NESTA Making Innovation Flourish

National Endowment for Science, Technology and the Arts

Annual Report and Accounts

For the year ended 31 March 2012

National Endowment for Science Technology and the Arts (NESTA) Annual Report and Accounts 2011/12

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 12 July 2012.

Laid before the Scottish Parliament by the Scottish Ministers.

HC 352 London: The Stationery Office £16.00
SG/2012/111

Any enquiries regarding this publication should be sent to us at information@nesta.org.uk

This publication is available for download at www.official-documents.gov.uk. This document is also available from our website at www.nesta.org.uk

ISBN: 9780102979602

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

ID P002498527 07/12

Printed on paper containing 75% recycled fibre content minimum.

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About NESTA

NESTA is the National Endowment for Science, Technology and the Arts. Our goal is to harness innovation to tackle the country's major social and economic challenges. We carry out our work through a blend of experimental programmes, analytical research and investment in early-stage companies.

Our work is enabled by an endowment; we do not require any direct funding from the government. The endowment (originally £250 million) was established by National Lottery funding in 1998, and supplemented in 2006 with a further £75 million of lottery funding, drawn down over five years.

This year was the final year of NESTA as a public body. On 1 April 2012, NESTA's projects, staff, assets and liabilities were transferred to two new charities: a charitable trust and its corporate trustee, a charitable company.

Our endowed funds enable 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 great ideas, new flows of capital and talented people together, and encourage others to develop them further.

The year in review: 2011/2012

This report is divided into two parts. The first is a review of our main activities, research and programmes from 1 April 2011 to 31 March 2012 (pages 6 to 9). The second part (pages 10 to 68) contains the Financial Statements for the year ended 31 March 2012, including the Directors' Report and Management Commentary.

NESTA's work is divided into three 'pillars' of strategic activity: Innovation for Economic Growth, Public and Social Innovation and Innovation and the Creative Industries.

Innovation for Economic Growth

Innovation and Research Strategy

NESTA worked closely with the Department for Business, Innovation and Skills [BIS] on the Government's Innovation and Research Strategy for Growth which was published in December 2011. NESTA's research, including the Innovation Index and our work on high-growth businesses, played an important role in informing BIS's foundational economic paper. Amongst other measures, the paper led to the announcement of a new Centre for Challenge Prizes to be run by Nesta, the launch of which will take place in 2012.

High-growth companies

Our work on high-growth, innovative companies led to the publication of agenda-setting insights into business growth, including **Barriers to Growth**, looking at firms seeking to achieve high growth and **All Together Now**, looking at the particular challenge of growth businesses in the life sciences sector. We also looked at ways to promote growth, in particular, our report **The Startup Factories** focussed on business accelerators and examined how various strategies and processes for helping innovative new businesses to grow have changed in the decade since the dot-com bust.

Financing innovation: beyond the banks

Research has shown that fast-growing, innovative businesses hold the key to economic growth. But these businesses need the right access to finance to succeed. Our report **Atlantic Drift** undertook the most ambitious comparison yet published of UK and US venture capital returns, showing that the performance gap between UK and US investors had narrowed in recent years. We also launched the campaign **Beyond the Banks** to identify ways to provide more capital to growing businesses through non-bank channels. Two of the three recommendations of the final **Beyond the Banks** report were taken up by BIS's review of non-bank finance, which credited NESTA as 'early advocates' of reform.

Silicon Valley comes to the UK

The Silicon Valley Comes to the UK programme is a series of events bringing together investors, iconic serial entrepreneurs, ambitious students and successful business angels from the UK with leading Silicon Valley talent over the course of a week all across the UK. We helped run this programme again in 2011.

Innovation Index

During 2011/12 we added to our work on the Innovation Index, which measures the UK's investment in innovation and its contribution to economic productivity and growth. The index formed an important part of the economic analysis conducted by BIS for its Innovation and Research

Strategy for Growth, and has attracted considerable attention from other countries.

New technologies

The UK is leading the way in the development of many new technologies. We hosted our second year of events called **Hot Topics**, which showcases new technological tools that promise to transform society and industry in future years. Topics covered this year included **The Internet of Things**, using social technologies at scale and brain-computer interfaces. The events attracted a lively mix of technologists, investors, entrepreneurs and designers, and helped advance discussion of the opportunities created by these new technologies.

Practical economic programmes

In addition to our research work on issues surrounding economic growth, we have designed a set of practical programmes to test different approaches to incubating and accelerating high-growth potential businesses. This work started with our investment and support of Seedcamp, the pan-European initiative focused on young Internet and digital businesses. Following the success of this work we have subsequently collaborated with partners to look at further initiatives in the semiconductor sector (The European Micro-electronics Academy), software and internet businesses (Springboard) and creative technologies (RCA Innovation). All of these programmes are intended to inform our research and provide examples of innovative support for early-stage ventures in different industry sectors.

Investment

NESTA is a leading investor in innovation, from technology start-ups and public policy, to social enterprise and backing creative individuals. We work directly in supporting young, innovative businesses and indirectly by seeking to improve the environment within which early-stage ventures can grow.

We have continued to manage our own early-stage venture fund and our limited partner interests in five other early-stage funds. In the run-up to the transition to charitable status, we have undertaken a review of our investment strategy and maintained our focus on maximising return from our portfolio of investments.

Despite the difficult fund raising climate across many early-stage sectors in the UK, a number of our investments including Gnodal, Skimlinks, Basekit and Plaxica have successfully raised further rounds of funding in which we have participated.

We sold two of our portfolio companies in the last 12 months, Dexela and Meciria, where we realised more than double our investment in those companies. As our portfolio matures we expect to see further successful exits in the next 12 – 24 months.

NESTA has steadily expanded its role in supporting social ventures and social venture intermediaries, as well as providing coaching and mentoring support for ventures in the creative industries.

Public and Social Innovation

Innovation in Giving Fund

NESTA, with the Cabinet Office, launched an open call for ideas to the £10 million Innovation in Giving Fund. We invited proposals with the potential to deliver a significant increase in the giving and exchange of time, assets, skills, resources and money. While all evidence points to the UK as being a generous society, levels of donations and volunteering have reached a plateau and there are a number of persistent barriers to engaging more people in the voluntary sector and civil society.

The Innovation in Giving Fund aims to invest in, support and grow innovative ideas that bring about a step-change in levels of giving and exchange and which have a credible route to being self-sustaining in the longer term.

Reboot Britain

Reboot Britain is a two year programme of practical projects that test the opportunities for collaborative technology to create innovative solutions for challenges facing public services. The projects cover a wide range of areas, across families, young people and community – including issues such as: community safety, mental health, public consultation, volunteering and youth unemployment. The programme is reaching its final stages and the findings will be published in 2012.

Creative Councils

Creative Councils is a programme working with the Local Government Association to support local authorities to develop and implement radical innovations that meet the challenges of tomorrow.

Our ambition is to work with a small group of pioneering local authorities and their partners across England and Wales to develop, implement and spread transformational new approaches to meeting some of the biggest medium and long-term challenges facing communities and local services.

Over one-third (38 per cent) of all local authorities in England and Wales applied for the programme, amounting to 137 submissions. The response revealed a significant appetite for innovation amongst councils and a widespread desire to develop and test radical new approaches.

Over the past six months we have supported 17 councils across England and Wales to develop and test their ideas.

Your Local Budget

Your Local Budget is a project we have supported in association with the Big Society Network and Participatory Budgeting Unit. We have worked with nine Local Authorities to understand more about how Participatory Budgeting can be developed, how to better involve the public in decision making and how this can also be used to catalyse community action.

Neighbourhood Challenge

The Neighbourhood Challenge is a programme from NESTA and the Big Lottery Fund that supports community-led innovation. It aims to show how community organisations – when equipped with the right skills, practical tools and small, catalytic amounts of money – can galvanise people to work together to create innovative responses to local priorities, particularly in neighbourhoods with low levels of social capital.

People Powered Health

In this programme, NESTA is working with the Innovation Unit to support the design and delivery of innovative services for people who are living with long-term health conditions.

The programme currently works across six geographic areas and focuses on the method of co-production, whereby service users are involved in an equal and reciprocal relationship with professionals in the design of innovative new services.

Alliance for Useful Evidence

NESTA announced the launch of the UK Alliance for Useful Evidence at an event in October 2011 and members have been joining since then. In a time of limited resource, there is a need to spend whatever money is available on the best, most successful approaches, and to identify these we need robust research and evidence. In some areas there is knowledge about what is - and what is not - effective, but in other areas there may be little known about what is successful. We want the Alliance for Useful Evidence to ensure rigorous evidence is available, accessible and useable.

Our aim is not to promote any particular method, but rather to act with others as an honest broker, raising the quality of both the supply of research and also the demand for it. We already have over 300 members.

Innovation and the Creative Industries

Digital R&D Fund for Arts and Culture

In June, NESTA, in partnership with Arts Council England and the Arts and Humanities Research Council [AHRC], launched a pilot Digital R&D Fund for Arts and Culture, to fund projects that harness digital technologies to connect with wider audiences and explore new ways of working.

Arts and cultural organisations were asked to work with those with digital expertise to help them understand the potential offered by new technologies and together develop innovative project proposals for submission to this new research fund. The winning projects will produce research and data that other arts and cultural organisations will be able to benefit from and possibly also develop new products/services that can be used by other organisations. A key element of the fund is the partnerships between arts and cultural organisations, technology providers and researchers.

In December, NESTA, working with AHRC and Creative Scotland, launched a similar fund in Scotland.

Fashion toolkit

The UK fashion industry is one of the leading creative industries within the UK economy. High-end fashion design is a creative powerhouse, but designers can often find it difficult to find UK-based manufacturers to work with.

NESTA worked with the Fashion Alliance and the industry to develop and publish two sets of Toolkits to help UK designers and manufacturers work with each other. Common to both sets of Toolkits is a recommended Code of Practice which the Fashion Alliance hope the sector will adopt. It will provide manufacturers and designers with a two-way assurance that both will adhere to a professional set of standards and working practices.

Games and Digital Media

NESTA has had a long tradition of working with the UK's games industry. Building on our publication of Ian Livingstone and Alex Hope's **Next Gen**. skills review last year, we have worked with the sector to push for change in the teaching of subject areas needed for high-tech, creative content development. The Secretary of State for Education, Michael Gove, recognised this work in February 2011, when he announced plans to free up schools to use curricula and teaching resources that properly equip pupils for the 21st century.

Hyper Island

NESTA worked in partnership with Hyper Island, an innovative educational model first developed in Sweden in 1995, to develop a digital media educational programme for 18-25 year olds in the UK that produces industry-ready workers. The Interactive Media Design and Management pilot, based in Manchester, launched in May 2011, offered 23 students an alternative start towards a career in interactive media, communications and advertising. At Hyper Island there are no teachers, no tests, no homework or textbooks; instead students immerse themselves in 20 weeks of project-based activity, responding to real briefs set by industry partners, followed by a 12 week internship. Teeside University has adopted the model and incorporated it into a new MA programme. Hyper Island UK is now running as a sustainable programme, supported largely by industry.

