

The Technology Strategy Board

ANNUAL REPORT AND ACCOUNTS 2007-2008

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Presented to Parliament by the Secretary of State, and by the Comptroller and Auditor General in pursuance of
Schedule 1, Sections 2(2) and 3(3) of the Science and Technology Act 1965

Dr Graham Spittle – Chair
Mr Iain Gray – Chief Executive

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CONTENTS

Joint Statement by the Chair and the Chief Executive	4
Accounts	
Management Commentary	8 - 15
Remuneration Report	16 - 19
Statement of Responsibilities	20
Statement on Internal Control	21 - 24
Certificate and Report of the C&AG	25 - 29
Statement of Net Expenditure	30
Balance Sheet	31
Cash Flow Statement	32
Notes to the Accounts	33 - 44

JOINT INTRODUCTORY STATEMENT FROM THE CHAIR AND THE CHIEF EXECUTIVE

We are pleased to present this first Annual Report and Accounts of the Technology Strategy Board.

Business Review

Establishment

The Technology Strategy Board was established as an executive Non-Departmental Public Body by Royal Charter on the 7th February 2007. It was initially under the sponsorship of the Department for Trade & Industry (DTI), and later the Department for Innovation, Universities and Skills (DIUS). It grew out of an earlier advisory body, also called the Technology Strategy Board, which was created in October 2004 to advise the Secretary of State for Trade and Industry on business research, technology and innovation priorities for the UK, the allocation of funding across those priorities and the most appropriate ways to support them. The Secretary of State for Trade and Industry announced to Parliament on 1 November 2006 that he had decided that the best way to build on the success of this advisory board was to create a new Technology Strategy Board as an executive arm's length body.

The Technology Strategy Board (TSB) came into operation on the 1st July 2007, following the enactment of the machinery of government changes implemented on the 1st July 2007 which are described in the Management Commentary. Much of the first year has inevitably focussed on creating and staffing a new organisation and establishing a general strategic direction while maintaining the momentum of the inherited DTI technology programme.

Collaborative Research & Development competitions

An early success was the delivery of the inherited Spring 2007 Collaborative Research & Development competition. A competition is a way in which projects are selected for grant funding, involving submission of a proposal for a project that is in line with the competition subject, that is independently judged, and if successful, funded. Many new projects have been supported in collaboration with partners in the research councils and regions, including the £103 million Next Generation Composite Wing programme that will revolutionise aircraft wing development in the UK.

Identification of key areas of impact followed the spring competition, leading to the launch of a new competition with more responsive and flexible processes. This autumn 2007 competition included for the first time opportunities for collaborative research & development in the creative industries and the response has been very encouraging, with over 50 feasibility study projects awarded to enable the development of suitable collaborative projects at a later date. We have also been exploring opportunities to support innovation in the high value service sectors.

The key competition subjects are shown in the table below.

Phase 1	Phase 2	Phase 3
<ul style="list-style-type: none"> • Materials for Energy • High value Manufacturing • Cell Therapy 	<ul style="list-style-type: none"> • Low Carbon Energy Technologies • Advanced Lighting, Lasers and Displays • Technologies for Health 	<ul style="list-style-type: none"> • Gathering Data in Complex Environments • Creative industries

The development of the competition mechanisms were reviewed and adjusted shortening the time taken from first competition announcement to grant offer letters being sent out by seven weeks. Following the year end, in the summer of 2008 a consultation exercise with fellow funders and industry led to a re-designed application incorporating a Business Plan. The new form is in operation and early results suggest a very favourable response from stakeholders.

Innovation Platforms

Building on the two Innovation Platforms in place from the days when the Technology Strategy Board was an advisory board we have seen the launch of three new Innovation Platforms in 2007-08 and a further one after the year end in 2008-09.

- Current – Intelligent Transport Systems & Services
- Current – Network Security
- New - Assisted Living
- New - Low Impact Buildings
- New - Low Carbon Vehicles
- Post year end in 2008-09 – Detection and Identification of Infectious Diseases, launched on 7 October 2008

These platforms engage UK businesses in addressing some of the most pressing societal challenges, solving societal issues in the UK, whilst developing a proven solution that UK businesses can sell overseas, bringing wealth back to the UK.

Strategy Development

During 2007-08 we also took the time to develop our Strategy focussing our work on investing in business innovation through three key themes:

- Technology inspired innovation
- Challenge-led innovation
- Developing the innovation climate

This culminated in the launch of our strategy “Connect and Catalyse” a Strategy for Business Innovation on the 8th May 2008. This document is available at <http://www.innovateuk.org>

Developing Partnerships

The year was a very important one in terms of building relationships with our strategic partners in business, universities, government, research councils and regional development agencies. We have put in place a range of structures to enable these relationships to be productive and cooperative.

The relationships we are developing are aimed at producing an aligned set of interventions that support the requirements of business geographically throughout the United Kingdom, across the appropriate business segments and at the right level.

This has been achieved through activities including:-

- The Innovate 2007 conference which attracted 750 attendees from business, government and academia;
- The Strategic Advisory Group and Strategic Partnership Group meetings held between the TSB, Regional Development Agencies and Research Councils;
- The Knowledge Transfer Partnership Board linking together the TSB, Universities and Businesses;
- DIUS representation at all Governing Board Meetings; and
- monitoring reviews between the TSB and DIUS held on a quarterly basis.

In addition TSB staff have taken key roles in partner organisations such as the Energy Technologies Institute, and Living with Environmental Change.

A significant programme that the Technology Strategy Board has been tasked with is re-launching the Small Business Research Initiative, described in the DIUS White Paper *Innovation Nation (Cm 7345)* of March 2008. This programme utilises other government department procurement budgets to stimulate innovation by requiring that they give grants and/or contracts to small companies to supply innovate products and services. Pilots are under development in 2009 with the Ministry of Defence and the Department of Health.

Internal Appraisal

The year has also seen a detailed review of our inherited finances and liabilities. The review has revealed that projects that have been running and inherited from the DTI have larger liabilities than initially indicated.

This is mainly due to the nature of the projects funded and the extended time that can occur when performing research & development projects. This means that smaller amounts of resource may be spent at the start of a project than originally planned, meaning that there is more to spend in later accounting periods. Working with ministers and DIUS colleagues we are well placed to deliver a new and exciting programme whilst responsibly managing our inherited liabilities.

Public Service Agreement or other external targets have not yet been set and the TSB is in discussion with DIUS to establish meaningful targets.

Funding

For the Comprehensive Spending review period to March 2011 we have been allocated £711.4 million of Technology Strategy Board funding, aligned with £120 million from the research Councils and £180 million from the Regional Development Agencies/Devolved Administrations.

This gives a total set of aligned spending of £1,011.4 million to be spent over the next three years.

Going forwards

As time progresses the TSB is developing the way in which it evaluates its investments in order to establish which interventions produce the best outcome. As this information comes to light, it is used to adapt the way we operate through a process of continuous improvement. This provides information which allows the TSB to react in the current economic climate, and prioritise spending on key areas with most impact, without compromising the meeting of core objectives.

At the time of writing the TSB is identifying how to address issues that are arising in relation to the global downturn in the economy, and in particular how to invest in areas that will have strong markets when the UK exits from the downturn. Currently, key activities are being developed to be addressed in the short term. In order to be able to fund these key areas the TSB will have to slow down other areas in order to release funds to meet the challenge. Overall this does not represent a change in direction of the strategy of the TSB, but gives more focus on some tactical activities that need to be undertaken.

