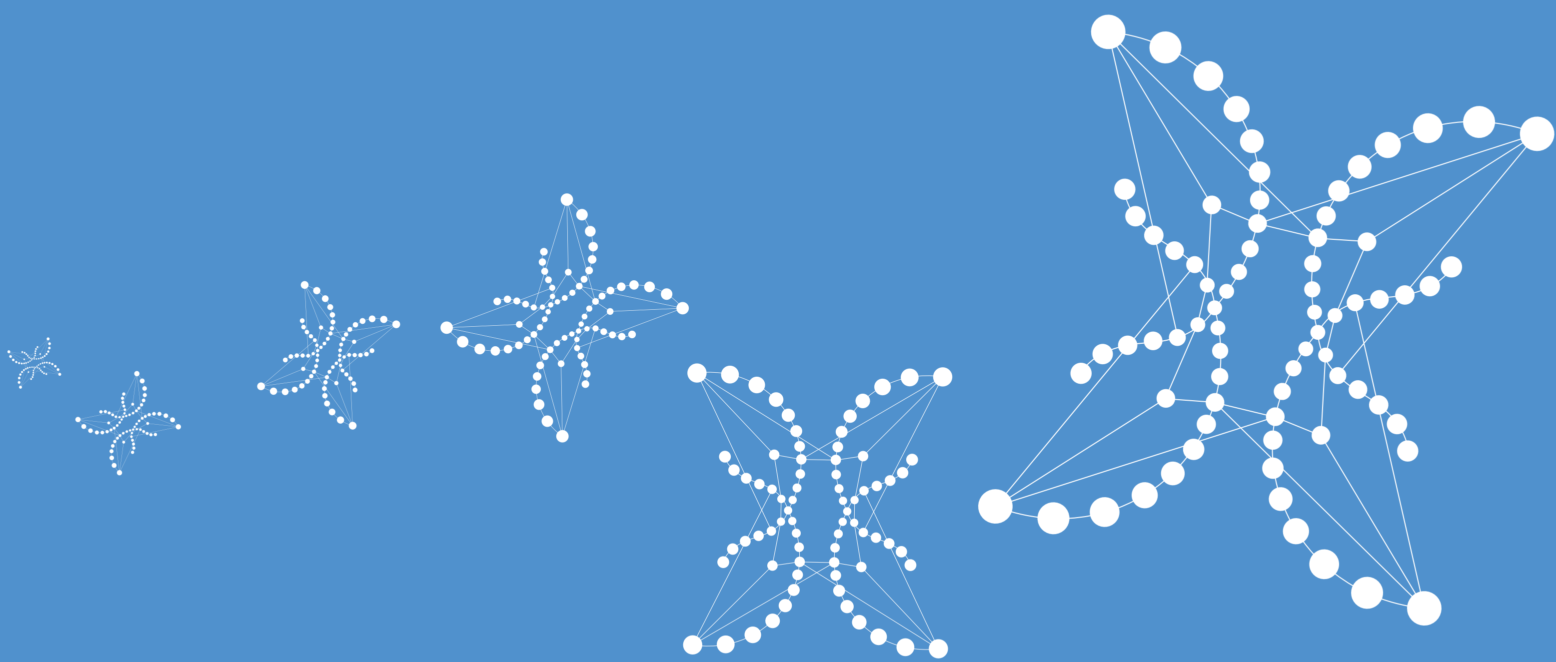
NESTA Making Innovation Flourish

Annual Report and Accounts

For the year ended 31 March 2010



National Endowment for Science Technology and the Arts (NESTA) Annual Report and Accounts 2009/10

Presented to Parliament pursuant to Sections 22(5) and 23(4) of the National Lottery Act 1998.

Ordered by the House of Commons to be printed on 21 July 2010.

Laid before the Scottish Parliament by the Scottish Ministers.

HC 204 London: The Stationery Office £14.75
SG/2010/128

ISBN: 978 010296835 4

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID P002378688 07/10

Printed on Paper containing 75% recycled fibre content minimum.

Contents

About NESTA

NESTA is the National Endowment for Science, Technology and the Arts – an independent body with a mission to make the UK more innovative. We invest in early-stage companies, inform and shape policy, and deliver practical programmes that inspire others to solve the big challenges of the future.

Our endowment (originally £250 million) was established by lottery funding in 1998, and supplemented in 2006 with a further £75 million of lottery funding, drawn down over five years. Our endowment status means we operate at no ongoing cost to the UK taxpayer. Our endowed funds allow us to act differently from others – to take a longer-term view, and develop ambitious models of innovation that others can replicate or adapt. Our independence and ability to work across different sectors means that we are able to bring together ideas from a wide range of perspectives, and to assume a greater burden of risk than others.

NESTA does not work alone. Our success depends on the strength of the partnerships we form with innovators, policymakers, community organisations, educators and other investors. We bring the best ideas, new flows of capital and talented people together, and encourage others to develop them further.

The year in review: 2009/2010

This report is divided into two parts. The first is a review of our main activities, programmes and launches during 2009/10 (pages 6 to 9). The second part (pages 10 to 65) contains the Financial Statements for 2009/10, including the Directors' Report and Management Commentary.

This report should be read alongside NESTA's Annual Review 2009, published in March 2010, which can be downloaded (along with previous Annual Reports and Annual Reviews) from the NESTA website at **www.nesta.org.uk/annual-reports**.

Overview of developments

In 2009/10, as the scale of the economic and social challenges facing the UK became apparent, innovation moved into the mainstream of public debate. There was widespread recognition that bold new ideas and approaches are urgently needed.

NESTA's work has focused on the role of innovation in answering two pressing questions: How can the economy return to growth? And how can we deliver better public services at less cost?

Economic growth

High-growth companies

In October we published **'The vital 6 per cent'**, which summarised findings from a detailed analysis of business growth, covering all UK firms for the best part of a decade. The results revealed that a small group of high-growth firms – only 6 per cent of existing businesses with more than ten employees – generated half of all new jobs created between 2002 and 2008. It also showed that the main driver of their high-growth success was innovation. Innovative companies grow twice as fast (in terms of both employment and sales) as firms that fail to innovate.

Financial architecture

In June we published a major report, **'Reshaping the UK economy'**, which highlighted the serious problems facing young high-growth companies in accessing the right forms of early-stage finance they need to thrive. These types of business require significant up-front capital, and often take time before generating revenues, which makes them a higher risk proposition for cautious lenders. Venture funding is the most appropriate solution, but our research shows that existing venture funds have very little money left to invest.

We welcomed the government announcement in June of the new **UK Innovation Investment Fund (IIF)**, which picked up on many of our recommendations on how public and private investment can work together effectively to support early-stage companies.

Innovation Index

In November we launched the **Innovation Index**, which provides a detailed analysis of the contribution made by different forms of innovation to the UK economy. This initial pilot version of the Index (the final form will be ready in autumn 2010) focused on private sector innovation, and revealed a direct link between companies' investment in innovation and their productivity output. It found that a full two-thirds of UK private sector productivity growth between 2000 and 2007 was driven by innovation.

Open innovation and collaboration

In 2009/10 we continued our work with a range of corporate organisations to test different methods of 'open innovation', where a large company develops new ideas for products and services in a more open partnership with its customers, suppliers, employees and even competitors.

In late April, the latest **Crucible** programme started with the first of four weekend innovation camps. The programme brings together researchers from different fields who would not normally interact, to see how interdisciplinary collaboration can help generate new ideas.

In May we jointly hosted (with the Wellcome Trust and Creative Commons) a conference called **Open Innovation and IP**, which examined how Creative Commons tools can encourage innovation by allowing artists, scientists, researchers and businesses to share and collaborate more openly.

Throughout the year, we worked with Cancer Research UK and mo.jo on the **Open Ventures Challenge**, an online community of entrepreneurs creating new venture ideas to raise £10 million for the cancer charity. In July we announced the three winning ideas: Project Rose, Open Gym, and Extraordinary Experiences.

Also in July, we jointly hosted (with H-I Network) a seminar on **Innovating out of a recession** to discuss the results of a survey into how the recession is affecting innovation in FTSE-100 companies. The research revealed that nearly two-thirds of the companies surveyed planned to increase their levels of open innovation in response to the recession, with only a fifth saying they planned to cut back.

In October we launched **Orange Service Call + Reward**, an open innovation project with Orange to test the concept of 'shared risk and reward', a method for large corporate organisations to work with external partners for mutual benefit.

Public services innovation

In March 2009 we launched the **Public Services Innovation Lab**, which is designed to test radical new ideas for delivering better public services in the UK for less cost.

During 2009/10 the Lab developed a range of programmes to test the concept of 'people-powered public services', a way of reducing spending and improving outcomes by giving genuine power to frontline staff, patients and the public in the design and delivery of services.

The Lab's work is divided into four main areas of focus, based on the different ways people use and interact with their public services: as individual users; as frontline workers; as communities; and as members of new, technology-enabled social and professional networks.

User-led public services

In April, we launched **Age Unlimited**, a programme that works with people in their fifties and over to develop innovative ideas for more flexible work practices in later life. Age Unlimited has four project strands, each examining a specific challenge facing the older workforce: opportunities for exploring flexible work extension beyond the mandatory retirement age; possible new labour markets for older people; preparing for ageing; and shifting popular misconceptions about ageing and older people.

Our practical work in this area of user-led public services is supported by focused research. In April we published two reports. **'The new old age'** is a collection of essays setting out professional and personal perspectives on what being 'older' means in a society where people live and work to a much older age than in the past. **'Preparing for ageing'** is a summary report that describes the challenge of an ageing society, and assesses the role that innovation currently plays (and could play) in addressing that challenge. Based on a full report commissioned by NESTA from Deloitte, it covers the public, private and voluntary sectors across five areas: housing; the local environment; health and social care; personal finance; and social inclusion.

In September we published **'Third age entrepreneurs'**, which examines the increasingly important economic contribution of people over 50, and in particular the role of older entrepreneurs who set up new businesses later in life.

In December, we published **'The challenge of co-production'**, the first of three reports examining the idea of designing and delivering public services in an equal and reciprocal partnership between professionals and the end-users of those services.

Front-line innovation

We continued to develop our flagship programme in this area, **Health Launchpad**, a partnership with the Young Foundation to explore the innovative potential of social enterprises designed and run by front-line workers in the health service. An example of this approach is **NeuroResponse**, a social enterprise created by a clinician working on the frontline with Multiple Sclerosis (MS) patients to design ways the NHS can deliver better MS services at less cost.

In November, we published **'The Human Factor'**, a major report examining the idea of giving patients and frontline staff greater power to design the health services they actually want. The report suggests that the NHS could save more than £6.9 billion a year adopting this approach widely.

Community-based innovation

During 2009/10, the ten finalist projects in the **Big Green Challenge** implemented their ideas and were assessed for their effectiveness. The Challenge is a two-year programme testing the power of innovative community-based responses to big social challenges such as climate change.

In the space of a year, the ten finalist projects achieved between 10 and 32 per cent reductions in CO2 emissions in their communities.

In January 2010 we announced the three winning projects – Isle of Eigg; the Green Valleys, Brecon; and Household Energy Services, Ludlow – and each received £300,000 to develop their ideas further. There was also a runner-up, Low Carbon West Oxford, which received £100,000.

In February 2010 we published 'Mass Localism', which argues that communities have a vital role to play in the delivery of public services, and sets out a plan for how government can make this a reality. We also published **Galvanising community-led responses to climate change**, which proposes a series of practical recommendations by which government could ensure that communities are more willing and able to take action in their own right with respect to climate change. Both reports draw on the lessons of the Big Green Challenge.

Digital solutions to social problems

In July 2009 we hosted a one-day event in London to launch **Reboot Britain**, a series of programmes to explore how collaborative new web technologies can be used to help tackle some of society's biggest social challenges. The programmes are focusing on areas of high cost and high social anxiety, where traditional interventions have not succeeded in the past. In January 2010 we launched Jailbrake, a competition to find ideas that could make a positive impact on the pattern of youth offending and re-offending using simple web and mobile tools.

In September we published **'Social by Social'**, a guide designed to help small public and third sector organisations exploit social media and other new technologies for social impact. In March 2010, we published a companion guide, **'Local by Social'**, which distils advice from 'Social by Social' of particular relevance to local authorities.

In March 2010, we launched the **Social Innovator Series**, a collection of publications and accompanying website that reveal the vast potential of the new social economy. The culmination of a two-year collaboration between NESTA and The Young Foundation, it presents a varied picture of social innovation in practice, featuring examples, methods and tools from around the world.

Education

Launched initially in London (November 2009) and Manchester (January 2010), **idiscover** is NESTA's education programme designed to help today's young people develop the skills and talents needed for the future. The voucher scheme for students from Key Stage 3 will enable them to access inspirational learning experiences, for example working in teams to help solve real business dilemmas or social challenges, to designing new products. They will enable the participants to acquire some of the skills essential for innovation, such as creativity, self-belief, energy, leadership and an informed attitude to risk-taking. NESTA is implementing the scheme in two school clusters – one in South London, and the other in Manchester.

Creative economy

In 2009/10 we expanded the range of programmes testing different methods for stimulating growth in young creative businesses. As our work has shown, creative businesses face serious obstacles to growth, particularly in their early years when a lack of appropriate financial support can stifle plans for growth.

Our pioneering support programme for creative entrepreneurs, **Starter for 6**, was successfully spun out and adopted by Creative Scotland. Over the past three years, the programme has invested in more than 80 creative businesses and provided tailored business advice (including intensive business training, coaching and peer mentoring) to more than 200 emerging entrepreneurs in Scotland. It has proved itself a highly effective and flexible framework for supporting creative start-ups.