AppyNation – Games Consortium

NESTA supported an initiative that will help developers to publish their games direct to market through a games consortium. AppyNation is a revolution in digital games publishing that favours independence and collaboration between developers and publishers. The consortium is trialling a new way of cooperative sharing of resources between independent publishers, which, if successful could be adopted by others.

Networks

As well as these specific work streams, NESTA also partnered with The Observer to run the first ever search for Britain's New Radicals. Our aim was to shine a spotlight on and celebrate the people and organisations who are changing Britain for the better. We encouraged an open application process as we wanted to make it as appealing as possible. We showcased those people applying fresh approaches in practical and scalable ways, through social, technological, scientific and artistic methods. Coverage was both in the pages of The Observer (including leaders and a front page story) and across all NESTA's digital channels. The search culminated in a celebration event at NESTA's offices to which all the applicants were invited. In addition the search gained cross-political party support with all three party leaders giving it their backing.

NESTA also continued to act as a convener and hub organising and hosting more than 150 events which were attended by approximately 10,000 people.

Transition

Over the past 14 years NESTA has backed hundreds of creative individuals and dozens of new enterprises, charities and projects of all kinds, from inventors of new materials to makers of video games, to communities finding solutions to climate change.

Our unique strength lay in being able to link finance with research, networks and skills – the more we brought these together, the more we could do to help great ideas to thrive.

In 2010, the Government, as part of its review of public bodies, carried out a review of NESTA. It concluded that while NESTA carried out a valuable role which the Government wished to see continue, NESTA did not need to be a public body, and that its activities were better suited to the voluntary sector. NESTA was strongly supportive of this conclusion. Implementing the decision required both primary legislation (the Public Bodies Act 2011) and detailed work on design and implementation working with the Charity Commission and Government, including a public consultation. NESTA became a charity on 1 April 2012 and will be known as Nesta.

Nesta as a charity will continue with its mix of activities and remain true to the founding mission of helping the UK better capitalise on invention and creativity within its new charitable objects. The overwhelmingly positive response to the public consultation on Nesta's future in late 2011 shows the extent of support for Nesta's work, both past and present, and puts us in good stead for the next phase of our work.

Geoff Mulgan
Accounting Officer

28 June 2012

Directors' Report and Management Commentary

Constitution

NESTA – the National Endowment for Science, Technology and the Arts – was set up by the National Lottery Act in 1998. The composition of the Board and the Executive team is given on pages 14 to 15.

The National Lottery Act 1998 and the Financial Directions, issued by the Secretary of State under the National Lottery Act 1998, governed NESTA's operations. NESTA prepared its financial statements in accordance with the Accounts Directions issued by the Secretary of State.

NESTA's sponsor department was the Department for Business, Innovation and Skills (BIS).

In October 2010, the Government announced that it proposed to change NESTA's status and grant it full independence. On 1 April 2012, the National Endowment for Science, Technology and the Arts [NESTA] was abolished as a public body and transferred all its staff, activities, operating assets and liabilities to Nesta Operating Company [Nesta], a company limited by guarantee and a registered charity. All of NESTA's financial assets and payables relating to these financial assets were transferred to the Nesta Trust, a registered charitable trust. The transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. NESTA was then abolished on 1 April 2012 pursuant to the Public Bodies (Abolition of the National Endowment for Science, Technology and the Arts) Order 2012.

Statutory objects

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

The statutory objects of NESTA were 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;
- contributing to public knowledge and appreciation of science, technology and the arts.

Overview of developments

During the 2011/12 year, NESTA's work continued to be focussed on three 'pillars' of strategic activity: Innovation for Economic Growth, Public and Social Innovation, and Innovation and the Creative Industries.

Our in-house research team made a number of contributions to our work on Innovation for Economic Growth:

- NESTA's previous work on **The Vital 6 per cent**, **Innovation Vouchers**, the **Big Green Challenge,** and our continuing work on the **Innovation Index** contributed to BIS's foundational **Innovation and Research Strategy for Growth** published in December 2011. Included in the strategy is a new centre of excellence for Challenge Prizes, which will be run by Nesta. The Nesta team worked towards the launch of this centre in April 2012.
- We continued to look at potential areas of business growth and our research resulted in a number of publications, including: **Barriers to Growth, All Together Now**, and **The Startup Factories**.
- We launched a campaign, **Beyond the Banks**, based on our research to identify ways to provide more capital to growing businesses other than through banking channels. Our research has led to a number of publications during the year.
- In addition, a number of practical programmes were designed to test different approaches to incubating and accelerating high growth potential businesses, to inform our research and provide examples of innovative support for early-stage ventures in different industry sectors.

NESTA also convened a number of events around Innovation for Economic Growth, namely the regular **Hot Topics** series, which showcases new technological tools that may transform society and industry in future years. We also helped to run the successful **Silicon Valley comes to the UK** event.

Our Investments team continued to manage our early-stage venture fund. In the run-up to the transition to charitable status, we reviewed our investment strategy and maintained our focus on maximising return from the portfolio. During the year, two of our portfolio companies were sold and we more than doubled our return on our initial investment.

NESTA expanded its role in supporting social ventures and social venture intermediaries during the year.

We continued to research and design practical programmes in the area of Innovation and the Creative Industries:

- **Next Gen.**, our UK games industry skills review in collaboration with Ian Livingstone and Alex Hope published in February 2011 was recognised by Secretary of State for Education, Michael Gove, when he promised to address key recommendations from this review, including introducing computer science into the national curriculum, and supplying high-quality computer science teachers.

- The educational model for games development we tested with Hyper Island has been adopted by Teeside University and incorporated into their MA programme. Hyper Island UK is now running as a sustainable programme, supported largely by the games industry.

- We launched a pilot Digital R&D Fund for Arts and Culture, in partnership with Arts Council England and the Arts and Humanities Research Council. A key element of the fund is the partnerships developed between arts and cultural organisations, technology providers, and researchers. In December, NESTA launched a similar fund in Scotland, in partnership with Creative Scotland and the Arts and Humanities Research Council.

NESTA's Public Services Lab, in conjunction with our research team, carried out NESTA's work in the area of Public and Social Innovation:

- The £10 million Innovation in Giving Fund was launched, a partnership with the Cabinet Office, which finds and backs innovative ideas for increasing volunteering and charitable giving in the UK. Fifteen initial investments were selected in February 2012 and a further 16 awards were announced in March 2012.

- We explored further the concept of 'Collaborative Consumption', through a collection of blogs, video and other resources to explain how NESTA thinks collaborative consumption builds trust and its potential impact on public services. Within this theme, Reboot Britain is near the end of a two-year programme of practical projects that test the opportunities for collaborative technology to create innovative solutions for challenges facing public services. Our findings will be published in 2012.

- We launched our Creative Councils programme, a partnership with the Local Government Association. That 38 per cent of councils in England and Wales applied to the programme, shows a significant appetite for innovation in this sector and a widespread desire to develop and test radical new approaches. This programme will roll into 2012/13.

- The Neighbourhood Challenge programme, a partnership between NESTA and the Big Lottery Fund, went into its second year after 17 communities were selected to participate in February 2011. The programme supports these communities with funding, practical tools, and training. NESTA also provided micro-finance to support the development of local projects and establish local challenge prizes to incentivise community-led innovation. Observations and findings from this programme will be published in 2012.

- NESTA launched its **People Powered Health programme**, working with the Innovation Unit, to support the design and delivery of innovative services for people that are living with long-term health conditions. Six teams are participating across different geographic areas using the 'co-production' method. We hope to produce learnings from the programme during 2012.

- NESTA, in partnership with others, launched the UK Alliance for Useful Evidence in October 2011. The Alliance will provide a much needed focal point for improving and extending the application of research and evidence in the UK. NESTA's contribution to the Alliance will be in the form of £50,000 a year for two years.

NESTA also continued to be a convener and hub, where we bring together some of the UK's leading experts to discuss how innovation can solve the big social and economic challenges of our time. During the year, NESTA held more than 150 events which were attended by approximately 10,000 people.

Finally, it has been an historic year for NESTA as 2011/12 was the last year for NESTA as a public body. NESTA transferred into the voluntary sector in April 2012. This transfer dominated strategic activity during the year. In addition, Geoff Mulgan joined as NESTA's new Chief Executive and Accounting Officer on 1 June 2011, and significant progress was made in implementing a new organisational strategy and vision that will now be taken forward by Nesta as a charity.

Financial overview

The financial statements on pages 29 to 37 show the income and expenditure for the year. They also consolidate NESTA's three subsidiary undertakings which were incorporated in June 2008.

NESTA's endowment provides its main source of income. The assets that comprise NESTA's endowment are detailed in note 9(a). In the year to 31 March 2012 investment income amounted to £9.2 million (2010/11: £15.2 million) which comprises investment income from gilts of £7.8 million (2010/11: £9.1 million) and our other investments of £1.4 million (2010/11: £6.1 million). This income comprised interest and dividends received, capital distributions from some of our investment holdings, and gains arising from the sale of a parcel of non-marketable gilts that were required to be sold prior to NESTA being abolished on 1 April 2012. In addition net gains of £1.5 million were received on the sale of two of NESTA's early-stage investments: Meciria and Dexela. These amounts have been included in NESTA's income for the year.

The net gain on revaluation of our endowment assets at 31 March 2012 was £13.5 million compared to the value at 31 March 2011. This reflects broadly flat performance by equity markets over the year combined with significant rises in gilts values. This unrealised gain is recorded in the Fair Value Reserve and, along with the £9.2 million income from the endowment, gave a total return for the year of £22.7 million.

In the run-up to the transition to charitable status, NESTA undertook a review of its early-stage investment strategy. The outcome was to maintain the team's focus on maximising returns from the current portfolio of investments. During the year, NESTA made eight direct investments totalling £3.7 million; seven of those were to support the growth and development of existing assets in the portfolio, with one new investment. Despite the fund raising climate continuing to be difficult, a number of our investments successfully closed major funding rounds in the last 12 months, in which NESTA also participated. Equally, a number of our investments have faced commercial difficulty during the year, and we have assessed them as impaired in value at 31 March 2012. A charge was made to expenditure of £2.2 million for these impairments although this was in part compensated for by an increase in the value of the remaining portfolio by £1.6 million. Further details of the early-stage investment portfolio can be found in Note 9(b).

NESTA raised external income of £5.6 million during the year (2010/11: £4.0 million) including grants of £4.0 million from the Cabinet Office for the first phase of the Innovation in Giving project, £1 million from Local Government Improvement and Development [LGID], £373k from Arts Council England and £150k from the Arts and Humanities Research Council, the latter two going towards our pilot Digital R&D project. While not all of the £4.0 million from the Cabinet Office or the £1 million from LGID was spent in 2011/12, public sector financial reporting standards require that this income is recognised in full in the year in which the grant is received, rather than deferred to match the years in which the expenditure is incurred.

Expenditure was considerably lower this year, at £21.0 million, compared to 2010/11 (£29.5 million) for two main reasons:

- The previous year, 2010/11, was an exceptional year with the change in government creating significant demand for NESTA's insights and expertise, and a window of opportunity for NESTA to have a significant impact on UK innovation. This led to the setting up of major new programmes and an associated spike in expenditure. In 2011/12 the focus was on returning to a more sustainable level of expenditure and focusing on the delivery of a smaller number of programmes. This led to major reductions in the level of spending on both programmes and policy and research from historic highs.