The Technology Strategy Board is a new organisation but in its short history it has already delivered much. We now embrace the challenge of making the UK a global leader in business innovation and enabling new technologies to be applied rapidly, effectively and sustainably to create wealth and enhance quality of life.

Graham Spittle CBE
Chair

Iain G Gray
Chief Executive

MANAGEMENT COMMENTARY

Statutory Basis and History

The Technology Strategy Board (TSB) was incorporated by Royal Charter on 7 February 2007 and was established as a Research Council for the purposes of the Science and Technology Act 1965 by the Technology Strategy Board Order 2007 (S.I. 2007/280). The Order came into force on 1 April 2007. The Secretary of State for Trade and Industry announced to Parliament on 1 November 2006 that he had decided that the best way to build on the success of the earlier advisory Technology Strategy Board was to create a new Technology Strategy Board as an executive arm's length body. From 1 July 2007, the TSB took over certain activities previously carried out by the Secretary of State relating to Energy and Technology Innovation. Certain property, rights, liabilities and obligations held or incurred by the Secretary of State in relation to certain contracts, grants and grant schemes relating to Energy and Technology Innovation were transferred to the TSB under the Technology Strategy Board (Transfer of Property etc) Order 2007 (S.I. 2007/1676), made 7th June 2007, effective 1st July 2007, and the TSB commenced operations on 1 July 2007. The TSB is an executive Non-Departmental Public Body (NDPB) and its primary source of funds is the Request for Resources Grant-in-Aid allocated by its sponsoring body, the Department for Innovation, Universities and Skills (DIUS).

These financial statements have been prepared in accordance with the Accounts Direction given by the Secretary of State for Innovation, Universities and Skills in accordance with section 2(2) of the Science and Technology Act 1965. The accounts include the results for the period 1 April 2007 to 30 June 2007 which were previously recorded in the books of the former Department of Trade and Industry (DTI), in accordance with directions in the *Financial Reporting Manual* to account for Machinery of Government changes using merger accounting in accordance with Financial Reporting Standard (FRS) 6: *Acquisitions and Mergers*. The comparative figures in the Statement of Net Expenditure, Balance Sheet and Cash Flow Statement represent the results for the Technology Programme previously included in the accounts of the former DTI for 2006-07.

Mission

The TSB's mission is:

to promote and support research into, and development and exploitation of, science and technology and new ideas for the benefit of business, in order to increase economic growth and improve the quality of life.

Objects

In delivering its mission, the TSB may:

(a) promote and support research into, and the development and exploitation of, science, technology and new ideas, by those engaged in business activities;

(b) promote and support the use of, and investment in, science, technology and new ideas, by those engaged in business activities;

(c) collect and disseminate knowledge about the use of, and investment in, science, technology and new ideas;

(d) contribute to building public confidence in, and understanding of, research into, and the development and exploitation of, science, technology and new ideas; and

(e) advise Government on strategies for, and respond to questions posed by Government about, the use of, and investment in, science, technology and new ideas, by those engaged in business activities.

Programme Objectives

The TSB has executive responsibility for delivering programmes of government financial support to encourage business investment in and use of technology across all sectors of the UK economy. These programmes include continuing support for collaborative research and development for business investment, and the use of technology, in both manufacturing and service industries. The aim is to achieve increased innovation in sectors where the UK economy is strong; the development of new sectors, through the creation and growth of research and development, of intensive small and medium-sized enterprises; and support for the use of technology in areas important to the future of existing and emerging sectors in the UK. The TSB also supports knowledge transfer networks. These are national over-arching networks that aim to improve the UK's innovation performance by increasing the breadth and depth of knowledge transfer of technology into UK businesses.

In its advisory role, the TSB alerts the Government to areas where barriers exist to the exploitation of new technologies.

The TSB works closely with departments and agencies of Her Majesty's Government, with the devolved administrations, the regional development agencies and the research councils. It collaborates with these bodies and businesses on technological developments and innovations of importance to the UK and to government procurement.

Review of the Year

A review of the activities undertaken by the TSB during the year is set out in the Joint Statement by the Chair and the Chief Executive which precedes these financial statements.

Corporate Governance

Audit Committee

The Audit Committee, comprising three members of the Board, will meet at least three times a year to review internal and external audit matters and the Board's accounts. Its terms of reference include monitoring of the application of internal controls and oversight of the Board's response to the corporate governance initiative and risk management. The Audit Committee receives reports from both internal and external auditors. Minutes of the Audit Committee are forwarded to all members of the Board. In the 2007-08 period, the Committee met twice. During 2008-09, the Committee is developing by moving towards a formalised meeting structure and undertaking appropriate training.

Chief Executive

Dr David Evans was Interim Chief Executive of the TSB from 1 July to 31 October 2007. Mr Iain Gilmour Gray was Chief Executive from 1 November 2007 onwards.

Executive Board

The following persons were executive directors during the year 2007-08 and up to the date of approval of these accounts unless otherwise indicated:

Name	Role
Mr David Bott	Director of Innovation Platforms (From 1st August 2008 Director of Innovation Programmes)
Mr Graham Hutchins	Director of Corporate Services (From 1st August 2008 Director of Operations & Services)
Dr Allyson Reed	Director of Strategy & Communications
Mr David Way	Director of Operations (From 1st August 2008 Director of Knowledge Exchange & Special Projects)

Board Members

The following persons were members of the TSB during the year 2007-08 and up to the date of approval of these accounts unless otherwise indicated:

Chair

Dr Graham Spittle CBE

Chief Executive

Dr David Evans (1 July to 31 October 2007)

Mr Iain Gray (from 1 November 2007)

Members

Dr Graeme Armstrong

Dr John Brown

Eur Ing Nick Buckland

Dr Joseph Feczko

Ms Anne Glover CBE

Dr David Grant CBE

Mr Jonathan Kestenbaum

Prof Julia King CBE

Mr Andrew Milligan

Dr Peter Ringrose

Dr Jeremy Watson

Details of Board members' interests are available by application to the Board Secretary.

Auditors

The accounts of the TSB are audited by the Comptroller and Auditor General under the terms of paragraph 3(3) of Schedule 1 of the Science and Technology Act 1965. A fee of £110,000 is due for this service, plus £25,000 in connection with non-statutory work which is recoverable from DIUS. There was no other auditor remuneration for non-audit work.

So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware.

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 the auditors are aware of that information.

SOCIAL AND COMMUNITY ISSUES

Employee Relations

Objectives for HR management

The following were the main objectives for HR management in 2007-08 and to date:

Develop a comprehensive workforce plan for the TSB to deliver the right number of people with the right skills, experiences, and competencies in the right jobs at the right time.

Develop effective staff consultation arrangements

Implement a Reward strategy that must both encourage and support differing contractual arrangements for technology skills and at the same time the longer term retention of staff.

Resourcing – Securing for the TSB an effective mix of people with appropriate credibility/skills and a strong organisational fit, in a timely manner and at an optimum cost.

Performance management - Develop and implement a set of processes for establishing a shared understanding of what is to be achieved in an organisation and supports the management and development of colleagues in a way that increases the probability of personal and organisational goals being achieved in the short and longer term.

Develop Capability – Ensuring that the TSB management and staff have appropriate skills/experience to deliver high performance and the business objectives.

