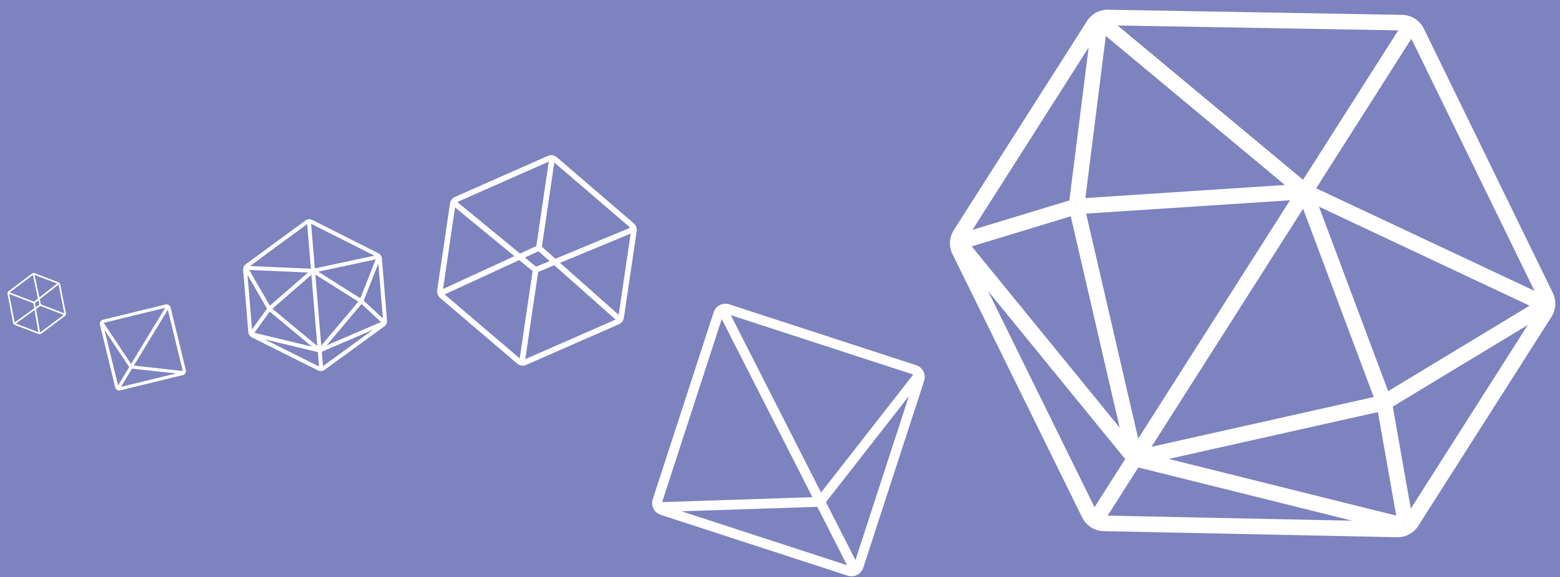
NESTA Making Innovation Flourish

National Endowment for Science, Technology and the Arts

Annual Report and Accounts

For the year ended 31 March 2011



National Endowment for Science Technology and the Arts (NESTA) Annual Report and Accounts 2010/11

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About NESTA

NESTA is the National Endowment for Science, Technology and the Arts – the UK's foremost independent expert on how innovation can solve some of the country's major social and economic challenges. We are a world leader in our field and 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, and we operate at no cost to government or the UK taxpayer. 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.

In October 2010, the Government announced that NESTA would be moving from the public to the voluntary sector to become a charitable company, subject to legislation and approval by the Charity Commission.

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 the best ideas, new flows of capital and talented people together, and encourage others to develop them further.

The year in review: 2010/2011

This report is divided into two parts. The first is a review of our main activities, research and programmes from 1 April 2010 to 31 March 2011 (pages 6 to 9). The second part (pages 10 to 62) contains the Financial Statements for the year ended 31 March 2011, including the Directors' Report and Management Commentary.

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

Overview of developments

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

Innovation for Economic Growth

In 2010/11 we developed a major strand of work on how innovation can help rebalance the economy, looking in particular at the importance of high-growth, cutting-edge companies in a wide range of sectors.

High-growth companies

Our influential research summary, **'The Vital 6 Per Cent'** (2009), had highlighted the importance of the small number of fast-growing businesses that generated the lion's share of employment growth between 2002 and 2008. In March 2011 we published our follow-up report, **'Vital Growth'**, which re-examined the data up to 2010 and confirmed that high-growth businesses remain vital to the economy, despite the impact of the recession. Our research also showed that a firm's capability for high growth might also give it resilience when times are tough.

Venture capital and growth

In July 2010 we published **'Venture Capital: now and after the dotcom crash'**, which examined the impact of the financial crisis on venture capital in the UK. Our research showed a 40 per cent decline in overall venture capital activity since 2008, and other worrying trends. But it also showed that market fundamentals appear sound, and that venture capital remains an important source of finance for high-growth companies.

In November we published **'Growth Dynamics'**, a joint project with FORA, which examines Europe's lower productivity performance compared to countries such as the US. It argues that deeper structural reforms to stimulate business dynamism – such as improving product and labour market regulation – are as important as access to venture capital for high-growth companies.

Silicon Valley comes to the UK

In November we co-hosted (with Cambridge University) entrepreneurs from Silicon Valley to collaborate and exchange ideas with their UK counterparts. NESTA-based events included a debate on the 'power and possibilities of big data' and workshops bringing together the Silicon Valley visitors and 80 leaders of European start-ups.

Innovation Index

During 2010/11 we continued to develop the Innovation Index, a major project to contribute new insights to improve the way the UK measures investment in innovation and its contribution to economic productivity and growth. In the summer the new Government asked us to help produce a new and more technically advanced version of the 'Annual Innovation Report' ('AIR') for 2010 based in part on the Index's rigorous research and data as well as a number of other sources. This has established the Index as one of the Government's means of measuring the level and nature of innovation in the UK.

Regional and Local Growth

An important part of our work during 2010/11 examined how future economic growth and prosperity could be more evenly shared across the UK. Cities in particular face unprecedented challenges, with public spending reducing sharply and less money available for traditional regeneration and economic development projects. In July, we published **'Driving Innovation in Cities'**, a discussion paper that examines how Manchester is responding to these challenges and strengthening its innovation ecosystem.

In July we published **'Amplified Leicester'**, which presents the findings of the experimental programme to grow the innovation capacity of Leicester across the city's disparate and diverse communities.

In March, our report **'Local Knowledge'** presented four case studies that show how innovative economic activity can radically transform an area. It argues that local areas must utilise and make the most of local strengths, and plug any gaps by bringing in resources and ideas from outside. This requires strong, committed regional leadership and decisive, imaginative policy.

We also explored in detail the dynamics of regional clusters – how they form and flourish, and what government can do, with very limited resources, to support them. In November we published **'Chips with everything'**, which addressed these questions in relation to the semiconductor cluster in the South West of England, one of the largest and most successful silicon design clusters in the world.

Our report **'All together now'** examined another UK high-tech success story – the rapidly expanding biomedical science sector, which employs 143,000 people in the UK and generates more than £30 billion in turnover.

New technologies

The UK is leading the way in the development of many new technologies. In 2010/11 we launched a new series of events called **Hot Topics**, which showcase the new technological tools that promise to transform society and industry in future years. Topics covered during the year included the way that games and gameplay can help tackle serious social issues, the opportunities and challenges of 'Big Data', the potential of 'personal manufacturing' and innovation for sustainability.

Practical economic programmes

In addition to our research work in this area, 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 (Design London).

NESTA has maintained its involvement in early-stage venture capital and in 2010/11 we made 14 direct investments totalling £4.23 million to support the growth and development of existing and new assets in the portfolio.

We made three new investments focusing on areas of innovation in the UK where venture capital is harder to obtain:

- Semiconductors – a £1.25 million commitment to eoSemi Ltd, where we led a £3 million syndicated investment into this Yorkshire-based early-stage semiconductor business (**www.eosemi.com**)

- Medical Diagnostics – a £1 million commitment as part of a £3 million raise for Sirigen, a developer of speciality light emitting polymers used in diagnostic tests (**www.sirigen.com**)

- Enterprise software – NESTA invested £650k alongside a high quality business angel syndicate to support the growth of this Cambridge-based analytics software business (**www.featurespace.co.uk**)

Despite the fund raising climate remaining difficult, a number of our investments have successfully closed major funding rounds in the last 12 months. Cellnovo, the developer of a mobile diabetes management system, raised one of Europe's largest Medtech funding rounds in the last 12 months when raising its £30 million series B round. Basekit, the in-browser website building tool closed £4 million of new funding with an international syndicate of investors. Further growth capital was also raised by Light Blue Optics, Plaxica, Cellcentric, Skimlinks, Haemostatix and Aquapharm.