During the year, the **Creative Business Mentor Network** continued to generate useful insights into the way mentoring can help young creative businesses unlock their growth potential. The network matches companies in the TV production, advertising and digital media sectors with mentors drawn from some of the most successful business people from the creative sector.

In July we launched **Creative Credits**, a pilot programme (initially trialled in the Greater Manchester area) designed to test the hypotheses that companies are more innovative when they work with creative firms. The scheme awards small companies with £4,000 credits redeemable with a wide range of creative businesses in the region.

In June 2009, we published interim findings from the **Take 12** programme, a partnership with the UK Film Council. The 'Take 12 – Digital Innovation Guide' is a collection of practical lessons on how UK independent film companies can exploit new digital technologies to drive growth.

The videogames industry is one of the UK's most successful and vibrant creative sectors, but faces increasing pressure from overseas competitors. An important strand of our work during 2009/10 focused on how to ensure the UK maintains its position as a world-leader in this sector. In June we launched **'Play Together'** in partnership with TIGA, the trade association representing UK games developers. It is a set of initiatives designed to foster greater innovation, collaboration and communications between UK games developers, including a staff-sharing idea to enable firms to increase or decrease their teams quickly in response to project flow.

In August we published **'Time to Play'**, which surveyed 30 leading representatives from the videogames industry, as well as potential investors. It showed that Intellectual Property (IP) development in the industry has slowed over the past five years, and that there are fears that this trend will continue. Almost all of those surveyed said that a tax credit for videogames would be an effective way of turning this trend around, by attracting investment, creating jobs and triggering innovation.

In February 2010 we published two new reports examining the games sector. **The Money Game** calls for fresh thinking in what government can do to help stave off the industry's near-term decline in global development rankings, and argues for external project finance. **Playing the Game** is the result of a year-long mentoring pilot that matched seasoned videogames experts with young companies to advise and guide them on how to achieve commercial growth.

NESTA Fashion Pilot Alliance and Workshop

NESTA is working to support the UK fashion industry through a targeted pilot project, launched in February, to test ideas on how to improve communication and collaboration between designers and clothing manufacturers. Our partners in the pilot are the Centre for Fashion Enterprise, the Manufacturing and Advisory Service in London, and the British Fashion Council.

Early-stage investments

NESTA Investments provides us with a practical understanding of how to invest public funds in high-growth technology companies, and manage and support them. It also provides a valuable network of entrepreneurs, angels and venture capital co-investors to complement our research and policy thinking. During the year we published two reports on early-stage finance options for young high-growth companies. **'Siding with the Angels'**, published with the British Business Angels Association, examined the important role played by angel investors in supporting early-stage and start-up companies. In September, with the BVCA, we published **'From Funding Gaps to Thin Markets'** which analysed the effectiveness of government-backed venture capital schemes over the past ten years, and argued that there is an important role for 'hybrid' venture capital schemes, backed by both private and public funding.

The combination of research and policy thinking with practical experience places us in a unique position to influence regional and national innovation and to support growth in key areas of the UK economy.

Investment portfolio

In 2009/10 NESTA made 15 direct investments totalling £4.9 million which were made to support the growth and development of new and existing assets in our portfolio. We now have a portfolio of 44 investee companies.

Examples of Investments during 2009/10 include:

- New investment in Plaxica, a novel biopolymer company that was spun out from Imperial College, London.
- New investment in Lein Applied Diagnostics, a company focused on optical measurement for non-invasive glucose measurement.
- Further funding in Gnodal to further the development of its high performance Ethernet switch technology.
- Further funding in Light Blue Optics, which is developing holographic projection technology and in January 2010 released its first product, LightTouch™.

In addition, £990k has been drawn down on our fund of fund investments although we have taken the strategic decision not to make commitments to any new fund investments.

We continue to play an important role in building and supporting the ecosystem for innovative companies in the UK, for example in 2009/10 we continued our support for Seedcamp, an initiative to support the next generation of technology entrepreneurs with seed funding and mentor advice. We also invested in one Seedcamp graduate company, BaseKit, a Wales-based developer of website-building tools. We have other similar initiatives in the planning phase and see this practical support of innovation creation in combination with direct investment as an important way to help growth sectors in the UK.

Jonathan Kestenbaum Chief Executive and Accounting Officer	**Sir John Chisholm** Chairman
8 July 2010	**8 July 2010**

Directors' Report and Management Commentary

Constitution

NESTA – the National Endowment for Science, Technology and the Arts – was set up by the National Lottery Act, receiving Royal Assent on 2 July 1998. The composition of the Board and the Executive team is given on pages 13 to 15.

The National Lottery Act 1998 and the Financial Directions, issued by the Secretary of State for the Department for Innovation, Universities and Skills (DIUS) under the National Lottery Act 1998, govern NESTA's operations. NESTA prepares its financial statements in accordance with the Accounts Directions issued by the Secretary of State. A copy of the Accounts Directions can be obtained by writing to NESTA's Chief Operating Officer.

In June 2007 sponsorship responsibility for NESTA passed from the Department for Culture, Media and Sports (DCMS) to DIUS. In June 2009 the Government announced that DIUS and the Department for Business, Enterprise and Regulatory Reform (BERR) would be merged to form the new Department for Business, Innovation and Skills (BIS).

Statutory objects

The statutory objects of NESTA are to support and promote talent, innovation and creativity in the fields of science, technology and the arts.

The objects of NESTA are to be achieved by the following means, namely:

- helping talented individuals (or groups of such individuals) in the fields of science, technology and the arts to achieve their potential;
- helping persons to turn inventions or ideas in the fields of science, technology and the arts into products or services:
  - which can be effectively exploited; and
  - the rights to which can be adequately protected; and
- contributing to public knowledge and appreciation of science, technology and the arts.

Overview of developments

In 2009/10 NESTA:

- Completed an extensive mapping exercise of the drivers of business growth, which revealed that a small group of innovative high-growth firms are responsible for the lion's share of job creation in the UK.
- Launched the pilot version of the Innovation Index, which provides a detailed analysis of the contribution made by innovation to economic growth.
- Launched a range of programmes in the Public Services Innovation Lab to test the potential of 'people-powered public services' to deliver better public services for less cost.
- Announced the winners of the Big Green Challenge, a flagship programme testing the power of community-based responses to social challenges such as climate change.
- Successfully spun out the pioneering support programme for creative entrepreneurs, Starter for 6, which was adopted by Creative Scotland.
- Expanded our range of programmes testing different methods for stimulating growth in young creative businesses.

NESTA's core output is practical well-evidenced models of how innovation can happen. During 2009/10 NESTA completed its development of two models. One sets out how government can work with communities to tackle social challenges, and the other shows how companies can innovate using 'open innovation' processes. These are now fully-formed practical toolkits which can be taken up by key stakeholders in the private and public sectors. NESTA also began the process of having these models adopted by others. We spun out the work on corporate open innovation into an independent enterprise, and have begun discussions across a number of key Government Departments on how government can work more effectively with communities to tackle societal challenges.

In addition, NESTA made 15 investments in early-stage companies totalling £4.9 million.

NESTA demonstrated its credibility with external funders by leveraging in substantial additional funding:

- NESTA Investments' companies attracted additional funding at the ratio of over 9:1 for each NESTA pound invested; and

- Our practical projects leveraged in additional funding of over 100 per cent of the NESTA funding.

Social and environmental impact:

We are committed to using resources efficiently and minimising our environmental impact. Over the last year NESTA completed a significant project in the field of the environment in the shape of its Big Green Challenge project.

Working with communities is an important element of our work on public services innovation. We are continuing to develop practical tools for how government can work more effectively with citizens and communities to tackle societal problems.

Financial overview

The financial statements on pages 26 to 65 show the income and expenditure for the year. They also consolidate NESTA's three subsidiary undertakings which were incorporated in June 2008 as a means of managing some of our investments in early-stage companies.

NESTA's date of adopting International Financial Reporting Standards (IFRS) is 1 April 2009. Full comparative information is provided for 31 March 2009 and the Statement of Financial Position for 31 March 2008 as required by IFRS 1: *First-time Adoption of International Financial Reporting Standards*. The move to international accounting standards has not resulted in changes to equity, income and expenditure or cash flows, however IFRS has resulted in some changes in terminology, presentation and disclosure.

Income was increased by two factors. NESTA received £745k for a substantial project for the Department of Health piloting its Regional Innovation Funds Advisory Service. The bulk of this was paid on to the Young Foundation, the other organisation delivering the project for the Department of Health. NESTA will continue to work on this project in 2010/11 and the proportion of work carried out by the Young Foundation will increase further. NESTA recorded higher investment income, which included a capital gain on equity holdings, triggered by a change of fund manager.

Overall expenditure on practical programmes increased. This was largely the effect of two significant items of spend: the two-year Big Green Challenge (BGC) programme came to an end in December, and NESTA distributed the £1 million BGC prize fund; and a £1 million commitment was made to the Big Issue Invest social finance fund. Elsewhere across the organisation expenditure tended to reduce, with increasing focus on a smaller number of key activities. Expenditure also includes a one-off £1.76 million provision for our liability under section 75 of the Pensions Act 1995 relating to NESTA's historic participation in the Pension Scheme for Technical Staff in the Arts (PSATSA). Expenditure on support costs as a percentage of continuing operating expenditure fell from 9.5 per cent to 7.5 per cent.

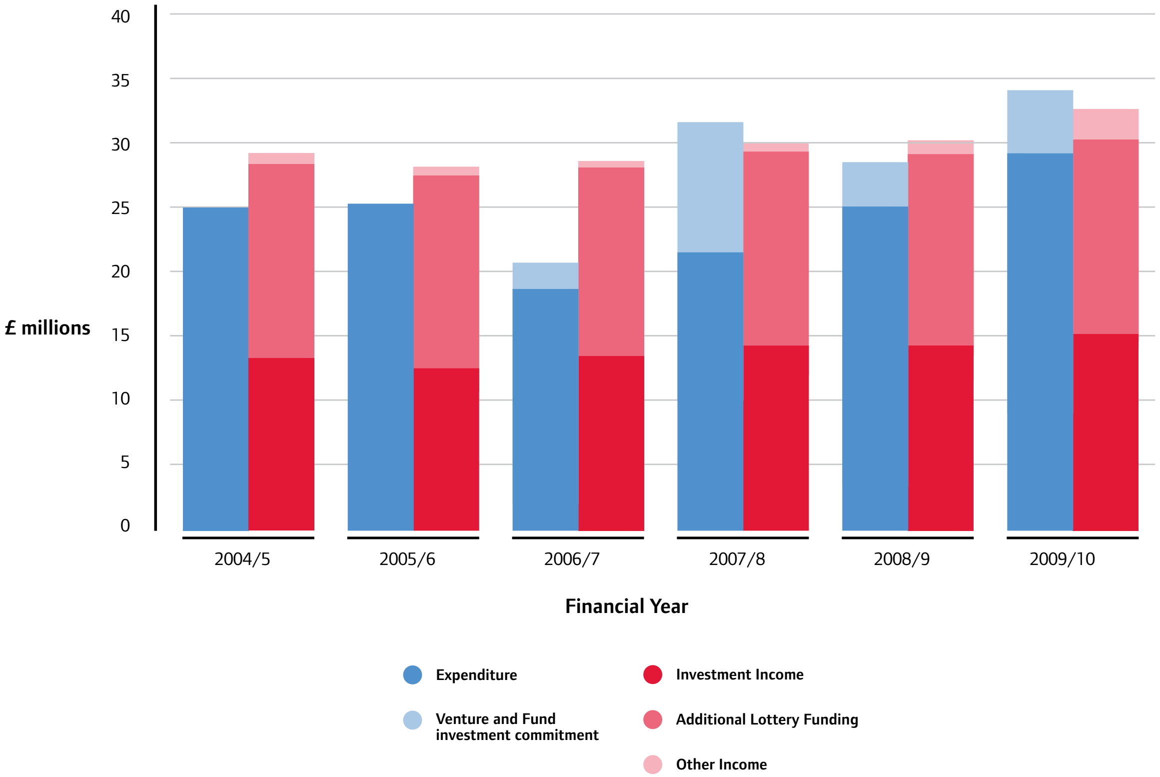
In accordance with international accounting standards, NESTA's investments are classified as 'available for sale' and represented in the Statement of Financial Position at fair value. Movements in fair value are recognised in the Statement of Changes in Equity from year to year and only recognised in the Income and Expenditure Account when sold or impaired. The net downward movement in fair value and the impairment charge this year are principally due to the recessionary influence resulting in a challenging trading period for early-stage companies and a lack of third party funding. In light of these factors we have taken a robust view of the prospects for certain investments.

Over the last five years, NESTA has received additional funding in the form of an annual payment of £15 million from the National Lottery. The last of these was paid on 31 March 2010. Over the next three to four years income will broadly match expenditure. If in any one year income were to fall short of expenditure, the gap would be small, and could readily be met using funds from the Endowment without any significant impact on NESTA's finances long-term. There is no cash flow risk as parcels of gilts will be maturing over the period sufficient to meet NESTA's cash needs.

The risks to this position are relatively low. The flexible nature of NESTA's activities means that it is not exposed to significant unavoidable cost pressures and long-term commitments (i.e. those over 12 months) are a small percentage of its overall spending. The risks on the income side would be either a failure of NESTA Investments' portfolio to generate income, or a sustained period of poor returns by the non-gilts portion of the Endowment. Both of these would take some time to materialise, and were they to do so, NESTA could take mitigating action on the expenditure side. Therefore these accounts have been prepared on a going concern basis.