Equal opportunities

The TSB's policy on recruitment and selection is based on the ability of a candidate to perform the job regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. Full and fair consideration is given to applications for employment from the disabled where they have the appropriate skills to perform the job. If disablement should occur during employment the TSB would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

Employee involvement

Information is provided to employees through the HR Manual (on intranet), Office Notices, e-mail and the Intranet. Consultation with employees takes place through meetings with senior staff, the Staff Consultative Group, through bilateral, directorate, sectional meetings, and through working groups set up to look at specific organisational issues, and where appropriate through all-staff meetings.

The TSB disseminates financial information by issuing reports to the Board, to the Senior Management Team and to budget holders. Successful Spending Review bids and budgetary information are detailed in e-mails, press notices and the Annual Report, all of which have a wide circulation.

All staff receive a briefing on, and personal copies of, the TSB's Strategy and the associated Delivery Plan, and are then involved in developing and implementing Directorate and Personal objectives, which flow from the Plan, through the performance management process.

Health and Safety

The TSB policy is to set and maintain high standards of health and safety performance so as to ensure the health and safety of staff as well as that of others who may work in or visit the premises. To achieve this the TSB has a Health Safety Statement and Policy, signed by the Chief Executive and the other Executive Directors. The Policy covers responsibilities, competencies, risks, controls, the provision of advice, performance measurement and staff consultation. The Policy is accessible to all staff through the TSB's Intranet along with all health and safety guidance and procedures. A TSB Health and Safety Officer and Representatives have been appointed, and they meet on a regular basis as the TSB Health and Safety committee; its role is to review the adequacy of safety training and the supply of information, consider accident statistics and safety audit reports and to help the TSB's Health and Safety Officer carry out his/her duties.

Reporting of Personal Data Incidents

No loss of personal data has been reported during the Financial Year 2007-08.

Environmental Policy

The TSB is committed to following the joint Research Council Environmental Policy Statement which calls for:

- Compliance with all relevant legislation;
- Minimising the adverse impacts of new buildings, refurbishments;
- Making efficient use of natural resources;
- Operating effective arrangements for waste disposal and recycling;
- Promoting effective environmental supply management;
- Working with staff to promote more economic forms of transport;
- Providing appropriate information and training to new staff.

Figures for the joint Swindon-based Research Councils show that approximately 70% of waste is recycled.

CBI Code of Practice

The TSB's policy is to comply fully with the Better Payment Practice Code for the payment of goods and services. The TSB's policy is to make payments in accordance with the timing stipulated in the contract with suppliers. Where there is no contractual provision, every effort is made to ensure that payment was effected within 30 days of receipt of goods or services, or presentation of a valid invoice or similar demand for payment, whichever is the later. During 2007-08, the TSB paid 94.6% of its undisputed invoices within the 30 day period.

In November 1998, the Late Payment of Commercial Debts (Interest) Act came into force, providing small businesses with a statutory right to claim interest from large businesses (and all public sector bodies) on payments that are more than 30 days overdue. Amended legislation (the Late Payment of Commercial Debts Regulations 2002) came into force on 7 August 2002 providing all businesses, irrespective of size, with the right to claim statutory interest for the late payment of commercial debts. No such claims were received during the reporting year.

FINANCIAL REPORT

- Operating results for the period
Grant-in-Aid received during the year from DIUS was £150 million.
- Net Expenditure for the year and fundholders perspective
The Statement of Net Expenditure records Net Expenditure for the year of £238.75 million which has been transferred to reserves. This represents the expenditure for the year on programme, staff, and overhead costs.
Total Government Funds at 31 March 2008 amounted to £(77) million. Other reserve movements are shown in note 10.
- Technology Grants Expenditure
The expenditure total on this line records an increase from 2006-07 to 2007-08 of £135.35million to £210 million, particularly in Collaborative Research and Development grants of £50.04 million to £124.63 million. This programme started in April 2004 and committed varying sums of funding at six-monthly intervals. This commitment then took, and still takes, typically 12 months before the projects are signed up and a further three to nine months before the first grant payments are made. The length of a project is normally 36 months and very few projects from the first year had finished by 2007-08, hence there was an increasing number of projects in the overall pool, together with a funding increase year on year. As varying amounts of funding are injected into successive competitions, then a variance of grant payments is expected to occur, even when the programme has achieved an otherwise steady state.
- Risk
The Statement on Internal Control at pages 21 to 24 outlines the TSB's policy with regard to corporate governance, internal control and risk management. The factors and influences that may have an effect on present and future performance are listed in risk registers and the most important are identified to the Board at least annually. The most significant factors underlying the performance and position of the TSB during the period under review are associated with the set-up of a new organisation, in a new location, with largely new staff, and new systems and procedures.

- Allocation and Outturn

The following table gives a comparison of outturn against allocation.

£'000s	Non-Cash	Resource	Capital Grants	Total
Allocation	-	216,022	10,000	226,022
Outturn	<u>(2,147)</u>	<u>217,046</u>	<u>10,115</u>	<u>225,014*</u>
Non-usable underspend	<u>2,147</u>			2,147
In year (over)spend		<u>(1,024)</u>	<u>(115)</u>	<u>(1,139)</u>

*Outturn reconciled as follows:

From the Statement of Net Expenditure and Reserves

Total Expenditure for the year	236,607
Funding from partners	(11,593)

Total Outturn	<u>225,014</u>
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- Funds from operating activities and other sources of cash

As reported in the Cash Flow Statement on page 32, there was a net cash outflow of £183.55 million in the year.

- Current liquidity

Cash held at 31 March 2008 was £11.97 million and Net Current Liabilities were £77 million.

- Pension Liabilities

Details of pension arrangements are set out in notes to the accounts 1j Pension Costs and 2e Pension arrangements, and details of the salary and pensions benefits of senior employees are included in the Remuneration Report.

- Going Concern

The Income and Expenditure Reserve at 31 March 2008 shows a deficit of £77 million. This reflects the inclusion of liabilities falling due in future years which will be met by future grant-in-aid from the TSB's sponsoring department, DIUS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant-in-aid for 2008-09, taking into account the amounts required to meet the TSB's liabilities falling due in that year, has already been included in the department's Estimates for that year, which have been approved by Parliament. Longer term commitments are contained within existing funding allocations arising from Government Spending Review settlement figures which cover up to 2010-11. The TSB's financial commitments on grants beyond that period can be met well within the minimum reasonably anticipated income for those years. Such grants issued by the TSB are made under statutory powers within the terms of the Science and Technology Act 1965, applied upon the objects set out in Article 2 of the TSB Royal Charter. This is confirmed in the TSB Management Statement issued by DIUS in June 2007. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.



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Iain G Gray
Accounting Officer
9 April 2009

REMUNERATION REPORT

General

This report has been prepared in accordance with schedule 7A of the Companies Act 1985 inserted by the Directors' Remuneration Report Regulations 2002.

Remuneration Policy

The remuneration of the Chief Executive of the Technology Strategy Board is decided by a Remuneration Panel chaired by the Director of Innovation, DIUS. The performance of Directors is assessed annually by the Chief Executive through the Performance Management process and approved by Technology Strategy Board's Remuneration Committee. In the light of these assessments, performance related pay is made in accordance with provisions of the Pay Remit approved by the Department for Innovation, University and Skills (DIUS). The remuneration of the Technology Strategy Board's Non-Executive Directors and Chair is reviewed annually by DIUS. Membership of the Technology Strategy Board's Remuneration Committee consists of Graham Spittle (Chair), Peter Ringrose and David Grant (Non-Executive Directors), and Iain Gray (Chief Executive).