Despite these positive moves forwards, the majority of our investment portfolio are still early-stage businesses and face a variety of challenges in product development, gaining market momentum and financing. As is normal in early-stage ventures we have seen and will continue to see attrition in the value of some businesses.

Innovation and the Creative Industries

Video games and special effects

With more than £2 billion in global sales, the UK's video games sector is bigger than either the UK film or music industries. As recently as 2008, the UK was the third largest video games developer in the world by revenue, after the USA and Japan, employing around 10,000 people. But research shows that this competitive strength is under threat. Since 2008 it appears our video games industry has slipped from third place to sixth in the global development rankings.

In July 2010, Ed Vaizey (Minister for Culture, Communications and the Creative Industries) asked industry leaders Ian Livingstone and Alex Hope to conduct (with NESTA's help) the **Video Games and Visual Effects Skills Review**. Six months later, after close consultation with businesses, schools, universities and colleges, and intensive data gathering and original research, we published the findings in **'Next Gen: Transforming the UK into the world's leading talent hub for the video games and visual effects industries'**.

In October we published **'The Innovation Game'**, which called for modifications to the R&D Tax Credit to remove unintended obstacles that make it harder for UK video games developers to benefit from the scheme. It built on our earlier policy briefing examining what policymakers can do to help reverse the UK's declining competitiveness in video games development. **'The Money Game'** (February 2010) had highlighted weaknesses in the current funding landscape for independent games developers, and argued for changes to financing schemes such as the Enterprise Investment Scheme and Venture Capital Trusts to encourage greater use of project finance.

NESTA is also piloting a novel idea to help smaller independent games developers get their products to market more easily. **The Games Consortium** is bringing together up to eight UK independent developers working in social, mobile and traditional gaming to create a new digital distribution publisher. With seed funding from NESTA, and support from trade associations UKIE and TIGA, the consortium will launch in April 2011 and is expected to be self-funding after 18 months.

Creative Credits

During 2010/11 our Manchester-based programme **Creative Credits** has been proving that businesses can boost their own creativity and innovativeness by working more closely with creative firms. The scheme supported 148 small companies with vouchers redeemable with creative businesses and stimulated business engagement between firms in the Manchester region. The scheme had a very high degree of additional impact: for every ten creative credits awarded, eight were used to create B2B relationships involving creative businesses that would not otherwise have formed. Over 80 per cent of businesses who received credits claimed that they had increased their innovative strengths as a result of their creative project; 78 per cent said that the experience had stimulated other ideas for new innovation projects.

Creative Clusters

In November 2010 we published **'Creative Clusters and Innovation'**, the outcome of a two-year collaboration with Birmingham and Cardiff Universities to map and understand the dynamics of the UK's 'creative clusters': regional hotspots of creative excellence and activity.

Beyond Live

In early 2010 we published **'Beyond Live'**, the findings of the NT Live project, a ground-breaking research partnership with the National Theatre to test the potential of digital technology to help live performance organisations reach new audiences. NT Live was part of a wider research-led collaboration between NESTA, the National Theatre and the Tate, to explore how arts and cultural organisations can use innovative ideas and technology to extend their audience reach, push out artistic frontiers and create new business models. We published the findings of the research in June 2010 in our report **'Culture of Innovation'**.

Creative Business Mentor Network

In 2010/11 we ran the second year of the **Creative Business Mentor Network**, which is finding out how mentoring by successful business people in the sector can help young creative businesses maximise their potential for growth.

Public and Social Innovation

The Lab

NESTA's Public Services Lab works across two broad themes. The first is about improving the wider conditions that support or inhibit innovation, i.e. the public and social innovation system. For example, the way that resources are allocated, and how good ideas are generated, developed, put into practice and, most importantly, taken to scale. The second theme focuses on developing models for 'people-powered public services' – creating, running, evaluating and sharing the lessons of practical experimental programmes that rigorously test our ideas.

Big Society Finance Fund

In 2010/11 we set up the **Big Society Finance Fund** to test ideas around social investment. Working with Panahpur and UnLtd, two of the UK's leading social investment charities, we have built a portfolio of pilot investments to demonstrate the kind of products and services that a thriving social finance sector could enable. The fund is a practical contribution to the Government's Big Society Bank.

Mass Localism
Based on our experiences with the **Big Green Challenge**, during 2010/11 we further developed our key concept of 'mass localism', our response to the question of how you take successful local ideas to scale.

We shared our lessons from the flagship programme in a series of workshops in late 2010, and in December we published a practical guide called **'Using social challenges to support people-powered innovation'**. We are currently working with eight projects across the country in the Big Green Diffusion, a programme to test how to spread the learning of the **Big Green Challenge** to other communities, and to discover what forms of support are needed to accelerate the process.

Neighbourhood Challenge
With support from the Big Lottery Fund, in February we launched **The Neighbourhood Challenge**, a major programme to find out how community organisations – when equipped with the right skills, practical tools and small, catalytic amounts of money – can galvanise local people to work together to solve local problems, particularly in neighbourhoods with low levels of social capital. Around 600 community organisations from across England applied, and in February 2011 we selected 16 groups to receive funding and support to trial their projects over a 12-month period.

Your Local Budget
In partnership with Big Society Network and the Participatory Budgeting Unit, in November we launched **'Your Local Budget'**, a programme working with nine leading local authorities across England to test the concept of 'participatory budgeting': allowing local people to get involved directly in the decision-making around how local authority budgets should be allocated and spent.

Collaborative technologies
During 2010/11 NESTA ran two programmes examining how collaborative and digital technologies can be used to transform the delivery of public services. **'Make it Local'** brings together a number of councils with digital media businesses to develop innovative web-based services using the councils' publicly owned data. **'Reboot Britain'** is now in its final year of testing the potential of Web 2.0 and digital technologies to transform essential, but often challenging, public services. Ten projects are taking part, covering high priority areas such as families in crisis, youth offending and safeguarding children. We will be sharing our findings later in 2011.

Radical Efficiency
In 2010/11 we published two reports challenging the assumption that spending cuts will inevitably lead to lower quality public services. **'Schumpeter comes to the UK'** (July 2010) outlines examples of radical innovation in public services that are delivering better results for less money. It draws on NESTA's own experience – and on the economist Joseph Schumpeter's analysis of innovation – to consider how the Government should approach the cuts in ways that prompt innovation.

In June 2010 we published (with the Innovation Unit) a major report called **'Radical Efficiency'**, which showcases examples from around the world of how innovative ideas are delivering public services that are both cheaper and better.

To test the principles of 'radical efficiency' in a UK context, the Innovation Unit and NESTA launched a 12-month programme called **Transforming Early Years**, which is working with six local providers of early years children's services, front-line staff and communities.

Co-production
In 2010/11 we worked closely with **nef** (the new economics foundation) to increase understanding of 'co-production', the idea that public services are far more likely to be effective when end users are involved as active participants in their design, rather than passive recipients.

We published two reports with nef to build on **'The Challenge of Co-production'** from late 2009. **'Public Services Inside Out'** (April 2010) presented practical examples from across the UK of radical reform based on the principles of co-production. Then in July we published **'Right Here, Right Now'**, our third and final report with **nef**, which sets out recommendations for expanding the reach of co-production to other services such as healthcare, criminal justice, education and welfare to work.

idiscover
In late 2009 we launched **idiscover**, a programme that puts power into the hands of young people to choose learning experiences that will give them the skills they need for the future. Participants each receive credits of up to £200 per term to book places on a range of education experiences covering science, technology, engineering, maths, enterprise and the creative sector. We are piloting idiscover until July 2011 in selected schools in London, Manchester and the Scottish Highlands.

Collaborative Consumption
In 2010/11 we held two events on the phenomenon of 'collaborative consumption' – the way modern technologies are reviving traditions such as bartering, sharing, lending and trading on a large and very efficient scale, and undermining the 20th century mindset of 'hyper consumption' and personal ownership.

Geoff Mulgan
Chief Executive and
Accounting Officer

14 July 2011

Sir John Chisholm
Chairman

14 July 2011

Directors' Report and Management Commentary

Constitution

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

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

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

In October 2010, the Government announced that NESTA would be moving from the public to the voluntary sector to become a charitable company, subject to legislation and approval by the Charity Commission.

Statutory objects

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

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

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

Overview of developments

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

In 2010/11 we developed a major strand of work on how innovation can help rebalance the economy, by stimulating high-growth companies and ensuring that future economic growth is more evenly spread across the country. Our influential research summary, **'The Vital 6 Per Cent'** (2009), had highlighted the importance of the small number of fast-growing businesses that generated the lion's share of employment growth between 2002 and 2008.