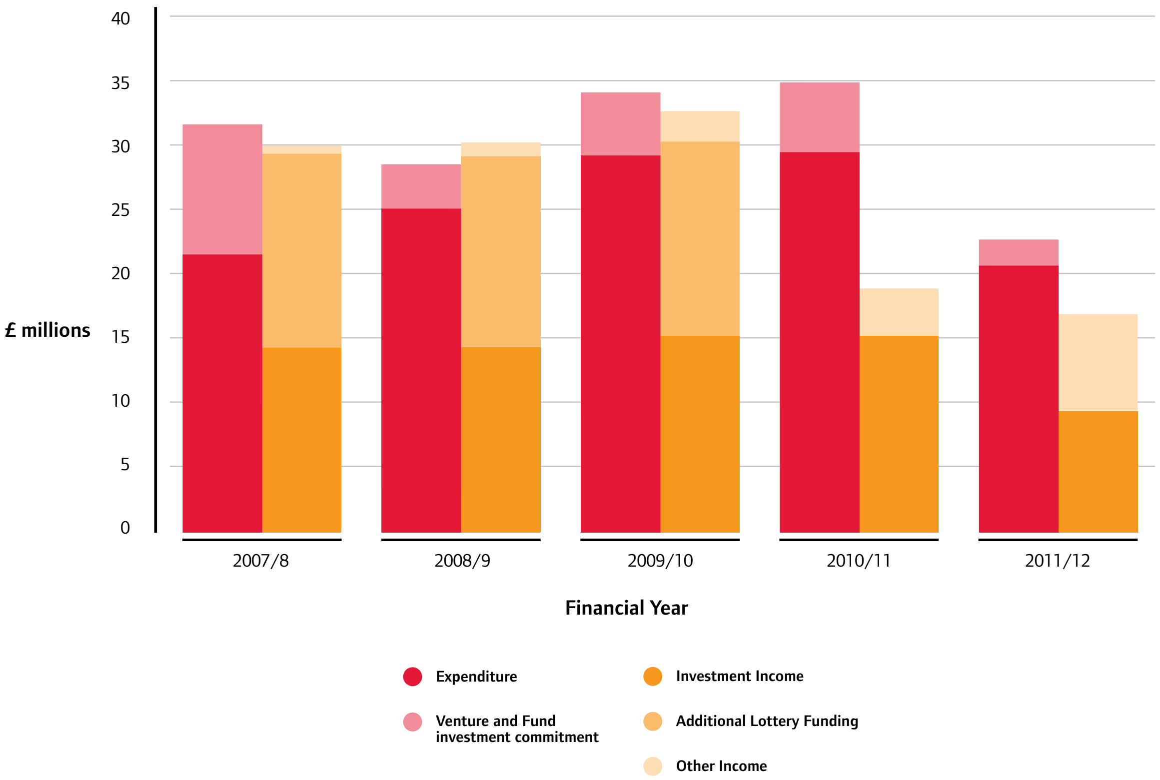
- The arrival of a new Chief Executive, recruited to lead the new charitable organisation, meant that there was a natural pause in the process of initiating new projects. Nevertheless, the year also saw significant progress in implementing a new organisational strategy and vision that will now be taken forward by Nesta as a charity.

In any year, a deficit has always been able to be funded using funds from the endowment, as was done in 2010/11. Equally, any surplus adds to the endowment. The plan for the future is to more closely align income with expenditure, increase external funding, and ensure overhead costs are minimised where possible so that more can be spent on programmes themselves.

In accordance with government reporting requirements, as NESTA was abolished on 1 April 2012, these accounts have been prepared on a basis other than going concern. These accounts show the transactions for the year ended 31 March 2012 and the assets and liabilities at that date. There has been no adjustment required to the assets and liabilities of NESTA as a result of the transfer to the Nesta Trust and Nesta Operating Company as they were transferred at book value.

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 Group Statement of Comprehensive Net Expenditure.



Organisational structure

Name	Position
Sir John Chisholm	Chairman
Geoff Mulgan	Chief Executive and Accounting Officer

Geoff Mulgan was appointed as NESTA's Chief Executive in February 2011 and took up his post on 1 June 2011.

In addition to the Chief Executive, NESTA had five Executives responsible for, respectively, NESTA Investments, Policy & Research, Public Services Lab, Corporate Communication and Corporate Services. NESTA was governed by an independent Board of Trustees, who met quarterly. Trustees were appointed by the Secretary of State for Business, Innovation and Skills. The Board was responsible for strategic direction, policies and procedures and was chaired by Sir John Chisholm. The Board's decision making was assisted by six Committees of the Board who met regularly throughout the year and have delegated authority: Investment; Finance Audit & Remuneration; Endowment; Public Services Lab; Creative Economy; and Innovation & Economic Growth. The three latter committees reflect the three strands of work undertaken by NESTA.

The following were members of the Executive Team during the period from the start of the year to 31 March 2012, when NESTA was abolished:

Name	Date Appointed	Position
Philip Colligan	May 2010	Executive Director, Public Services Lab
Rachel Grant	February 2009	Executive Director, Communications
Matthew Mead	January 2010	Managing Director, NESTA Investments
Daniel Oppenheimer	September 2007	Chief Operating Officer
Stian Westlake	January 2009	Executive Director, Policy & Research

The following were Trustees during the period from the start of the year to the date when the National Endowment for Science, Technology and the Arts was abolished, 1 April 2012.

Name	Date Appointed	Date Retired/Resigned*	Committee Membership
Sir John Chisholm (Chairman)	November 2009	March 2012	Innovation & Economic Growth Investment Committee (temporary)
Liam Black	December 2008	March 2012	Public Services Lab Committee
Professor Stephen Emmott	June 2008	March 2012	Creative Economy Committee
Jitesh Gadhia	July 2007	July 2011	Endowment Committee (Chair), Finance, Audit & Remuneration Committee
Sir David Henshaw	June 2010	March 2012*	Public Services Lab Committee (Chair)
Dr Mike Lynch	November 2009	October 2011*	Investment Committee (Chair)
John Sheldrick	June 2010	March 2012	Finance, Audit & Remuneration Committee, Innovation & Economic Growth Committee
Nick Starr	December 2007	December 2011	Creative Economy Committee
Coram Williams	June 2009	March 2012	Finance, Audit & Remuneration Committee (Chair)
Rob Woodward	November 2009	March 2012	Investment Committee, Endowment Committee

The following were non-Trustee members of Committees during the period from the start of the year to the date the National Endowment for Science, Technology and the Arts was abolished, 1 April 2012. A number of Trustees who retired prior to 31 March 2012, maintained their committee memberships to ensure continuity to 31 March 2012.

Name	Date Appointed	Date Retired/Resigned*	Committee Membership
Patrick McKenna	November 2010	February 2012*	Creative Economy Committee (Chair)
Nick Starr	December 2007	March 2012	Creative Economy Committee (Interim Chair)
Nick Cavalla	August 2008	March 2012	Endowment Committee
Jitesh Gadhia	July 2007	March 2012	Endowment Committee (Chair), Finance, Audit & Remuneration Committee
Anthony Thomas	January 2008	March 2012	Finance & Audit Committee
Lord David Currie	November 2010	March 2012	Innovation & Economic Growth Committee
Herman Hauser	July 2011	March 2012	Innovation & Economic Growth Committee
Vicky Pryce	June 2011	March 2012	Innovation & Economic Growth Committee
Sir John Gieve	June 2011	March 2012	Innovation & Economic Growth Committee (Chair)
Adrian Beecroft	December 2006	October 2011	Investment Committee
Sherry Coutu	May 2006	March 2012	Investment Committee
Dr Mike Lynch	November 2009	October 2011*	Investment Committee
Ernie Richardson	November 2006	March 2012	Investment Committee
Sir Rod Aldridge	July 2010	March 2012	Public Services Lab Committee
Madeleine Atkins	April 2011	March 2012	Public Services Lab Committee
David Halpern	July 2010	March 2012	Public Services Lab Committee
Dame Julie Mellor	April 2011	March 2012	Public Services Lab Committee
Paul Roberts	July 2010	March 2012	Public Services Lab Committee
Rob Whiteman	July 2010	March 2012	Public Services Lab Committee

Creditors

It was 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 2012, 94 per cent of undisputed invoices were paid within 30-days or the contractual term (2011: 92 per cent).

Equal opportunities

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

Employee consultation

NESTA ensured that there were arrangements to promote effective consultation and communication with all staff. Meetings of all staff were held periodically at which matters relating to NESTA's activities were discussed and staff 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 2012 was 1 day (2011: 4 days). This is significantly lower than the average for the public sector of 9.1 days per employee per annum.

Post balance sheet events

A significant post balance sheet event between the balance date and 3 July 2012, the date the accounts were certified by the Comptroller & Auditor General, was the abolition of the National Endowment for Science, Technology and the Arts [NESTA] on 1 April 2012. All of NESTA's staff, activities, operating assets and liabilities were transferred to Nesta Operating Company [Nesta], a company limited by guarantee and a registered charity. All of NESTA's financial assets and payables relating to these financial assets were transferred to the Nesta Trust, a registered charitable trust. Both transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. The change of status of NESTA had no effect on the assets and liabilities as reported in the financial statements as at 31 March 2012. The financial accounts do not reflect events after this date.

Personal data loss

NESTA suffered no protected personal data incidents during 2011/12 or in prior years, and made no reports to the Information Commissioner's Office.

Other matters

NESTA maintained a register of interests of members of the Board of Trustees, Committee members and staff which was available for public inspection by appointment at 1 Plough Place London EC4A 1DE.

NESTA's staff received gifts and hospitality totalling £214 (2011: £371) during the financial year.

NESTA's staff gave gifts totalling £721 (2011: £186) 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 was a sub-committee of the Board of Trustees and was incorporated into the Finance & Audit Committee. It consisted of non-executive Trustees, all of whom were appointed on terms agreed by Trustees.

The Remuneration Committee was chaired by Coram Williams. Other members of the Remuneration Committee were Jitesh Gadhia and John Sheldrick. A secretariat function was provided by the Chief Operating Officer and the Chief Executive and the Head of Human Resources normally attended. 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;

Audited information:

Chairman and Trustees' Remuneration	**Total 2011/12 £'000**	Total 2010/11 £'000
Sir John Chisholm (Chairman)	26	26
Liam Black	7	6
Professor Marc Clement	-	2
Sherry Coutu	-	9
Professor Stephen Emmott	7	6
Jitesh Gadhia	3	11
Sir David Henshaw	9	8
Dr Mike Lynch	6	11
Patrick McKenna	-	8
Nick Starr	5	7
John Sheldrick	-*	-*
Professor Kathy Sykes	-	5
Coram Williams	9	9
Rob Woodward	11	9

*Opted to not be remunerated.

Refer to page 16 for Chairman and Trustee appointment and/or retirement dates.

- 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 authorised 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.

NESTA's Chairman, Trustees, Committee members are entitled to the following remuneration:

- The Chairman is remunerated at a rate of £26,245 per annum (2011: £26,245) for two days per week.
- 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.
- 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.
- Out-of-pocket expenses are recoverable.

