

# Technology Strategy Board (Innovate UK)

## Annual Report and Accounts

2014-15



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## Annual Report and Accounts 2014-15

Presented to Parliament pursuant to Schedule 1, Sections 2(2) and 3(3) of the Science and Technology Act 1965

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## **About Innovate UK**

Innovate UK is the UK's innovation agency. Its role is to fund, support and connect innovative British businesses through a unique mix of people and programmes to accelerate sustainable economic growth.

See [www.innovateuk.gov.uk](http://www.innovateuk.gov.uk)

This Annual Report and Accounts covers the financial year 2014-15, ending 31 March 2015.

These financial statements have been prepared in accordance with the Accounts Direction given by the Secretary of State for Business, Innovation & Skills in accordance with Section 2(2) of the Science and Technology Act 1965.

# 1. INTRODUCTION FROM OUR CHAIRMAN

It is my pleasure to present Innovate UK's Annual Report and Accounts for 2014-15.

This has been another important year for innovation and Innovate UK. The Government's Science and Innovation strategy published in December was a strong endorsement of our role going forward.

In December we said farewell to our long-time Chief Executive Iain Gray. Iain has been the backbone of the organisation from its very earliest days in 2007. He has built and grown an effective and acclaimed organisation that has gone from strength to strength across two parliaments, winning wide support. His leadership, enthusiasm and guidance have been exemplary and I must record my personal thanks to him. I would also like to thank Dr David Grant CBE, our interim Chief Executive who kindly stepped into the breach, most effectively, whilst we awaited the arrival of our new Chief Executive, Dr Ruth McKernan.

This year we also expanded and enhanced our Executive Team with three new Directors who are now well-placed to make a major contribution to the organisation's future. We have also achieved performance improvements by investing in the skills and expertise of our wider team. Consequently, for example, our help desk staff have been able to respond faster to enquiries from the businesses we support and have reduced query resolution time by a third.

In August 2014 we adopted a new name - an important moment in our development. The Technology Strategy Board became Innovate UK - a name that expresses better what we do: accelerating economic growth by helping businesses to innovate. We have stepped up our work to communicate this new brand and, more importantly, the opportunities we offer to businesses.

There have been many examples of excellent progress this year - including another very successful Innovate UK 2014 event, the development of the Catapults programme, continued enhancement of our support for innovative Small and Medium-sized Enterprises (SMEs), and strengthening the help we give businesses around the country to network and link with opportunities across Europe. You can read more about these developments later in this report.

In the Spending Review for 2015-16, announced in 2013, the Government allocated significant extra funding to Innovate UK. This was a further vote of confidence in our role and our capability.

Long-term economic growth is critically dependent upon business innovation delivering productivity, jobs and exports. Along with our partners in innovative companies of all sizes we continue to pursue this goal with enthusiasm and a high level of effectiveness. This year we have worked with academic centres of excellence to carry out a number of evaluations to ensure that our work continues to deliver economic value to the nation.

I am delighted by the progress that Innovate UK continues to make and look forward to the organisation, under its new Chief Executive, playing an increasingly pivotal role in enabling the innovation that is so crucial for enduring economic growth.

**Phil Smith**  
Chairman

## 2. FOREWORD FROM OUR CHIEF EXECUTIVE

As the newly-arrived Chief Executive of Innovate UK, I am very pleased to introduce our Annual Report and Accounts for 2014-15.

The activities and achievements in this report all took place during the time of my predecessors - firstly Iain Gray and then, for the period from January to April 2015, David Grant. I am indebted to them both, and particularly Iain, for leaving me such a robust, well-run and inspiring organisation.

For Innovate UK, this has been another year of development and progress. Each year since 2007 our role has grown, and this has required careful management. As we mature, we have taken steps to ensure we continue to manage change, improve our performance and equip ourselves for the future. Our Business Improvement and Change programme has this year started to reshape many of our processes and is already showing quantifiable benefits in terms of costs.

As this report shows, this year we have again helped a great many companies on their innovation journeys - both launching new funding competitions in a wide range of sectors and continuing to support projects begun in previous years. We have also continued to expand our offer to SMEs beyond funding - for example helping many of those whose projects we support to access mentoring and coaching, or reach out to potential investors through the new online GrowthShowcase.

Since 2010 Catapult centres have become a key part of our activities. Our Catapult programme continues to develop, with the seven existing Catapults growing into their role and further funding announced in the 2014 Autumn Statement. We announced two new Catapults this year, in Energy Systems and Precision Medicine, and these are now being established.