The performance bonuses paid to the Chief Executive and three of the four Directors (David Bott has a service contract) are based on achievement of individual and corporate objectives, agreed at the beginning of the performance cycle. Performance bonus for the Chief Executive is up to 40% on base salary, for other Directors, up to 20%.

Contractual Policy

The Chief Executive is contracted for the period 31st October 2007 to 30th October 2012. The Director of Innovation Platforms is contracted for the period 1st July 2007 to 30th June 2012. All other Directors are permanent employees of the Technology Strategy Board. The Chief Executive is subject to a notice period of 12 months; all Directors are subject to a notice period of 6 months.

Non-Executive Directors and the Chair are not employees of the Technology Strategy Board and receive a letter of appointment from DIUS. The terms of appointment allow for members to resign from office by notice in writing to the Secretary of State. Members may also be removed from office by the Secretary of State on grounds of incapacity, misbehaviour or a failure to observe the terms and conditions of appointment. The Chair has been re-appointed for a three-year period from 1 December 2008.

Audited Information

Details of 2007-08 remuneration for the TSB Chief Executive and Directors

Remuneration of Senior Employees

The combined code on corporate governance requires the disclosure of information on salary and pension entitlements of each Company Director. Central Government is committed to adopting best commercial practice and therefore requires Non-Departmental Government Bodies to report in accordance with modified combined code principles. There is a requirement to disclose the remuneration and pension entitlements of the Chief Executive and the most senior managers. The following disclosures are considered appropriate for the TSB:

	Interim Chief Executive	Chief Executive	Director	Director	Director	Director
	Dr David Evans	Mr Iain Gray	Mr Graham Hutchins	Dr Allyson Reed	Mr David Way	Mr David Bott
	£'000	£'000	£'000	£'000	£'000	£'000
Start date	1 July 2007	1 November 2007	1 July 2007	1 August 2007	1 July 2007	1 July 2007
End date	31 October 2007	Continuing	Continuing	Continuing	Continuing	Continuing
Salary and allowances banded (for the period in post)	10 - 15	110 - 115	80 - 85	85 - 90	70 - 75	See note
Salary and allowances (annual equivalent)	30 - 35	265 - 270	105 - 110	125 - 130	95 - 100	See Note
Benefits in kind (cash equivalent)	-	-	-	-	-	-
Real increase of pension and related lump sum at age 60	-	0 - 2.5	0 - 2.5	0 - 2.5	0 - 2.5	-
Total of accrued pension at age 60 and related lump sum.	-	0 - 5	0 - 5	0 - 5	35 - 40	-
Cash Equivalent Transfer Value (CETV) at 31/03/07	-	0	0	0	0	-
CETV at 31/03/08	-	22	13	22	18	-
Real increase in CETV after adjustment for inflation and changes in market investment factors	-	20	11	19	16	-

The amounts in the table cover the period 1 July 2007 to 31 March 2008 (9 months) unless otherwise indicated.

- Dr David Evans is employed by the Department for Innovation, Universities and Skills. The amounts in the table are the recharges of his salary by the department for the average of two days a week that he spent on TSB business.
- Mr Graham Hutchins was employed by the Department of Trade and Industry on a temporary contract prior to taking up post as a director.
- Mr David Way was employed by the Department of Trade and Industry prior to taking up post as a director. The table above does not include values for the transfer of pension benefits from that employer. At the year end the transfer into the Research Councils' Pension Schemes had not been completed.
- Mr David Bott is contracted for his services as a director. The accounts include charges of £139,854 for his services.

2007-08

£000

The aggregate of salary costs, bonus and benefits in kind for Senior Employees was	363
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Salary and allowances, including bonus

Salary and allowances, including bonus, covers both pensionable and non-pensionable amounts and includes: gross salaries; performance pay or bonuses; overtime; allowances and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. It does not include the charges for Mr David Bott's services as a director. These are included in the charges for agency and contract staff (note 2b).

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Research Councils' Pension Schemes and for which the schemes have received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

The real increase in the value of the CETV reflects the increase effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration of Board Members

The standard honorarium paid to Board Members amounted to £6,750 (£9,000 pa) with effect from 1 July 2007.

The emoluments of the Chair Dr Graham Spittle were £11,558 (£15,410 pa) in 2007-08.

Non-consolidated bonus, benefits in kind and pension arrangements do not apply to Board Members.

Total remuneration paid to Board Members is as follows:

	2007-08
	£000
Board Members Annual Honoraria	
Graeme Armstrong	5-10
John Brown	5-10
Nick Buckland	5-10
Joseph Feczko	5-10
Anne Glover	5-10
David Grant	5-10
Jonathan Kestenbaum	5-10
Julia King	5-10
Andrew Milligan	-
Peter Ringrose	5-10
Jeremy Watson	5-10
Total Board Members Annual Honoraria	<u>67</u>

Andrew Milligan has elected to forego his honorarium.



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Iain G Gray
Accounting Officer
9 April 2009

STATEMENT OF THE RESPONSIBILITIES OF THE TECHNOLOGY STRATEGY BOARD AND OF ITS CHIEF EXECUTIVE WITH RESPECT TO THE FINANCIAL STATEMENTS

Under the Science and Technology Act 1965, the Secretary of State for Innovation, Universities and Skills (with the consent of the Treasury) has directed the Technology Strategy Board to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Technology Strategy Board and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

- observe the Accounts Direction issued by the Secretary of State for Innovation, Universities and Skills (with the consent of the Treasury), 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 accounts; and

- prepare the accounts on a going concern basis.

The Accounting Officer for the Department for Innovation, Universities and Skills has appointed the Chief Executive as Accounting Officer of the Technology Strategy Board. 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 the Technology Strategy Board's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by HM Treasury and published in "*Managing Public Money*".

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the TSB's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

As Accounting Officer, I take ultimate responsibility for the implementation and maintenance of the risk management process. I am advised and supported by the Governing Board, Audit Committee and Executive Board, who have discussed the internal controls. The Governing Board comprises external independent members and the Chief Executive. Senior members of the executive are also in attendance.

I started in post during the accounting period for the 2007-08 Statement on Internal Control. My predecessor advised me about the control environment that operated in the TSB on my arrival.

2. 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 achieve policies, aims and objectives; it can therefore only provide 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 the TSB's policies, aims and objectives, to evaluate the likelihood of these being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in development in the TSB for the period ended 31 March 2008 and continues to be developed up to the date of approval of the annual report and accounts.

3. Capacity to handle risk

The TSB was established as an NDPB on 1 July 2007. As such it is an organisation that is undergoing a good deal of development both in terms of organisational identity and in the policies and procedures that it is putting in place. As a new organisation starting almost from scratch, it does not have complete records relating to the period before its formal inception. Policies and internal controls have taken time to develop and embed, and the full complement of staff required for operations was not initially in place.

The Executive Board continues to take a lead in embedding risk management in the organisation. The Executive Board has identified the key internal and external risks facing the TSB and the completion of its objectives, and reviews progress in managing these risks each month. The internal control process ensures that all risk procedures and activities are reviewed by the management and staff delegated to do so. Delegated members of staff are aware of their responsibility to embed risk management in their activities.

Risk management training of the Executive Board and key personnel has been carried out at a workshop on the 21st April 2008. Where the need for more formal training has been identified, a selection of training courses in risk management techniques is available. A key member of staff has been through Risk Management Practitioner training for a week commencing the 3rd

November 2008. External experts have been involved in the development of the risk management process and they remain available for further consultation if required.