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

Executive Team Remuneration

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

	Salary & Benefits (excluding Benefits in Kind) 2011/12	Bonus payments 2011/12	Pension Contributions 2011/12	Benefits in kind to nearest £100 2011/12	Salary & Benefits (excluding Benefits in Kind) 2010/11	Bonus payments 2010/11	Pension Contributions 2010/11	Benefits in kind to nearest £100 2010/11	Employment Start Date	Employment End Date	Notice Period
	£000	£000	£000	£	£000	£000	£000	£			
Geoff Mulgan	117	4	14	400	-	-	-	-	01/06/2011		3 months
Jonathan Kestenbaum	-	-	-	-	119	-	14	1,300	01/11/2005	8/12/2010	3 months
Philip Colligan	119	4	14	600	107	-	13	600	04/05/2010	-	3 months
Rachel Grant	101	-	12	800	101	-	12	700	09/02/2009	27/04/2012	6 months
Matthew Mead	152	25	18	1,400	151	15	18	1,400	11/01/2010	-	3 months
Daniel Oppenheimer	89	-	11	600	93	-	11	700	03/09/2007	19/04/2012	6 months
Stian Westlake	93	3	12	1,400	92	-	11	1,700	05/01/2009	-	6 months

Highest paid Executive's Total Remuneration	£178k	£166k
Median Total	£46,239	£48,699
Remuneration Ratio	3.8	3.4

For the year ending 31 March 2012 a flat rate bonus of 3 per cent (10 per cent for Managing Director NESTA Investments) was paid except to Executives who had resigned prior to the bonus being awarded. For the year ending 31 March 2011, the Executive team elected to forfeit their bonuses, and the Managing Director of NESTA Investments elected to forfeit half of his bonus.

- Benefits were provided as part of NESTA's flexible benefits scheme. They included 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 as part of NESTA's flexible benefits scheme. In the year ended 31 March 2012, these included private medical insurance and dental 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 gross salary.

- All Executive appointments were on a permanent basis.

- Executive team salaries were benchmarked against appropriate external markets.

- The Managing Director of NESTA Investments was 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 returns made by NESTA from its portfolio of investments. Included in the bonus payments column above is £10k payable for 2011/12 (2010/11: £nil).

- Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid executive in their organisation and the median remuneration of the organisation's workforce.

  - The remuneration of the highest-paid executive at NESTA in the financial year 2011/12 was £178k (2010/11: £166k). This was 3.8 times (2010/11: 3.4) the median remuneration of the workforce, which was £46,239 (2010/11: £48,699).

  - In 2011/12: no (2010/11: no) employees received remuneration in excess of the highest-paid executive. Remuneration ranged from £17k to £177k (2010/11: £24k - £166k).

  - Total remuneration includes salary, non-consolidated performance-related pay, benefits in kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

  - Temporary and agency staff costs have not been included in the median total as they are of a consultancy nature and do not cover permanent roles.

  - There has been a slight change to the median ratio although the highest paid executive remains the same person and general pay levels, head-count and staff composition have remained consistent with the previous year.

Geoff Mulgan
Accounting Officer

28 June 2012

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. On 1 April 2012 NESTA was abolished and all of NESTA's staff, activities, operating assets and liabilities were transferred to Nesta Operating Company, a company limited by guarantee and a registered charity, and all of NESTA's financial assets and payables relating to these financial assets were transferred to Nesta Trust, a registered charitable trust. Both transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. 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, changes in equity 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, except where it is not appropriate to do so.

The Accounting Officer of the Department for Business, Innovation and Skills has designated Geoff Mulgan, the Chief Executive, as Accounting Officer of NESTA for the production of NESTA's annual report and final accounts prior to its transition. 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.

Geoff Mulgan
Accounting Officer

28 June 2012

Governance statement

NESTA was an independent non-departmental public body of the Department for Business, Innovation and Skills (BIS), established by the National Lottery Act 1998. As Accounting Officer, I had responsibility for maintaining a sound system of internal control that supported the achievement of NESTA's policies, aims and objectives, while safeguarding the public funds and assets for which I was personally responsible. I was supported by the board of Trustees who were responsible for ensuring that proper financial management was achieved through appropriate procedures, systems and personnel.

Governance Framework of the organisation

The primary responsibilities of the Board were:

- Approval and oversight of the organisation's objectives and long-term strategy
- Approval and monitoring of the organisation's budget and performance
- Approval of the organisation's investment strategy
- Oversight of major risks to the organisation
- Approval of any changes to the system of internal control
- Approval of major new programmes and items of spending
- Approval of the financial statements
- Appointment of new Chief Executive
- Oversight of the transition to charity status

Board members of NESTA during the year were as follows:

Name	Date Appointed	Date Retired/Resigned*	Attendance
Sir John Chisholm (Chairman)	November 2009	March 2012	4/4
Liam Black	December 2008	March 2012	3/4
Professor Stephen Emmott	June 2008	March 2012	3/4
Jitesh Gadhia	July 2007	July 2011	0/1
Sir David Henshaw	June 2010	March 2012*	3/4
Dr Mike Lynch	November 2009	October 2011*	1/2
John Sheldrick	June 2010	March 2012	3/4
Nick Starr	December 2007	December 2011	3/3
Coram Williams	June 2009	March 2012	3/4
Rob Woodward	November 2009	March 2012	4/4

Board members, including the Chair, were appointed by the Secretary of State for Business, Innovation and Skills. The Board met four times during the year, and participated in three-weekly telephone updates with the management team involved in project managing the process of transitioning NESTA to charitable status. Trustee independence is managed by ensuring adherence to NESTA's Conflict of Interest Policy and declaring interests and related party transactions at least annually.

While it retained overall responsibility for all aspects of the organisation's activities, the Board delegated some of its decision making to six Committees of the Board who met regularly throughout the year and had delegated authority. With the exception of the Investment Committee which usually met monthly, the Committees met approximately every quarter. The following Committees of the Board were in existence during the year:

- The Finance, Audit and Remuneration Committee, which dealt with: financial control, in-year financial monitoring, internal audit, detailed scrutiny of the financial accounts, risk management and review of remuneration and associated policies.
- The Endowment Committee, which determined and monitored the investment of NESTA's Endowment.
- The Investment Committee, which approved all investment decisions for NESTA's early-stage venture capital activities.
- The Public Services Lab Committee, which provided oversight of the Public Services Lab programme.
- The Innovation & Economic Growth Committee, which provided oversight of NESTA's research on economic issues.
- The Creative Industries Committee, which provided oversight of NESTA's work with the creative sector.

Membership and attendance of these Committees was as follows:

Name	Date Appointed	Date Retired/Resigned*	Committee	Attendance
Professor Stephen Emmott	June 2008	March 2012	Creative Economy Committee	3/3
Patrick McKenna	November 2010	February 2012*	Creative Economy Committee (Chair)	2/2
Nick Starr	December 2007	March 2012	Creative Economy Committee (Interim Chair)	3/3
Nick Cavalla	August 2008	March 2012	Endowment Committee	4/4
Jitesh Gadhia	July 2007	March 2012	Endowment Committee (Chair), Finance, Audit & Remuneration Committee	7/8
John Sheldrick	June 2010	March 2012	Finance, Audit & Remuneration Committee, Innovation & Economic Growth Committee	8/8
Anthony Thomas	January 2008	March 2012	Finance & Audit Committee	4/4
Coram Williams	June 2009	March 2012	Finance, Audit & Remuneration Committee (Chair)	4/4
Lord David Currie	November 2010	March 2012	Innovation & Economic Growth Committee	1/4
Sir John Chisholm (Chairman)	November 2009	March 2012	Innovation & Economic Growth, Investment Committee (temporary)	9/12
Sir John Gieve	June 2011	March 2012	Innovation & Economic Growth Committee (Chair)	4/4

Name	Date Appointed	Date Retired/Resigned*	Committee	Attendance
Herman Hauser	July 2011	March 2012	Innovation & Economic Growth Committee	0/3
Vicky Pryce	June 2011	March 2012	Innovation & Economic Growth Committee	3/3
Sir Rod Aldridge	July 2010	March 2012	Public Services Lab Committee	2/3
Madeleine Atkins	April 2011	March 2012	Public Services Lab Committee	2/2
Liam Black	December 2008	March 2012	Public Services Lab Committee	2/3
David Halpern	July 2010	March 2012	Public Services Lab Committee	1/3
Sir David Henshaw	June 2010	March 2012*	Public Services Lab Committee (Chair)	2/3
Dame Julie Mellor	April 2011	March 2012	Public Services Lab Committee	2/2
Paul Roberts	July 2010	March 2012	Public Services Lab Committee	3/3
Rob Whiteman	July 2010	March 2012	Public Services Lab Committee	1/3
Adrian Beecroft	December 2006	October 2011	Investment Committee	4/5
Sherry Coutu	May 2006	March 2012	Investment Committee	6/8
Dr Mike Lynch	November 2009	October 2011	Investment Committee (Chair)	4/5
Ernie Richardson	November 2006	March 2012	Investment Committee	8/8
Rob Woodward	November 2009	March 2012	Investment Committee, Endowment Committee	12/12

Overview of the Board's Performance

The principal focus of the Board during the year was on ensuring a smooth and effective transfer to the new independent charitable bodies that would be taking over NESTA's activities – specifically:

- Ensuring that the new bodies would be able to continue NESTA's mission to promote innovation in the UK, consistent with the requirements of charity law.
- Ensuring that during this transitional year, NESTA's work continued, and that new projects and programmes continued to be launched so that the new charitable bodies would inherit a portfolio of projects appropriate for them.
- That all the necessary operational steps were being taken to ensure that the transfer to the new charitable bodies complied with the relevant legal, accounting and tax requirements.

The transfer of NESTA's activities to the charitable bodies was completed successfully on 1 April 2012 and NESTA itself was abolished pursuant to the Public Bodies (Abolition of the National Endowment for Science, Technology and the Arts) Order 2012.

Highlights of Committee reports

In addition to undertaking its routine activities, the Finance, Audit & Remuneration Committee was principally concerned in the first quarter of 2011/12 with the scrutiny and approval of the 2010/11 accounts. In particular, the Committee investigated the consistency of some of NESTA's work with its statutory objects. Having taken legal advice, the Committee was satisfied that the activity was consistent with NESTA's statutory objects. In the remainder of the year the Committee focused on the transfer of NESTA's activities to the new charitable bodies, and discussed a report from the internal auditors on the effectiveness of the project management arrangements for the transfer.

The remaining committees considered matters in line with NESTA's normal course of business.

Risk management

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

The risk management of individual projects was the responsibility of the relevant Executive. Risks identified in the normal course of business were discussed by the Executive team in their fortnightly meetings. In addition, the Chief Operating Officer met with each Executive on a quarterly basis to review the risk register for that area of the business. Reputational risks together with other broader strategic issues were the responsibility of the Chief Executive, but were considered by the Executive team collectively, when it met quarterly to review the top-level risk register for the organisation as a whole.
The top-level risk register and each executive team register were presented to the Finance, Audit & Remuneration Committee at each meeting and reviewed by the Board annually.