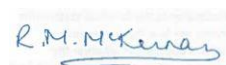
A highlight of the year was Innovate UK 2014, run in partnership with UK Trade & Investment (UKTI) in November. Our regular innovation, networking and showcase event, it was the biggest and best yet. This was complemented by our support for the growing series of Venturefest events around the country which bring together small businesses, entrepreneurs, academics, investors and support services to foster new relationships and facilitate innovation.

This year we have expanded and better integrated our help for companies seeking EU support. Since January we have been responsible for providing EU-backed networking services through the Enterprise Europe Network (EEN) for England, Wales and Northern Ireland. We are coordinating this with similar work in Scotland, and with our existing Knowledge Transfer Network and our National Contact Points who help businesses access European innovation support.

Our financial forecasting relies largely on forecasts of grant usage from the businesses we fund, and in recent years this has given us budgeting challenges. In 2014 we looked closely at how we can work with businesses to resolve issues and improve accuracy in this area. This year such issues had the potential to lead to a significant overspend, but by focused management we were able to resolve the situation. I would like to particularly acknowledge David Grant's contribution to this achievement.

Since 2007 Innovate UK has invested £1.5bn in innovation, with a further £1.5bn from business and partners. This work has already helped many thousands of companies and, it is estimated, will contribute more than £7bn of extra value to the economy and over 35,000 new jobs.

Inspired by what we do, my team and I look forward to continuing and enhancing this vital work in 2015-16 and beyond.



**Dr Ruth McKernan**  
Chief Executive



## 3. STRATEGIC REPORT

### 3.1 Business Review of the Year

#### Statutory basis and history

Innovate UK was originally established as the Technology Strategy Board. It was incorporated by Royal Charter on 7 February 2007 and was established as a research council for the purposes of the Science and Technology Act 1965, by the Technology Strategy Board Order 2007 (S.I. 2007/280).

It began operations on 1 July 2007, when it took over certain activities previously carried out by the Secretary of State for Trade and Industry relating to technology innovation.

The organisation is a business led executive Non-Departmental Public Body (NDPB) and its primary source of funds is the request for resources grant-in-aid allocated by its sponsoring body, the Department for Business, Innovation & Skills (BIS).

In summer 2014, the organisation adopted Innovate UK as its operating name. This expresses better its role and purpose and was already widely familiar as it had been the address of the organisation's web presence since 2008.

The name has been well received and Innovate UK is now used in all communications, although the name of the organisation for legal purposes is still the Technology Strategy Board.

#### Delivering innovation

Innovate UK is the UK's innovation agency. Its role is to fund, support and connect innovative British businesses through a unique mix of people and programmes to accelerate sustainable economic growth.

The businesses whose projects we support range from pre-start-up and early-stage micro companies to larger corporates and multinationals. Our role is to help companies take their ideas on the difficult journey to market by providing them with a powerful array of programmes and tools.

Funding for research, development and demonstration projects ranges from proof of concept grants and feasibility studies to large multi-partner collaborative research and development projects. During the year 2014-15 we opened a total of 104 new competitions for funding.

Other resources include the network of Catapult centres, which are a major boost to the UK's ability to transform ideas into new products and services in specific fields.

We also offer knowledge sharing opportunities for academia and business, facilitate networking to boost open innovation and provide the route for UK businesses to access European support for innovation and technology.

#### Our strategy

In 2011 we launched our four year strategy designed to accelerate economic growth by stimulating and supporting business led innovation.

The strategy Concept to Commercialisation was backed by a budget of more than £1bn over the period and was designed to generate investment in innovation of around £2.5bn, including contributions from business and partners. It concentrated on five strategic themes:

- accelerating the journey between concept and commercialisation
- connecting the innovation landscape
- turning government action into business opportunity
- investing in priority areas based on potential
- continuously improving our capability.

Financial year 2014-15 was the last year of this corporate strategy. We have now begun a review process to develop a new strategy for the period 2015-2020.

**Accelerating the journey between concept and commercialisation**

The road from initial idea to market-ready products and services is rarely straightforward. Our role is to offer the best possible support at appropriate points in that journey, building understanding of the innovation process and the support needed by different types of business, sectors and stages of development.

**Catalysts**

Catalysts are competitions run in partnership with the research councils, and focus on priority areas where the UK research base has a leading position and where a clear commercial potential exists. They provide funding to innovative businesses and researchers working in priority areas offering a clear and progressive route for development, so that successful early-stage projects can easily find support for the next stage on their innovation journey. Catalysts are open for proposals at any time.