As part of the policy of allocating risk management to senior management, delegation letters have been issued to the TSB Directors and others setting out their responsibilities and giving policy guidance. These detail the individual's accountability, and reiterate their Corporate Governance and also their primary personal responsibilities.

4. The risk and control framework

The risk management framework operates through the initial identification of risks that threaten achievement of the TSB's objectives, as part of the business planning process. These risks are then evaluated in terms of impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk to which the TSB is exposed which is monitored over time. Ownership for each risk is assigned to a named individual.

A risk register provides the basis for continual review of risk priorities. The Executive Board agreed appropriate action on any changes necessary following the introduction of the risk policy. The Executive Board meets monthly and reviews the risk register, agrees appropriate action on any changes necessary, and ensures that recommendations have been implemented.

From the TSB's high level risk register, the following are identified as being business critical:-

- The publishing of the individual strategies relating to each Technology and Application Area are seen as high risk as they have the potential to dis-enfranchise parts of an industry sector if they do not agree with it. A broad spectrum of consultation is being undertaken with business to avoid this situation.
- The take up of the new Small Business Research Initiative programme by government departments and business needs to be managed at a high level to ensure success.
- The ability to attract and align co-funding from other organisations in order to fulfil the co-funding agreements laid out in our tasking letter.

Such risks are reviewed through the Executive Board's monthly meetings, and reports on progress to the Governing Board through the Chief Executives report.

A major process for managing risk is the review process covering the TSB's core business of awarding grants. The application process is contained in public guidance, amplified at briefing events. The TSB contracts independent assessors to review applications. They meet, reach consensus, and produce a ranked, ordered list of applications to be funded. A funding panel consisting of the TSB, the Research Councils and any other funding agencies meets to agree which projects are funded but does not change the ranked, ordered list. The funding panel is chaired by the Director of Innovation Programmes, (previously the Director of Operations), who takes the recommendations to the Executive Board for formal approval.

As a new organisation, with largely new staff, the TSB has sought to mitigate the risks associated with new systems and procedures by wherever possible using Research Councils' existing systems and processes through service level agreements.

Risk appetites are determined by the nature of the risk. The TSB has a high tolerance for risk associated with research and development work, but a much lower tolerance where other issues such as health and safety are involved.

Part of the control framework is provided via the Research Councils' Internal Audit Service, (RCIAS) who provides internal audit services to the Research Councils.

In the period to 31 March 2008, representatives of RCIAS attended Audit Committee meetings. The TSB was still going through a set up phase and had limited policies and procedures in place. Combining this with a small number of transactions having been undertaken, due to the stage of development, meant there was insufficient activity to warrant any in-depth internal audits. A programme of assurance work was therefore not undertaken in 2007-08, however during 2008-9, a programme of audit work has been agreed and commenced.

Again in 2008-09, steps have been taken to deal with significant internal control issues.

- We have begun work on a finance manual.
- Risk management procedures have improved with the development of the risk register, and a recent internal audit review has been undertaken.
- A firm of consultants has been contracted to specify the TSB's requirements for IT system development.
- Improvements have been made to the strategic and business planning process.
- A more comprehensive budgeting process is being developed to commence with the 2009-10 financial year.

In 2007-8 a rudimentary risk register was put in place, but there were immediately concerns that it was not achieving its objectives. A Risk Management workshop on the 21st April 2008, crystallised the key issue of relating risks to objectives and Risk Management in the TSB took a significant step forwards.

This statement has been borne out in a report by the Research Councils Internal Audit Service, which has identified that limited assurance has been achieved. Recommendations have been received and action taken, for instance, a key member of staff has been through Risk Management Practitioner training for a week, commencing the 3rd November 2008. During 2008-09, the TSB intends to embed risk management into control systems. Where appropriate, risk will also be incorporated into individuals' Personal Responsibility Plans.

5. 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 executive managers within the TSB, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I am advised on the implications of the review of the effectiveness of the system of internal control by the Governing Board, the Audit Committee and the Executive Board. My review of the effectiveness of the system of internal control takes into account the absence of assurance from an internal audit programme until the 2008-09 financial year.

There were some internal control issues during the course of the period under review which resulted in the lateness of the submission of the accounts and require reporting.

- Not all details supporting prior year figures were received until December 2008.
- It was necessary to make a very large accrual at year end, and then confirm its validity by waiting for it to unwind over FY08/09, this took up until October 2008.
- New policies and procedures were being developed during the accounting period and were therefore not in a state to be audited by Internal Audit; nor were resources available to undertake an audit.
- Focussed resource was not available to complete the year end accounts.

A plan is in place to ensure continuous improvement of the system.

The main processes applied in reviewing the effectiveness of the system of internal control are noted below.

- The Governing Board which meets bi-monthly in order to consider the TSB's plans, strategic direction, performance reports and corporate governance issues.
- The Audit Committee which meets at least three times a year to discuss all aspects of corporate governance, including risk management, and internal control. The Chairman of the Committee reports to the Governing Board on the work and findings of the committee. The minutes of audit committee meetings are routinely provided to the Board.
- Directors and senior managers' meetings which occur on a monthly basis to oversee the implementation of the TSB's plans.
- A research and development grant validation procedure involving monitoring officer visits and reports, and periodic audit reports which provide assurance on the regularity of research and development project expenditure at grantee bodies.



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Iain G Gray
Accounting Officer
9 April 2009

THE TECHNOLOGY STRATEGY BOARD

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Technology Strategy Board for the year ended 31 March 2008 under the Science and Technology Act 1965. These comprise the Statement of Net Expenditure, the Balance Sheet, the Cashflow Statement 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 being audited.

Respective responsibilities of the Board, Chief Executive and Auditor

The Board and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements, in accordance with the Science and Technology Act 1965 and the Secretary of State for Innovation, Universities and Skills' directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Board and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Science and Technology Act 1965 and the Secretary of State for Innovation, Universities and Skills' directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Technology Strategy Board has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the Technology Strategy Board's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of Technology Strategy Board's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises the unaudited part of the remuneration report and the Joint Statement by the Chair and the Chief Executive. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Technology Strategy Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Science and Technology Act 1965 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills, of the state of the Technology Strategy Board's affairs as at 31 March 2008 and of its net expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State for Innovation, Universities and Skills' directions made thereunder; and
- information given within the Annual Report, which comprises the Management Commentary, is consistent with the financial statements.

Audit 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.

Report

My Report is on pages 28 to 29.

***TJ Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria, London
SW1W 9SS
5 May 2009***

TECHNOLOGY STRATEGY BOARD 2007-08 ACCOUNTS

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

Background

1. This report examines why the Annual Report and Accounts of the Technology Strategy Board (the Board) for the period ending 31 March 2008 was not submitted to Parliament until April 2009. The Science and Technology Act 1965, which applies to the Board, requires that the accounts should be submitted to the Comptroller and Auditor General on or before the 30 November each year. In practice, it is more normal for NDPBs, once fully operational, to lay their Annual Report and Accounts before the Parliamentary Recess in July to ensure timely reporting of results. However, the Board was unable to present materially accurate draft Accounts for my staff's audit until January 2009. My opinion on the Annual Report and Accounts of the Board for the period is not qualified in this respect.
2. The Board was established as an executive Non-Departmental Government Body (NDPB) from 1 July 2007. The Board's purpose is to promote research into, and investment in, science, technology and new ideas, by those engaged in business activities. These functions were previously carried out within the former Department of Trade and Industry (DTI). For the new NDPB, the figures needed for the production of the 2007-08 Accounts derived from the Board's own information systems as well as from legacy data. The responsibility for providing the legacy data to the Board after 1 July 2007 was that of the Department for Innovation, Universities and Skills (the Department), successor to the former DTI.