We also continued to develop the Innovation Index, a major project to contribute new insights to improve the way the UK measures investment in innovation and its contribution to economic productivity and growth. In the summer the new Government asked us to help produce a new and more technically advanced version of the '**Annual Innovation Report' ('AIR')**, for 2010 based in part on the Index's rigorous research and data as well as a number of other sources. This has established the Index as one of the Government's means of measuring the level and nature of innovation in the UK.

An important part of our work during the year examined how future economic growth and prosperity could be more evenly shared across the UK. We also explored in detail the dynamics of regional clusters – how they form and flourish, and what government can do, with very limited resources, to support them.

In July 2010, Ed Vaizey (Minister for Culture, Communications and the Creative Industries) asked industry leaders Ian Livingstone and Alex Hope to conduct (with NESTA's help) the Video Games and Visual Effects Skills Review. We published the findings in **'Next Gen: Transforming the UK into the world's leading talent hub for the video games and visual effects industries'**. Our Manchester-based programme **'Creative Credits'** continued to test the theory that businesses can boost their own creativity and innovativeness by working more closely with creative firms. The scheme supports small companies with vouchers redeemable with creative businesses in the Manchester region.

In November 2010 we published **'Creative Clusters and Innovation'**, the outcome of a two-year collaboration with Birmingham and Cardiff Universities to map and understand the dynamics of the UK's 'creative clusters': regional hotspots of creative excellence and activity. In 2010 our report **'Culture of Innovation'** explored how arts and cultural organisations can use innovative ideas and technology to extend their audience reach, push out artistic frontiers and create new business models.

NESTA Public Services Lab works across two broad themes. The first is about improving the wider conditions that support or inhibit innovation, i.e. the public and social innovation system. The second theme focuses on developing models for 'people-powered public services' – creating, running, evaluating and sharing the lessons of practical experimental programmes that rigorously test our ideas.

In 2010/11 we set up the Big Society Finance Fund to test ideas around social investment. Working with Panahpur and UnLtd, two of the UK's leading social investment charities, we have built a portfolio of pilot investments to demonstrate the kind of products and services that a thriving social finance sector could enable. The fund is a practical contribution to the Government's Big Society Bank.

Based on our experiences with the Big Green Challenge, we further developed our key concept of 'mass localism', our response to the question of how successful local ideas can be taken to scale. We shared our lessons from the flagship programme in a series of workshops in late 2010, and in December we published a practical guide called **'Using social challenges to support people-powered innovation'**. With support from the Big Lottery Fund, in February 2011 we launched **'The Neighbourhood Challenge'**, a major programme to find out how community organisations – when equipped with the right skills, practical tools and small, catalytic amounts of money – can galvanise local people to work together to solve local problems, particularly in neighbourhoods with low levels of social capital.

In partnership with Big Society Network and the Participatory Budgeting Unit, in November we launched **'Your Local Budget'**, a programme working with nine leading local authorities across England to test the concept of 'participatory budgeting': allowing local people to get involved directly in the decision making around how local authority budgets should be allocated and spent.

NESTA ran two programmes examining how collaborative and digital technologies can be used to transform the delivery of public services: **'Make it Local'** and **'Reboot Britain'**.

We published two reports challenging the assumption that spending cuts will inevitably lead to lower quality public services. **'Schumpeter comes to the UK'** and **'Radical Efficiency'**, which showcases examples from around the world of how innovative ideas are delivering public services that are both cheaper and better. To test the principles of 'radical efficiency' in a UK context, the Innovation Unit and NESTA launched a 12-month programme called Transforming Early Years, which is working with six local providers of early years children's services, front-line staff and communities.

We worked closely with nef (the new economics foundation) to increase understanding of 'co-production', the idea that public services are far more likely to be effective when end users are involved as active participants in their design, rather than passive recipients.

Financial overview

The financial statements on pages 25-62 show the income and expenditure for the year. They also consolidate NESTA's three subsidiary undertakings which were incorporated in June 2008 as a means of managing some of our investments in early-stage companies.

NESTA's endowment provides its main source of income. In the year to 31 March 2011 income amounted to £15.2 million (2010: £15.2 million). This income comprised interest and dividends received and gains arising on sale of certain endowment investments. In addition the fund made an unrealised gain on its endowment investments of £4.4 million (2010: loss of £0.1 million) to give a total return for the year of £19.6 million.

Other income rose by £1.1 million to £3.6 million. This was due to two factors. One was continuing significant funding from the Department of Health for work on the Regional Innovation Fund Advisory Service, but as in 2009/10 the great majority of this funding was passed on to the Young Foundation, the partner organisation delivering the project for the Department of Health. The other was external funding for the Neighbourhood Challenge project from the Big Lottery Fund. At the same time, the final scheduled payment in a series of five £15 million annual grants from the National Lottery to NESTA was made on 31 March 2010 and was therefore accounted for in 2009/10. The accounts therefore show overall income at £18.8m compared to £32.6 million for the previous year.

The change in government created 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 two major new programmes in the shape of the Neighbourhood Challenge (£3 million total expenditure net of external funding) and the Big Society Finance Fund (£1.4 million expenditure).

The difficult economic climate and the maturing of parts of NESTA's early-stage portfolio meant that that there was a charge to expenditure of £3.6 million for impairment in value to NESTA's early-stage investments portfolio. In accordance with international accounting standards, NESTA's investments are classified as 'available for sale' and represented in the Statement of Financial Position at fair value. Movements in fair value are recognised in the Statement of Changes in Equity and disclosed in the Other Comprehensive Income/(Expenditure) section of the Statement of Comprehensive Net Expenditure.

In the previous financial year (2009/10) we provided £1.76 million for our liability under section 75 of the Pensions Act 1995 relating to NESTA's historic participation in the Pension Scheme for Technical Staff in the Arts (PSATSA). In the year ended 31 March 2011 NESTA extinguished this debt at a cost £1.64 million, with the difference released back to the Statement of Comprehensive Net Expenditure, as shown.

Expenditure in other areas was generally flat or reducing, so that overall expenditure was broadly similar to 2009/10.

The gap between expenditure and income has been met using funds from the endowment, and there is no cash-flow risk as the gilts portfolio can be managed as appropriate to generate cash. Over the next one to two years NESTA's finances are planned to move back into surplus (as they have been for some years prior to 2010/11) or toward a breakeven position through a combination of increased external income and reduced expenditure. Any deficit remaining in 2011/12 can readily be funded using funds from the endowment as in this year. The accounts have therefore been prepared on a going concern basis.

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

Investments in early-stage companies are financial assets within the Statement of Financial Position. Income and expenditure is shown in the 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 role at NESTA on 1 June 2011. He replaced Jonathan Kestenbaum, who left in December 2010, after serving as NESTA's Chief Executive for five years. Daniel Oppenheimer, NESTA's Chief Operating Officer, was interim Chief Executive from 9 December 2010 to 31 May 2011.

In addition to the Chief Executive, NESTA has five Executive Directors responsible for, respectively, NESTA Investments, Policy & Research, Public Services Lab, Communications and Corporate Services. NESTA is governed by an independent Board of Trustees, who meet quarterly. Trustees are appointed by the Secretary of State for Business, Innovation and Skills. The Board is responsible for strategic direction, policies and procedures and is chaired by Sir John Chisholm. The Board's decision-making is assisted by six Committees of the Board who meet regularly throughout the year and have delegated authority: Investment; Finance, Audit & Remuneration; Endowment; and three new committees: Public Services Lab; Creative Economy; and Innovation & Economic Growth. The Public Services Lab Committee was established in September 2010 and both the Creative Economy and the Innovation & Economic Growth Committees were established in December 2010. These new committees were set up to reflect the three strands of work undertaken by NESTA. As part of the creation of these three new Committees the Innovation Programmes Committee was disbanded in July 2010.

NESTA also has advisory groups to provide specialist expertise and guidance on specific pieces of work: the Innovation Index Advisory Group for NESTA's Innovation Index; and the Ageing Advisory Board for NESTA's Ageing Programme. The Lab Advisory Board was established in January 2009 but was disbanded in July 2010 and an official Public Services Lab Committee was set up. Some of the Lab Advisory Board members were retained as members of the new Public Services Lab Committee.

