKRI is advised that funding levels should differ than those detailed in the proposal, approval of the application will be withheld pending a revised arrangement between the collaborators, alteration of the funding levels or other changes to the satisfaction of UKRI.

Awards of funding subsequent to the FLICA process will be conditional on the provision of a fully signed and legally binding collaboration agreement between partners within six months of the fellowship award. A Collaboration Agreement must be signed by all relevant parties before the research project can commence.

State Aid: Funding levels and additional considerations

Where State Aid applies, funds will be provided at a level based on the size of business(es) involved, the nature of the research and/ or innovation within the programme and the overall cost of the program. Host Organisations will be provided funding at the following rates (based on the prevailing State Aid guidance at point of publication):

Applicant Business Size	Fundamental Research	Feasibility Studies	Industrial Research	Experimental Development
Micro/Small	100%	70%	70%	45%
Medium	100%	60%	60%	35%
Large	100%	50%	50%	25%

Example:

An academic host and a single large business collaborate on a proposal which covers industrial research. It is agreed that the business will own all IP arising from the project and therefore it will fall under State Aid. The full costs of the programme total £1M. The business would therefore be required to contribute £500k towards the project costs.

The definition of micro, small and medium-sized enterprises (SME) used by UKRI is set out in the [European Commission Recommendation of 6 May 2003](#). A large business in this context means any enterprise which is not an SME. Where multiple companies are in collaboration, the business size of the largest partner will determine the funding rate.

The classifications of research in this context are defined as:

Fundamental research

This means experimental or theoretical work primarily to gain new knowledge of underlying phenomena and visible facts, without any direct practical application or usage.

Feasibility studies

This means analysis and evaluation of a project's potential, aimed at supporting the process of decision making. This is achieved by uncovering its strengths, weaknesses, opportunities and

threats as well as identifying resources needed and the prospects for success. Feasibility studies will usually help businesses decide to work either individually or collaboratively with other industrial or research organisations, before conducting a subsequent larger project.

Individual competition scopes will define their own requirements for feasibility studies in terms of project size and length.

Industrial research

This means planned research or critical investigation to gain new knowledge and skills. This should be for the purpose of product development, processes or services that lead to an improvement in existing products, processes or services. It can include the creation of component parts to complex systems and may include prototypes in a laboratory or environment with simulated interfaces to existing systems, particularly for generic technology validation.

Experimental development

This means the acquiring, combining and shaping of existing scientific, technical and other relevant knowledge and skills. This would be to produce plans, arrangements and designs for your products, processes or services. This can include producing drafts, drawings, plans and other documentation as long as they are not intended for commercial use.

It can also include the development of commercially-usable prototypes and pilots. This would only be allowable if the prototype or pilot would be too expensive for demonstration purposes only. Any revenue made from it, must be deducted from the eligible costs.

Experimental production and testing of products, processes and services is also eligible provided they cannot be used, in any form, in industrial applications or commercially.

Experimental development should not include routine or periodic changes to products, production lines, manufacturing processes, existing services and other operations in progress, even if such changes may represent improvements.

Projects that span more than one category of research

Sometimes projects include work packages with more than one category of research. For example, a project may include elements of industrial research and experimental development. In this case, you would need to identify:

- the main research category (this will be where more than 50% of the eligible costs will be incurred)
- which other categories the other work packages fit into
- the appropriate level of funding for the total project, for example for a large company if 80% of a project is industrial research and 20% is experimental development, the total eligible funding is 45% (80% @ 50% = 40%, and 20% @ 25% = 5%)

You should apply for grant funding equivalent to the aggregated work packages.

Decisions on funding levels will be made on a case by case basis, and where there is doubt, individual applications will be assessed independently to determine where State Aid should apply. UKRI's decision on levels of funding are final.