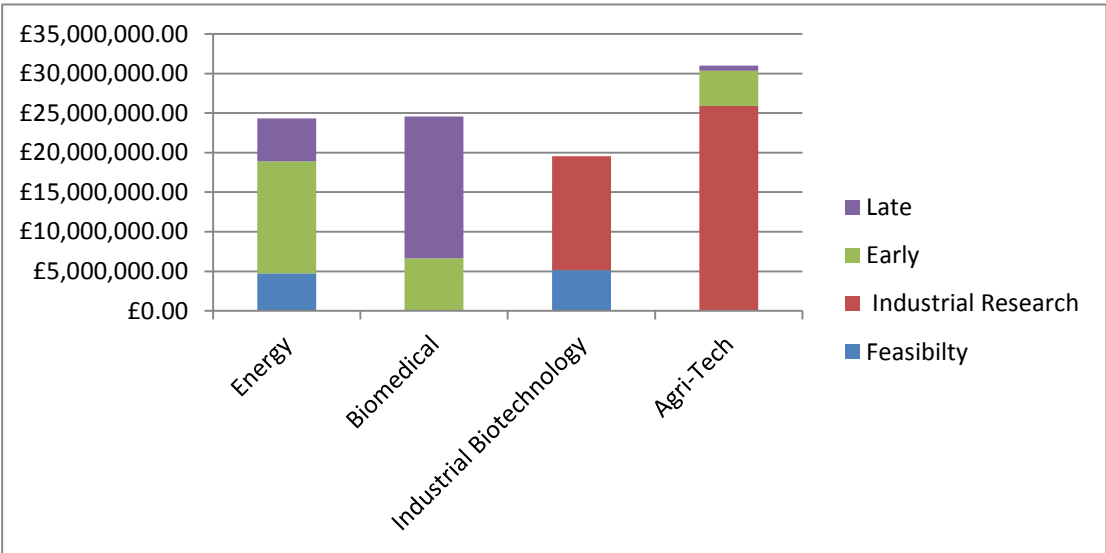
The Biomedical Catalyst is run jointly by Innovate UK and the Medical Research Council (MRC). Following the latest round of awards in 2014-2015, the total number of Biomedical Catalyst awards now stands at 293 (168 funded by Innovate UK and 125 funded by the MRC). Since 2011, when it was set up, there has been a total investment of £350m split equally between the MRC, Innovate UK and leveraged funding from industry.

The Agri-Tech Catalyst, being delivered with funding from the Department for Business, Innovation & Skills (BIS), the Biotechnology and Biological Sciences Research Council (BBSRC), and the Department for International Development (DfID), supports the ‘proof of concept’ development of near-market agricultural innovations. Since it was set up, it has supported 77 projects with funding of almost £40m. In the last financial year (2014-15), it awarded 51 grants worth nearly £25m.

The Industrial Biotechnology Catalyst is being run in partnership with the BBSRC and the Engineering and Physical Sciences Research Council (EPSRC). It supports innovation in the processing and production of materials, chemicals and bio-energy through sustainable exploitation of biological resources. It aims to encourage collaboration between researchers and companies in a sector that is expected to be worth around £12bn by 2025. In February 2015, it announced the 23 winners of its first round of competitions, who will share a total of £20m. In total, the first two rounds of competitions have funded 47 projects with a value of around £40m.

This year also saw the launch of the Energy Catalyst, which has so far run two rounds of competitions and funded 40 projects at varying stages of development with approximately £25m in grants. The Energy Catalyst was set up to encourage innovation aimed at addressing the three major challenges facing the energy sector - the energy ‘trilemma’ of reducing emissions, improving security of supply and reducing cost.

**As at 31 March 2015 the breakdown of committed investment for the catalysts was as follows:**



## **Catapult centres**

A Catapult is a technology and innovation centre where the best of the UK's businesses, scientists and engineers can work side by side on research and development, transforming ideas into new products and services to generate economic growth.

Catapults add an important new dimension to complement our existing research and development programmes, helping businesses adopt, develop and exploit innovative products and technologies.

They offer concentrated expertise in areas such as manufacturing processes, test facilities, type approval and accreditation or supply chain development. Many provide access to cutting-edge equipment and specialist facilities to develop and test ideas in reality. All the Catapults use the power of people and organisations working closely together to unlock opportunity, reduce innovation risk and speed new products and services towards commercial reality.