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

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 of this report:

Name	Date Appointed	Date Retired	Committee & Advisory Board Membership
Sir John Chisholm (Chairman)	November 2009		Innovation & Economic Growth (Acting Chair), Investment Committee (temporary)
Liam Black	December 2008		Public Services Lab Committee
Professor Marc Clement	July 2006	July 2010	Investment Committee
Sherry Coutu	May 2006	December 2010	Investment Committee, Endowment Committee (ended December 2010)
Professor Stephen Emmott	June 2008		Creative Economy Committee
Jitesh Gadhia	July 2007	July 2011	Endowment Committee (Chair), Finance, Audit & Remuneration Committee
Sir David Henshaw	June 2010		Public Services Lab Committee (Chair)
Dr Mike Lynch	November 2009		Investment Committee (Chair)
Patrick McKenna	December 2006	February 2011	Endowment, Creative Economy Committee (Chair)
John Sheldrick	June 2010		Finance, Audit & Remuneration Committee, Innovation & Economic Growth Committee
Nick Starr	December 2007		Creative Economy Committee
Professor Kathy Sykes	January 2007	January 2011	Innovation Programmes Committee
Coram Williams	June 2009		Finance, Audit & Remuneration Committee (Chair)
Rob Woodward	November 2009		Investment Committee (from March 2010), Endowment Committee (from January 2011)

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

Name	Date Appointed	Date Retired	Committees & Advisory Board Membership
Patrick McKenna	November 2010		Creative Economy Committee (Chair)
Lord David Currie	November 2010		Innovation & Economic Growth Committee
Sir John Gieve	June 2011		Innovation & Economic Growth Committee (Chair)
Vicky Pryce	June 2011		Innovation & Economic Growth Committee
Paul Roberts	July 2010		Public Services Lab Committee
Paul Roberts	July 2006	August 2010	Innovation Programmes Committee
David Halpern	July 2010		Public Services Lab Committee
Rob Whiteman	July 2010		Public Services Lab Committee

Name	Date Appointed	Date Retired	Committees & Advisory Board Membership
Rod Aldridge OBE	July 2010		Public Services Lab Committee
Dame Julie Mellor	April 2011		Public Services Lab Committee
Madeleine Atkins	April 2011		Public Services Lab Committee
Madeleine Atkins	May 2007	July 2010	Innovation Programmes Committee
David Auckland	August 2006	July 2010	Innovation Programmes Committee
Tom Hadfield	August 2006	July 2010	Innovation Programmes Committee
Bettany Hughes	May 2008	July 2010	Innovation Programmes Committee
William Roe	August 2006	July 2010	Innovation Programmes Committee
Adrian Beecroft	December 2006		Investment Committee
Ernie Richardson	November 2006		Investment Committee
Sherry Coutu	May 2006		Investment Committee
Anthony Thomas	January 2008		Finance & Audit Committee
Mikael Breuer-Weil	May 2008	October 2010	Endowment Committee
Nick Cavalla	August 2008		Endowment Committee

Creditors

It is NESTA's policy to aim to abide by the 'Better Payment Practice Code' and in particular to pay bills in accordance with contract terms. For the year ended 31 March 2011, 92 per cent of undisputed invoices were paid within 30-days or the contractual term (2010: 94 per cent).

Equal opportunities

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

Employee consultation

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

Sickness absence

The average number of days lost per employee to sickness absence, for the financial year ending 31 March 2011 was 4 days (2010: 2 days). This is significantly lower than the average for the public sector of 9.6 days per employee per annum.

Post balance sheet events

The Financial Statements were authorised for issue by the Board on the date the accounts were certified by the Comptroller and Auditor General.

There were no reportable post balance sheet events between the balance sheet date and 15 July 2011, the date the accounts were certified by the Comptroller & Auditor General. The financial accounts do not reflect events after this date.

Personal data loss

NESTA has suffered no protected personal data incidents during 2010/11 or prior years, and has made no reports to the Information Commissioner's office.

Other matters

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

NESTA's staff received gifts and hospitality totalling £371 (2010: £303) during the financial year.

NESTA's staff gave gifts totalling £186 (2010: £320) during the financial year.

Audit information

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

Remuneration Report

Remuneration Committee

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

The Remuneration Committee is chaired by Coram Williams. Other members of the Remuneration Committee are Jitesh Gadhia and John Sheldrick. A secretariat function is provided by the Chief Operating Officer and the Chief Executive and the Head of Human Resources normally attend. The Remuneration Committee met twice during the year.

The Remuneration Committee's role is to:

- agree a pro-forma employment contract and subsequent changes;
- agree a remuneration and benefit policy including pension provision which will attract, retain and motivate staff;
- agree the terms, conditions and salary levels for all Executive posts and any annual award to staff;
- review any related party transactions of Trustees and staff;
- hear Executive level disciplinary appeals; and

Audited information:

Chairman and Trustees' Remuneration	**Total 2010/11 £'000**	**Total 2009/10 £'000**
Sir John Chisholm (Chairman)	26	11
Sir Chris Powell (Chairman)	-	15
Sir Michael Barber	-	8
Liam Black	6	7
Professor Marc Clement	2	9
Sherry Coutu	9	11
Professor Stephen Emmott	6	5
Jitesh Gadhia	11	11
Sir David Henshaw	8	-
Dr Tracey Long	-	5
Dr Mike Lynch	11	5
Patrick McKenna	8	7
Nick Starr	7	7
John Sheldrick	-[1]	-
Professor Kathy Sykes	5	7
Coram Williams	9	8
Rob Woodward	9	2

1. Opted to not be remunerated.

Refer to page 14 for Chairman and Trustee appointment and/or retirement dates.

- agree the annual allocation of carry points for eligible members of NESTA's Investment team as part of NESTA's Carried Interest Plan, and approve a schedule that determines the closing value of the portfolio after the end of each financial year.

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

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

- The Chairman is remunerated at a rate of £26,245 per annum (2010: £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) and 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.
- Other Advisory Board/Group members are unpaid.
- Out-of-pocket expenses are reimbursed.

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

Executive Team Remuneration

NESTA's Executive Directors of Policy & Research, Public Services Lab, Corporate Communication and Corporate Services are entitled to a discretionary, non-consolidated bonus of up to 10 per cent of gross salary. These executives elected to forfeit their bonuses for the year ended 31 March 2011. The Managing Director of NESTA Investments is entitled to a discretionary, non-consolidated bonus of up to 20 per cent of gross salary. He elected to forfeit half of his bonus for the year ended 31 March 2011.

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

	Salary & Benefits (excluding Benefits in Kind) 2010/11	Bonus payments 2010/11	Pension Contributions 2010/11	Benefits in kind to nearest £100 2010/11	Salary & Benefits (excluding Benefits in Kind) 2009/10	Bonus payments 2009/10	Pension Contributions 2009/10	Benefits in kind to nearest £100 22009/10	Employment Start Date	Employment End Date	Notice Period
	£000	£000	£000	£	£000	£000	£000	£			
Jonathan Kestenbaum	119	-	14	1,300	171	25	20	1,700	01/11/2005	8/12/2010	3 months
Philip Colligan	107	-	13	600	-	-	-	-	04/05/2010	-	6 months
Rachel Grant	101	-	12	700	99	3	12	500	09/02/2009	-	6 months
Matthew Mead	151	15	18	1,400	34	-	4	100	11/01/2010	-	3 months
Daniel Oppenheimer	93	-	11	700	95	5	10	200	03/09/2007	-	6 months
Stian Westlake	92	-	11	1,700	81	6	10	900	05/01/2009	-	6 months

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

- Benefits in kind are paid as part of NESTA's flexible benefits scheme. In the year ended 31 March 2011, 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 are on a permanent basis.

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

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

- The Managing Director of NESTA Investments is also eligible for payments as part of NESTA's Carried Interest Plan. This plan was introduced in 2008 and provides participants with a share of any cash realisations made by NESTA from its portfolio of investments. No payments were made for 2010/11 (2009/10: £nil).

Geoff Mulgan
Accounting Officer

14 July 2011

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 directed NESTA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Directions. In June 2007 sponsorship responsibility for NESTA passed to the Department for Innovation, Universities and Skills. In June 2009, sponsorship responsibility for NESTA passed to the Department for Business, Innovation and Skills, a merger of the Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of NESTA and of its income and expenditure, 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.

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

Geoff Mulgan
Accounting Officer

14 July 2011

Statement on Internal Control

Scope of responsibility

As Accounting Officer, my predecessors 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 they were personally responsible, in accordance with the responsibilities assigned to them in Managing Public Money. Although I was not in post during the accounting period for the 2010/11 Statement on Internal Control, my predecessors and the Chairman of the Finance, Audit & Remuneration Committee advised me about the control environment that operated at NESTA up to the approval of the Annual Report and Accounts.

My predecessors were accountable to the Secretary of State for Business, Innovation and Skills and to Parliament for ensuring that NESTA distribute their funds with due regularity and propriety and to the Board of Trustees for the economic, efficient and effective use and control of their funds.

My predecessors were supported by the Board of Trustees, who are responsible for ensuring that through appropriate procedures, systems and personnel, proper financial management and control is achieved.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to NESTA's goals. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NESTA's goals, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place at NESTA for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. I was appointed Accounting Officer on 1 June 2011 and was advised about the system of internal control in operation prior to my appointment by my predecessors and Chairman of the Finance, Audit & Remuneration Committee.