Difficulties in producing an Annual Report and Accounts

3. The Board has experienced major difficulties in producing its first set of statutory accounts for the following principal reasons.
4. On the Board's establishment on 1 July 2007, it did not have the systems in place to ensure that key figures in the Accounts could be produced readily, nor the management validation arrangements to ensure they were reasonable. It also took time for the Board to establish a full staff complement; in its first year, the Board was heavily reliant on temporary staff, and a small core finance team. The difficulties in producing adequately supported figures for the Accounts most notably affected grant expenditure which comprises some 87 per cent of expenditure. The ability to prepare robust accounts was also affected by the lack of consistent and well documented financial control procedures in the first period of operation.
5. The Board also needed to include legacy information relating to the period 1 April 2006 to 30 June 2007 in its Accounts. There was a lack of clarity between the newly formed NDPB and the Department on the figures and supporting evidence needed which led to delays in the preparation of appropriate information. My staff identified a number of issues with the data received and incorporated into initial drafts of the Accounts which meant that significant adjustments were necessary before the Accounts could be finalised. This problem will not reoccur in future years.

Action Taken

6. New bodies often face difficulties in ensuring that all systems and controls are in place from the outset. The Board's processes inherited from the Department were insufficiently robust to satisfy the more stringent reporting accountabilities of an executive NDPB.
7. The Board is in the process of resolving the key issues by procuring additions to the existing finance system, particularly the grant system, so that it will be more able to meet the Board's management and financial accounting information needs. A fully automated system will take some 18 months to embed but in the interim the Board will collect a larger amount of data about individual grant projects to produce the information needed. The Board has also begun to develop a detailed Finance Manual to support the more robust framework of control that is being put in place. My staff will review these developments during future audits.

TJ Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria, London
SW1W 9SS
5 May 2009

TECHNOLOGY STRATEGY BOARD

STATEMENT OF NET EXPENDITURE for the year ended 31 March 2008

EXPENDITURE

		2007-08	2006-07
	Notes	£000	£000
Staff costs	2	4,722	2,156
Administrative support contracts	3	22,007	15,428
Other operating costs	4	3,148	2,909
Set-up costs	4	-	611
Technology grants	5	<u>210,004</u>	<u>135,350</u>
Total Operating Expenditure		239,881	156,454
Operating Income	6	(1,127)	(977)
Notional Cost of Capital	1m, 7	<u>(2,147)</u>	<u>(1,135)</u>
Total Expenditure for the year		236,607	154,342
Reversal of Notional Cost of Capital	1m, 7	<u>2,147</u>	<u>1,135</u>
Expenditure for the year after reversal of notional cost of capital		<u>238,754</u>	<u>155,477</u>
Net Expenditure for the year		<u>238,754</u>	<u>155,477</u>

As the TSB has no gains or losses other than net expenditure for the period of account, no Statement of Recognised Gains and Losses has been prepared.

All activities are continuing
The notes on pages 33 to 44 form part of these accounts

TECHNOLOGY STRATEGY BOARD

BALANCE SHEET as at 31 March 2008

	Notes	2007-08 £000	2006-07 £000
Current assets			
Debtors	8	522	-
Cash at bank	11ii	<u>11,970</u>	<u>-</u>
		12,492	-
Creditors: amounts falling due within one year	9	<u>(89,493)</u>	<u>(33,764)</u>
Total Assets less Current Liabilities		<u>(77,001)</u>	<u>(33,764)</u>
Net Assets / (Liabilities)		<u>(77,001)</u>	<u>(33,764)</u>
Reserves			
Income and Expenditure reserve	10	<u>(77,001)</u>	<u>(33,764)</u>
Government Funds	10	<u>(77,001)</u>	<u>(33,764)</u>



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Iain G Gray
Accounting Officer
9 April 2009

The notes on pages 33 to 44 form part of these accounts

TECHNOLOGY STRATEGY BOARD

CASH FLOW STATEMENT for the year ended 31 March 2008

	Notes	2007-08 £000	2006-07 £000
Net Cash Outflow From Operating Activities	11i	<u>(183,547)</u>	<u>(152,818)</u>
Net Cash Outflow Before Financing		(183,547)	(152,818)
Financing			
Funding from Partners	10	11,593	12,572
DTI funding of expenditure	10	33,924	140,246
Grant-in-Aid received	10	<u>150,000</u>	<u>-</u>
Increase In Cash	11ii	<u>11,970</u>	<u>-</u>

The notes on pages 33 to 44 form part of these accounts

TECHNOLOGY STRATEGY BOARD

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

These financial statements have been prepared under the historical cost convention, complying with the Accounts Direction issued by the Secretary of State for Innovation, Universities and Skills on 4 December 2008 in accordance with section 2(2) of the Science and Technology Act 1965. The financial statements also comply with the requirements of the *Government Financial Reporting Manual* (FReM) www.financial-reporting.gov.uk.

The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where a choice in accounting policy is permitted by the FReM, the most appropriate has been selected to give a true and fair view. The particular accounting policies adopted by the Board are described below.

The accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements.

b. Machinery of Government Change (MOG)

On 1 July 2007 under a MOG change the Department for Innovation, Universities and Skills transferred activities relating to Energy and Technology Innovation to the TSB. The accounts include the results for the period 1 April 2007 to 30 June 2007 which were previously recorded in the books of the former DTI, in accordance with directions in the *Financial Reporting Manual* to account for MOG changes using merger accounting in accordance with FRS 6: *Acquisitions and Mergers*. The comparative figures in the Statement of Net Expenditure, Balance Sheet and Cash Flow Statement represent the results for the Technology Programme previously included in the accounts of the former DTI for 2006-07. The effect on these financial statements is the income, expenditure and balances shown for 2006-07, together with net expenditure within the 2007-08 financial year amounting to £33.92 million.

c. Fixed Assets and Depreciation

Capital expenditure includes the purchase of land and/or buildings, construction and services, projects, equipment and major computer software developments valued at £5,000 or more. Individual items valued at less than the threshold are capitalised if they constitute integral parts of a composite asset that is in total valued at more than the threshold. Individual items valued at less than the threshold and not forming part of a composite asset have not been capitalised. Normal PC software valued at less than the threshold has been treated as recurrent expenditure.

The TSB currently has no fixed assets, having only office furniture and equipment which does not qualify for capitalisation.

d. Ownership of Equipment Purchased with TSB Grants

Equipment purchased by an organisation with grant funds supplied by the TSB belongs to the organisation and is not included in the TSB's fixed assets. Through the Conditions of Grant

applied to funded organisations, if, during the life of the grant, an asset is not used for the purpose for which it was funded, the TSB reserves the right to recover grant paid. Once the grant has been completed, and in some grant schemes after a further period of time, the organisation is free to use such equipment without reference to the TSB.

e. Grant-in-Aid

Revenue Grant-in-Aid (GIA) is regarded as a contribution from a controlling entity thereby giving rise to a financial interest in the organisation. Hence it is accounted for as financing. GIA income is credited to the Income and Expenditure Reserve in the Balance Sheet. The same treatment has been adopted for other sources of financing. As a result, the Income and Expenditure Account shows net expenditure for the year rather than a surplus or deficit, and is consequently named "Statement of Net Expenditure". In addition, capital GIA received is only credited to the Government Grants Reserve and released to income over the life of the asset if it is GIA provided for a specific capital purchase (for which there are no such cases within the TSB).

f. Research and Development

All of the TSB's research and development expenditure is charged to the Statement of Net Expenditure when it is incurred.