In every Autumn Statement and Budget in the lifetime of the Coalition Government, more investment in the Catapults programme has been announced. The programme now represents more than £1bn of private and public sector investment over the coming years and will transform the UK's innovation capability for the long term. Seven Catapults are now up and running, each focusing on an area we have already identified as strategically important in global terms and where there is genuine potential for the UK to gain competitive advantage. They are:

- High Value Manufacturing
- Cell Therapy
- Offshore Renewable Energy
- Satellite Applications
- Digital
- Future Cities
- Transport Systems.

In November 2014, we announced two new Catapult centres – Energy Systems and Precision Medicine – which will open in the coming financial year.

We are committed to opening more and have been making that case to Government in line with the recommendations of the Hermann Hauser report, published in November 2014.

## **Support for high-potential SMEs**

To a large extent, the UK's prospects for economic growth depends on small and medium-sized companies, whether they are early-stage entrepreneurial businesses needing to bring their ideas more rapidly to market or more mature businesses seeking to deliver stronger growth. We are dedicated to supporting innovation by SMEs, with up to 60% of the companies we work with falling into this category.

In the last financial year (2014-15) we brought our three main tools for supporting high-potential SMEs – Innovation Vouchers, Smart, and Knowledge Transfer Partnerships (KTP) – under one umbrella of 'responsive' tools - those open to ideas from business at any time.

### **Innovation Vouchers**

We provide start-ups, micro businesses and SMEs with an Innovation Voucher worth up to £5k so that they can seek specialist knowledge to help them innovate, develop and grow. Vouchers are awarded on a quarterly basis and in the last financial year we moved away from our previous thematic approach, so applicants are no longer restricted to certain sectors. This has resulted in an increase in the number of applications we received.

In the financial year 2014-15, we awarded around 1,000 vouchers with a total value of approximately £4.8m.

## **Smart**

Our Smart scheme offers funding to SMEs to engage in the strategically important areas of science, engineering and technology, from which successful new products, processes and services could emerge. It provides funding to pre-start-ups, micro businesses and SMEs with ambition and potential for growth to invest in game-changing research and development (R&D) and innovation.

This is our most popular scheme for SMEs, with a budget of £50m in 2014-15. We issued 516 grants during the last financial year.

## **Knowledge Transfer Partnerships (KTPs)**

KTPs help UK businesses improve their competitiveness, productivity and performance by accessing the knowledge, technology and skills available in our world-class universities, colleges and research organisations.

They do this through the development of collaborative partnerships which stimulate innovation and help to transform the organisations taking part. The projects, running from 6 to 36 months, involve partnerships between businesses and universities, driven by recently qualified graduates.

There were nearly 800 projects in the portfolio at the end of the year 2014-15. Funding is being made available for these KTPs by Innovate UK and 16 other funding organisations, which committed £36m on new projects during this period.

Four new themed competitions for KTP opened in 2014-15 in agri-food (budget £2.3m), space applications (budget £1.3m), ICT user experience (budget £1m) and stratified medicine areas (budget £1m).

A review of the thematic KTPs programme since 2011 was carried out to evaluate the extent to which the original strategic objectives had been addressed and to assess the relevance of those objectives to the current circumstances. In response to stakeholder feedback obtained as part of the review, the focus for the KTP programme in 2015-16 will be response mode and the approach to thematic KTPs will evolve to become a process for signposting priority areas.

## **Missions**

Missions, which we run with (UKTI) and other partners, are a proven way to help early-stage businesses accelerate their growth potential overseas.

In June 2014, we ran a Robotics and Autonomous Systems mission to the US, in collaboration with UKTI, to give small, high-growth potential UK companies the chance to deepen their understanding of how robotics and autonomous systems technology is being developed and taken to market.

In January 2015, we supported the 'Clean and Cool' mission to San Francisco. The aim was to enable the UK's most promising clean technology companies to showcase their innovations and explore climate change and resource efficiency business opportunities.

Running between 17 and 23 January, the mission focused on innovative, profitable and scalable technology, services and business models in agri-tech, cleanweb, low carbon transport, low impact buildings and waste management that are looking for investment or new partnership opportunities in the US.

## **Innovate UK 2014**

Innovate UK 2014, which we hosted in partnership with UKTI at Old Billingsgate London, in November, was a two-day event designed to showcase and accelerate innovation and trade. It brought together the UK's most promising innovators with international buyers and investors, major corporations and leading figures from the academic and research community.

Some 2,464 delegates attended, including 228 speakers – with a further 5,000 joining online.