Annual commitment to expenditure, and investments in early-stage companies

Investments in early-stage companies are financial assets within the Statement of Financial Position. Income and expenditure is shown in the Income and Expenditure Account.



Organisational structure

Name	Position
Sir John Chisholm	Chairman
Jonathan Kestenbaum	Chief Executive and Accounting Officer

In addition to the Chief Executive, NESTA has five Executive Directors responsible for, respectively, NESTA Investments, Policy & Research, Innovation Programmes, Communications and Corporate Services. NESTA is governed by an independent Board of Trustees, who meet quarterly. Trustees are appointed by the Secretary of State for Business, Innovation and Skills. The Board is responsible for strategic direction, policies and procedures and is chaired by Sir John Chisholm. The Board's decision-making is assisted by four Committees of the Board who meet regularly throughout the year and have delegated authority: Investment, Innovation Programmes, Finance, Audit & Remuneration, and Endowment.

In addition, NESTA has set up advisory groups to provide specialist expertise and guidance on specific pieces of work: the Lab Advisory Board on the delivery of the Public Services Innovation Lab, and the Innovation Index Advisory Group for NESTA's Innovation Index.

The following were members of the Executive Team during the period from the start of the year to the date of this report:

Name	Date Appointed	Date Resigned	Position
Philip Colligan	May 2010		Executive Director, Public Services Lab
Rachel Grant	February 2009		Executive Director, Communications
Helen Gresty	May 2006	September 2009	Executive Director, Innovation Programmes
David Hunter	June 2006	January 2010[1]	Managing Director, NESTA Investments
Matthew Mead	January 2010		Managing Director, NESTA Investments
Daniel Oppenheimer	September 2007		Chief Operating Officer
Stian Westlake	January 2009		Executive Director, Policy & Research

1. With effect from 11 January 2010 David Hunter took on the role of Chief Investment Advisor and is no longer a member of the Executive Team.

The following were Trustees during the period from the start of the year to the date of this report:

Name	Date Appointed	Date Retired	Committee & Advisory Board Membership
Sir John Chisholm (Chairman)	November 2009		
Sir Chris Powell (Chairman)	October 2003	October 2009	Investment Committee (Chair)
Sir Michael Barber	February 2006	February 2010	Innovation Programmes Committee (Chair), Lab Advisory Board

Name	Date Appointed	Date Retired	Committee & Advisory Board Membership
Liam Black	December 2008		Lab Advisory Board
Professor Marc Clement	July 2006		Investment Committee
Sherry Coutu	May 2006		Investment Committee, Endowment Committee
Professor Stephen Emmott	June 2008		
Jitesh Gadhia	July 2007		Endowment Committee (Chair), Finance, Audit & Remuneration Committee
Sir David Henshaw	June 2010		
Dr Tracy Long	December 2003	November 2009	Finance, Audit & Remuneration Committee
Dr Mike Lynch	December 2009		Investment Committee (Chair)
Patrick McKenna	December 2006		Endowment Committee
John Sheldrick	June 2010		Finance, Audit & Remuneration Committee
Nick Starr	December 2007		Innovation Programmes Committee
Professor Kathy Sykes	January 2007		Innovation Programmes Committee
Coram Williams	June 2009		Finance, Audit & Remuneration Committee (Chair)
Rob Woodward	November 2009		Investment Committee

The following were non-Trustee members of Committees during the period from the start of the year to the date of this report:

Name	Date Appointed	Date Retired	Committees & Advisory Board Membership
Madeleine Atkins	May 2007		Innovation Programmes Committee
David Auckland	August 2006		Innovation Programmes Committee
Tom Hadfield	August 2006		Innovation Programmes Committee
Bettany Hughes	May 2008		Innovation Programmes Committee
Paul Roberts	July 2006		Innovation Programmes Committee, Lab Advisory Board
William Roe	August 2006		Innovation Programmes Committee
Adrian Beecroft	December 2006		Investment Committee
Ian McIsaac	November 2006	November 2009	Investment Committee
Ernie Richardson	November 2006		Investment Committee
Anthony Thomas	January 2008		Finance & Audit Committee
Mikael Breuer-Weil	May 2008		Endowment Committee
Nick Cavalla	August 2008		Endowment Committee

The following were members of advisory groups or boards supporting certain NESTA projects (with no delegated authority from the Board) during the period from the start of the year to the date of this report:

Name	Date Appointed	Date Retired	Committees & Advisory Board Membership
Sir David Henshaw	January 2009		Lab Advisory Board (Chair)
Rod Aldridge OBE	January 2009		Lab Advisory Board
Dawn Austwick	January 2009	February 2010	Lab Advisory Board
Sir Michael Bichard	January 2009	April 2010	Lab Advisory Board
Rosie Boycott	January 2009	April 2010	Lab Advisory Board
Andrew Haldenby	January 2009	October 2009	Lab Advisory Board
Ed Mayo	January 2009	January 2010	Lab Advisory Board
Sir David Nicholson CBE	June 2009	April 2010	Lab Advisory Board
Rita Patel	January 2009	March 2010	Lab Advisory Board
Rob Whiteman	January 2009		Lab Advisory Board
Lord David Currie	April 2008		Innovation Index Advisory Group (Chair)
Karen Dunnell	May 2008	October 2009	Innovation Index Advisory Group
Simon Edmonds	November 2009		Innovation Index Advisory Group
Helen Fleming/Polly Payne (shared role)	June 2008	April 2010/ -	Innovation Index Advisory Group
David Godber	May 2008		Innovation Index Advisory Group
Dr Iain Gray	May 2008		Innovation Index Advisory Group
Ruth Hannant	April 2010		Innovation Index Advisory Group
Richard Lambert	May 2008		Innovation Index Advisory Group
Charles Manby	October 2008		Innovation Index Advisory Group
Jil Matheson	October 2009		Innovation Index Advisory Group
Vicky Pryce	April 2008		Innovation Index Advisory Group
Ceri Smith	June 2008	March 2010	Innovation Index Advisory Group
Sir Richard Sykes	December 2008		Innovation Index Advisory Group
Professor Nigel Thrift	May 2008		Innovation Index Advisory Group
Andrew Wyckoff	May 2008		Innovation Index Advisory Group

Creditors

It is NESTA's policy to aim to abide by the 'Better Payment Practice Code' and in particular to pay bills in accordance with contract terms. For the year ended 31 March 2010, 94 per cent of undisputed invoices were paid within 30 days or the contractual term (2009: 92 per cent).

Equal opportunities

NESTA is committed to a policy of equal opportunity in its employment practices.

Employee consultation

NESTA ensures that there are arrangements to promote effective consultation and communication with all staff. Meetings of all staff are held periodically at which matters relating to NESTA's activities are discussed and staff are briefed on matters discussed at the Executive Team, Committee and Trustee meetings.

Sickness absence

The average number of days lost per employee to sickness absence for the financial year ending 31 March 2010 was 2 days (2009: 2 days). This is significantly lower than the average for the public sector of 9.7 days per employee per annum.

Post balance sheet events

The financial statements were authorised for issue by the Comptroller & Auditor General on 12 July 2010.

There were no reportable post balance sheet events between the balance sheet date and 12 July 2010, the date the accounts were certified by the Comptroller and Auditor General. The financial accounts do not reflect events after this date.

Personal data loss

NESTA has suffered no protected personal data incidents during 2009/10 or prior years, and has made no reports to the Information Commissioner's office.

Other matters

NESTA maintains a register of interests of members of the Board of Trustees, Committee members and staff which is available for public inspection by appointment at NESTA's principal office.

NESTA's staff received gifts and hospitality totalling £303 (2009: £2,161) during the financial year.

NESTA's staff gave gifts totalling £320 (2009: £291) during the financial year.

Audit information

As far as the Accounting Officer is aware, there is no relevant audit information of which NESTA's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that NESTA's auditors are aware of that information.

Remuneration Report

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board of Trustees and is incorporated into the Finance & Audit Committee. It consists of non-executive Trustees, all of whom are appointed on terms agreed by Trustees.

The Remuneration Committee is chaired by Coram Williams. Other members of the Remuneration Committee are Dr Tracy Long (retired November 2009) and Jitesh Gadhia. A secretariat function is provided by the Chief Operating Officer and the Chief Executive and the Head of Human Resources normally attend. The Remuneration Committee met twice during the year.

The Remuneration Committee's role is to:

- agree a pro-forma employment contract and subsequent changes;
- agree a remuneration and benefit policy including pension provision which will attract, retain and motivate staff;
- agree the terms, conditions and salary levels for all Executive posts and any annual award to staff;
- review any related party transactions of Trustees and staff;
- hear Executive level disciplinary appeals; and
- agree the annual allocation of carry points for eligible members of NESTA's Investment team as part of NESTA's Carried Interest Plan, and approve a schedule that determines the closing value of the portfolio after the end of each financial year.

The Remuneration Committee authorises bonus payments for the Chief Executive and Executives. Relevant performance objectives are set by the Chairman or Chief Executive and assessed as part of the individual's annual appraisal, a summary of which is provided to the Committee.

Audited information:

Chairman and Trustees' Remuneration	**Total 2009/10 £'000**	Total 2008/09 £'000
Sir John Chisholm (Chairman)	11	-
Sir Chris Powell (Chairman)	15	26
Sir Michael Barber	8	3
Liam Black	7	1
Professor Marc Clement	9	4
Sherry Coutu	11	5
Professor Stephen Emmott	5	1
Andrew Flanagan	-	4
Jitesh Gadhia	11	4
Dr Tracy Long	5	3
Dr Mike Lynch	5	-
Patrick McKenna	7	3
Nick Starr	7	3
Professor Kathy Sykes	7	3
Coram Williams	8	-
Rob Woodward	2	-

Refer to pages 13 to 14 for Chairman and Trustee appointment and retirement dates.

NESTA's Chairman, Trustees, Committee and Lab Advisory Board members are entitled to the following remuneration:

- The Chairman is remunerated at a rate of £26,245 per annum (2009: £26,245) for two days per week.
- From 1 January 2009 Trustees are remunerated annually at rates as follows: £5,000 base, an additional £2,000 for each committee a Trustee sits on (except for the Investment Committee where this increases to £4,000), an additional £2,000 if a Trustee chairs a committee. Up until 31 December 2008, Trustees were paid an allowance of £209 (2009: £209) per day spent on NESTA business.
- From 1 January 2009 Committee members are remunerated annually at a rate of £2,000 (except for the Investment Committee where this increases to £4,000) and an additional £2,000 if they chair a committee. Up until 31 December 2008, Committee Members were paid an allowance of £168 (2008: £168) per day.
- From 1 January 2009 Lab Advisory Board members are remunerated annually at a rate of £2,000 and an additional £2,000 if they chair a committee. Up until 31 December 2008, they were paid an allowance of £168 (2008: £168) per day.
- Other Advisory Board/Group members are unpaid.
- Out-of-pocket expenses are recoverable.

For a list of all Trustees and Committee Members, refer to the Directors' Report and Management Commentary.

Executive Team Remuneration

The salary and allowances for the Executive team were as follows:

	Salary & Benefits (excluding Benefits in Kind) 2009/10	Bonus payments 2009/10	Pension Contributions 2009/10	Benefits in kind to nearest £100 2009/10	Salary & Benefits (excluding Benefits in Kind) 2008/09	Bonus payments 2008/09	Pension Contributions 2008/09	Employment Start Date	Employment End Date	Notice Period
	£000	£000	£000	£	£000	£000	£000			
Jonathan Kestenbaum	171	25	20	1,700	168	30	20	01/11/2005		3 months
Rachel Grant	99	3	12	500	13	-	2	09/02/2009[2]		6 months
Helen Gresty	42	-	5	500	86	6	10	01/06/2004	16/09/2009[3]	6 months
David Hunter	98	8	-	400	122	18[4]	-	05/06/2006	11/01/2010[5]	1 month
Matthew Mead	34	-	4	100	-	-	-	11/01/2010[6]		3 months
Daniel Oppenheimer	95	5	10	200	91	6	10	03/09/2007		6 months
Stian Westlake	81	6	10	900	19	-	3	05/01/2009[7]		6 months

- Benefits are provided as part of NESTA's flexible benefits scheme. They include a range of flexible benefits such as life assurance, childcare vouchers, retail/lifestyle vouchers, and the ability to flex pension and holiday pay.

- Benefits in kind were paid for the first time in 2009/10 as part of NESTA's flexible benefits scheme. These include private medical insurance, dental insurance and critical illness insurance.

- All Executives were entitled to a contribution to a personal pension or group defined contribution scheme at a rate of 12 per cent of salary.

- All Executive appointments are on a permanent basis.

- Executive team salaries have been benchmarked against appropriate external markets.

- Bonuses for the Executive team are based upon performance against defined objectives.

- The Managing Director of NESTA Investments is also eligible for payments as part of NESTA's Carried Interest Plan. This plan was introduced in 2008 and provides participants with a share of any cash realisations made by NESTA from its portfolio of investments. No payments were made for 2009/10 (2008/09: £1,100).