In order to ensure that financial risks were properly managed, there was a clear financial management framework in place. The budget was approved by the Board of Trustees and quarterly financial reports were made to the Finance, Audit & Remuneration Committee reporting on expenditure against budget and against quarterly re-forecasts. Management Accounts were prepared monthly and reviewed by budget holders.

NESTA had an internal audit service which operated in accordance with Government Internal Audit Standards. The annual internal audit plans were informed by the risk register and were able to be flexed to address risks arising if required. Areas for audit were selected and prioritised by the Finance, Audit & Remuneration Committee and approved by the Accounting Officer.

Each meeting of the Committee included an opportunity for a session with internal and external auditors without NESTA staff present.

During the year the major risks for NESTA as assessed by management and reported to the Finance, Audit & Remuneration Committee and Board for review and comment, were as follows:

- That its ideas were not being adopted, mitigated by continuing to focus on looking at different methods of adoption.

- That NESTA was not clear enough on who its key customers were, mitigated by making greater use of social media and wider range of types of events to help broaden the stakeholder base.

- That a poor investment record by NESTA Investments damaged NESTA's credibility, mitigated by two profitable exits from investee companies.

- Possible pressure to fund work which does not contribute to mission or for which we do not have capacity, mitigated by ensuring that the organisation had agreed strategies for each area of its work which would provide a test which any prospective proposal would have to pass.

- Damage to NESTA's reputation for independence through its relationship with Government, mitigated by ensuring that it has clear criteria for selecting its projects and programmes.

- NESTA's role and function seen as not adding value to stakeholders, mitigated by rigorous scrutiny of projects for effectiveness.

As far as the system overall was concerned, the purpose of the risk management system was not to eliminate all risk of failure to NESTA's goals. NESTA's mission to transform the innovative capacities of the UK required it to have an element of risk-taking in its activities if it were to succeed, as the mission required experimentation. Accordingly NESTA's risk appetite was for managed risk-taking rather than simple risk aversion. This included 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.

Risk management was an ongoing process designed to identify and prioritise the risks to the achievement of NESTA's goals, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The Chief Operating Officer had lead responsibility in the Executive team for the risk management framework. NESTA's Finance, Audit & Remuneration Committee was 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.

There were no material control weaknesses identified by management or the Board during the year.

Transition to charity

On 1 April 2012 NESTA was abolished and all its staff, activities, operating assets and liabilities were transferred to Nesta Operating Company [Nesta], a company limited by guarantee and a registered charity. All of NESTA's financial assets and payables relating to these financial assets were transferred to the Nesta Trust, a registered charitable trust. The transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. NESTA was then abolished on 1 April 2012 pursuant to the Public Bodies (Abolition of the National Endowment for Science, Technology and the Arts) Order 2012.

Geoff Mulgan
Accounting Officer

28 June 2012

The Certificate and Report of the Comptroller and Auditor General to the Houses of 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 2012 under the National Lottery Act 1998. The financial statements comprise: the Group Statement of Comprehensive Net Expenditure, the Group and Parent Statements of Financial Position, the Group and Parent Statements of Cash Flows, 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 NESTA, the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, NESTA and the Accounting Officer are 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, certify and report on the financial statements in accordance with the National Lottery Act 1998. I conducted my audit in accordance with 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 the group's and NESTA'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 read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements 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 the group's and of NESTA's affairs as at 31 March 2012 and of the group's and NESTA's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery Act 1998 and Secretary of State directions issued thereunder.

Emphasis of matter

Without qualifying my opinion, I draw attention to Note 1 and Note 22 of the financial statements. NESTA was abolished on 1 April 2012 by The Public Bodies (Abolition of the National Endowment for Science, Technology and the Arts) Order 2012. Its staff, activities, operating assets and liabilities were transferred to a new charity, Nesta Operating Company, and its financial assets relating to the endowment were transferred to a new charity, Nesta Trust. As a consequence, the financial statements have been prepared on a basis other than going concern.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the National Lottery Act 1998; and
- the information given in Director's 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement 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

3 July 2012

Group Statement of Comprehensive Net Expenditure

For the year ended 31 March 2012

	Notes	Total 2011/12 £'000	Re-stated Total 2010/11 £'000
Income			
Investment income: Gilts	3	7,852	9,145
Investment income: Other	3	1,369	6,077
Other income	4	7,819	4,002
Total income		**17,040**	**19,224**
less Expenditure			
Programmes	6	10,658	14,057
NESTA Investments	6	3,509	5,477
Policy & Research	6	2,308	5,122
Publications, events & communications	6	2,613	3,097
Direct support of objectives		**19,088**	**27,753**
Corporate Services	6	1,940	1,909
Defined benefit pension scheme provision (release)	5, 14	-	(120)
Total expenditure		**21,028**	**29,542**
Net Income/(Expenditure)		**(3,988)**	**(10,318)**

Other Comprehensive Income/(Expenditure)

	Total 2011/12 £'000	Total 2010/11 £'000
Net gain on revaluation of available for sale financial assets	14,937	5,261
Total Comprehensive Income/(Expenditure) for the year	**10,949**	**(5,057)**

The notes on pages 38 to 68 form an integral part of these financial statements.

Group Statement of Financial Position

At 31 March 2012

	Notes	Group Total 31 March 2012 £'000	Re-stated Group Total 31 March 2011 £'000
Non-current assets			
Property, plant & equipment	7	1,216	1,499
Intangible assets	8	9	20
Financial assets:			
Gilts	9a	124,822	185,878
Other investments	9a	116,860	113,430
Deferred other investments	9a	17,253	-
Investment in early-stage companies	9b	15,598	12,876
Loans to early-stage companies	9b	430	612
Investment in early-stage funds	9b	3,848	2,392
Deferred investment in early-stage companies	9b	149	1,968
Deferred investment in early-stage funds	9b	2,827	4,455
		283,012	**323,130**
Current assets			
Trade and other receivables	11	379	699
Financial assets: short-term deposits	9a	72,606	22,163
Cash & cash equivalents	19a	12,334	160
		85,319	**23,022**
less Current liabilities			
Other payables: grants & investments falling due for payment within one year	12	21,582	10,734
Trade and other payables	13	1,938	2,315
		23,520	**13,049**
Net current assets		**61,799**	**9,973**

	Notes	Group Total 31 March 2012 £'000	Re-stated Group Total 31 March 2011 £'000
Total assets less current liabilities		**344,811**	333,103
Other payables: grants & investments falling due for payment after one year	12	5,533	4,774
Total assets less liabilities		**339,278**	328,329
Represented by reserves			
Fair value reserve		27,714	12,777
Accumulated reserve		311,564	315,552
Total reserves		**339,278**	328,329

The financial statements, which comprise the Group Statement of Comprehensive Net Expenditure, the Group and Parent Statements of Financial Position, the Group and Parent Statements of Changes in Equity, the Group Statement of Cash Flows, and the related notes were signed by:

Geoff Mulgan
Accounting Officer

28 June 2012

The notes on pages 38 to 68 form an integral part of these financial statements.

Parent Statement of Financial Position

At 31 March 2012

	Notes	Parent Total 31 March 2012 £'000	Re-stated Parent Total 31 March 2011 £'000
Non-current assets			
Property, plant & equipment	7	1,216	1,499
Intangible assets	8	9	20
Financial assets:			
Gilts	9a	124,822	185,878
Other investments	9a	116,860	113,430
Deferred other investments	9a	17,253	-
Investment in early-stage companies	9b	15,598	12,876
Loans to early-stage companies	9b	430	612
Investment in early-stage funds	9b	3,848	2,392
Deferred investment in early-stage companies	9b	149	1,968
Deferred investment in early-stage funds	9b	2,827	4,455
Investment in subsidiaries	10	120	120
		283,132	**323,250**
Current assets			
Trade and other receivables	11	477	699
Financial assets: short-term deposits	9a	72,606	22,163
Cash & cash equivalents	19a	12,213	112
		85,296	**22,974**
less Current liabilities			
Other payables: grants & investments falling due for payment within one year	12	21,582	10,734
Trade and other payables	13	1,923	2,303
		23,505	**13,037**
Net current assets		**61,791**	**9,937**

	Notes	Group Total 31 March 2012 £'000	Re-stated Group Total 31 March 2011 £'000
Total assets less current liabilities		**344,923**	333,187
Other payables: grants & investments falling due for payment after one year	12	5,533	4,774
Total assets less liabilities		**339,390**	328,413
Represented by reserves			
Fair value reserve		27,714	12,777
Accumulated reserve		311,676	315,636
Total reserves		**339,390**	328,413

Geoff Mulgan
Accounting Officer

28 June 2012

The notes on pages 38 to 68 form an integral part of these financial statements.

Group Statement of Changes in Equity

For the year ended 31 March 2012

Group	Notes	Accumulated Reserve £'000	Fair Value Reserve £'000	Group Total Reserves £'000
Balance at 1 April 2010		325,870	7,516	333,386
Changes in reserves 2010/11:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			(1,041)	(1,041)
Other investments			5,413	5,413
Investments in early-stage companies	9b		1,479	1,479
Loans	9b		(253)	(253)
Investments in funds	9b		(337)	(337)
• Comprehensive income/(expenditure) for the year		(10,745)	-	(10,745)
Balance at 31 March 2011		**315,125**	**12,777**	**327,902**
Prior year adjustment	2	427	-	427
Balance at 1 April 2011		**315,552**	**12,777**	**328,329**
Changes in reserves 2011/12:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			15,279	15,279
Other investments			(1,768)	(1,768)
Investments in early-stage companies	9b		1,624	1,624
Loans	9b		(25)	(25)
Investments in funds	9b		(173)	(173)
• Comprehensive income/(expenditure) for the year		(3,988)		(3,988)
Balance at 31 March 2012		**311,564**	**27,714**	**339,278**

The notes on pages 38 to 68 form an integral part of these financial statements.

Parent Statement of Changes in Equity

For the year ended 31 March 2012

Parent	Notes	Accumulated Reserve £'000	Fair Value Reserve £'000	Parent Total Reserves £'000
Balance at 1 April 2010		325,925	7,516	333,441
Changes in reserves 2010/11:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			(1,041)	(1,041)
Other investments			5,413	5,413
Investments in early-stage companies	9b		1,479	1,479
Loans	9b		(253)	(253)
Investments in funds	9b		(337)	(337)
• Comprehensive income/(expenditure) for the year		(10,716)	-	(10,716)
Balance at 31 March 2011		**315,209**	**12,777**	**327,986**
Prior year adjustment	2	427	-	427
Balance at 1 April 2011		**315,636**	**12,777**	**328,413**
Changes in reserves 2011/12:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			15,279	15,279
Other investments			(1,768)	(1,768)
Investments in early-stage companies	9b		1,624	1,624
Loans	9b		(25)	(25)
Investments in funds	9b		(173)	(173)
• Comprehensive income/(expenditure) for the year		(3,960)		(3,960)
Balance at 31 March 2012		**311,676**	**27,714**	**339,390**

The notes on pages 38 to 68 form an integral part of these financial statements.