Intellectual property rights arising from the TSB's research and development are not capitalised in the financial statements as income arising from this is not significant.

g. Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated using the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. Gains and losses arising from movements in foreign exchange rates are taken to the Statement of Net Expenditure.

h. Value Added Tax

The TSB is partially exempt for VAT purposes. Accordingly expenditure and fixed asset purchases on non-business and partially-recoverable activities are shown inclusive of VAT, where applicable. Residual input tax reclaimable by the application of the partial exemption formula is taken to the Statement of Net Expenditure as a sundry item.

i. Grants

The majority of grants are paid by the TSB on the basis of a claim for reimbursement of approved expenditure in accordance with an agreed percentage of allowable costs. Where the expenditure on a grant indicates an unclaimed and/or unpaid amount exists at the balance sheet date, such sums are accrued in the accounts. Future commitments at the balance sheet date are disclosed in the accounts.

j. Pension Costs

Employees of the TSB are members of the Research Councils' Pension Schemes. The schemes are multi-employer unfunded defined benefit schemes and the TSB is unable to identify its

share of underlying liabilities. Therefore the amount charged in the Statement of Net Expenditure represents the contributions payable to the schemes in respect of current employees in the accounting period. Contributions are set on a year-by-year basis in accordance with the requirements of the scheme administrators.

k. Contingent Liabilities

The disclosure of contingent liabilities in the notes to the accounts has been prepared in accordance with FRS 12: *Provisions, Contingent Liabilities and Contingent Assets*. No disclosure is made for those contingencies where crystallisation is considered to be remote or the amounts involved are immaterial.

l. Operating Leases

Operating Lease rental charges are included in the category Information Technology & Communications Charges within the expenditure heading Other Operating Costs which is shown in Note 4, and charged in the period they relate to.

m. Notional Cost of Capital

This notional cost is included in the accounts to reflect an appropriate charge for the use of capital in the business in the year because the financing structure does not contain share capital or interest bearing debt. As required by the FReM, a charge reflecting the cost of capital employed is included in operating costs. The charge is calculated at 3.5% on the average of opening and closing assets less liabilities, less balances held with HM Paymaster General. In accordance with the FReM, the notional charge is credited back to the Statement of Net Expenditure.

2. Staff Costs

a. Remuneration of Senior Employees

Remuneration of senior employees can be found in the Remuneration Report on pages 16-19.

b. Staff Costs

	2007-08	2006-07
	£000	£000
Salaries and wages	2,188	1,774
Social Security costs	154	125
Superannuation costs	318	257
Agency and contract staff	1,983	-
Board Members' fees	<u>79</u>	<u>-</u>
Total Staff Costs	<u>4,722</u>	<u>2,156</u>

c. Staff Numbers

	2007-08 Number	2006-07 Number
Average number of employees	<u>55</u>	<u>46</u>

The average from the time the TSB existed as a separate organisation in 2007-08 was 60. This comprises 33 permanent staff and 27 agency staff, temporary appointments and inward secondment. The DTI average in 2007-08 was 39.

d. Remuneration of Board and Committee Members

Remuneration of Board Members details can be found in the Remuneration Report on pages 16-19.

e. Pension arrangements

The Biotechnology and Biological Sciences Research Council (BBSRC) has responsibility for the Research Councils' Pension Schemes (RCPS) and the Chief Executive of the BBSRC is the Accounting Officer for the pension schemes. Employees of the Board are eligible to either join the RCPS or open a partnership pension account which is a stakeholder pension with an employer contribution. The RCPS is funded on a pay-as-you-go basis principally through employer and employee contributions and annual Grant-in-aid.

The pension schemes provide retirement and related benefits on final emoluments by analogy to the Principal Civil Service Pension Scheme (PCSPS). The RCPS are administered by the Research Councils' Joint Superannuation Services, a unit within BBSRC. Separate RCPS Accounts are published and contain the further disclosure of information required under the relevant accounting standards.

As the RCPS are unfunded multi-employer defined benefit schemes, the TSB is unable to identify its share of the underlying assets and liabilities. Details can be found in the accounts of the Research Councils Pension Scheme at www.bbsrc.ac.uk.

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary's Department (GAD). The last full actuarial valuation was carried out by GAD as at 31 March 2006. The report for the full actuarial valuation as at 31 March 2006 is expected to be available from GAD during 2009. The contribution rate reflects benefits as they are accrued, not when the costs are actually incurred, and reflect the past experience of the scheme.

For 2007-08, employer's contributions of £242,000 were payable to the RCPS at 21.3% of pensionable pay. Employer's contributions to stakeholder pensions are age-related and range from 13 to 15.5 percent of pensionable pay; during the year employers' contributions amounted to £10,000.

3. Administrative Support Contracts

	2007-08 £000	2006-07 £000
Programme Support Contracts	18,945	14,397
Monitoring Officer Fees	<u>3,062</u>	<u>1,031</u>
	<u>22,007</u>	<u>15,428</u>

The charges for programme support contracts are for the management and delivery of the TSB's programmes. The monitoring officer fees are incurred on the assessment of claims and projects within the Collaborative Research and Development Programme.

4. Other Operating Costs

	2007-08 £000	2006-07 £000
Travel, Subsistence and Hospitality	321	151
Utilities	117	73
Rent, Rates and Maintenance	552	916
Communications	449	-
General Administration	663	322
Recruitment	271	-
Employee Relocation Costs	189	-
Office Equipment	86	-
Information Technology & Communications Charges	365	451
Auditors' Remuneration	135	-
Advisory Board Costs	<u>-</u>	<u>996</u>
	<u>3,148</u>	<u>2,909</u>

The amount charged in the year for Operating Leases was £55,000. This charge was included within Information Technology & Communications Charges and relates entirely to equipment.

Auditors' Remuneration includes £110,000 for the statutory audit fee.

In 2006-07, the former DTI incurred Set-up costs of £611,000 connected with the transition of the former advisory Technology Strategy Board to an executive NDPB. This included legal, recruitment and interim staff costs.

5. Technology Grants

	2007-08	2006-07
	£000	£000
Collaborative Research and Development	124,631	50,042
Micro Nano Technology	13,250	17,409
Knowledge Transfer Networks	17,473	16,071
Knowledge Transfer Partnerships	34,636	21,130
Energy	13,836	11,981
European Union	1,838	2,599
Legacy	3,816	9,060
Innovation Platforms	524	-
Civil Aircraft Research And Demonstration (CARAD)	-	5,897
Technology Strategy Support	<u>-</u>	<u>1,161</u>
	<u>210,004</u>	<u>135,350</u>

In 2008, the classification Legacy includes all finished former DTI programmes: Legacy, CARAD and Technology Strategy Support.

Analysis of Technology Grants

Universities and not-for-profit private sector recipients	60,743	41,985
Other private sector recipients	143,635	92,368
Public sector recipients	<u>5,626</u>	<u>997</u>
	<u>210,004</u>	<u>135,350</u>

6. Operating Income

	2007-08	2006-07
	£000	£000
Management Fee Charges	<u>1,127</u>	<u>977</u>

These charges represent co-funders' share of the costs associated with the management and delivery of the Knowledge Transfer Partnerships Programme (KTP).