Jonathan Kestenbaum
Accounting Officer

8 July 2010

2. For comparison purposes, the total 2008/09 full year equivalent salary, benefits and pension contribution is £109k.
3. For comparison purposes, the total 2009/10 full year equivalent salary, benefits and pension contribution is £98k.
4. Included in this bonus payment for 2008/09 is £1,100 received as part of the Carried Interest Plan. There was no payment made in 2009/10.
5. For comparison purposes, the total 2009/10 full year equivalent salary, benefits and pension contribution is £126k.
6. For comparison purposes, the total 2009/10 full year equivalent salary, benefits, and pension contribution is £169k.
7. For comparison purposes, the total 2008/09 full year equivalent salary, benefits, and pension contribution is £90k

Statement of Accounting Officer's Responsibilities

Accounting Officer's Responsibilities

Under the National Lottery Act 1998, the Secretary of State for Culture, Media and Sport has directed NESTA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Directions. In June 2007 sponsorship responsibility for NESTA passed to the Department for Innovation, Universities and Skills. In June 2009, sponsorship responsibility for NESTA passed to the Department for Business, Innovation and Skills, a merger of the Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of NESTA and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Directions issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and

- prepare the financial statements on a going concern basis.

The Accounting Officer of the Department for Business, Innovation and Skills has designated the Chief Executive as Accounting Officer of NESTA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding NESTA's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by HM Treasury and published in Managing Public Money and in the Financial Directions issued by the Secretary of State for Culture, Media and Sport under Section 21 of the National Lottery Act 1998.

Jonathan Kestenbaum
Accounting Officer

8 July 2010

Statement on Internal Control

Scope of responsibility

As Accounting Officer I am responsible for maintaining a sound system of internal control that supports the achievement of NESTA's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I am accountable to the Secretary of State for Business, Innovation and Skills and to Parliament for ensuring that NESTA distribute their funds with due regularity and propriety and to the Board of Trustees for the economic, efficient and effective use and control of their funds.

The Board of Trustees is responsible for ensuring that through appropriate procedures, systems and personnel, proper financial management and control is achieved.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to NESTA's goals. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NESTA's goals, to evaluate the likelihood of those risks materialising and their consequent impact, and to manage them efficiently and with appropriate and proportionate controls. The system of internal control has been in place at NESTA for the year ended 31 March 2010 and accords with Treasury guidance.

Capacity to handle risk

NESTA's Chief Operating Officer, reporting to me as Accounting Officer, has lead responsibility in the Executive team for the risk management framework. NESTA's Finance, Audit & Remuneration Committee is responsible for monitoring the implementation of this framework, and for reviewing and reporting to the Board of Trustees annually on the approach to risk management.

The Executive team regularly reviews strategic risks, and individual members of the Executive team are responsible for managing and monitoring these and other operational risks, where appropriate through their teams. They in turn discuss risks with individual members of their teams where necessary and appropriate, to ensure that risks are actively considered by staff as part of the management of individual projects.

The risk and control framework

The key elements of NESTA's risk management strategy and control framework are set out below.

The Trustees believe that NESTA's mission to transform the innovative capacities of the UK requires it to have an element of risk-taking in its activities if it is to succeed, as the mission requires experimentation. Accordingly NESTA's risk appetite is for managed risk-taking rather than simple risk aversion. This includes the recognition that some activities or projects may fail to a greater or lesser extent, and that such failure can be an important source of learning.

NESTA's core business is generating insights and ideas and then seeking to influence others to adopt those ideas. Its key risks are therefore usually either related to the quality and relevance of its projects and research, or reputational.

The risk management of individual projects is the responsibility of the relevant Executive Director – the Chief Operating Officer meets on a quarterly basis with each of the Executive Directors to review the risk register for that area of the business, but risks are also discussed in regular management meetings between the Chief Executive and individual Executive Directors. The main challenge in this area has been ensuring that the research work and practical projects are set up in such a way as to generate interesting broader insights that are relevant to wider policy debates.

Reputational risks together with other broader strategic issues are the responsibility of the Chief Executive, but are considered by the Executive team collectively, when it meets quarterly to review the top-level risk register for the organisation as a whole. The main challenge in this area is ensuring that NESTA's portfolio is relevant and resonant with the major economic and societal issues of the day. These discussions range widely across NESTA's strategy and operations, and frequently have impact on the way in which the organisation plans and works. The top-level risk register and each executive team register is presented to the Finance, Audit & Remuneration Committee at each meeting and is reviewed by the Board annually.

Risk management is incorporated into NESTA's strategic and business planning processes.

In order to ensure that financial risks are properly managed, there is a clear financial management framework in place. The budget is approved by the Board of Trustees and quarterly financial reports are made to the Finance, Audit &

Remuneration Committee reporting on expenditure against budget and against quarterly re-forecasts. Management Accounts are prepared monthly and reviewed by budget holders.

NESTA has a number of operational policies under the general headings of governance, financial controls and workplace management. These policies are supported by induction training designed to ensure that NESTA staff are aware of these policies and comply with them appropriately. There is special focus on the proper procurement of goods and services, the management of conflicts of interest and the control of fraud.

The Finance, Audit & Remuneration Committee usually has three Trustee members and a co-opted member who has been selected for his effectiveness and experience in this field. Each meeting of the Committee includes an opportunity for a session with internal and external auditors without NESTA staff present.

NESTA also considers its responsibilities on Information Security and Personal Data to be a high priority. We have procedures and data loss prevention technologies in place that minimise the risk of information loss and security breaches. In the last year we have reviewed our IT policies to ensure they are aligned with current BIS guidelines and the Cabinet Office Data Handling Review, where appropriate. All new staff receive a security and data handling induction. A re-induction programme for existing staff is planned for 2010. We have not had any personal data-related incidents from 2004/2005 through to 2009/2010.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, and the Finance, Audit & Remuneration Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

NESTA has an internal audit service which operates in accordance with Government Internal Audit Standards. The annual internal audit plans are informed by the risk register and are able to be flexed to address risks arising if required. Areas for audit are selected and prioritised by the Finance, Audit & Remuneration Committee and approved by the Accounting Officer. The internal auditors provide an annual report on internal audit activity, an independent opinion on the adequacy and effectiveness of NESTA's system of internal control and recommendations for improvement. All internal audit reports and reviews are considered by the Finance, Audit & Remuneration Committee. Management responses and progress against agreed actions are reported to and monitored by the Finance, Audit & Remuneration Committee on a quarterly basis with an annual review of all outstanding matters. In keeping with best practice, NESTA periodically reviews its internal audit providers.

In addition, I meet each member of the Executive team weekly to review performance and risks to performance in their area, as well as meeting with the Executive team weekly. I review NESTA's financial position on a monthly basis using the management accounts prepared by the finance function.

I have reviewed the work and reports of the internal auditors and system of monitoring and implementation of agreed actions arising from their recommendations, including in particular the annual report of the internal auditors to the Finance, Audit & Remuneration Committee, the responses to their recommendations and their opinion of the effectiveness of NESTA's system of internal control.

Significant internal control issues

During the year we identified a control issue relating to sponsorship arrangements entered into by NESTA: namely, that such arrangements could be entered into by senior managers on a sole authority basis. The issue arose when, during an internal review of programmes initiated by senior management, it was found that four transactions in 2007 and 2008 relating to sponsorship arrangements had raised potential conflicts of interest (and related party issues) which had not been identified at the time. The transactions, ranging from £2,500 to £15,000, were sponsorship payments made to charitable organisations. The Finance, Audit & Remuneration Committee reviewed the transactions in question and found that the monies were used by the charities in the furtherance of NESTA's aims and objectives. The Finance, Audit & Remuneration Committee also concluded that as the payments were made to charitable organisations there was no risk of personal gain, although there was a perceived but not an actual conflict of interest. In addition, the Committee commissioned an internal audit review of controls over conflicts of interest and sponsorship arrangements. This review recommended a number of improvements – in particular, that sponsorship arrangements should be subject to a more robust approval process, including countersigning by an appropriate senior officer or Trustee. This system was implemented during 2009/10.

I have concluded that, although improvements to systems can always be made and NESTA has an ongoing programme to continuously improve the scope and effectiveness of its systems, there have been no significant internal controls problems during the year.

Jonathan Kestenbaum
Accounting Officer

8 July 2010

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament and the Scottish Parliament

I certify that I have audited the financial statements of the National Endowment for Science, Technology and the Arts (NESTA) for the year ended 31 March 2010 under the National Lottery Act 1998. These comprise the Group and Parent Statements of Financial Position, the Group Income and Expenditure Account, the Group Statement of Cash Flows and the Group and Parent Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to NESTA's and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by NESTA; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of NESTA and the group's affairs as at 31 March 2010 and of NESTA and the group's surplus, changes in equity and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the National Lottery Act 1998 and directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued under the National Lottery Act 1998; and

- the information given in the Directors' Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records or returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

12 July 2010

Group Income and Expenditure Account

For the year ended 31 March 2010

	Notes	Total 2009/10 £'000	Total 2008/09 £'000
Income			
Investment income: Gilts	3	11,644	13,564
Investment income: Other	3	3,532	737
Lottery funding		15,000	15,000
Other income	4	2,457	668
Total income		**32,633**	**29,969**
less Expenditure			
Innovation Programmes	6	14,450	11,798
NESTA Investments	6	3,225	3,309
Policy & Research	6	3,810	3,580
Publications, events & communications	6	3,745	4,390
Direct support of objectives		**25,230**	**23,077**
Corporate Services	6	2,049	2,419
Defined benefit pension scheme provision	5, 14	1,764	-
Total expenditure		**29,043**	**25,496**
Less Notional cost of capital		-	(2)
Net surplus after notional costs		**3,590**	**4,471**
Reversal of notional costs		-	2
Surplus for the year		**3,590**	**4,473**

All of the Group's activities derived from continuing operations.

The notes on pages 34 to 65 form an integral part of these financial statements.

Group Statement of Financial Position

At 31 March 2010

	Notes	Group Total 31 March 2010 £'000	Group Total 31 March 2009 £'000	Group Total 1 April 2008 £'000
Non-current assets				
Property, plant & equipment	7	1,826	2,312	2,795
Intangible assets	8	30	92	108
Financial assets:				
Gilts	9a	246,238	265,708	202,551
Other investments	9a	63,428	39,608	20,705
Investment in early-stage companies	9b	10,949	8,780	8,018
Loans	9b	869	722	923
Investment in funds	9b	1,809	1,075	328
Deferred investment in companies	9b	664	651	868
Deferred investment in loans	9b	114	-	-
Deferred investment in funds	9b	5,405	6,328	6,505
		331,332	**325,276**	**242,801**
Current assets				
Trade and other receivables	11	458	345	246
Financial assets: short-term deposits	9a	17,109	21,153	98,076
Cash & cash equivalents	19	1,213	234	329
		18,780	**21,732**	**98,651**
less Current liabilities				
Other payables: grants & investments falling due for payment within one year	12	5,559	6,063	7,633
Trade and other payables	13	3,017	3,751	2,607
		8,576	**9,814**	**10,240**
less Provisions for liabilities & charges	14	**1,764**	-	-
Net current assets		**8,440**	**11,918**	**88,411**

	Notes	Group Total 31 March 2010 £'000	Group Total 31 March 2009 £'000	Group Total 1 April 2008 £'000
Total assets less current liabilities		**339,772**	337,194	331,212
Other payables: grants & investments falling due for payment after one year	12	6,386	6,584	5,871
Total assets less liabilities		**333,386**	330,610	325,341
Represented by reserves				
Fair value reserve		7,516	8,330	7,534
Accumulated reserve		325,870	322,280	317,807
Total reserves		**333,386**	330,610	325,341

The financial statements, which comprise the Group Income and Expenditure Account, the Group and Parent Statement of Financial Position, the Group and Parent Statement of Changes in Equity, the Group Statement of Cash Flows, and the related notes, were approved by the Board of Trustees on 30 June 2010 and signed on their behalf by:

Jonathan Kestenbaum
Accounting Officer

8 July 2010

The notes on pages 34 to 65 form an integral part of these financial statements.

Parent Statement of Financial Position

At 31 March 2010

	Notes	Parent Total 31 March 2010 £'000	Parent Total 31 March 2009 £'000	Parent Total 1 April 2008 £'000
Non-current assets				
Property, plant & equipment	7	1,826	2,312	2,795
Intangible assets	8	30	92	108
Financial assets:				
Gilts	9a	246,238	265,708	202,551
Other investments	9a	63,428	39,608	20,705
Investment in early-stage companies	9b	10,949	8,780	8,018
Loans	9b	869	722	923
Investment in funds	9b	1,809	1,075	328
Deferred investment in companies	9b	664	651	868
Deferred investment in loans	9b	114	-	-
Deferred investment in funds	9b	5,405	6,328	6,505
Investment in subsidiaries	10	120	120	-
		331,452	**325,396**	**242,801**
Current assets				
Trade and other receivables	11	458	344	246
Financial assets: short-term deposits	9a	17,109	21,153	98,076
Cash & cash equivalents	19	1,136	121	329
		18,703	**21,618**	**98,651**
less Current liabilities				
Other payables: grants & investments falling due for payment within one year	12	5,559	6,063	7,633
Trade and other payables	13	3,005	3,739	2,607
		8,564	**9,802**	**10,240**
less Provisions for liabilities & charges	14	**1,764**	-	-
Net current assets		**8,375**	**11,816**	**88,411**

	Notes	Parent Total 31 March 2010 £'000	Parent Total 31 March 2009 £'000	Parent Total 1 April 2008 £'000
Total assets less current liabilities		**339,827**	**337,212**	**331,212**
Other payables: grants & investments falling due for payment after one year	12	6,386	6,584	5,871
Total assets less liabilities		**333,441**	**330,628**	**325,341**
Represented by reserves				
Fair value reserve		7,516	8,330	7,534
Accumulated reserve		325,925	322,298	317,807
Total reserves		**333,441**	**330,628**	**325,341**

Jonathan Kestenbaum
Accounting Officer

8 July 2010

The notes on pages 34 to 65 form an integral part of these financial statements.