Group Statement of Cash Flow

For the year ended 31 March 2012

	Notes	Total 31 March 2012 £'000	Total 31 March 2011 £'000
Cash flows from operating activities			
Payments of grants		(7,683)	(7,090)
Payments for staff and trustees' costs		(5,872)	(7,114)
Payment of defined benefit pension liability		-	(1,645)
Payments for other costs*		(7,024)	(8,577)
Other income		158	56
Payments to acquire gilt investments		-	(35,000)
Proceeds from sale or maturity of gilt investments		73,199	92,082
Proceeds from sale of other investments		-	50,517
Payments to acquire other investments		(4,313)	(89,432)
Payments for investments in early-stage companies		(3,712)	(3,955)
Payments for investments in loans		-	(271)
Payments for investments in funds		(1,629)	(942)
Proceeds from sale of investments in companies		2,478	73
Proceeds from repayment of loans		-	64
Interest and dividends received		11,380	11,781
Net cash inflow from operating activities	**18**	**56,982**	**547**
Cash flows from investing activities			
Payments to acquire property, plant & equipment, and intangible assets		(118)	(119)
Net cash (outflow) from investing activities		**(118)**	**(119)**
Cash flows from financing activities			
Project funding received		5,753	3,573
Net cash inflow from financing activities		**5,753**	**3,573**
Net increase in cash & cash equivalents, and cash held in financial assets in the period		**62,617**	**4,001**
Cash & cash equivalents and cash held in financial assets at the beginning of the period		22,323	18,322
Cash & cash equivalents and cash held in financial assets at the end of the period	**19(a)**	**84,940**	**22,323**

* 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 38 to 68 form an integral part of these financial statements.

Notes to the Accounts

For the year ended 31 March 2012

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011/12 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 and 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 Accounting Standards issued and adopted by the Accounting Standards Board.

Going concern

In October 2010, the Government announced that it proposed to change NESTA's status and grant full independence. On 1 April 2012, the National Endowment for Science, Technology and the Arts [NESTA] was abolished as a public body and transferred all its staff, activities, operating assets and liabilities to Nesta Operating Company [Nesta], a company limited by guarantee and a registered charity. All of NESTA's financial assets and payables relating to these financial assets were transferred to the Nesta Trust, a registered charitable trust. The transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011 on 1 April 2012. The accounts have therefore been prepared on a basis other than going concern.

These accounts show the transactions for the year ended 31 March 2012 and the assets and liabilities at that date. There has been no adjustment required to the assets and liabilities of NESTA as a result of the transfer to the Nesta Trust and Nesta Operating Company as they were transferred at book value.

Basis of consolidation

The group financial statements consolidate the financial statements of the National Endowment for Science, Technology and the Arts and all its subsidiary undertakings drawn up to 31 March 2012. A parent Statement of Comprehensive Net Expenditure 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 were 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 were 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 was managed by a member of the executive team:

- 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 NESTA's 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

Effective for the Group in these financial statements

The Government Financial Reporting Manual (FReM) for 2011/12 incorporated a change to the accounting for grants received from government bodies. This change has been applied retrospectively to 2010/11 and the impact on the group's income and net assets is shown in Note 2.

Effective in future financial statements

NESTA was abolished on 1 April 2012 and therefore will not prepare any further financial statements.

Income

Income is accounted for on an accruals basis in the year to which it relates, except grants received from other government bodies which are recognised on receipt unless the grant has a condition which if met makes it repayable, in which case income is deferred to the period in which the condition can be met.

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

Income from gilt investments is the gross interest receivable plus or minus the amortisation of any discount or premium to nominal (redemption) value, less fund management fees. 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.

Grants Expenditure

Grants made by NESTA are recognised in full in the Statement of Comprehensive Net Expenditure 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 determine 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.

Pooled investments are stated at fair value, the basis of fair value being the market value of the underlying investments held. These valuations are provided by the relevant fund manager and are subject to independent valuation or annual audit.

Private equity investments are held through funds managed by private equity managers. As there is no identifiable market price for private equity funds, these funds are included at the most recent valuations provided by the private equity managers, where:

a) The private equity manager provides a fair value that complies with the International Private Equity and Venture Capital Valuation Guidelines, or

b) The private equity manager provides valuations that comply with International Financial Reporting Standards or US GAAP.

Where a valuation is not available at 31 March, the most recent valuation from the private equity manager is used, adjusted for cash flows between the most recent valuation and the balance sheet date. Where a private equity manager does not provide a fair value that complies with the above, NESTA is unable to obtain a reliable fair value, and therefore these investments are held at cost.

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.

The fair value of investments in early-stage funds is valued at 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.

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

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.

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.

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' or where any portion of an investment suffers a permanent diminution in value (e.g. NESTA does not participate in follow-on funding rounds which result in significantly lower valuations) are treated as impaired and the cost of the impairment charged to the Statement of Comprehensive Net Expenditure 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. Proceeds from sale of a financial asset previously impaired are credited directly to income.

Property, Plant & Equipment and Intangible Assets

Property, plant and 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 and 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 Statement of Comprehensive Net Expenditure.

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 Statement of Comprehensive Net Expenditure.

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 Statement of Comprehensive Net Expenditure 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 Statement of Comprehensive Net Expenditure. 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*.

2. Change in accounting policy and prior year adjustment

In previous years NESTA recognised all income on an accruals basis in the year to which it related. The 2011/12 Government Financial Reporting Manual (FReM) has been updated by HM Treasury for its interpretation of IAS 20 Accounting for Government Grants for the public sector. Where bodies applying the FReM are in receipt of government grants, income must be recognised on receipt and only deferred if a condition imposed by the funder requires that the future economic benefits embodied in the grant are consumed as specified by the grantor and if not, must be returned to them. This change in the FReM was reflected in NESTA's Income policy from 2011/12.

In 2010/11 NESTA received £2 million of funding from BIG Lottery toward the Neighbourhood Challenge Programme. Of this £2 million, £427k was deferred to 2011/12 to match expenditure incurred in that year. This deferred income is now re-stated as a prior year adjustment.

The effect of this change in policy and its prior year effect is as follows:

Statement of Comprehensive Net Expenditure:	**Re-stated Group 2010/11 £'000**
(Net Expenditure) for the year applying previous policy	(10,745)
Change in policy:	
-Other income	427
Re-stated (Net Expenditure) for the year	(10,318)

Statement of Financial Position – Net Assets:	**Re-stated Group 2010/11 £'000**	**Re-stated Parent 2010/11 £'000**
Net Assets for the year applying previous policy	327,902	327,986
Change in policy:		
-Decrease in Trade and other payables	427	427
Re-stated Net Assets for the year	328,329	328,413
Represented in Reserves:		
Reserves for the year applying previous policy	327,902	327,986
Change in policy:		
-Increase in Other income for the year	427	427
Re-stated Reserves	328,329	328,413

3. Investment income

	2011/12 £'000	2010/11 £'000
Gilts:		
Interest receivable	9,657	10,617
Amortisation of redemption premium	(2,630)	(1,472)
Realised gains on sale of gilts	825	-
Total income from gilts	**7,852**	**9,145**
Other investments:		
Interest and dividends receivable	975	975
Realised gains on sale of other investments	394	5,102
Total income from other investments	**1,369**	**6,077**
Total investment income	**9,221**	**15,222**

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 gilt.

The realised gain on sale of gilts arose from a parcel of near-expiring gilts which were of the 'non-marketable' type which were required to be sold prior to the transfer of NESTA's financial assets and liabilities to the Nesta Trust on 1 April 2012 (2010/11: £nil).

Other investments:
Realised gains on sales of other investments of £394k comprised capital gains from investments in 'private equities – secondaries', a new asset class invested in by NESTA in 2011/12. Realised gains on sale of £5,102k in 2010/11 comprised sales of corporate bonds (£3,686k) and sales on equity holdings following a change of investment manager (£1,416k).

4. Other income

	2011/12 £'000	Re-stated 2010/11 £'000
Project Funding:		
Arts & Humanities Research Council	150	50
Arts Council England	373	9
BIG Lottery	-	2,000
Cabinet Office – Office of Civil Society	4,000	250
Calouste Galbenkian Foundation	25	-
Commission for the New Economy (Manchester)	-	50
Department of Energy and Climate Change	-	83
Department of Health	-	1,091
Economic and Social Research Council	-	100
Foreign and Commonwealth Office	33	-
Highland Council	-	20
Highlands and Islands	-	40
Local Government Improvement and Development	1,000	100
Scottish Government	-	115
South East England Development Agency	-	50
Total Project Funding	**5,581**	3,958
Royalty income, proceeds from sale of legacy investments and loan repayments, interest & dividends from legacy awards	18	68
Realised gain/(loss) on sale of companies in investment portfolio	516	(118)
Realised gain on previously impaired investment in early-stage companies	1,544	5
Other income	160	89
Total other income	**7,819**	**4,002**

Project funding is substantially matched against expenditure, except where funding is received from government bodies (2011/12: Cabinet Office – Office of Civil Society, Local Government Improvement and Development) which are recognised on receipt as required by the Government Financial Reporting Manual's interpretation of IAS 20 Accounting for Government Grants for the public sector.

The required restatement (refer Note 2) has resulted in an increase in the amount shown above as Project Funding for BIG Lottery in 2010/11 from £1,573k to £2,000k.

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

	2011/12 £'000	2010/11 £'000
Salaries and emoluments of directly employed staff	4,708	4,563
Salaries and allowances of seconded staff	-	45
Trustees' and Committee members' remuneration	119	136
Social security costs	525	549
Defined contribution pension payments	405	420
Agency/temporary staff costs	134	193
	5,891	**5,906**
Other staff costs	87	781
Total Staff Costs	**5,978**	**6,687**
Defined benefit pension scheme (release)/provision	-	(120)
Total Staff Costs including pension provision	5,978	6,567

Salaries and 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 returns made by NESTA from its portfolio of investments. Carry payments of £96k are due for 2011/12 (2010/11: £nil).

Further information on pensions is included below, Note 14 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 2011/12	Agency/ contract staff 2011/12	Interns, Secondees 2011/12	Total 2011/12	Total 2010/11
Programmes	28	1	1	30	25
NESTA Investments	5	-	-	5	7
Policy & Research	15	-	1	16	13
Publications, Events & Communications	12	-	-	12	16
Corporate Services/CEO & Trustees Office	18	-	-	18	20
	78	**1**	**2**	**81**	**81**

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's total contribution made in respect of the period, for all schemes, totalled £405k, including outstanding contributions of £nil (2010/11: £420k and £1k respectively).

NESTA was formerly 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. The scheme was closed to new participants in 2008 and in May 2009 the last member of staff who participated in PSATSA left NESTA's employment. In March 2011 the scheme's actuary, First Actuarial, calculated NESTA's actual liability share plus cessation expenses at £1,644k. This amount was paid in full in March 2011 to extinguish all NESTA's financial liability in relation to the scheme.

Exit Packages:

NESTA paid £74k (2010/11: £286k) for exit packages based on redundancy terms contained in NESTA's Job Security Policy. Redundancy payments were calculated on the basis of one month's pay for every year's service (rounded up to the nearest six months) with a minimum of three month's pay.