Capacity to handle risk

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

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

The risk and control framework

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

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

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

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

Reputational risks together with other broader strategic issues are the responsibility of the Chief Executive, but are considered by the Executive team collectively, when it meets quarterly to review the top-level risk register for the organisation as a whole. The main challenge in this area is ensuring that NESTA's portfolio is relevant and resonant with the major economic and societal issues of the day.

These discussions range widely across NESTA's strategy and operations, and frequently have impact on the way in which the organisation plans and works. The top-level risk register and each executive team register are presented to the Finance, Audit & Remuneration Committee at each meeting and are reviewed by the Board annually.

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

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

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

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

NESTA also considers its responsibilities on Information Security and Personal Data to be a high priority. We have procedures and data loss prevention technologies in place that minimise the risk of information loss and security breaches. All new staff receive a security and data handling induction. A re-induction programme for existing staff is planned for 2011. We have not had any personal data-related incidents from 2004/2005 through to 2010/2011.

Review of effectiveness

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

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

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

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

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

Geoff Mulgan
Accounting Officer

14 July 2011

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 for the year ended 31 March 2011 under the National Lottery Act 1998. These 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. 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 Chief Executive as 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 National Endowment for Science, Technology and the Arts' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Endowment for Science, Technology and the Arts; 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.

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Endowment for Science, Technology and the Arts' and the Group's affairs as at 31 March 2011 and of the group 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 the disclosures made in note 1 to the financial statements concerning the application of the going concern principle in light of the announcement in October 2010 that the National Endowment for Science, Technology and the Arts would move from the public to the voluntary sector to become a charitable company. This is subject to legislation and approval by the Charities Commission and there is therefore uncertainty over the ability of the National Endowment for Science, Technology and the Arts to continue to operate in its current form.

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 issued under the National Lottery Act 1998; and

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

Matters on which I report by exception

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

- adequate accounting records have not been kept; or

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

15 July 2011

Group Statement of Comprehensive Net Expenditure

For the year ended 31 March 2011

	Notes	Total 2010/11 £'000	Total 2009/10 £'000
Income			
Investment income: Gilts	2	9,145	11,644
Investment income: Other	2	6,077	3,532
Lottery funding		-	15,000
Other income	3	3,575	2,457
Total income		**18,797**	**32,633**
less Expenditure			
Programmes	5	14,057	14,450
NESTA Investments	5	5,477	3,225
Policy & Research	5	5,122	3,810
Publications, events & communications	5	3,097	3,745
Direct support of objectives		**27,753**	**25,230**
Corporate Services	5	1,909	2,049
Defined benefit pension scheme (release)/provision	4, 13	(120)	1,764
Total expenditure		**29,542**	**29,043**
Net Income/(Expenditure)		**(10,745)**	**3,590**

Other Comprehensive Income/(Expenditure)

	Total 2010/11 £'000	Total 2009/10 £'000
Net gain/(loss) on revaluation of available for sale financial assets	5,261	(814)
Total Comprehensive Income/(Expenditure) for the year	**(5,484)**	**2,776**

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

The notes on pages 34 to 62 form an integral part of these financial statements.

Group Statement of Financial Position

At 31 March 2011

	Notes	Group Total 31 March 2011 £'000	Group Total 31 March 2010 £'000
Non-current assets			
Property, plant & equipment	6	1,499	1,826
Intangible assets	7	20	30
Financial assets:			
Gilts	8a	185,878	246,238
Other investments	8a	113,430	63,428
Investment in early-stage companies	8b	12,876	10,949
Loans	8b	612	869
Investment in funds	8b	2,392	1,809
Deferred investment in companies	8b	1,968	664
Deferred investment in loans	8b	-	114
Deferred investment in funds	8b	4,455	5,405
		323,130	**331,332**
Current assets			
Trade and other receivables	10	699	458
Financial assets: short-term deposits	8a	22,163	17,109
Cash & cash equivalents	18	160	1,213
		23,022	**18,780**
less Current liabilities			
Other payables: grants & investments falling due for payment within one year	11	10,734	5,559
Trade and other payables	12	2,742	3,017
		13,476	**8,576**
Less Provisions for liabilities & charges	13	**-**	**1,764**
Net current assets		**9,546**	**8,440**

	Notes	Group Total 31 March 2011 £'000	Group Total 31 March 2010 £'000
Total assets less current liabilities		**332,676**	339,772
Other payables: grants & investments falling due for payment after one year	11	4,774	6,386
Total assets less liabilities		**327,902**	333,386
Represented by reserves			
Fair value reserve		12,777	7,516
Accumulated reserve		315,125	325,870
Total reserves		**327,902**	333,386

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 approved by the Board of Trustees on 29 June 2011 and signed on their behalf by:

Geoff Mulgan
Accounting Officer

14 July 2011

The notes on pages 34 to 62 form an integral part of these financial statements.

Parent Statement of Financial Position

At 31 March 2011

	Notes	Parent Total 31 March 2011 £'000	Parent Total 31 March 2010 £'000
Non-current assets			
Property, plant & equipment	6	1,499	1,826
Intangible assets	7	20	30
Financial assets:			
Gilts	8a	185,878	246,238
Other investments	8a	113,430	63,428
Investment in early-stage companies	8b	12,876	10,949
Loans	8b	612	869
Investment in funds	8b	2,392	1,809
Deferred investment in companies	8b	1,968	664
Deferred investment in loans	8b	-	114
Deferred investment in funds	8b	4,455	5,405
Investment in subsidiaries	9	120	120
		323,250	**331,452**
Current assets			
Trade and other receivables	10	699	458
Financial assets: short-term deposits	8a	22,163	17,109
Cash & cash equivalents	18	112	1,136
		22,974	**18,703**
less Current liabilities			
Other payables: grants & investments falling due for payment within one year	11	10,734	5,559
Trade and other payables	12	2,730	3,005
		13,464	**8,564**
less Provisions for liabilities & charges	13	**-**	**1,764**
Net current assets		**9,510**	**8,375**

	Notes	Parent Total 31 March 2011 £'000	Parent Total 31 March 2010 £'000
Total assets less current liabilities		**332,760**	339,827
Other payables: grants & investments falling due for payment after one year	11	4,774	6,386
Total assets less liabilities		**327,986**	333,441
Represented by reserves			
Fair value reserve		12,777	7,516
Accumulated reserve		315,209	325,925
Total reserves		**327,986**	333,441

Geoff Mulgan
Accounting Officer

14 July 2011

The notes on pages 34 to 62 form an integral part of these financial statements.

Group Statement of Changes in Equity

At 31 March 2011

Group	Notes	Accumulated Reserve £'000	Fair Value Reserve £'000	Group Total Reserves £'000
Balance at 1 April 2009		322,280	8,330	330,610
Changes in reserves 2009/10:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			(10,387)	(10,387)
Other investments			10,297	10,297
Investments in early-stage companies	8b		(591)	(591)
Loans	8b		123	123
Investments in funds			(256)	(256)
• Comprehensive income/(expenditure) for the year		3,590		3,590
Balance at 31 March 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	8b		1,479	1,479
Loans	8b		(253)	(253)
Investments in funds	8b		(337)	(337)
• Comprehensive income/(expenditure) for the year		(10,745)		(10,745)
Balance at 31 March 2011		**315,125**	**12,777**	**327,902**

The notes on pages 34 to 62 form an integral part of these financial statements.

Parent Statement of Changes in Equity

At 31 March 2011

Parent	Notes	Accumulated Reserve £'000	Fair Value Reserve £'000	Parent Total Reserves £'000
Balance at 1 April 2009		322,298	8,330	330,628
Changes in reserves 2009/10:				
• Fair value gains/(losses) on 'available-for-sale' financial assets:				
Gilts			(10,387)	(10,387)
Other investments			10,297	10,297
Investments in early-stage companies	8b		(591)	(591)
Loans	8b		123	123
Investments in funds			(256)	(256)
• Comprehensive income/(expenditure) for the year		3,627	-	3,627
Balance at 31 March 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	8b		1,479	1,479
Loans	8b		(253)	(253)
Investments in funds	8b		(337)	(337)
• Comprehensive income/(expenditure) for the year		(10,716)		(10,716)
Balance at 31 March 2011		**315,209**	**12,777**	**327,986**

The notes on pages 34 to 62 form an integral part of these financial statements.