Group Statement of Changes in Equity

At 31 March 2010

Group	Notes	Accumulated Reserve £'000	Fair Value Reserve £'000	Group Total Reserves £'000
Balance at 31 March 2008		308,392	-	308,392
Adjustments for first time adoption of Financial Instruments Standards	2	9,415	7,534	16,949
Balance at 1 April 2008		**317,807**	**7,534**	**325,341**
Changes in reserves 2008/09:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			8,432	8,432
Other investments			(6,525)	(6,525)
Investments in early-stage companies	9b		(810)	(810)
Loans	9b		(128)	(128)
Investments in funds	9b		(173)	(173)
• Retained surplus for the year		4,473		4,473
Balance at 31 March 2009		**322,280**	**8,330**	**330,610**
Changes in reserves 2009/10:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			(10,387)	(10,387)
Other investments			10,297	10,297
Investments in early-stage companies	9b		(591)	(591)
Loans	9b		123	123
Investments in funds	9b		(256)	(256)
• Retained surplus for the year		3,590		3,590
Balance at 31 March 2010		**325,870**	**7,516**	**333,386**

The notes on pages 34 to 65 form an integral part of these financial statements.

Parent Statement of Changes in Equity

At 31 March 2010

Parent	Notes	Accumulated Reserve £'000	Fair Value Reserve £'000	Parent Total Reserves £'000
Balance at 31 March 2008		308,392	-	308,392
Adjustments for first time adoption of Financial Instruments Standards	2	9,415	7,534	16,949
Balance at 1 April 2008		**317,807**	**7,534**	**325,341**
Changes in reserves 2008/09:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			8,432	8,432
Other investments			(6,525)	(6,525)
Investments in early-stage companies	9b		(810)	(810)
Loans	9b		(128)	(128)
Investments in funds	9b		(173)	(173)
• Retained surplus for the year		4,491		4,491
Balance at 31 March 2009		**322,298**	**8,330**	**330,628**
Changes in reserves 2009/10:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			(10,387)	(10,387)
Other investments			10,297	10,297
Investments in early-stage companies	9b		(591)	(591)
Loans	9b		123	123
Investments in funds	9b		(256)	(256)
• Retained surplus for the year		3,627		3,627
Balance at 31 March 2010		**325,925**	**7,516**	**333,441**

The notes on pages 34 to 65 form an integral part of these financial statements.

Group Statement of Cash Flow

For the year ended 31 March 2010

	Notes	Total 31 March 2010 £'000	Total 31 March 2009 £'000
Net cash outflow from operating activities			
Payments of grants		(6,547)	(6,005)
Payments for staff and trustees' costs		(6,795)	(6,958)
Payments for other costs*		(11,931)	(11,056)
Other income		(62)	557
Payments to acquire gilt investments		-	(104,996)
Proceeds from sale or maturity of gilt investments		8,000	51,230
Payments to acquire other investments		(12,157)	(25,590)
Payments for investments in early-stage companies		(4,577)	(2,565)
Payments for investments in loans		(309)	(335)
Payments for investments in funds		(990)	(920)
Proceeds from sale of investments in companies		399	358
Proceeds from repayment of loans		188	78
Interest and dividends received		15,059	13,462
Net cash in/(outflow) from operating activities	18	**(19,722)**	**(92,740)**
Cash flows from investing activities			
Payments to acquire property, plant & equipment, and intangible assets		(46)	(275)
Net cash in/(outflow) from investing activities		**(46)**	**(275)**
Cash flows from financing activities			
Project funding received		1,703	997
Lottery funding received		15,000	15,000
Net cash in/(outflow) from financing activities		**16,703**	**15,997**
Net increase/(decrease) in cash & cash equivalents, and cash held in financial assets in the period		**(3,065)**	**(77,018)**
Cash & cash equivalents and cash held in financial assets at the beginning of the period		21,387	98,405
Cash & cash equivalents and cash held in financial assets at the end of the period	19(a)	**18,322**	**21,387**

*Other costs include direct programme costs (programme delivery, mentoring, evaluation), event and publication costs, research costs, and operating costs (including rent, services charges, rates, irrecoverable VAT).

The notes on pages 34 to 65 form an integral part of these financial statements.

Notes to the Accounts

For the year ended 31 March 2010

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2009/10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adopted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NESTA for the purpose of giving a true and fair view has been selected. The particular policies adopted by NESTA are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

The financial statements are prepared under the historical cost convention, modified by the revaluation of available-for-sale financial assets and where relevant, the revaluation of property, plant & equipment and intangible assets by reference to current costs at 31 March each year.

The financial statements have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Media and Sport (August 2002) with the consent of Treasury in accordance with Section 23 (2) of the National Lottery Act 1998, and so far as appropriate they meet the requirements of the Companies Act, Managing Public Money and the Standards issued and adopted by the Accounting Standards Board.

Basis of consolidation

The group financial statements consolidate the financial statements of the National Endowment for Science, Technology & the Arts and all its subsidiary undertakings drawn up to 31 March 2010. A parent Income & Expenditure Account and Statement of Cash Flows is only presented when results for the subsidiaries are material.

On 16 June 2008, NESTA incorporated three legal entities in which to support early-stage companies: NESTA Investment Management LLP, NESTA Partners Ltd, NESTA Kinetique LLP.

NESTA and NESTA Partners Ltd are joint members in NESTA Investment Management LLP. NESTA Investment Management LLP and NESTA Partners Ltd are joint members of NESTA Kinetique LLP. NESTA Investment Management LLP is regulated by the Financial Services Authority and provides fund management services. NESTA Kinetique LLP is the general partner and manager of the Kinetique Biomedical Seed Fund, an external seed fund.

Segmental reporting

The group's operating segments are represented by the different activities that are evaluated regularly by the Accounting Officer and chief decision-maker in deciding how to allocate resources and in assessing performance. Segment results are reported for expenditure only, as income, assets and liabilities are not monitored in this way. Expenditure includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Each segment is managed by a member of the executive team:

- Innovation Programmes

- NESTA Investments

- Policy & Research
- Publications, Events & Communications
- Corporate Services

All operations are carried out in the UK.

Significant estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent liabilities at 31 March each year. Actual outcomes could differ from those estimates. This is especially the case of the valuation of our investment in early-stage companies which is an inherently volatile and uncertain process. However the valuation guidelines applied are considered to be the best estimate of fair value. Refer to notes on Financial Assets below for further information.

Impact of new International Financial Reporting Standards

Adopted for 2009/10

The following new IFRS, and revised or amended IFRSs, were adopted by the group with effect from 1 April 2009: IFRS 8 *Operating Segments* issued in November 2006; Amendments to IFRS 7 *Financial Instruments: Disclosures* issued in March 2009, which requires enhanced disclosures about fair value measurements and liquidity risk. There was no impact on the group's reported income and expenditure or net assets. The disclosures required by these standards are included in this report.

Not yet adopted

In November 2009, the new IFRS 9 *Financial Instruments* was issued which represents the first phase of a project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard is effective for annual periods beginning on or after 1 January 2013 with transitional arrangements. The date of initial adoption by the public sector has not yet been advised by HM Treasury.

There are no other standards and interpretations in issue but not yet adopted that we anticipate will have a material effect on the reported income and expenditure or net assets of the group.

Income

Income is accounted for on an accruals basis in the year to which it relates.

Investment income includes interest, dividends and realised capital gains or losses from investment financial assets.

Income from gilt investments is the gross interest receivable plus or minus the amortisation of any discount or premium to nominal (redemption) value. The amortisation is calculated on a straight-line basis over the remaining duration of the gilt. Where gilts are sold prior to maturity date, any unamortised discount or premium is included in the income statement at the date of sale.

Income from corporate bonds is accrued to the last date of entitlement to distribution before 31 March.

Fluctuations in the fair value of investments are recognised as a charge to equity through the fair value reserve.

Other income comprises royalties received, capital gain or loss on sale of investments in early-stage companies, project funding and sundry other income.

Notes to the Accounts

For the year ended 31 March 2010

Grants Expenditure

Grants made by NESTA are recognised in full in the Income and Expenditure Account and Statement of Financial Position on the date when a binding contract is signed or equivalent obligation created, even if conditional upon future events. Commitments or approvals to fund specific projects not yet contracted (soft commitments) are disclosed by way of note.

Included in grants expenditure are commitments to some investment funds that are, in substance, grants toward practical and experimental projects. These are subject to ongoing monitoring and review. If there are indicators that these funds could make a significant return, the accounting treatment will be reviewed to recognise them as investments.

Other Expenditure

Other expenditure, including research costs, is recognised when services or goods are received.

Overhead and fixed costs are allocated to each area of programme activity according to a relevant apportionment basis (percentage of total cost, head count, or floor space).

Financial Assets

Under IAS 32 and 39, NESTA classifies all its investments in the category 'available-for-sale' financial assets. The classification reflects the purpose for which the investments were made. Management determines the classification of its investments at initial recognition and will re-evaluate this classification at every reporting date.

Under IAS 39, the carrying value of all investments is at fair value and changes in fair value between accounting periods are charged or credited to equity via the fair value reserve. For financial assets for which there is no quoted market, fair value is established by using valuation guidelines as detailed below.

Short term deposits which are held with external investors are presented in the Statement of Financial Position as current assets. All other financial assets are presented as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative investments that are neither held-for-trading (i.e. not acquired principally for the purpose of selling in the short term) nor held-to-maturity investments. These financial assets are represented in the Statement of Financial Position as: gilts, other investments, investments in early-stage companies, loans, and investments in funds.

Deferred investment in companies, loans and funds represents that portion of NESTA's commitment which remains un-drawn at 31 March each year. The corresponding outstanding commitment is recognised under current or non-current liabilities.

Loans are provided to certain early-stage companies and are recognised as financial assets when repayment of the loan or the option to convert to equity has not expired by 31 March each year. The loans are included in non-current assets except where repayment is expected within 12 months after the Statement of Financial Position date, when they are included as current assets.

Valuation

The fair values of quoted investments are based on externally reported bid prices at 31 March each year.

The fair value of unquoted investments in early-stage companies is established by using valuation guidelines produced by the British Venture Capital Association (BVCA).

- BVCA guidelines provide for investments to be carried at cost unless there is information indicating an impairment or sufficiently clear evidence to support an increase in valuation.

- Where the price of a recent funding round (within previous 12 months) is not available, investments are valued using standard valuation methodologies, as appropriate and in the following order:

  a) Earnings multiple

  b) Net asset value

  c) Discounted cash flow

  d) Applying BVCA valuation benchmarks

- At 31 March each year management assesses whether there is objective evidence that a financial asset or a group of financial assets should be revalued. Our approach, which is within the principles of the BVCA guidelines, is to review and give a 'health' status:

  - Healthy: value held at cost unless sufficiently clear evidence to support an increase in valuation; company is performing to plan, unlikely to run out of cash within 12 months.

  - Sick: value down according to the seriousness of a number of events considered by management; company is performing off-plan, may or may not be recoverable.

  - Terminal – value down, company is performing off-plan, likely to run out of cash within six months, recovery not foreseen, no intervention planned.

  Valuation of companies at this early stage of development is an inherently volatile and uncertain process. The valuation guidelines used are considered to be the best estimate of fair value at 31 March.

  Transaction costs incurred by NESTA or management support costs are not included in valuations. They are charged to expenditure in the period in which they are incurred.

Loans to early-stage companies have the same valuation methodology applied as for investments in early-stage companies.

The fair value of investments in funds is valued as NESTA's share of partnership net asset value as stated in the last audited financial statements of each investment fund. Contributions made by NESTA in any period between the date of a fund's balance date and NESTA's own for which there is no audited valuation, are valued at cost unless there is information to determine otherwise.

Treatment

Investments, loans or contributions to funds are recognised in full in the Statement of Financial Position on the date when a binding contract is signed or equivalent obligation created, even if conditional upon future events. Un-drawn commitments at 31 March each year are recorded as financial assets, either as deferred investments, loans or investment in funds, with a corresponding liability and translated at the prevailing exchange rate if relevant. Due to uncertainty in the timing of draw-downs from commitments to investment funds, financial liabilities and their associated deferred financial assets are not discounted. Commitments or approvals to invest, loan or contribute to funds not yet contracted (soft commitments) are disclosed by way of note.

Notes to the Accounts

For the year ended 31 March 2010

Unrealised changes in value between accounting periods, i.e. movements between the health statuses of healthy and sick, are charged to equity via the fair value reserve.

When financial assets are sold or derecognised, any fair value adjustments are reversed and reflected in income and expenditure within any capital gains and losses. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred with all risks and rewards of ownership.

Unquoted investments in early-stage companies which have a health status of 'terminal' are treated as impaired and the cost of the impairment charged to the Income & Expenditure Account after a reversal of cumulative fair value adjustments. Any valuation showing a return to an improved health status is credited back to the Statement of Financial Position at fair value, through the fair value reserve and not through the income and expenditure account, in accordance with IAS 39.

Property, Plant & Equipment and Intangible Assets

Property, plant & equipment and intangible assets are capitalised in the Statement of Financial Position at their historic cost and re-valued annually by reference to appropriate indices where there is a material difference.

Assets costing less than £500 are written off in the year of purchase.