	2011/12			2010/11		
	Number of compulsory redundancies	Number of other departures agreed	Total number of packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number packages by cost band
Less than £10k	-	-	-	3	-	3
Between £10k and £25k	1	1	2	9	1	10
Between £25k and £50k	1	-	1	3	1	4
Total number of exit packages by type	**2**	**1**	**3**	15	2	17

6. Expenditure

6a. Expenditure by segment

Expenditure has been classified by segment: programmes, investment management, policy and research, publications, events and 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.

Programmes

NESTA's 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). Programmes include projects undertaken by the Public Services Lab and practical projects in the areas of Innovation and Growth and the Creative Economy.

Total expenditure for the year was £10,658k (2010/11: £14,057k).

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 which complements our research and policy thinking. See Note 9(b) for details of active investments held.

Group total expenditure for the year was £3,509k (2010/11: £5,477k) which includes subsidiary expenditure of £28k (2010/11: £29k) for the year. Group expenditure also includes a charge of £2,183k (2010/11: £3,612k) for impaired investments in early-stage companies at cost.

In addition, direct investments made in companies for the year totalled £3,712k (2010/11: £4,226k). These are treated as financial assets in the Statement of Financial Position. Refer to 9(b) for further details.

Policy and Research

NESTA's Policy and 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 was £2,308k (2010/11: £5,122k).

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 was £2,613k (2010/11: £3,097k).

Corporate Services

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

Total expenditure for the year was £1,940k (2010/11: £1,909k).

6b. Expenditure by type

	2011/12 £'000	2010/11 £'000
Grants and projects	9,026	15,444
Staff costs	5,978	6,687
Defined benefit pension scheme (release)/provision	-	(120)
Irrecoverable VAT	932	996
Other operating costs	1,446	1,455
Operating leases: land & buildings, photocopiers	884	841
Legal and audit fees	167	171
Non-cash items:		
Impairment of investments in early-stage companies	2,183	3,612
Depreciation & amortisation	409	456
Loss on disposal of plant & equipment	3	-
Total expenditure	**21,028**	**29,542**

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 £664k of research costs (2010/11: £1,406k).

Refer to Note 5 for details of staff costs and the defined benefit pension scheme (release)/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:		2011/12 £'000	2010/11 £'000
The following items are included within 'legal & audit fees' in Note 6b:			
Auditor's remuneration	– National Audit Office statutory audit services	43	43
Auditor's remuneration	– Buzzacott – audit of subsidiaries	8	8
	– Buzzacott – non-audit services	19	17
The following items are included within 'operating costs' in Note 6b:			
Staff travel, subsistence and hospitality		108	105
Trustee travel and subsistence		4	5

7. Property, Plant and Equipment

Group & Parent	Leasehold improvement £'000	Computer hardware £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation					
At 1 April 2011	2,415	918	102	378	3,813
Additions	-	30	-	88	118
Disposals	-	(474)	(87)	(40)	(601)
At 31 March 2012	**2,415**	**474**	**15**	**426**	**3,330**
Depreciation					
At 1 April 2011	1,092	814	97	311	2,314
Charge for the year	274	60	2	62	398
Disposals in year	-	(474)	(87)	(37)	(598)
At 31 March 2012	**1,366**	**400**	**12**	**336**	**2,114**
Net Book Value					
At 31 March 2012	**1,049**	**74**	**3**	**90**	**1,216**

Group & Parent	Leasehold improvement £'000	Computer hardware £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation					
At 1 April 2010	2,411	832	222	375	3,840
Additions	4	91	5	3	103
Disposals	-	(5)	(125)	-	(130)
At 31 March 2011	**2,415**	**918**	**102**	**378**	**3,813**
Depreciation					
At 1 April 2010	840	718	220	236	2,014
Charge for the year	252	101	2	75	430
Disposals in year	-	(5)	(125)	-	(130)
At 31 March 2011	**1,092**	**814**	**97**	**311**	**2,314**
Net Book Value					
At 31 March 2011	**1,323**	**104**	**5**	**67**	**1,499**

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 2011	1,253	1,253
Additions	-	-
Disposals	(1,237)	(1,237)
At 31 March 2012	**16**	**16**
Amortisation		
At 1 April 2011	1,233	1,233
Charge for the year	11	11
Disposals	(1,237)	(1,237)
At 31 March 2012	**7**	**7**
Net Book Value at 31 March 2012	**9**	**9**

Group and Parent	Computer software £'000	Total £'000
Cost or valuation		
At 1 April 2010	1,237	1,237
Additions	16	16
At 31 March 2011	**1,253**	**1,253**
Amortisation		
At 1 April 2010	1,207	1,207
Charge for the year	26	26
At 31 March 2011	**1,233**	**1,233**
Net Book Value at 31 March 2011	**20**	**20**

All intangible assets listed above are wholly owned by NESTA.

9a. Investments

NESTA invests in government gilts and deposits held with the Commissioners for the Reduction of The National Debt in the UK (carried out within the United Kingdom Debt Management Office). Other investments in equities, property funds, bonds and private equities are held separately with commercial investment managers. Other than short-term deposit investments, all investments are shown as non-current assets.

A parcel of gilts with a nominal value of £49.6 million and unamortised premium paid of £0.9 million was sold prior to 31 March 2012, realising £51.2 million in cash. This parcel of gilts was of the government's 'non-marketable' variety and was required to be sold prior to the transfer of NESTA's financial assets and liabilities to Nesta Trust on 1 April 2012.

NESTA entered into commitments to invest in private equity secondary funds during 2011/12. At balance date, outstanding commitments totalled £17.25 million. Our undrawn commitment to the private equity funds is shown as a deferred financial asset, as well as a commitment payable under other payables.

	Group and Parent			
	Cost 2012 £'000	**Market Value 2012 £'000**	Cost 2011 £'000	Market Value 2011 £'000
Cash and short-term deposits	72,606	72,606	22,151	22,163
Government Stocks – Up to one year	2,448	2,485	22,782	23,015
Government Stocks – Two to five years	-	-	54,777	58,089
Government Stocks – Over five years	103,828	122,337	104,161	104,774
Total gilt investments	**178,882**	**197,428**	**203,871**	**208,041**
Equities (pooled funds)	98,471	107,914	97,587	109,204
Property funds	4,650	4,254	4,650	4,226
Private equity secondaries	4,313	4,692	-	-
Total other investments	**107,434**	**116,860**	**102,237**	**113,430**
Deferred other investments	**17,253**	**17,253**	-	-
Total gilt and other investments	**303,569**	**331,541**	**306,108**	**321,471**

	Group & Parent Market Value	
	2012 £'000	2011 £'000
Represented in the Statement of Financial Position as:		
Non-current asset – financial asset, gilts	124,822	185,878
Non-current asset – financial asset, other investments	116,860	113,430
Non-current asset – financial asset, deferred other investments	17,253	-
Current Assets – financial asset, short term deposits	72,606	22,163
	331,541	**321,471**

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 investments were made into new and existing portfolio companies at a total cost of £3.7 million and drawdowns totalling £1.6 million were made on existing commitments on investment funds.

A summary of the portfolio of investments held at 31st March 2012 is set out below:

i. Investments in early-stage companies – cost

Company	Cash investment to 31 March 2012 £'000	Company	Cash investment to 31 March 2012 £'000	Company	Cash investment to 31 March 2012 £'000
Gnodal Ltd	1,721	Veryan Medical Ltd	581	Smart Surgical Appliances Ltd	190
Basekit Ltd	1,500	Probe Scientific Ltd	561	Plasma Clean Ltd	185
Cellnovo Ltd	1,492	AquaPharm Bio-Discovery Ltd	550	Orthogem Ltd	174
Light Blue Optics Ltd	1,452	Haemostatix Ltd	427	Cytox Ltd	150
Sirigen Ltd	1,292	Lein Applied Diagnostics Ltd	400	Dialog Devices Ltd	125
eoSemi Ltd	1,250	Ashe Morris Ltd	375	Six To Start Ltd	100
Plaxica Ltd	1,220	Playmob Ltd	300		
Cellcentric Ltd	854	EKF Diagnostics PLC (previously Quotient Diagnostics Ltd)*	296		
Osspray Ltd	822	ProKyma Technologies Ltd	260		
Symetrica Ltd	774	Surface Generation Ltd	250		
Skimbit Ltd	750	Advanced Transport Systems Ltd	250		
Featurespace Ltd	650				

Investments over £100k	18,951
Other investments of less than £100k	123
Total investment at cost	**19,074**
Number of companies invested in	**32**

* this reflects shares received in consideration for the sale of NESTA's holding in Quotient Diagnostics Ltd to EKF Diagnostics Holdings PLC

Using valuation guidelines produced by the British Venture Capital Association (BVCA) and in line with best practice, NESTA estimates the fair value of this portfolio to be £16,028k at 31 March 2012 (2011: £13,488k) comprising equity investments of £15,598k (2011: £12,876k) and loans at £430k (2011: £612k). 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 2010	10,949	869	11,818
Adjustments at cost 2010/11:			
Additions	3,955	271	4,226
Reclassification/conversion	250	(250)	-
Repayments	-	-	-
Sales	(170)	-	(170)
Impairment	(3,587)	(25)	(3,612)
Fair value movement – gain/(loss)	1,479	(253)	1,226
Total investment at fair value represented in the Statement of Financial Position at 31 March 2011	**12,876**	**612**	**13,488**
Adjustments at cost 2011/12:			
Additions	3,662	50	3,712
Adjustments	(72)	-	(72)
Reclassification/conversion	135	(135)	-
Sales	(516)	-	(516)
Impairment	(2,111)	(72)	(2,183)
Fair value movement – gain/(loss)	1,624	(25)	1,599
Total investment at fair value represented in the Statement of Financial Position at 31 March 2012	**15,598**	**430**	**16,028**

At 31 March NESTA had deferred investments in early-stage companies totalling £149k (2011: £1,968k) and deferred investments in loans totalling £nil (2011: £nil). These represent commitments made by NESTA that remain 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 at of fair value at 31 March.

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

ii. Investment in early–stage funds – cost

	Group and Parent			
	Cash investment to 31 March 2012 £'000	Deferred investment in funds 2012 £'000	Cash investment to 31 March 2011 £'000	Deferred investment in funds 2011 £'000
Pentech Fund II	1,817	1,183	941	2,059
IP Venture Fund	351	149	299	201
The UMIP Premier Fund	2,100	1,400	1,400	2,100
GP Bullhound Sidecar Ltd	464	95	464	95
Seedcamp	75	-	75	-
Total	**4,807**	**2,827**	3,179	4,455

Deferred investment in early-stage funds of £2,827k represents commitments made by NESTA to investment funds which are un-drawn at 31 March 2012 (2011: £4,455k).

Investment in early-stage funds – fair value	Group & Parent Fair Value	
	2012 £'000	2011 £'000
At 1 April 2011	2,392	1,809
Additions	1,629	942
Sales	-	(22)
Fair value movement – gain/(loss)	(173)	(337)
Total investment in funds at fair value 31 March 2012	**3,848**	2,392

Fair value of investment in early-stage 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, and a further £100k was contributed as an advance in 2011/12 and recorded by NESTA as a trade receivable.

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 Kings 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 2012 and have nil assets, liabilities and reserves. The trading results for NESTA Investment Management LLP are included in the Group results. Retained loss for 2011/12 totalled £28k (2010/11: £29k). Net Assets at 31 March 2012 totalled £108k (2011: £36k).