The event received overwhelmingly positive feedback with 85.36% of attendees saying it fulfilled their objectives from 'to some extent' to 'fully'.

## Investment in SME clusters

Launchpads provide funding for business innovation that supports the development and strengthening of clusters of high-tech companies in specific theme areas and geographical locations.

We have expanded this programme following the success of our £4m investments in the *Materials and Manufacturing North West, Motorsport Valley, Greater Manchester Creative and Digital and Severn Valley Cyber Launchpads*.

We announced three more Launchpads in 2014-15, with funding of £1m each. These were a *Medical Technologies Launchpad in Wales*, an *Internet of Things TechCity Launchpad* in London and a *Digital Media Launchpad*. We funded 48 projects through the Launchpad programme in 2014-15.

## Knowledge exchange and networking

The effective exchange of knowledge helps to drive innovation, so establishing, encouraging and nurturing networking is an important part of our work.

The Knowledge Transfer Network (KTN) is an important resource for this.

Early in 2014 we brought the previously separate Knowledge Transfer Network communities together under one umbrella. In its first year of operation, this combined KTN has succeeded in its aims of creating a more coherent point of contact for SMEs and providing them with more opportunities to cooperate.

KTN has secured hundreds of millions of pounds of funding for companies during the past year and has delivered more than 400 events, helping businesses, researchers and investors come together to innovate.

In the past financial year, KTN has created five business programmes: International, Horizon 2020, Sustainability, Design, and Access to Finance. It was also instrumental in setting up the new £28m National Formulation Centre, which caters for diverse business sectors including oil and gas, consumer products, healthcare, coatings, food and drink and chemical manufacturers.

Our online virtual networking platform, *\_connect*, is used by many different knowledge transfer communities and special interest groups. It allows disparate communities of businesses and researchers to make contact and collaborate and for us to work with them to develop new programmes. Membership of *\_connect* continued to grow and by year end it had more than 108,000 active users.

## Connecting the innovation landscape and linking with other support

We recognise that the disconnected nature of the innovation landscape poses difficulties for businesses trying to find support. To help them succeed, we have made better connections with the financial investment community, increased investor engagement at our events, developed a searchable database of funded companies and linked to other schemes providing support.

In 2014-15, following the Growth pilot we ran in 2013-14, we rolled out our SME support initiative to connect small businesses with support to better develop their growth strategies. This will be delivered in partnership with the Business Growth Service (BGS) in England and the economic development agencies in Scotland, Wales and Northern Ireland.

We learned from the initial pilot that the combination of funding and growth support was key to driving the growth and job creation potential of smaller businesses.

As a result, we now invite SMEs who receive a grant offer from us to attend a growth workshop to get them thinking about growth in the context of their innovations and connect them to access to mentoring, coaching, training and connections to investors. This includes enterprise training delivered by the Enterprise Europe Network based on content from School for Startups.

More than 700 small businesses have embarked on that process and, since BGS started operating at the beginning of 2015, 30 businesses have already defined their growth plans and are accessing the relevant support.

We also announced the launch of GrowthShowcase, in partnership with GrowthAccelerator, a digital platform that aims to connect some of the UK's fastest-growing and innovative SMEs to equity investors and influencers.

## **EU and international**

EU and international activities are an increasingly important part of our work and we are continuing to build a range of international activities.

Our support helping business - especially SMEs - and research organisations to exploit EU Horizon 2020 funding includes a network of UK National Contact Points, and the Horizon 2020 UK website [www.H2020UK.org](http://www.H2020UK.org)).

In January 2015, we became responsible for running the UK Enterprise Europe Networks. By taking on that responsibility, we have begun to build an unprecedented connected support service for UK organisations to exploit the opportunities offered through the H2020 programmes. We now offer a dedicated support structure through the National Contact Points, the Knowledge Transfer Network, Enterprise Europe Network and the Innovate UK Brussels offices, which opened in 2014. This has the resources and expertise to support organisations, especially SMEs, whether they are new to European innovation support or experienced in the previous Framework programmes.

During the year, we invested £8.6m in European programmes, supporting 64 UK partners, including 54 SMEs, in 61 projects run through the Active Assisted Living (AAL), Electronic Components and Systems for European Leadership (ECSEL, Eurostars and Eranet European schemes.

## **Turning government action into business opportunity**

### **Procurement**

We work with the government to identify areas where policy, procurement, standards and regulation can stimulate business innovation and develop our innovation platforms.