Depreciation

Depreciation is provided on all property, plant & equipment assets. Depreciation is calculated on a straight line basis over the expected useful life of the assets as follows:

- Leasehold improvements
  - over the life of the lease remaining
- All other property, plant & equipment
  - three to five years

Amortisation

Amortisation is provided on all intangible assets. It is calculated on a straight line basis over the expected useful life of the assets as follows:

- Intangible assets
  - over the life of licence
  - three to five years for software applications

Trade receivables

Trade receivables are recognised at fair value less any provision for impairment. A provision for impairment is established when there is objective evidence that the receivable will not be collected according to the original terms. The amount of the provision is recognised in the Income and Expenditure Account.

Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and funds held on escrow.

Short-term deposits held with external investment managers are classified as current financial assets, not cash and cash equivalents, and carried at fair value.

Foreign currency transactions & translation

The consolidated financial statements are presented in pounds sterling, the functional and presentational currency. Foreign currency transactions are translated using the exchange rates prevailing at the date of settlement. Foreign exchange gains and losses resulting from the translation at year-end exchange rates of trade payables denominated in foreign currencies are recognised in the Income and Expenditure Account.

Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income and Expenditure Account on a straight-line basis over the period of the lease.

Taxation

The National Lottery Act 1998 provides for NESTA to be exempt from tax under the Income and Corporation Taxes Act 1988. HMRC has recognised this exemption. Accordingly, no taxation has been provided for in these financial statements.

Value Added Tax

Income and Expenditure is recorded net of VAT. Irrecoverable VAT is treated as a separate expenditure item, which, as with all costs applicable to the whole organisation, has been apportioned across the main areas of NESTA activity.

Pensions

The costs of all employer pension contributions are charged to the Income & Expenditure Account. Certain employees or previous employees are members of a defined benefit pension scheme. Any known underlying asset or liability is accounted for. Where NESTA is unable to identify its share of the underlying assets and liabilities in a defined benefit scheme, it will be accounted for as if it were a defined contribution scheme in accordance with IAS 19: *Employee Benefits*.

Notes to the Accounts

For the year ended 31 March 2010

Notional Cost of Capital

A charge reflecting the cost of capital utilised by NESTA is included in the Income & Expenditure Account. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent, 2009: 3.5 per cent) on the average non-lottery funded net assets over the financial year. The charge is then reversed as required by the Government Financial Reporting Manual (FReM) issued by HM Treasury.

2. First-time adoption of IFRS

NESTA's date of adopting International Financial Reporting Standards (IFRS) is 1 April 2009. This is the beginning of the first annual accounting period for which annual financial statements have been prepared in accordance with IFRS. Full comparative information is provided for 31 March 2009 and the Statement of Financial Position for 31 March 2008, as required by IFRS 1: *First-time Adoption of International Reporting Standards.*

The adoption of IFRS has not resulted in changes to equity, income and expenditure or cash flows. However, IFRS has resulted in some changes in terminology, presentation and disclosure, as presented in these financial statements.

Adjustments for the first-time adoption of Financial Instruments Standards

The material impact of IFRS on NESTA is in the area of financial instruments reporting standards (previously known as UK GAAP Financial Reporting Standards 25, 26 and 29) which were first adopted on 1 April 2008. Full comparatives for 31 March 2009 showing re-stated 31 March 2008 balances are published in the 2008/09 financial statements.

3. Investment income

	2009/10 £'000	2008/09 £'000
Gilts:		
Gross interest receivable	12,776	14,177
Amortisation of redemption premium	(1,531)	(891)
Realised gains on sale of gilts	399	278
Total income from gilts	11,644	13,564
Other investments:		
Interest & dividends receivable	2,169	708
Realised gains on sale of other investments	1,363	-
Bank Interest	-	29
Total income from other investments	3,532	737
Total investment income	**15,176**	14,301

Gilts

NESTA has applied an investment policy of buying government gilts and holding them long-term, often to maturity. Such gilts have been purchased at a (premium)/discount to nominal value. This inevitably gives rise to a capital (loss)/profit on redemption, compensated for by higher/(lower) interest income. NESTA's policy is to amortise this (premium)/discount on a straight line basis over the remaining life of the bond.

A realised gain of £399k was made on transfer from gilts to other investments (2008/09: £278k gain on sale of near-expiring gilts to effect a purchase of longer-term gilts).

Other investments

A realised gain of £1,363k (2008/09: £nil) was made on equity holdings during the year due to a move to a new fund manager.

4. Other income

	2009/10 £'000	2008/09 £'000
Project Funding:		
Arts & Humanities Research Council	50	-
British Venture Capital Association	50	-
Cabinet Office	-	45
Commission for the New Economy (Manchester)	495	-
Department of Energy & Climate Change	492	-
Department of Health	745	-
Economic & Social Research Council	50	-
Engineering & Physical Sciences Research Council	-	2
Higher Education Funding Council for England	250	-
Improvement & Development Agency for local government	50	-
Institute of Physics	-	4
Orange (France Telecom)	50	-
Scottish Arts Council	46	10
South East England Development Agency	-	100
Virgin Atlantic	(6)	24
European Project funding: Early Stage Investors for High Growth Businesses, Forfás	39	37
Royalty income, proceeds from sale of legacy investments and loan repayments, interest & dividends from legacy awards	209	250
Realised gain/(loss) on sale of companies in investment portfolio	(206)	133
Realised gain on previously impaired investment in early-stage companies	23	-
Other income	120	63
Total other income	**2,457**	668

Project Funding is substantially matched against expenditure. Any unspent project funding is shown as a reversal of project funding.

Proceeds from sale of legacy investments and loan repayments relate to investments and loans granted which were expensed to programme expenditure in prior years and were not transferred to the Statement of Financial Position as a financial asset on 1 April 2008.

Other income includes amounts received from the provision of services and recharges of expenses.

5. Staff numbers and related costs

	2009/10 £'000	2008/09 £'000
Salaries & emoluments of directly employed staff	4,684	4,616
Salaries & allowances of seconded staff	89	226
Trustees' & Committee members' remuneration	154	83
Social security costs	538	617
Defined contribution pension payments	404	385
Defined benefit pension payments	5	21
Agency/temporary staff costs	158	219
	6,032	**6,167**
Other staff costs	662	792
Total Staff Costs	**6,694**	**6,959**
Defined benefit pension scheme provision	1,764	-
Total Staff Costs including pension provision	8,458	6,959

Salaries & emoluments of directly employed staff include payments as part of NESTA's Carried Interest Plan, payable only to members of the NESTA Investment team. This plan was introduced in 2008 and provides participants with a share of any cash realisations made by NESTA from its portfolio of investments. Carry payments totalling £6k were paid in 2008/09; no payments were made in 2009/10.

Further information on pensions is included below and in the Remuneration Report.

Other staff-related costs include recruitment costs, end of service costs, and staff training costs.

The average full-time equivalent number of persons employed during the year was as follows:

	Directly Employed 2009/10	Agency/ contract staff 2009/10	Secondees 2009/10	Total 2009/10	Total 2008/09
Innovation Programmes	27	2	1	30	29
NESTA Investments	9	-	-	9	10
Policy & Research	11	1	-	12	11
Publications, Events & Communications	16	-	-	16	17
Corporate Services/CEO & Trustees Office	21	-	-	21	21
	84	**3**	**1**	**88**	**88**

Notes to the Accounts

For the year ended 31 March 2010

Pension payments

NESTA offers employees a 12 per cent contribution, on a defined contribution basis, to a personal pension scheme or group stakeholder scheme. NESTA is also a member of the Pension Scheme for Administration and Technical Staff in the Arts ("PSATSA"). The scheme is a multi-employer, trustee-administered defined benefit scheme whose fund is independently managed and invested by a leading fund management company. This scheme is now closed to new members. NESTA's total contribution made in respect of the period, for all schemes, totalled £409k, including outstanding contributions of £33k.

As NESTA is unable to identify its share of the underlying assets and liabilities in the PSATSA scheme, it has been accounted for as if it were a defined contribution scheme in accordance with IAS19: *Employee Benefits*. An actuarial valuation of the pension fund takes place every three years. The market value of the whole scheme assets at 31 March 2007 was £10,200k, representing 100 per cent of the estimated liabilities of the scheme. The surplus or deficit on the scheme affects the size of contributions made by NESTA and its staff and advised by the fund manager. Up until May 2009, these were 19.4 per cent and 5.5 per cent of pensionable earnings respectively. The total annual pension is calculated as 1/60ths of final pensionable earnings for each year of service and index linked to the Retail Prices Index, with a maximum increase of 5 per cent per annum. On retirement 3/80ths of the final pensionable earnings for each year of service may be taken as a lump sum.

In May 2009 the last member of staff who participated in PSATSA left NESTA's employment. The scheme was closed to new participants in 2008 and NESTA will not reopen the scheme to employees. Section 75 of the Pensions Act provides that a statutory debt may become due from an employer in a multi-employer final salary scheme if it ceases to employ any employees who are active members in the scheme. NESTA's membership of the PSATSA pension scheme may give rise to such a liability. Calculating such a liability will require a full actuarial valuation of the pension scheme. This valuation will not be completed until the autumn of 2010; a valuation of NESTA's share of the liability as at 8 May 2009 will then be calculated. For the 2009/10 year a provision of £1,764k expenditure has been made for settlement of NESTA's share of the scheme's shortfall of assets against liabilities. This is based on an estimated £9 million shortfall at 31 March 2009 if the fund was insolvent as reported by the scheme actuary, Watson Wyatt Ltd. NESTA's share of the scheme is approximately 19.6 per cent.

6. Expenditure

6a. Expenditure by segment

Expenditure has been classified by segment: innovation programmes; investment management; policy & research; publications, events & communications; and corporate services.

Programmes and activities now closed (for example our Invention and Innovation programme) are included within the appropriate segment for the purposes of comparison.

Innovation Programmes

NESTA's Innovation Programmes are experimental projects which develop practical models of how innovation can happen, for adoption and spreading by the wider world (including policymakers, practitioners and businesses).

Total expenditure for the year on continuing activities was £14,450k (2008/09: £11,798k).

NESTA Investments

NESTA Investments supports start-up companies and provides us with a practical understanding of how to invest public funds in high-growth technology companies, and manage and support them. It also provides a valuable network of entrepreneurs, business angels and venture capital co-investors to complement our research and policy thinking. See Note 9(b) for details of active investments held.

Group total expenditure for the year on continuing activities was £3,225k (2008/09: £3,309k) including subsidiary expenditure of £37k (2008/09: £18k) for the year. Group expenditure includes a charge of £1,502k (2008/09: £1,098k) for impaired investments in early-stage companies at cost.

In addition, direct investments made in companies or funds for the year totalled £4,886k. These are treated as financial assets in the Statement of Financial Position. Refer to 9(b) for further details.

Policy & Research

NESTA's Policy & Research team aims to shape innovation policies that will help the UK meet national challenges of the 21st century. They use their expert knowledge to influence government and regulatory policy, and consider how policy might support the work of our investment and programme teams.

Total expenditure for the year on continuing activities was £3,810k (2008/09: £3,580k).

Publications, events and communications

NESTA's publications, events and communications team is responsible for a range of high-quality reports and policy documents, as well as meetings and seminars which help disseminate our insights.

Total expenditure for the year on continuing activities was £3,745k (2008/09: £4,390k).

Corporate Services

Corporate Services includes finance, human resources, information technology, facilities management and legal.

Total expenditure for the year on continuing activities was £2,049k (2008/09: £2,419k).

Notes to the Accounts

For the year ended 31 March 2010

6b. Expenditure by type

	2009/10 £'000	2008/09 £'000
Grants and projects	14,421	12,400
Staff costs	6,694	6,959
Defined benefit pension scheme provision	1,764	-
Irrecoverable VAT	1,348	1,460
Other operating costs	1,676	1,917
Operating leases: land & buildings, photocopiers	850	814
Legal and audit fees	194	165
Non-cash items:		
Impairment of investments in early-stage companies	1,502	1,098
Depreciation & amortisation	593	662
Loss on disposal of assets	1	21
Total expenditure	**29,043**	**25,496**

Grants and projects are external costs relating to all activity directly supporting the core mission, including research projects, seminars, publications, investee and recipient training, mentoring, networking events, sponsorships, and grant activities. Project costs include £2,159k of research costs (2009: £1,162k).

Refer to Note 5 for details of staff costs and the defined benefit pension scheme provision.

Other operating costs include all centrally administered costs, principally ICT and facilities costs (excluding rent and service charges which are disclosed separately). It also includes other costs not centrally administered, principally travel and entertaining, consulting and other professional fees.

6c. Further information

Net surplus is stated after charging:		2009/10 £'000	2008/09 £'000
The following items are included within 'legal & audit fees' in Note 6b.			
Auditor's remuneration	– National Audit Office statutory audit services	40	37
	– IFRS statutory audit	5	4
Auditor's remuneration	– Buzzacott – audit of subsidiaries	8	8
	– Buzzacott – non-audit services	9	1
The following items are included within 'operating costs' in Note 6b.			
Staff travel, subsistence and hospitality		157	197
Trustee travel and subsistence		12	16

7. Property, Plant & Equipment

Group & Parent	Leasehold improvement £'000	Computer hardware £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation					
At 1 April 2009	2,411	803	219	363	3,796
Additions	-	29	3	14	46
Disposals	-	-	-	(2)	(2)
At 31 March 2010	**2,411**	**832**	**222**	**375**	**3,840**
Depreciation					
At 1 April 2009	589	546	185	164	1,484
Charge for the year	251	172	35	73	531
Disposals in year	-	-	-	(1)	(1)
At 31 March 2010	**840**	**718**	**220**	**236**	**2,014**
Net Book Value					
At 31 March 2010	**1,571**	**114**	**2**	**139**	**1,826**

Notes to the Accounts

For the year ended 31 March 2010

Group & Parent	Leasehold improvement £'000	Computer hardware £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation					
At 1 April 2008	2,405	695	219	374	3,693
Additions	6	121	-	8	135
Disposals	-	(13)	-	(18)	(31)
Transfers in/(out)	-	-	-	(1)	(1)
At 31 March 2009	**2,411**	**803**	**219**	**363**	**3,796**
Depreciation					
At 1 April 2008	338	330	133	97	898
Charge for the year	251	216	52	75	594
Disposals in year	-	-	-	(8)	(8)
At 31 March 2009	**589**	**546**	**185**	**164**	**1,484**
Net Book Value					
At 31 March 2009	**1,822**	**257**	**34**	**199**	**2,312**

All property, plant and equipment in the categories listed above are wholly owned by NESTA.