Group Statement of Cash Flow

For the year ended 31 March 2011

	Notes	Total 31 March 2011 £'000	Total 31 March 2010 £'000
Cash flows from operating activities			
Payments of grants		(7,090)	(6,547)
Payments for staff and trustees' costs		(7,114)	(6,795)
Payment of defined benefit pension liability		(1,645)	-
Payments for other costs*		(8,577)	(11,931)
Other income		56	(62)
Payments to acquire gilt investments		(35,000)	-
Proceeds from sale or maturity of gilt investments		92,082	8,000
Proceeds from sale of other investments		50,517	-
Payments to acquire other investments		(89,432)	(12,157)
Payments for investments in early-stage companies		(3,955)	(4,577)
Payments for investments in loans		(271)	(309)
Payments for investments in funds		(942)	(990)
Proceeds from sale of investments in companies		73	399
Proceeds from repayment of loans		64	188
Interest and dividends received		11,781	15,059
Net cash in/(outflow) from operating activities	17	**547**	**(19,722)**
Cash flows from investing activities			
Payments to acquire property, plant & equipment, and intangible assets		(119)	(46)
Net cash in/(outflow) from investing activities		**(119)**	**(46)**
Cash flows from financing activities			
Project funding received		3,573	1,703
Lottery funding received		-	15,000
Net cash in/(outflow) from financing activities		**3,573**	**16,703**
Net increase/(decrease) in cash & cash equivalents, and cash held in financial assets in the period		**4,001**	**(3,065)**
Cash & cash equivalents and cash held in financial assets at the beginning of the period		18,322	21,387
Cash & cash equivalents and cash held in financial assets at the end of the period	18(a)	**22,323**	18,322

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

The notes on pages 34 to 62 form an integral part of these financial statements.

Notes to the Accounts

For the year ended 31 March 2011

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2010/11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adopted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NESTA for the purpose of giving a true and fair view has been selected. The particular policies adopted by NESTA are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

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

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

Going concern

In October 2010, the Government announced that NESTA would be granted full independence, moving from the public to the voluntary sector to become a charitable company, subject to legislation and approval by the Charity Commission. Notwithstanding this uncertainty and in accordance with the FReM, the financial statements continue to been prepared on a going concern basis.

Basis of consolidation

The group financial statements consolidate the financial statements of the National Endowment for Science, Technology & the Arts and all its subsidiary undertakings drawn up to 31 March 2011. 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 are evaluated regularly by the Accounting Officer and chief decision-maker in deciding how to allocate resources and in assessing performance. Segment results are reported for expenditure only as income, assets and liabilities are not monitored in this way. Expenditure includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Each segment is managed by a member of the executive team:

- Programmes
- NESTA Investments
- Policy & Research
- Publications, Events & Communications
- Corporate Services

All operations are carried out in the UK.

Significant estimates

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

Impact of new International Financial Reporting Standards

Effective for the Group in these financial statements

The following new IFRSs and revised or amended IFRSs were adopted by the group in these financial statements: IAS 1 *(revised) Presentation of financial statements* issued in September 2007, effective from 1 January 2011. The Group has elected to present a combined statement for the Statement of Comprehensive Net Expenditure.

There was no impact on the group's reported income and expenditure or net assets.

Not yet adopted

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

In October 2010 further amendments were issued for IFRS 7 *Financial Instruments: Disclosures*, which are due to be implemented in July 2011.

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

Impact of Changes to the Financial Reporting Manual

From 1 April 2010, the Government Financial Reporting Manual (FReM) issued by HM Treasury, no longer requires a notional cost of capital to be charged and reversed as part of an organisation's costs. In prior years, a charge reflecting the cost of capital utilised by NESTA was included in the Statement of Comprehensive Net Expenditure. The charge was calculated at the real rate set by HM Treasury (2010: 3.5 per cent) on the average non-lottery funded net assets over the financial year, and then reversed. There was a £nil charge in 2010.

There was no impact on the group's reported income and expenditure or net assets.

Notes to the Accounts

For the year ended 31 March 2011

Income

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

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

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

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

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

  a) Earnings multiple

  b) Net asset value

  c) Discounted cash flow

  d) Applying BVCA valuation benchmarks

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

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

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

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

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

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

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

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

Treatment

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

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.

Property, Plant & Equipment and Intangible Assets

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

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

Depreciation

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

- Leasehold improvements
  - over the life of the lease remaining

- All other property, plant & equipment
  - three to five years

Amortisation

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

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

Trade receivables

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

	2010/11 £'000	2009/10 £'000
Gilts:		
Interest receivable	10,617	12,776
Amortisation of redemption premium	(1,472)	(1,531)
Realised gains on sale of gilts	-	399
Total income from gilts	9,145	11,644
Other investments:		
Interest & dividends receivable	975	2,169
Realised gains on sale of other investments	5,102	1,363
Bank interest	-	-
Total income from other investments	6,077	3,532
Total investment income	**15,222**	**15,176**

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.

Other investments

Realised gains on sales of other investments of £5,102k (2009/10: £1,363k) comprised £3,686k on sales of corporate bonds (2009/10: £nil) and £1,416k on sales of equity holdings following a change of investment manager (2009/10: £1,363k). Sale proceeds were reinvested in equity holdings.

3. Other income

	2010/11 £'000	2009/10 £'000
Project Funding:		
Arts & Humanities Research Council	50	50
Arts Council England	9	-
BIG Lottery	1,573	-
British Venture Capital Association	-	50
Cabinet Office – Office of Civil Society	250	-
Commission for the New Economy (Manchester)	50	495
Department of Energy & Climate Change	83	492
Department of Health	1,091	745
Economic & Social Research Council	100	50
Higher Education Funding Council for England	-	250
Highland Council	20	-
Highlands & Islands	40	-
Local Government Innovation & Development	100	50
Orange (France Telecom)	-	50
Scottish Arts Council	-	46
Scottish Government	115	-
South East England Development Agency	50	-
Virgin Atlantic	-	(6)
European Project funding: Early Stage Investors for High Growth Businesses, Forfás	-	39
Royalty income, proceeds from sale of legacy investments and loan repayments, interest & dividends from legacy awards	68	209
Realised gain/(loss) on sale of companies in investment portfolio	(118)	(206)
Realised gain on previously impaired investment in early-stage companies	5	23
Other income	89	120
Total other income	**3,575**	2,457

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

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

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

4. Staff numbers and related costs

	2010/11 £'000	2009/10 £'000
Salaries & emoluments of directly employed staff	4,563	4,684
Salaries & allowances of seconded staff	45	89
Trustees' & Committee members' remuneration	136	154
Social security costs	549	538
Defined contribution pension payments	420	404
Defined benefit pension payments	-	5
Agency/temporary staff costs	193	158
	5,906	**6,032**
Other staff costs	781	662
Total Staff Costs	**6,687**	**6,694**
Defined benefit pension scheme (release)/provision	(120)	1,764
Total Staff Costs including pension provision	6,567	8,458

Salaries & emoluments of directly employed staff include payments as part of NESTA's Carried Interest Plan, payable only to members of the NESTA Investment team. This plan was introduced in 2008 and provides participants with a share of any cash realisations made by NESTA from its portfolio of investments. No Carry payments are due for 2010/11; no payments were made in 2009/10.

Further information on pensions is included below, Note 13 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:

Pension payments

	Directly Employed 2010/11	Agency/ contract staff 2010/11	Secondees 2010/11	Total 2010/11	Total 2009/10
Programmes	23	1	1	25	30
NESTA Investments	7	-	-	7	9
Policy & Research	13	-	-	13	12
Publications, Events & Communications	15	1	-	16	16
Corporate Services/CEO & Trustees Office	20	-	-	20	21
	78	**2**	**1**	**81**	**88**

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 £420k, including outstanding contributions of £1k (2009/10: £409k and £33k respectively).

In 2009/10 NESTA was a member of the Pension Scheme for Administration and Technical Staff in the Arts ("PSATSA"). This scheme is a multi-employer, trustee-administered defined benefit scheme whose fund is independently managed and invested by a leading fund management company. In May 2009 the last member of staff who participated in PSATSA left NESTA's employment. The scheme was closed to new participants in 2008 and NESTA did not reopen the scheme to employees. The May 2009 cessation date triggered a debt under Section 75(5) of the Pensions Act 1995 following the withdrawal of NESTA as a participating employer in the scheme. This debt was provided for in 2009/10 expenditure at £1,764k as settlement of NESTA's share (19.6 per cent) of the scheme's shortfall of assets against liabilities based on the most up to date valuation available at the time, which estimated a £9 million shortfall at 31 March 2009.

In March 2011 the scheme's actuary, First Actuarial, calculated NESTA's actual liability share plus cessation expenses at £1,643,536. This amount was paid in full in March 2011 to extinguish all NESTA's financial liability in relation to the scheme. The overprovision made in 2009/10 of £120k has been released in the year and is reflected in the Group Statement of Comprehensive Net Expenditure.

Exit Packages

NESTA paid £286k (2009/10: £103k) 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.