Our Small Business Research Initiative (SBRI) programme provides businesses with public sector procurement contracts so they can research and develop new products and services to address public sector challenges. SBRI enables the public sector to engage with industry during the early stages of development, supporting projects through the feasibility and prototyping stages.

As an example, during 2014-15 we ran an SBRI competition in conjunction with South Wales Police to help develop innovative solutions that use predictive analytic tools, methods and processes to improve prevention, detection and disruption of criminal activity and disorder.

In the past financial year, we ran a total of 62 SBRI competitions with a value of approximately £82m. We also increased the SBRI spread across more government departments, including the Scottish Office, the Department for Education and the Department for Work and Pensions.

Since inception, more than 2,160 SBRI contracts have been awarded with a value of more than £268.8m.

### **Our role as a delivery partner**

We aim to act as an effective delivery partner to other public sector organisations, helping them maximise the impact of their support for innovation.

We use our core expertise to deliver programmes jointly with, and on behalf of, a range of government organisations. These include the Department for Transport and the UK Space Agency, running activities with the latter such as the *Space for Growth R&D* competition.

We have also been working with the Aerospace Technology Institute (ATI) to help innovative businesses in the sector make new connections through a range of networking opportunities with other businesses, Government officials and academics and have managed funding programmes for the Advanced Propulsion Centre (APC).

## **Innovation in response to societal and policy challenges**

In many areas we take the approach of bringing together industry, academia and Government to focus on a specific challenge such as vehicle emissions or disease diagnosis, and making a long-term commitment to a programme of support using many of our different tools and mechanisms as appropriate.

At the start of the year we had such 'innovation platforms' in five areas:

- low carbon vehicles
- assisted living
- low impact buildings
- sustainable agriculture and food
- stratified medicine.

We developed three more in 2014-15 – energy systems, urban living and transport systems.

Energy systems ran the first phase of its *Integrated Energy Challenge* competition in 2014-15, which it will follow up with phase two in 2015-16. Urban living ran a range of competitions, including *Reimagining the High Street*; *Solving Urban Challenges with Data* and *Integrated Products and Services*.

## **Investing in priority areas based on potential**

We have developed our programme to focus on areas that address global challenges and market opportunities, complemented and supported by innovation in competences and enabling technologies.

## **Collaborative R&D**

Collaborative (R&D) encourages businesses and researchers to work together on innovative projects, from which successful new products, processes and services can emerge, contributing to both business and economic growth.

During 2014-15, we opened 27 competitions for collaborative R&D funding, focusing on a range of specific thematic areas.

These included support for major business-led collaborative R&D projects in a broad range of growth-creating technology areas, including quantum technology, energy efficient computing, off-highway vehicles, regenerative medicine, crop and livestock diseases, low carbon vehicles and energy harvesting.

Examples of competitions run in 2014-15 include:

- *Location-based services*, helping businesses use location technology to engage with their customers
- *Data applications in commerce*, generating value from product and transaction data
- *Novel mechanical conversion processes*, applying new primary and secondary conversion technologies and processes
- *Digital health in a connected hospital setting*, enabling companies to understand how they could deliver more effective health systems and connect with providers
- The eleventh in our series of *Integrated Delivery Programme* competitions developing advanced technologies in low carbon vehicles.

## **Feasibility studies**

Our funding for feasibility studies enables businesses to test an innovative idea on its ability to be developed and eventually taken to market.

We ran 13 competitions for feasibility studies in 2014-15 and provided funding for 200 projects. These were focused around themes such as advanced materials, biosciences, ICT, electronics, photonics and electrical systems, energy generation and supply and high value manufacturing.

As examples, we ran the following feasibility study competitions: collaboration in the construction supply chain, circular economy systems, quantum technologies, graphene and lowering the cost of personalisation.

## **Sustainability**

The effective use of resources, energy and social capital is vital for long-term economic success. The businesses that can manage this successfully are likely to have the most staying power.

Innovation in sustainability is driven through a cluster of Innovate UK programmes – low impact buildings, sustainable agriculture and food, resource efficiency and 'future cities'. Other sustainability related programmes, such as low carbon vehicles and offshore renewables, are managed in separate strategy areas. We try to incorporate sustainability principles into everything we do.

## **Challenge-led areas**

We have identified six potential markets where innovation is led by societal challenges:

- energy
- built environment
- urban living
- agriculture and food
- transport
- health and care

## **Energy**

Developing a secure, affordable and sustainable energy supply presents great challenges. It also creates huge opportunities for UK business and economic growth. Our strategy focuses on three overarching objectives where we believe UK business can really make a difference and generate wealth:

- developing affordable and secure sources of energy supply which also reduce greenhouse gas emissions
- integrating future demand and energy supply into a flexible, secure and resilient energy system
- reducing greenhouse gas emissions at point of use.