Property, plant and equipment assets have not been revalued as their current cost does not differ materially from the historic cost. There is no material difference between the net book values of assets on a current cost and on an historic cost basis.

8. Intangible Assets

Intangible assets comprise software applications and licences.

Group and Parent	Computer software £'000	Total £'000
Cost or valuation		
At 1 April 2009	1,237	1,237
Additions	-	-
Transfers in/(out)	-	-
At 31 March 2010	**1,237**	**1,237**
Amortisation		
At 1 April 2009	1,145	1,145
Charge for the year	62	62
Transfers in/(out)	-	-
At 31 March 2010	**1,207**	**1,207**
Net Book Value at 31 March 2010	**30**	**30**
Cost or valuation		
At 1 April 2008	1,191	1,191
Additions	67	67
Transfers in/(out)	(21)	(21)
At 31 March 2009	**1,237**	**1,237**
Amortisation		
At 1 April 2008	1,083	1,083
Charge for the year	68	68
Transfers in/(out)	(6)	(6)
At 31 March 2009	**1,145**	**1,145**
Net Book Value at 31 March 2009	**92**	**92**

All intangible assets listed above are wholly owned by NESTA.

Notes to the Accounts

For the year ended 31 March 2010

9a. Investments

NESTA invests in government gilts and deposits held with the Commissioners for the Reduction of the National Debt in the UK. Other investments in equities, property funds and bonds are held separately with commercial investment managers. Other than short-term deposit investments, all investments are shown as non-current assets.

	Group and Parent					
	Cost 2010 £'000	Market Value 2010 £'000	Cost 2009 £'000	Market Value 2009 £'000	Cost 2008 £'000	Market Value 2008 £'000
Cash and short-term deposits	17,107	17,109	20,207	20,212	97,313	97,623
Government Stocks – Up to one year	91,865	94,758	-	-	48,939	50,737
Government Stocks – Two to five years	44,177	48,882	144,769	156,532	147,107	151,814
Government Stocks – Over five years	104,494	102,598	104,827	109,176	-	-
Total gilt investments	**257,643**	**263,347**	**269,803**	**285,920**	**293,359**	**300,174**
Cash and short-term deposits	-	-	941	941	453	453
Equities	26,750	29,180	14,479	11,174	14,010	14,871
Property funds	4,650	4,045	4,650	3,903	4,650	5,834
Bonds	26,250	30,203	25,000	24,531	-	-
Total other investments	**57,650**	**63,428**	**45,070**	**40,549**	**19,113**	**21,158**
Total gilt and other investments	**315,293**	**326,775**	**314,873**	**326,469**	**312,472**	**321,332**

	Group & Parent Market Value		
	2010 £'000	2009 £'000	2008 £'000
Represented in the Statement of Financial Position as:			
Non-current assets – financial assets, gilts	246,238	265,708	202,551
Non-current assets – financial assets, other investments	63,428	39,608	20,705
Current assets – financial assets, short-term deposits	17,109	21,153	98,076
	326,775	**326,469**	**321,332**

9b. Investments in seed & early-stage companies and funds

NESTA Investments has made equity, participating or convertible loan or quasi-equity investments in a portfolio of early-stage, start-up companies, and made contributions to early-stage investment funds.

During the year 15 investments were made into new and existing portfolio companies at a total cost of £4.9 million and ten drawdowns totalling £990k were made on our investment funds commitments.

A summary of the portfolio of investments held at 31st March 2010 is set out below:

i. Investments in early-stage companies – cost

Company	Cash investment to 31 March 2010 £'000	Company	Cash investment to 31 March 2010 £'000	Company	Cash investment to 31 March 2010 £'000
Light Blue Optics Ltd	1,258	Probe Scientific Ltd	461	ProKyma Technologies Ltd	235
Gnodal Ltd	1,250	AquaPharm Bio Discovery Ltd	436	St Andrews Fuel Cells Ltd	219
Cellnovo/Starbridge Systems Ltd	852	ProVision Communication Technologies Ltd	425	Scyron Ltd	200
Symetrica Ltd	773	Lein Applied Diagnostics Ltd	400	Smart Surgical Appliances Ltd	190
OSspray Ltd	750	Skimbit Ltd	400	Plasma Clean Ltd	185
Basekit Ltd	500	Ashe Morris Ltd	375	Orthogem Ltd	174
Dexela Limited	500	Haemostatix Ltd	367	Cytox Ltd	150
MMIC Solutions Ltd	500	Plaxica Ltd	300	Spiral Gateway Ltd	145
CellCentric Ltd	500	Surface Generation Ltd	250	Dialog Devices Ltd	125
Veryan Medical Ltd	491	Advanced Transport Systems Ltd	250	Odontis Ltd	110
Meciria Ltd	481	Micrima Ltd	247	RoBAT Ltd	105
Quotient Diagnostics Ltd	466	Hypertag Ltd	238	Six To Start Ltd	100

Investments over £100k	14,408
Other investments of less than £100k	263
Total investment at cost	**14,671**
Number of companies invested in	**44**

Notes to the Accounts

For the year ended 31 March 2010

Using valuation guidelines produced by the British Venture Capital Association (BVCA) and in line with best practice, NESTA estimates the value of this portfolio to be £11,818k at 31 March 2010 (2009: £9,502k, 2008: £8,941k) comprising equity investments of £10,949k (2009: £8,780k, 2008: £8,018k) and loans at £869k (2009: £722k, 2008: £923k). These are represented in the Statement of Financial Position as financial assets and are made up as follows:

i. Investments in early-stage companies – fair value	**Investment in companies £'000**	**Loans £'000**	**Total £'000**
At 1 April 2008	8,018	923	8,941
Adjustments at cost 2008/09:			
Additions	2,565	335	2,900
Conversion	250	(250)	-
Repayments	-	(78)	(78)
Sales	(225)	-	(225)
Impairment	(1,018)	(80)	(1,098)
Fair value movement – gain/(loss)	(810)	(128)	(938)
Total investment at fair value represented in the Statement of Financial Position at 31 March 2009	**8,780**	**722**	**9,502**
Adjustments at cost 2009/10:			
Additions	4,577	309	4,886
Reclassification	75	(75)	-
Repayments	-	(100)	(100)
Sales	(500)	-	(500)
Impairment	(1,392)	(110)	(1,502)
Fair value movement – gain/(loss)	(591)	123	(468)
Total investment at fair value represented in the Statement of Financial Position at 31 March 2010	**10,949**	**869**	**11,818**

At 31 March NESTA had deferred investments in early-stage companies totalling £664k (2009: £651k, 2008: £868k), and deferred investments in loans totalling £114k (2009, 2008: nil). These represent commitments made by NESTA but are un-drawn at 31 March.

BVCA guidelines provide for investments to be carried at cost unless there is information indicating an impairment or sufficient evidence to support an increase in valuation.

It should be noted that the majority of the companies are not at a stage of generating significant earnings or in many cases even revenues. Valuation of companies at this early stage of development is an inherently volatile and uncertain process. The valuation guidelines used are considered to be the best estimate of fair value at 31 March.

Transaction costs incurred by NESTA or management support costs are not included in valuations.

ii. Investment in funds – cost			**Group and Parent**			
	Cash Investment to 31 March 2010 £'000	**Deferred Investment in funds 2010 £'000**	Cash Investment to 31 March 2009 £'000	Deferred Investment in funds 2009 £'000	Cash Investment to 31 March 2008 £'000	Deferred Investment in funds 2008 £'000
Pentech Fund II	472	2,528	269	2,731	78	2,788
IP Venture Fund	270	230	205	296	182	311
The UMIP Premier Fund	1,050	2,450	525	2,975	-	3,334
GP Bullhound Sidecar Ltd	370	197	174	326	-	-
Seedcamp	75	-	75	-	68	72
Total	**2,237**	**5,405**	1,248	6,328	328	6,505

Deferred investment funds of £5,405k represent commitments made by NESTA to investment funds which are un-drawn at 31 March (2009: £6,328k; 2008: £6,505k).

Investment in funds – fair value	**Group & Parent Fair Value £'000**
At 1 April 2008	328
Additions (cost)	920
Fair value movement – gain/(loss)	(173)
Total investment in funds at fair value 31 March 2009	**1,075**
Additions (cost)	990
Fair value movement – gain/(loss)	(256)
Total investment in funds at fair value 31 March 2010	**1,809**

Fair value of investment in funds is calculated as NESTA's share of net asset value using the most up-to-date accounts published by each partnership fund. Contributions made by NESTA between the fund balance date and 31 March, are valued at cost.

Each partnership fund may apply different valuation methodologies from that used by NESTA to value its direct investments (BVCA). Valuation of early-stage funds is an inherently volatile and uncertain process however the valuation methods used by these funds are in line with industry standards.

10. Investment in subsidiaries

In 2008/09 NESTA contributed £120k toward NESTA Investment Management LLP's Members' Capital.

On 16 June 2008, NESTA incorporated three legal entities in which to support early-stage companies: NESTA Investment Management LLP, NESTA Partners Ltd, NESTA Kinetique LLP. NESTA and NESTA Partners Ltd are joint members in NESTA Investment Management LLP. NESTA Investment Management LLP and NESTA Partners Ltd are joint members of NESTA Kinetique LLP. NESTA Investment Management LLP is regulated by the Financial Services Authority and provides fund management services. NESTA Kinetique LLP is the general partner and manager of the Kinetique Biomedical Seed Fund, an external seed fund of which King's College and Queen Mary College, London, are also limited partners.

Both NESTA Kinetique LLP and NESTA Partners Ltd have no trading activity for the year ended 31 March 2010 and have nil assets, liabilities and reserves. The trading results for NESTA Investment Management LLP are included in the Group results. Retained loss for 2009/10 totalled £37k (2008/09: £18k). Net Assets at 31 March 2010 totalled £65k (2009: £102k).

11. Trade and other receivables

	Group 2010 £'000	Parent 2010 £'000	Group 2009 £'000	Parent 2009 £'000	Group 2008 £'000	Parent 2008 £'000
Trade receivables	60	60	34	33	136	136
Prepayments	215	215	104	104	95	95
Accrued income	133	133	174	174	-	-
Other receivables	50	50	33	33	15	15
Total trade and other receivables	**458**	**458**	**345**	**344**	**246**	**246**

NESTA is required to disclose the value of any receivable balances with other bodies within the Whole of Government Accounts (WGA) boundary. There were year-end balances held with the following organisations, inclusive of VAT.

	2010 £'000	2009 £'000	2008 £'000
Balances with other central government bodies	51	-	63
Balances with NHS Trusts	-	-	50
Total intra-government balances	**51**	**-**	**113**
Balances with bodies external to government	407	345	133
Total Trade and other receivables falling due within one year	**458**	**345**	**246**

12. Other payables: grants & investments

Contracted commitments	Group & Parent at 1 April 2008 £'000	New Commitments £'000	Commitments Paid £'000	De-Commitments £'000	Group & Parent at 31 March 2009 £'000
Innovation Programmes	4,792	4,421	(5,182)	(195)	3,836
NESTA Investments	7,791	3,359	(3,911)	(164)	7,075
Policy & Research	1,228	1,377	(810)	(59)	1,736
Total	**13,811**	**9,157**	**(9,903)**	**(418)**	**12,647**

Contracted commitments	Group & Parent at 1 April 2009 £'000	**New Commitments £'000**	**Commitments Paid £'000**	**De-Commitments £'000**	**Group & Parent at 31 March 2010 £'000**
Innovation Programmes	3,836	6,590	(5,777)	(198)	4,451
NESTA Investments	7,075	5,409	(5,876)	(405)	6,203
Policy & Research	1,736	325	(770)	-	1,291
Total	12,647	**12,324**	**(12,423)**	**(603)**	**11,945**

Payments under contracted commitments as at 31 March 2010 are expected to be made as follows (and are not discounted due to uncertainty in the timing of investment drawdowns):

	Within 1 year £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Total £'000
Innovation Programmes	3,297	554	200	200	200	4,451
NESTA Investments	1,798	1,000	1,000	1,000	1,405	6,203
Policy & Research	464	320	319	188	-	1,291
Total	**5,559**	**1,874**	**1,519**	**1,388**	**1,605**	**11,945**

Payments under contracted commitments are disclosed in the Statement of Financial Position as: due for payment within one year £5,559k; due for payment after one year £6,386k (2009: £6,063k and £6,584k respectively; 2008: £7,633k and £5,871k).

Grants committed or approved but not yet contracted are set out in Note 15.