The financial objective is to ensure that every sponsor, including the TSB, shares the cost of managing and delivering KTP. In 2007-08, the charge was calculated on the basis of the estimated cost, calculated at the beginning of the financial year, to manage and deliver KTP, spread over the number of partnerships at the end of the previous year. The full cost of the estimated management and delivery charge was £5,497,000 (2006-07: £5,315,000). The TSB's share of these costs was £4,295,000 (2006-07: £4,217,000). Taking one year with another, the financial objective of sharing the costs of management and delivery on an equitable basis between the sponsors is achieved.

This information is provided for fees and charges purposes, not for SSAP25 purposes.

7. Notional Cost of Capital

	2007-08 £000	2006-07 £000
Notional Cost of Capital	<u>(2,147)</u>	<u>(1,135)</u>

This notional cost is included in the accounts to reflect a cost for the use of capital in the business in the year. The calculation is based on a 3.5% (2006-07: 3.5%) rate of return on average net assets employed. The net liabilities were £88.97 million (2006-07: £33.76 million), excluding the balance held with HM Paymaster General of £11.97 million. In accordance with the FReM, the notional charge is subsequently reversed in the Statement of Net Expenditure.

8. Debtors

	2007-08 £000	2006-07 £000
Amounts falling due within one year		
Debtors		
Trade debtors	275	-
Prepayments and accrued income	<u>247</u>	-
Total Debtors	<u>522</u>	<u>-</u>
Analysis of Debtor balances:		
Bodies external to government	213	-
Other Central Government Bodies	<u>309</u>	<u>-</u>
Total	<u>522</u>	<u>-</u>

The former DTI included no debtors for the TSB in its accounts for the year ended 31 March 2007

9. Creditors: amounts falling due within one year

	2007-08	2006-07
	£000	£000
Creditors		
Trade creditors	13,892	-
Other creditors	191	-
VAT	117	-
Other taxation and social security	80	-
Accruals	<u>75,213</u>	<u>33,764</u>
Total Creditors	<u>89,493</u>	<u>33,764</u>

Analysis of Creditor balances:

Other Central Government Bodies	4,154	-
Public corporations and trading funds	300	-
Bodies external to government	<u>85,039</u>	<u>33,764</u>
Total	<u>89,493</u>	<u>33,764</u>

The former DTI included no creditors other than accruals for the TSB in its accounts for the year ended 31 March 2007

10. Reconciliation of movements in Government Funds

	Income and Expenditure Reserve 2007-08 £000	Total Government Funds 2007-08 £000
Opening Balance from the former DTI	(33,764)	(33,764)
Grant-in-Aid financing	150,000	150,000
Funding from Partners	11,593	11,593
DTI funding of expenditure	33,924	33,924
Net expenditure for the year	<u>(238,754)</u>	<u>(238,754)</u>
Closing Balance	<u>(77,001)</u>	<u>(77,001)</u>

The heading *DTI funding of expenditure* represents the funding borne by that department when the TSB activity was included as a programme within the former DTI. Grant-in-Aid, from the Department for Innovation, Universities and Skills, commenced with the establishment of the TSB as an NDPB on 1 July 2007.

11. Notes To The Cashflow Statement

i Reconciliation of the net operating expenditure to net cash flow from operating activities

		2007-08	2006-07
		£000	£000
Net Expenditure for the year		(238,754)	(155,477)
(Increase) in Debtors	8	(522)	-
Increase in Creditors	9	<u>55,729</u>	<u>2,659</u>
Net Cash Flow from operating activities		<u>(183,547)</u>	<u>(152,818)</u>

ii Reconciliation of movement in cash to movement in net funds

	2007-08	2006-07
	£000	£000
Net Funds at 1 April	-	-
Net cash inflow	<u>11,970</u>	<u>-</u>
Net Funds at 31 March	<u>11,970</u>	<u>-</u>

The Net Funds at 31 March, £11,970,000, were held at the Office of the Paymaster General (OPG).

12. Contingent Liabilities

The TSB has no known material contingent liabilities.

13. Commitments

a. Grants

At 31 March 2008, the TSB had made commitments in respect of Technology Grants as follows:

	2007-08
	£000
Payable within 1 year	205,545
Payable in 2 to 5 years	<u>694,985</u>
Total commitment	<u>900,530</u>

b. Capital Expenditure

	2007-08
	£000
Contracted but not provided for	<u>NIL</u>

c. Operating Lease Commitments

	Land and Buildings		Other Leases	
	2007-08	2006-07	2007-08	2006-07
	£000	£000	£000	£000
Annual commitments at 31 March				
Expiring within one year	-	-	-	-
Expiring in the second to fifth years	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>

14. Related Party Transactions

- a. The TSB is a Non-Departmental Public Body (NDPB) sponsored by the Department for Innovation, Universities and Skills (DIUS) which is regarded as a related party.

During the year, the TSB had a number of transactions with DIUS and with other entities for which DIUS is regarded as the parent Department, viz: the Arts & Humanities Research Council (AHRC); the Biotechnology and Biological Sciences Research Council (BBSRC); the Engineering and Physical Sciences Research Council (EPSRC); the Economic and Social Research Council (ESRC); the Natural Environment Research Council (NERC); and the Science and Technology Facilities Council (STFC). Also, the TSB had material transactions with other Government departments and with other central government bodies, viz: the Department for Environment, Food and Rural Affairs (Defra); the Department of Health and the Department for Transport. In addition, the TSB had material transactions with devolved administrations, viz: the Scottish Government and the Welsh Assembly Government; and with the regional development agencies, viz: Advantage West Midlands, East Midlands Development Agency, Invest Northern Ireland, ONE North East, South East England Development Agency, South West Regional Development Agency, and The Northern Way.

- b. These Accounts provide disclosure of all material financial transactions with those who have been defined as 'Directors'. In the TSB context this has been taken to include members of the Executive Board and all Board members, and financial transactions constitute payments of grant instalments.

During the year, the TSB did not enter into any transactions with any such Directors. However it did enter into a number of material transactions with bodies connected with Directors, who had no direct interest in the grant concerned. The information includes transactions with any related party of these Directors. None of the Directors were involved in the recommendation of grants awarded to the body to which they are connected.

Directors	Body	Amount
		£
Eur Ing Nick Buckland	University of Plymouth	507,168
Ms Anne Glover	TeraView Ltd	206,443
Dr David Grant	Cardiff University	246,158
Mr Iain Gray	University of the West of England	191,313
Prof Julia King	Aston University	162,253
Dr Graham Spittle	Oxford University	1,064,057
	Southampton University	380,515

- c. The TSB operated internal procedures designed to remove any staff or Board member from any decision-making process under which they or any of their close family may have benefited.

15. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which the TSB is financed, the TSB is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The TSB's financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the TSB in undertaking its activities.

Liquidity Risk

The TSB's net revenue resource requirements are financed by resources voted annually by Parliament. The TSB is not therefore exposed to significant liquidity risks. The TSB is dependent on funding from the Department of Innovation, Universities and Skills to meet liabilities falling due in future years, but there is no reason to believe that this funding will not be forthcoming.

Interest-Rate Risk

None of the TSB's financial assets or liabilities is subject to interest, therefore the TSB is not exposed to interest-rate risk.

Foreign Currency Risk

Exposure to foreign currency risk is not significant. There is no foreign currency income and foreign currency expenditure is negligible.

16. Events since the end of the Financial Year

There were no post Balance Sheet events between the Balance Sheet date and the 5 May 2009, the date when the Accounting Officer approved the accounts. The Financial Statements do not reflect events after this date.



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