	2010/11			2009/10		
	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	-	1	1
Between £10k and £25k	9	1	10	2	1	3
Between £25k and £50k	3	1	4	1	-	1
Total number of exit packages by type	**15**	**2**	**17**	3	2	5

Notes to the Accounts

For the year ended 31 March 2011

5. Expenditure

5a. Expenditure by segment

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

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

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 & Growth and the Creative Economy.

Total expenditure for the year on continuing activities was £14,057k (2009/10: £14,450k).

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 8(b) for details of active investments held.

Group total expenditure for the year on continuing activities was £5,477k (2009/10: £3,225k) which includes subsidiary expenditure of £29k (2009/10: £37k) for the year. Group expenditure also includes a charge of £3,612k (2009/10: £1,502k) for impaired investments in early-stage companies at cost.

In addition, direct investments made in companies for the year totalled £4,226k. These are treated as financial assets in the Statement of Financial Position. Refer to 8(b) for further details.

Policy & Research

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

Total expenditure for the year on continuing activities was £5,122k (2009/10: £3,810k).

Publications, events and communications

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

Total expenditure for the year on continuing activities was £3,097k (2009/10: £3,745k).

Corporate Services

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

Total expenditure for the year on continuing activities was £1,909k (2009/10: £2,049k).

5b. Expenditure by type

	2010/11 £'000	2009/10 £'000
Grants and projects	15,444	14,421
Staff costs	6,687	6,694
Defined benefit pension scheme (release)/provision	(120)	1,764
Irrecoverable VAT	996	1,348
Other operating costs	1,455	1,676
Operating leases: land & buildings, photocopiers	841	850
Legal and audit fees	171	194
Non-cash items:		
Impairment of investments in early-stage companies	3,612	1,502
Depreciation & amortisation	456	593
Loss on disposal of plant & equipment	-	1
Total expenditure	**29,542**	29,043

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 £1,406k of research costs (2009/10: £2,159k).

Refer to Note 4 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.

Notes to the Accounts

For the year ended 31 March 2011

5c. Further information

Net surplus is stated after charging:		2010/11 £'000	2009/10 £'000
The following items are included within 'legal & audit fees' in Note 5b.			
Auditor's remuneration	– National Audit Office statutory audit services	43	40
	– IFRS statutory audit	-	5
Auditor's remuneration	– Buzzacott – audit of subsidiaries	8	8
	– Buzzacott – non-audit services	17	9
The following items are included within 'operating costs' in Note 5b.			
Staff travel, subsistence and hospitality		105	157
Trustee travel and subsistence		5	12

6. Property, Plant & Equipment

Group & Parent	Leasehold improvement £'000	Computer hardware £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation					
At 1 April 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**

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

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.

Notes to the Accounts

For the year ended 31 March 2011

7. Intangible Assets

Intangible assets comprise software applications and licences.

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**
Cost or valuation		
At 1 April 2009	1,237	1,237
Additions	-	-
At 31 March 2010	**1,237**	**1,237**
Amortisation		
At 1 April 2009	1,145	1,145
Charge for the year	62	62
At 31 March 2010	**1,207**	**1,207**
Net Book Value at 31 March 2010	**30**	**30**

All intangible assets listed above are wholly owned by NESTA.

8a. Investments

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

	Group and Parent			
	Cost 2011 £'000	Market Value 2011 £'000	Cost 2010 £'000	Market Value 2010 £'000
Cash and short-term deposits	22,151	22,163	17,107	17,109
Government Stocks – Up to one year	22,782	23,015	91,865	94,758
Government Stocks – Two to five years	54,777	58,089	44,177	48,882
Government Stocks – Over five years	104,161	104,774	104,494	102,598
Total gilt investments	**203,871**	**208,041**	**257,643**	**263,347**
Equities	97,587	109,204	26,750	29,180
Property funds	4,650	4,226	4,650	4,045
Bonds	-	-	26,250	30,203
Total other investments	**102,237**	**113,430**	**57,650**	**63,428**
Total gilt and other investments	**306,108**	**321,471**	**315,293**	**326,775**

	Group & Parent Market Value	
	2011 £'000	2010 £'000
Represented in the Statement of Financial Position as:		
Non-current asset – financial asset, gilts	185,878	246,238
Non-current asset – financial asset, other investments	113,430	63,428
Current Assets – financial asset, short term deposits	22,163	17,109
	321,471	**326,775**

8b. 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 £4.2 million and drawdowns totalling £942k were made on our investment funds commitments.

A summary of the portfolio of investments held at 31st March 2011 is set out below:

i. Investments in early-stage companies – cost

Company	Cash investment to 31 March 2011 £'000	Company	Cash investment to 31 March 2011 £'000	Company	Cash investment to 31 March 2011 £'000
Light Blue Optics Ltd	1,375	AquaPharm Bio-Discovery Ltd	550	Advanced Transport Systems Ltd	250
Gnodal Ltd	1,250	Probe Scientific Ltd	511	Micrima Ltd	247
Basekit Ltd	1,200	Dexela Limited	500	Smart Surgical Appliances Ltd	190
Cellnovo Ltd	1,054	MMIC Solutions Ltd	500	Plasma Clean Ltd	185
Cellcentric Ltd	854	Skimbit Ltd	500	Orthogem Ltd	174
OSspray Ltd	822	Meciria Ltd	481	Spiral Gateway Ltd	145
Symetrica Ltd	773	Haemostatix Ltd	427	Dialog Devices Ltd	125
Plaxica Ltd	700	Lein Applied Diagnostics Ltd	400	Odontis Ltd	110
Sirigen Ltd	667	Ashe Morris Ltd	375	ROBAT Ltd	104
Featurespace Ltd	650	EKF Diagnostics Holdings PLC*	296	Six To Start Ltd	100
eoSemi Ltd	625	ProKyma Technologies Ltd	260		
Veryan Medical Ltd	581	Surface Generation Ltd	250		

Investments over £100k	17,231
Other investments of less than £100k	225
Total investment at cost	**17,456**
Number of companies invested in	**40**

* 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 £13,488k at 31 March 2011 (2010: £11,818k) comprising equity investments of £12,876k (2010: £10,949k) and loans at £612k (2010: £869k). 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 2009	8,780	722	9,502
Adjustments at cost 2009/10:			
Additions	4,577	309	4,886
Reclassification	75	(75)	-
Repayments	-	(100)	(100)
Sales	(500)	-	(500)
Impairment	(1,392)	(110)	(1,502)
Fair value movement – gain/(loss)	(591)	123	(468)
Total investment at fair value represented in the Statement of Financial Position at 31 March 2010	**10,949**	**869**	**11,818**
Adjustments at cost 2010/11:			
Additions	3,955	271	4,226
Reclassification/conversion	250	(250)	-
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**

At 31 March NESTA had deferred investments in early-stage companies totalling £1,968k (2010: £664k) and deferred investments in loans totalling £nil (2010: £114k). These represent commitments made by NESTA but are un-drawn at 31 March.

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

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

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

Notes to the Accounts

For the year ended 31 March 2011

ii. Investment in funds – cost	Group and Parent			
	Cash investment to 31 March 2011 £'000	**Deferred investment in funds 2011 £'000**	Cash investment to 31 March 2010 £'000	Deferred investment in funds 2010 £'000
Pentech Fund II	941	2,059	472	2,528
IP Venture Fund	299	201	270	230
The UMIP Premier Fund	1,400	2,100	1,050	2,450
GP Bullhound Sidecar Ltd	464	95	370	197
Seedcamp	75	-	75	-
Total	**3,179**	**4,455**	2,237	5,405

Deferred investment funds of £4,455k represent commitments made by NESTA to investment funds which are un-drawn at 31 March (2010: £5,405k).

Investment in funds – fair value	Group & Parent Fair Value £'000
At 1 April 2010	1,809
Additions	942
Sales	(22)
Fair value movement – gain/(loss)	(337)
Total investment in funds at fair value 31 March 2011	**2,392**

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

Each partnership fund may apply different valuation methodologies than 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.

9. Investment in subsidiaries

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

On 16 June 2008, NESTA incorporated three legal entities in which to support early-stage companies: NESTA Investment Management LLP, NESTA Partners Ltd, NESTA Kinetique LLP. NESTA and NESTA Partners Ltd are joint members in NESTA Investment Management LLP. NESTA Investment Management LLP and NESTA Partners Ltd are joint members of NESTA Kinetique LLP. NESTA Investment Management LLP is regulated by the Financial Services Authority and provides fund management services. NESTA Kinetique LLP is the general partner and manager of the Kinetique Biomedical Seed Fund, an external seed fund of which 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 2011 and have nil assets, liabilities and reserves. The trading results for NESTA Investment Management LLP are included in the Group results. Retained loss for 2010/11 totalled £29k (2009/10: £37k). Net Assets at 31 March 2011 totalled £36k (2010: £65k).