Our main focus for investments in the Energy challenge-led area in 2014-15 were expanding work in energy systems by launching the Energy Systems Catapult, launching the Energy Catalyst, increasing international activity to develop partnerships in Europe and beyond and growing and supporting the SME supply chain.

During 2014-15, we ran a bilateral competition with Canada in marine energy sensing and cost-reducing measurement technologies (through a Eureka competition), which gave UK SMEs the opportunity to collaborate with their Canadian counterparts.

Working with the Department of Energy and Climate Change (DECC) and Natural Environment Research Council (NERC), we also launched a feasibility studies competition supporting innovative technologies for safer, more responsible extraction of shale gas. This resulted in 19 projects with funding of more than £1.7m.

## **Built environment**

In the UK, buildings are responsible for some of the largest environmental impacts. Legislation to reduce carbon emissions by 80% by 2050 (compared to a 1990 baseline) will require a revolution in the design, construction, operation and refurbishment of all buildings.

This provides great opportunities for the UK construction industry, both at home and in the global market.

Investments in this area in 2014-15 centred on design and digital engineering, high-performance materials and building technologies, energy eco-systems and energy management and diagnostics tools.



To exploit the power of building information modelling (BIM), we awarded more than £5m to collaborative R&D projects aimed at digitising the construction sector.

We launched a feasibility study competition of up to £2m in March 2015 to address problems in the fragmented construction industry. The competition aims to find new ways of increasing collaboration and improving the flow of information throughout the construction supply chain.

We also launched a collaborative R&D competition with funding of up to £4m to explore better whole-life performance of buildings and maximise their long-term economic, societal and environmental contribution.

## **Urban living**

Around three quarters of the population will be 'urban' by 2050, yet our cities face a range of challenges such as climate change, shifting demographics and resource crunches.

Our aim is to help UK businesses develop products and services to meet the needs of cities and urban areas around the world and drive innovation across a range of areas, such as big data, transport systems, communications and financial services.

Investments in 2014-15 focused on tools for integration, simulation and modelling, integrated platforms and demonstrations of performance in use.

Highlights included the opening of the Future Cities Catapult at the Urban Innovation Centre in London. This Catapult helps innovators turn ideas into working prototypes that can be tested in real urban settings.

We also ran a National Urban Systems Model SBRI competition to develop integrated and interoperable infrastructure pillars and rolled out the implementation and demonstration phase of the *Reimagining the High Street* SBRI competition with funding of up to £6m.

## **Agriculture and Food**

As the global population increases, food security is a serious concern. Our programme seeks to increase the productivity of crops and animals while reducing the environmental impact of the industry.

The Agri-Tech Catalyst is a major activity in this area and our work is helping to deliver the Government's Agri-Tech Strategy in partnership with BIS, DEFRA, DfID and BBSRC - see the earlier section on Catalysts.

We also launched a crop and livestock disease collaborative R&D competition with funding of up to £10m and, again as part of the Industrial Strategy, we announced the creation of the Centre for Agricultural Informatics and Sustainability Metrics. A world-class agricultural 'big data' centre that will benefit businesses and researchers across the whole agriculture and food industry, the facility will be funded by £10m of government money, with the remainder expected to be matched by industry.

## **Transport**

The UK has a strong transport industry, especially in the aerospace, road, rail and marine sectors as well as newer capabilities in intelligent transport systems. The sector provides more than 1.3m people with employment and is worth almost £40bn to the UK economy. Our specific objectives are to help UK industry profit from developments that improve transport effectiveness and efficiency and that support manufacturers in developing and delivering new vehicle technologies.

To this end, we continued to support the Transport Systems Catapult which we had established - a world-class centre of expertise in transport systems that will support rapid commercialisation of cutting-edge technologies. It exists to bring together diverse organisations across different modes of transport, break down barriers and provide a unique platform for meeting the world's most pressing transport challenges.

Its current areas of focus include automated transport systems, modelling and visualisation, customer experience and information exchange.

On behalf of BIS and DfT we ran a competition aimed at *Introducing Autonomous Cars to UK Roads*, to establish the UK as the global hub for driverless vehicles and associated technologies. One of the resulting projects was UK Autodrive, a consortium of local authorities, technology

companies and academic institutions led by design and engineering consultants Arup. UK Autodrive will eventually deliver insights for vehicle manufacturers, cities, commercial operators, legislators and insurers to develop the legal framework for the roll-out of autonomous mobility.