13. Trade and other payable

	Group 2010 £'000	Parent 2010 £'000	Group 2009 £'000	Parent 2009 £'000	Group 2008 £'000	Parent 2008 £'000
Trade payables	1,126	1,125	1,134*	1,133*	659	659
Other taxation and social security	158	158	156	156	177	177
Other payables	61	61	45	45	24	24
Accruals and deferred income	1,672	1,661	2,416*	2,405*	1,747	1,747
Total trade and other payables	**3,017**	**3,005**	3,751	3,739	2,607	2,607

* reclassification of £1,122k of trade payables included in accruals in error at 31 March 2009

NESTA is required to disclose the value of any year-end payable balances with other bodies within the Whole of Government Accounts (WGA) boundary. There were year-end balances held with the following organisations, inclusive of VAT:

	Amounts falling due within one year			Amounts falling due after one year		
	2010 £'000	2009 £'000	2008 £'000	**2010 £'000**	2009 £'000	2008 £'000
Balances with other central government bodies	594	548	69	688	1,000	-
Balances with local authorities	1	30	144	-	-	30
Balances with NHS Trusts	-	31	157	-	-	31
Balances with public corporations and trading funds	1	-	-	-	-	-
Total intra-government balances	596	609	370	688	1,000	61
Balances with bodies external to government	7,980	9,205	9,870	5,698	5,584	6,117
Total Other Payables: Grants & commitments, and Trade and other payables	**8,576**	**9,814**	**10,240**	**6,386**	**6,584**	**6,178**

14. Provisions and contingent liabilities

Defined Benefit Pension Scheme

Section 75 of the Pensions Act provides that a statutory debt may become due from an employer in a multi-employer final salary scheme if it ceases to employ any employees who are active members in the scheme. While there is some uncertainty with the amount of our liability and timing of payment, a provision of £1,764k (2009: nil, 2008: nil) has been made for settlement of NESTA's liability. Refer to Note 5 for further information.

	£'000
Balance at 31 March 2009	-
Provided in the year	1,764
Balance at 31 March 2010	1,764

Dilapidations

The lease agreement for the rental property at 1 Plough Place expires in 2021. While a contingent liability for dilapidations exists, no estimate has been made due to uncertainty in timing and amount.

Notes to the Accounts

For the year ended 31 March 2010

15. Grants and investments committed or approved but not yet contracted

Grants and investments committed or approved (soft commitments) are not treated as liabilities until contracted.

Soft commitments	Group & Parent at 1 April 2009 £'000	Approvals £'000	Contracted £'000	Cancelled/ Withdrawn £'000	Group & Parent at 31 March 2010 £'000
Innovation Programmes	613	6,465	(6,590)	(201)	287
NESTA Investments	1,352	5,389	(5,409)	(1,029)	303
Policy & Research	-	325	(325)	-	-
Total	1,965	**12,179**	**(12,324)**	**(1,230)**	**590**

Cancelled/withdrawn soft commitments vary from year to year (2009: £994k; 2008: £563k). Many soft commitments do not reach the point of formal, contracted hard commitment. Common reasons include: the breaking down of contract negotiations where NESTA and the organisation do not agree final terms, the organisation accepting an offer from an alternate funding body, or the organisation not raising additional funds required to complete larger rounds of financing.

16. Capital commitments

Contracted capital commitments at 31 March 2010 not otherwise included in these financial statements are as follows:

	2010 £'000	2009 £'000
Server hardware	38	-
	38	-

The amount payable within one year is £38k (2009: £nil)

17. Operating lease commitments

At 31 March 2010, NESTA had commitments under operating leases. The total future minimum lease payments are given in the table below for each of the following periods:

	Due in less than 1 year £'000	Due in 1 to 5 years £'000	Due in more than 5 years £'000
Buildings:			
Plough Place, London	709	2,836	4,431
Other leases:			
Photocopiers	12	24	-
Total	**721**	**2,860**	**4,431**

18. Reconciliation of surplus for the year to net cash outflow from operating activities

	2010 £'000	2009 £'000
Surplus for the year	3,590	4,473
Project funding	(2,457)	(668)
Lottery funding	(15,000)	(15,000)
Depreciation & amortisation	593	662
Loss on disposal of assets	1	21
Impairment of investment portfolio	1,502	1,098
(Increase)/Decrease in purchase of financial assets	(8,961)	(83,908)
(Increase)/Decrease in trade and other receivables	(113)	(99)
(Increase)/Decrease in deferred financial assets	795	394
Increase/(Decrease) in other payables: grants & investments	(702)	(857)
Increase/(Decrease) in provisions	1,764	-
Increase/(Decrease) in trade and other payables	(734)	1,144
Net cash outflow from operating activities	**(19,722)**	**(92,740)**

19a. Analysis of cash & cash equivalents and cash held in financial assets

	Group 2010 £'000	Group 2009 £'000	Movement £'000	Group 2008 £'000	Movement £'000
At bank and in hand	1,213	234	979	92	142
Held in escrow	-	-	-	237	(237)
Included in cash & cash equivalents	1,213	234	979	329	(95)
Included in current assets: financial assets, short-term deposits	17,109	21,153	(4,044)	98,076	(76,923)
Total	**18,322**	21,387	**(3,065)**	98,405	(77,018)

	Parent 2010 £'000	Parent 2009 £'000	Movement £'000	Parent 2008 £'000	Movement £'000
At bank and in hand	1,136	121	1,015	92	29
Held in escrow	-	-	-	237	(237)
Included in cash & cash equivalents	1,136	121	1,015	329	(208)
Included in current assets: financial assets, short-term deposits	17,109	21,153	(4,044)	98,076	(76,923)
Total	**18,245**	21,274	**(3,029)**	98,405	(77,131)

19b. Reconciliation of net cashflow to movement in net funds

	Group 2010 £'000	Parent 2010 £'000	Group 2009 £'000	Parent 2009 £'000	Group & Parent Total £'000
Decrease in cash & cash equivalents	979	1,015	(95)	(208)	(102)
Cash inflow/(outflow) from increase in liquid resources	(4,044)	(4,044)	(76,923)	(76,923)	87,829
Movement in net funds	**(3,065)**	**(3,029)**	**(77,018)**	**(77,131)**	**87,727**
Net funds 1 April	21,387	21,274	98,405	98,405	10,678
Net funds 31 March	**18,322**	**18,245**	**21,387**	**21,274**	**98,405**

20. Financial instruments

IFRS 7: *Financial Instruments: Disclosures* requires an explanation of the role which financial instruments have had during the period in creating or changing the risks which the Trustees of NESTA face in undertaking their role. For NESTA, financial instruments include all investments made and cash held on short-term deposit. Short-term receivables and payables have minimal financial risk and are not separately disclosed. The key relevant risks are set out below.

Liquidity Risks

NESTA's liquidity objective is to maintain an appropriate balance between operating cash requirements and minimising the need to sell financial assets (e.g. gilts) prior to maturity and thereby reducing the risk of loss on sale.

In 2010 £15,176k (46 per cent) of NESTA's income derived from the returns accruing on its financial assets investments. The remaining income is Lottery funding of £15,000k (46 per cent) and project funding and other income of £2,457k (8 per cent).

NESTA is satisfied that it has sufficient certainty over future income and liquid resources in the form of cash and short-term deposits of £18,322k, regular coupon returns from gilt investments as well as maturing gilt parcels, and is therefore not exposed to significant liquidity risks.

Interest Rate Risks

For gilt investment to 31 March 2008, NESTA had a policy of buying five-year plus gilts on a rolling basis and holding them to maturity. In the periods since, as gilt parcels have matured and with low yield rates for five-year gilts, longer-term gilts have been purchased to provide more sustainable levels of income. The purchasing of gilts inherently reduces NESTA's economic exposure to short-term interest rate risks, although reported results may be volatile due to the policy of revaluing such investments to prevailing market prices.

Cash on hand used to fund operating activity is predominantly held with the Commissioners for the Reduction of the National Debt and attracts base rate interest income. Based on average cash holdings, a drop in the interest rate by 0.5 per cent would reduce income by approximately £75k per annum.

Notes to the Accounts

For the year ended 31 March 2010

Interest Rate Profile

The following table shows the interest rate profile of NESTA's financial assets:

	Group & Parent Market value £'000	Weighted average interest rate %	Weighted average period for which rate is fixed
Financial Assets at 31 March 2010			
Fixed rate	246,238	5.00%	9 years, 4 months
Floating rate	17,109	0.48%	
Non-interest bearing assets	83,238		
	346,585		
Financial Assets at 31 March 2009			
Fixed rate	265,708	5.08%	10 years, 1 month
Floating rate	20,553	4.62%	
Non-interest bearing assets	57,764		
	344,025		
Financial Assets at 31 March 2008			
Fixed rate	202,551	5.29%	2 years, 6 months
Floating rate	98,076	4.98%	
Non-interest bearing assets	37,347		
	337,974		

All assets are denominated in sterling. The book value equals the fair value for all assets held. Interest rates on gilts expected to be held to maturity are gross redemption yields and include expected capital gains or losses to redemption.

The assets above are included in the Statement of Financial Position as:	**2010 £'000**	2009 £'000	2008 £'000
Non-current assets, financial assets	329,476	322,872	239,898
Current assets, financial assets	17,109	21,153	98,076
Total	**346,585**	344,025	337,974

Inflation Rate Risks

NESTA is exposed to cost inflation, particularly in relation to staff costs. At the same time, the majority of its investments are held in fixed income gilts that do not provide any form of cover against changes in inflation. Whilst this is not considered a substantial risk to effective operations in the short term, assuming no substantial and unexpected increase in inflation, it does pose challenges to NESTA in the medium to longer term. NESTA is continuing to work on increasing the effective purchasing power of its investments to be better protected for the future.

Credit Risks

NESTA is not exposed to any significant credit risk. Over 75 per cent of its financial assets are managed by the Commissioners for the Reduction of the National Debt and invested in government gilts. A further 18 per cent of financial assets are held by large institutional investors. The remaining financial assets make up NESTA's portfolio of investments in early-stage companies, loans or funds which are actively managed, re-valued annually, and any impairment treated as expenditure.

Trade receivables in Note 11 are shown net of an £81k provision for doubtful trade receivables for certain start-up costs owed to NESTA by a subsidiary, Investment Management LLP. There is uncertainty over the timing and collectability of the debt from the subsidiary, however as this is an intra-group transaction, there is no credit risk.

Foreign Exchange Risks

NESTA is not exposed to any material foreign exchange risks. The majority of financial assets are denominated in sterling.

21. Related parties

NESTA is an NDPB of the Department for Business, Innovation and Skills (BIS). NESTA had no material financial transactions with BIS during the year.

NESTA has had material transactions with other Government Departments and other central Government bodies, namely: the Department for Culture, Media and Sport which is parent department for the Big Lottery Fund (BLF) from whom NESTA receives additional lottery funding and rents its office premises, the Commissioners for the Reduction of the National Debt (fund manager for NESTA's gilt holdings), and the Department of Health (for services delivered by NESTA and the Young Foundation).

NESTA is also required under IAS24 to disclose any material transactions with related parties, meaning an entity over which NESTA, its Board or senior managers and their close family members, could exert influence over a transaction. NESTA's Trustees are drawn from among its key stakeholders, and therefore it is in the nature of its business to have some transactions which are classified under IAS24 as related. All of the following transactions were entered into in the ordinary course of business and on an arm's length basis, consistent with NESTA's policy on potential conflicts of interest. During the year NESTA entered into the following material transactions with the following related parties. The table also shows outstanding balances at the end of the financial year.

Notes to the Accounts

For the year ended 31 March 2010

Organisation	Role	Transaction Description	Payment Transactions for the year ended 31 March 2010 £'000	Receipt Transactions for the year ended 31 March 2010 £'000	Outstanding payable balance or commitment as at 31 March 2010 £'000	Outstanding receivable balance or commitment as at 31 March 2010 £'000
Trustees of NESTA						
National Theatre	Executive Director	Grant as part of a NESTA education project.	6		-	
British Broadcasting Corporation	Non-executive director	Reimbursement for secondment of a NESTA programme director from the BBC since January 2008, contracted prior to trustee appointment.	96		-	
University of Wales	Vice-chancellor	Contribution to Prince of Wales innovation scholarships.	210		210	
City University	Deputy Pro-chancellor	Three research projects on corporate innovation and creative industries, contracted prior to trustee appointment.	121		-	
Cheltenham Science Festival	Creative Director	Support for FameLab science communication project.	75		-	

Organisation	Role	Transaction Description	Payment Transactions for the year ended 31 March 2010 £'000	Receipt Transactions for the year ended 31 March 2010 £'000	Outstanding payable balance or commitment as at 31 March 2010 £'000	Outstanding receivable balance or commitment as at 31 March 2010 £'000
Committee Members of NESTA						
Coventry University Enterprises Ltd	Director	Grant to project on user-led approaches to tackling ageing.	50		40	
Improvement and Development Agency for local government	Managing Director	Joint work on Public Services Innovation Lab projects.		100		-
Gnodal Ltd	Director, Investor	Investment in early-stage company.	1,000		-	
MTI Partners	Former CEO, Managing Director of the fund manager of a NESTA investment in early-stage fund	Investment in early-stage fund.	-		2,450	
Staff of NESTA						
British Business Angel Association	Director	Sponsorship	5		-	
Design Council	Council Member	Project grant	-		8	
Young Foundation	Spouse of Director	£520k funding received from the Department of Health and a proportion paid on directly to the Young Foundation for their share of work on DoH's Regional Innovation Fund Advisory Service. £48k support for projects on social innovation.	568		297	

In respect of receivable balances with related parties, no provision for doubtful debts or write-offs have been made.

NESTA Making Innovation Flourish

TSO information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail
TSO, PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call: 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/ General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

Customers can also order publications from
TSO Ireland, 16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax: 028 9023 5401

ISBN 978-0-10-296835-4
9 780102 968354