10. Trade and other receivables

	Group 2011 £'000	**Parent 2011 £'000**	Group 2010 £'000	Parent 2010 £'000
Trade receivables	161	161	60	60
Prepayments	214	214	215	215
Accrued income	277	277	133	133
Other receivables	47	47	50	50
Total trade and other receivables	**699**	**699**	**458**	**458**

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 2011 £'000**	31 March 2010 £'000
Balances with other central government bodies	266	51
Total intra-government balances	266	51
Balances with bodies external to government	433	407
Total Trade and other receivables falling due within one year	**699**	**458**

11. Other payables: grants & investments

Contracted commitments	Group & Parent at 1 April 2010 £'000	New Commitments £'000	Commitments Paid £'000	De-Commitments £'000	Group & Parent at 31 March 2011 £'000
Programmes	4,451	9,717	(6,698)	(86)	7,384
NESTA Investments	6,203	5,475	(5,167)	(68)	6,443
Policy & Research	1,291	904	(392)	(122)	1,681
Total	**11,945**	**16,096**	**(12,257)**	**(276)**	**15,508**

Payments under contracted commitments as at 31 March 2011 are expected to be made as follows (and are not discounted due to uncertainty in the timing of investment drawdowns):

	Within 1 year £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Total £'000
Programmes	5,933	1,171	255	25	-	7,384
NESTA Investments	3,742	1,324	862	460	55	6,443
Policy & Research	1,059	429	193	-	-	1,681
Total	**10,734**	**2,924**	**1,310**	**485**	**55**	**15,508**

Payments under contracted commitments are disclosed in the Statement of Financial Position as: due for payment within one year £10,734k; due for payment after one year £4,774k (2010: £5,559k and £6,386k respectively).

Grants committed or approved but not yet contracted are set out in Note 14.

12. Trade and other payable

	Group 2011 £'000	Parent 2011 £'000	Group 2010 £'000	Parent 2010 £'000
Trade payables	999	999	1,126	1,125
Other taxation and social security	148	148	158	158
VAT	15	15	-	-
Other payables	20	21	61	61
Accruals and deferred income	1,560	1,547	1,672	1,661
Total trade and other payables	**2,742**	**2,730**	3,017	3,005

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**	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Balances with other central government bodies	952	594	438	688
Balances with local authorities	249	1	-	-
Balances with public corporations and trading funds	11	1	-	-
Total intra-government balances	1,212	596	438	688
Balances with bodies external to government	12,264	7,980	4,336	5,698
Total Other Payables: grants & commitments, and Trade and other payables	**13,476**	8,576	**4,774**	6,386

13. 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 based on an estimated shortfall of assets against liabilities as at 31 March 2009. In March 2011 the scheme's actuary, First Actuarial, calculated NESTA's actual liability share plus cessation expenses to total £1,643,536. This amount was paid in full in March 2011 and extinguishes all financial liability that NESTA has in the scheme. Refer to Note 4 for further information.

	£'000
Balance at 31 March 2010	1,764
Less settlement of liability charged against provision during the year	(1,644)
Less reversal of unused provision	(120)
Balance at 31 March 2011	-

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.

14. 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 2010 £'000	Approvals £'000	Contracted £'000	Cancelled/ Withdrawn £'000	Group & Parent at 31 March 2011 £'000
Programmes	287	12,785	(9,717)	(265)	3,090
NESTA Investments	303	5,537	(5,475)	(365)	-
Policy & Research	-	978	(904)	(30)	44
Total	590	**19,300**	**(16,096)**	**(660)**	**3,134**

Cancelled/withdrawn soft commitments vary from year to year (2010: £590k; 2009: £994k). 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.

15. Capital commitments

There were no amounts committed or contracted in respect of capital expenditure at 31 March 2011 (2010: £38k).

16. Operating lease commitments

At 31 March 2011, 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	3,722
Other leases:			
Photocopiers	12	12	-
Total	**721**	**2,848**	**3,722**

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

	2011 £'000	2010 £'000
Surplus/(deficit) for the year	(10,745)	3,590
Project funding	(3,575)	(2,457)
Lottery funding	-	(15,000)
Depreciation & amortisation	456	593
Loss on disposal of assets	-	1
Impairment of investment portfolio	3,612	1,502
(Increase)/Decrease in purchase of financial assets	9,756	(8,961)
(Increase)/Decrease in trade and other receivables	(241)	(113)
(Increase)/Decrease in deferred financial assets	(240)	795
Increase/(Decrease) in other payables: grants & investments	3,563	(702)
Increase/(Decrease) in provisions	(1,764)	1,764
Increase/(Decrease) in trade and other payables	(275)	(734)
Net cash outflow from operating activities	**547**	**(19,722)**

Notes to the Accounts

For the year ended 31 March 2011

18a. Analysis of cash & cash equivalents and cash held in financial assets

	Group 2011 £'000	Group 2010 £'000	Movement £'000
Commercial bank and cash in hand	160	1,213	(1,053)
Held in escrow	-	-	-
Included in cash & cash equivalents	160	1,213	(1,053)
Included in current assets: financial assets, short-term deposits	22,163	17,109	5,054
Total	**22,323**	18,322	**4,001**

	Parent 2011 £'000	Parent 2010 £'000	Movement £'000
Commercial bank and cash in hand	112	1,136	(1,024)
Held in escrow	-	-	-
Included in cash & cash equivalents	112	1,136	(1,024)
Included in current assets: financial assets, short-term deposits	22,163	17,109	5,054
Total	**22,275**	18,245	**4,030**

18b. Reconciliation of net cashflow to movement in net funds

	Group 2011 £'000	Parent 2011 £'000	Group 2010 £'000	Parent 2010 £'000
Decrease in cash & cash equivalents	(1,053)	(1,024)	979	1,015
Cash inflow/(outflow) from increase in liquid resources	5,054	5,054	(4,044)	(4,044)
Movement in net funds	**4,001**	**4,030**	**(3,065)**	**(3,029)**
Net funds 1 April	18,322	18,245	21,387	21,274
Net funds 31 March	**22,323**	**22,275**	18,322	18,245

19. Financial instruments

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

Liquidity Risks

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

In 2011, £15,222k (81 per cent) of NESTA's income derived from the returns accruing on its financial assets investments. The remaining income is project funding and other income of £3,575k (19 per cent).

NESTA is satisfied that it has sufficient certainty over future income and liquid resources in the form of cash and short-term deposits of £22,323k, regular coupon returns from gilt investments as well as maturing gilt parcels, and is therefore not exposed to significant liquidity risks.

Interest Rate Risks

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

Cash on hand used to fund operating activity is predominantly held with the Commissioners for the Reduction of the National Debt and attracts base rate interest income. Based on average cash holdings, a drop in the interest rate by 0.5 per cent would reduce income by approximately £90k per annum.

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For the year ended 31 March 2011

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 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		
Financial Assets at 31 March 2010			
Fixed rate	246,238	5.00%	9 years, 4 months
Floating rate	17,109	0.48%	
Non-interest bearing assets	83,238		
	346,585		

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:	**2011 £'000**	**2010 £'000**
Non-current assets, financial assets	321,611	329,476
Current assets, financial assets	22,163	17,109
Total	**343,774**	**346,585**

Inflation Rate Risks

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

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 managed by 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. 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 10 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.

20. Related parties

NESTA is an NDPB of the Department for Business, Innovation and Skills (BIS). NESTA had no material financial transactions with BIS during the year. NESTA has an outstanding balance payable of £688k 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 £50k of project funding from the South East Economic Development Agency during the year, towards an education 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 received project funding and rents its office premises, the Commissioners for the Reduction of the National Debt (fund manager for NESTA's gilt holdings), and the Department of Health (for services delivered by NESTA and the Young Foundation).

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

Notes to the Accounts

For the year ended 31 March 2011

Trustees of NESTA	Organisation, Role	Transaction Description	Payment Transactions for the year ended 31 March 2011 £'000	Receipt Transactions for the year ended 31 March 2011 £'000	Outstanding payable balance or commitment as at 31 March 2011 £'000	Outstanding receivable balance or commitment as at 31 March 2011 £'000
Nick Starr	National Theatre, Executive Director	Purchase of programme material for education project.	8	-	-	-
Dr Mike Lynch	British Broadcasting Corporation, Non-executive director	Reimbursement for secondment of a NESTA programme director from the BBC since January 2008, contracted prior to trustee appointment.	39	-	-	-
Dr Mike Lynch	Featurespace Ltd, Non-executive director, Investor	Investment in early-stage company	650	-	-	-
Committee Members of NESTA						
Rob Whiteman	Local Government Improvement and Development, Managing Director	Joint work on local government innovation programme.	-	50	-	-
Rod Aldridge	The Aldridge Foundation, Chairman	Grant to project on community-led innovation.	150	-	150	-
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.	-	-	2,100	-

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

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