NESTA was abolished on 1 April 2012. These subsidiaries, along with all their undertakings, were transferred to Nesta Operating Company, a company limited by guarantee and a registered charity pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011, effective 1 April 2012.

11. Trade and other receivables

	Group 2012 £'000	Parent 2012 £'000	Group 2011 £'000	Parent 2011 £'000
Trade receivables	23	122	161	161
VAT	1	-	-	-
Prepayments	105	105	214	214
Accrued income	126	126	277	277
Other receivables	124	124	47	47
Total trade and other receivables	**379**	**477**	**699**	**699**

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:

Group	31 March 2012 £'000	31 March 2011 £'000
Balances with other central government bodies	1	266
Total intra-government balances	1	266
Balances with bodies external to government	378	433
Total Trade and other receivables falling due within one year	**379**	**699**

12. Other payables: grants & investments

Contracted commitments	Group & Parent at 1 April 2011 £'000	New commitments £'000	Commitments paid £'000	Grants given in-kind £'000	De-commitments £'000	Group and Parent at 31 March 2012 £'000
Programmes	7,384	5,752	(7,022)	(45)	(196)	5,873
NESTA Investments	6,443	1,906	(5,347)	-	(6)	2,996
Policy and Research	1,681	240	(922)	(6)	-	993
Private equity funds	-	21,566	(4,313)	-	-	17,253
Total	**15,508**	**29,464**	**(17,604)**	**(51)**	**(202)**	**27,115**

Payments under contracted commitments, and grants for services in-kind, as at 31 March 2012 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	Total £'000
Programmes	5,499	349	25	-	5,873
NESTA Investments	1,619	862	460	55	2,996
Policy & Research	859	134	-	-	993
Private equity funds	13,605	3,648	-	-	17,253
Total	**21,582**	**4,993**	**485**	**55**	**27,115**

Payments under contracted commitments are disclosed in the Statement of Financial Position as: due for payment within one year £21,582k; due for payment after one year £5,533k (2011: £10,734k and £4,774k respectively).

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

13. Trade and other payables

	Group 2012 £'000	Parent 2012 £'000	Re-stated Group 2011 £'000	Re-stated Parent 2011 £'000
Trade payables	24	23	999	999
Other taxation and social security	151	151	148	148
VAT	7	7	15	15
Other payables	8	8	20	21
Accruals and deferred income	1,748	1,734	1,133	1,120
Total trade and other payables	**1,938**	**1,923**	2,315	2,303

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:

Group	**Amounts falling due within one year**		**Amounts falling due after one year**	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Balances with other central government bodies	727	525	125	438
Balances with local authorities	370	249	-	-
Balances with public corporations and trading funds	-	11	-	-
Balances with NHS bodies	225	-	-	-
Total intra-government balances	1,322	785	125	438
Balances with bodies external to government	22,198	12,264	5,408	4,336
Total Other Payables: grants & commitments, and Trade and other payables	**23,520**	13,049	**5,533**	4,774

14. Provisions and contingent liabilities

Defined Benefit Pension Scheme

In 2009/10, NESTA was a member of the Pension Scheme for Administration and Technical Staff in the Arts (PSATSA). Section 75 of the Pensions Act 1995 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. In May 2009 the last member of staff who participated in PSATSA left NESTA's employment. The settlement of this debt was provided for in 2009/10 (£1,764k) based on an estimated shortfall of assets against liabilities as at 31 March 2009, and paid in full (£1,644k) in 2010/11. The overprovision of £120k was released in 2010/11.

The payment in 2010/11 extinguished all financial liability that NESTA had in the scheme.

Refer to Note 5 for further information.

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.

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 2011 £'000	Approvals £'000	Contracted £'000	Cancelled/ Withdrawn £'000	Group & Parent at 31 March 2012 £'000
Programmes	3,090	12,513	(5,752)	(351)	9,500
NESTA Investments	-	1,925	(1,906)	(19)	-
Policy & Research	44	257	(240)	-	61
Total	3,134	**14,695**	**(7,898)**	**(370)**	**9,561**

Cancelled/withdrawn soft commitments vary from year to year (2011: £660k; 2010: £590k). 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 not otherwise included in these financial statements	2012 £'000	2011 £'000
Telephone system	19	-
Network installation	38	-
	57	-

The amount payable within one year is £57k.

17. Operating lease commitments

At 31 March 2012, 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	3,013
Other leases:			
Photocopiers	12	-	-
Total	**721**	**2,836**	**3,013**

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

	2012 £'000	2011 £'000
Surplus/(deficit) for the year	(3,988)	(10,318)
Project funding	(5,581)	(4,002)
Depreciation and amortisation	409	456
Loss on disposal of assets	3	-
Impairment of investment portfolio	2,183	3,612
(Increase)/Decrease in purchase of financial assets	66,212	9,756
(Increase)/Decrease in trade and other receivables	320	(241)
(Increase)/Decrease in deferred financial assets	(13,806)	(240)
Increase/(Decrease) in other payables: grants and investments	11,607	3,563
Increase/(Decrease) in provisions	-	(1,764)
Increase/(Decrease) in trade and other payables	(377)	(275)
Net cash inflow from operating activities	**56,982**	**547**

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

	Group 2012 £'000	Group 2011 £'000	Movement £'000
Commercial bank and cash in hand	12,334	160	12,174
Held in escrow	-	-	-
Included in cash & cash equivalents	12,334	160	12,174
Included in current assets: financial assets, short-term deposits	72,606	22,163	50,443
Total	**84,940**	**22,323**	**62,617**

	Parent 2012 £'000	Parent 2011 £'000	Movement £'000
Commercial bank and cash in hand	12,213	112	12,101
Held in escrow	-	-	-
Included in cash & cash equivalents	12,213	112	12,101
Included in current assets: financial assets, short-term deposits	72,606	22,163	50,443
Total	**84,819**	**22,275**	**62,544**

The movement largely represents cash received from sale of a near-expiring parcel of gilts which were of the 'non-marketable' type, which were required to be sold prior to the transfer of NESTA's financial assets and liabilities to the Nesta Trust on 1 April 2012.

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

	Group 2012 £'000	Parent 2012 £'000	Group 2011 £'000	Parent 2011 £'000
Increase/(Decrease) in cash & cash equivalents	12,174	12,101	(1,053)	(1,024)
Cash inflow from increase in liquid resources	50,443	50,443	5,054	5,054
Movement in net funds	**62,617**	**62,544**	**4,001**	**4,030**
Net funds 1 April	22,323	22,275	18,322	18,245
Net funds 31 March	**84,940**	**84,819**	**22,323**	**22,275**

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 was 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 2012, £9,221k (58 per cent) of NESTA's income derived from the returns accruing on its financial assets investments. The remaining income was project funding and other income of £6,819k (42 per cent).

NESTA was satisfied that it had sufficient certainty over future income and liquid resources in the form of cash and short-term deposits of £84,940k and regular coupon returns from gilt investments and was 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 after, as gilt parcels matured and with low yield rates for five-year gilts, longer-term gilts were purchased to provide more sustainable levels of income. The purchasing of gilts inherently reduced NESTA's economic exposure to short-term interest rate risks, although reported results were often volatile due to the policy of revaluing such investments to prevailing market prices.

Cash on hand used to fund operating activity was predominantly held with the Commissioners for the Reduction of the National Debt and attracted 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 £90k per annum.

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 2012			
Fixed rate	124,822	5.31%	18 years, 3 months
Floating rate	72,606	0.50%	
Non-interest bearing assets	156,965		
	354,393		
Financial Assets at 31 March 2011			
Fixed rate	185,878	5.06%	11 years, 8 months
Floating rate	22,163	0.50%	
Non-interest bearing assets	135,733		
	343,774		

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:	**2012 £'000**	**2011 £'000**
Non-current assets, financial assets	281,787	321,611
Current assets, financial assets	72,606	22,163
Total	**354,393**	**343,774**

Inflation Rate Risks

NESTA is exposed to cost inflation, particularly in relation to staff costs. At the same time, the majority of its investments were 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 continued to work on increasing the effective purchasing power of its investments to be better protected for the future.

Market Risks

NESTA is exposed to equity price risk due to its investment of a portion of its endowment assets in publically listed equity investments. NESTA minimises this risk by investing for the medium to long term, diversifying its equity investments over a number of managers with complementary styles, and invests in investment funds with large institutional investors. The performance of these investment managers is monitored regularly.

Credit Risks

NESTA is not exposed to any significant credit risk. Sixty per cent of its financial assets are managed by the Commissioners for the Reduction of the National Debt and invested in government gilts or cash. A further 33 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 was an NDPB of the Department for Business, Innovation and Skills (BIS). NESTA had no material financial transactions with BIS during the 2011/12 year. NESTA had an outstanding balance payable of £375k with another member of the BIS family (The Economic and Social Research Council) for a prior year grant for economic research payable over a five-year period. NESTA also received £150k of project funding from the Arts and Humanities Research Council, towards a creative industries research project.

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 rents its office premises, and Arts Council England, from whom NESTA received project funding of £373k for a creative industries research project ; the Commissioners for the Reduction of the National Debt (fund manager for NESTA's gilt holdings), and the Cabinet Office, from whom NESTA received project funding of £4 million toward the Innovation in Giving programme.

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.

Trustees of NESTA	Organisation, Role	Transaction Description	Payment Transactions for the year ended 31 March 2012 £'000	Receipt Transactions for the year ended 31 March 2012 £'000	Outstanding payable balance or commitment as at 31 March 2012 £'000	Outstanding receivable balance or commitment as at 31 March 2012 £'000
Sir John Gieve	Clore Social Leadership Programme Chairman	Grant to develop social leadership	100	-	15	-
Committee Members of NESTA						
Adrian Beecroft	Gnodal Limited, Director and Investor	Investment in early-stage company	471	-	-	-
Rod Aldridge	The Aldridge Foundation, Chairman	Grant to project on community-led innovation	16	-	31	-
Ernie Richardson	MTI Partners, Former CEO, Managing Director of the fund manager of a NESTA investment in early-stage fund	Investment in early-stage fund	-	-	1,400	-
Paul Roberts	Innovation Unit, Director	Purchase of programme delivery partner services	201	-	12	-

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

22. Post balance sheet events

The financial statements were authorised for issue by the Accounting Officer, Geoff Mulgan, on the date the accounts were certified by the Comptroller and Auditor General.

A significant post balance sheet event between the balance date and 3 July 2012, the date the accounts were certified by the Comptroller and Auditor General, was the abolition of the National Endowment for Science, Technology and the Arts [NESTA] on 1 April 2012. All of NESTA's staff, activities, operating assets and liabilities were transferred to Nesta Operating Company [Nesta], a company limited by guarantee and a registered charity. All of NESTA's financial assets and payables relating to these financial assets were transferred to the Nesta Trust, a registered charitable trust. Both transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. The change of status of NESTA had no effect on the assets and liabilities as reported in the financial statements as at 31 March 2012. The financial accounts do not reflect events after this date.

NESTA Making Innovation Flourish

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ISBN 978-0-10-297960-2

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