We also continued our work as a key delivery partner for the Office for Low Emission Vehicles, the Advanced Propulsion Centre and the Aerospace Technology Institute.

## Health and care

Healthcare providers in the UK are under greater pressure than ever to 'do more with less' while facing greater challenges from a population enjoying growing life expectancy.

We are an increasingly important partner for the NHS because innovation can improve disease prevention and health management, aid earlier and better diagnosis and provide therapies more closely tailored to patients' needs.

The UK also has a pharmaceuticals and biosciences sector with a global reputation and is well placed to meet these and other healthcare challenges.

Our health and care programmes concentrate on:

- independent living
- stratified medicine (including detection and identification of infectious diseases)
- regenerative medicine
- Biomedical Catalyst.

Our activities in the health and care area in the financial year 2014-15 include further investment in the Biomedical Catalyst, in partnership with the Medical Research Council.

The Cell Therapy Catapult continues to develop as a world-class centre of expertise, and in December 2014, we announced that Stevenage would be the location of a new £55m state-of-the-art Cell Therapy manufacturing centre which the Catapult will manage. The facility is expected to create up to 150 jobs and forecasts suggest firms using the centre will generate £1.2bn of revenue by 2020.

And to support the growth of the health and care cluster in Wales, we announced the *Healthcare Technologies Launchpad*, with funding of up to £1m.

We also ran collaborative R&D competitions on stratification and neurodegenerative diseases and on digital health in a connected hospital setting. And we also helped develop the *Active Assisted Living* call EU competition to enable UK businesses to exploit opportunities in Europe to develop assisted living technologies.

## Competences

Underpinning the challenge-led areas and markets and linking them to the technologies we support are a number of 'competence' areas where we also focus our work. These include:

- High Value Manufacturing
- Digital Economy
- Space Applications
- Resource Efficiency

### High Value Manufacturing (HVM)

Our High Value Manufacturing programme aims to grow the contribution of manufacturing to UK GDP by investing in innovation that will maintain or improve its competitiveness and help to drive commercialisation of new technologies.

In the financial year 2014-15, we announced more investment – up to £30m – in the High Value Manufacturing Catapult, a network of seven technology and innovation centres aimed at revitalising the manufacturing industry.

We also opened the *Manufacturing Process Industries – North East Launchpad* competition, a £1m programme to build on the established cluster in the region and boost its impact on UK process industries. Through this, we provided more than £0.6m in funding for seven projects in 2014-15.

In addition, we ran a collaborative R&D competition for mechanical conversion manufacturing processes – for which we provided more than £5m for nine projects.

### **Digital economy**

We aim to help businesses work together in new ways to create value from digital information, content and services. In order to stay ahead of the changes sweeping across the digital economy, rapid and continuous innovation is needed.

We opened the Digital Catapult Centre in November 2014 in London's King's Cross area. A state-of-the-art facility, the centre provides entrepreneurs, small businesses, researchers and corporate organisations with a space in which they can work, meet and collaborate.

We also established the *Internet of Things Launchpad* (with Tech City UK) to invest in the London and Cambridge local clusters of SMEs and academics working on the Internet of Things. This provided more than £0.8m in funding for seven projects in the financial year 2014-15. The Internet of Things is a key area of growth in the UK, a fact recognised by the Chancellor of the Exchequer in his Budget, in which he announced another £40m of investment in the area.

In addition, we ran collaborative R&D competitions in location-based services – in which we provided more than £4.5m in funding for 10 projects – and value from our interactions with digital content, which provided three projects with funding of more than £1.3m.

### **Space applications**

The UK has a world-class space capability, with advanced manufacturing capabilities, world-leading satellite operators and one of the world's largest satellite broadcasters, as well as a global services sector delivering systems integration and software to support new space applications.

We announced an additional £10m investment in the Satellite Applications Catapult, based in Harwell, that exists to help UK business develop satellite-based products and services and stimulate growth in the sector.

We also announced the *Entry to space sector – Harwell Launchpad 2* competition in an effort to attract new players and start-ups to the space sector and encourage cluster activity in the area. Through this, we provided more than £1m in funding for nine projects in 2014-15.

We also saw a major milestone passed in July 2014, with the successful launch of TechDemoSat-1, an in-orbit technology demonstration mission for innovative UK spacecraft equipment and software, part funded by Innovate UK.

### **Resource efficiency**

How to provide a high standard of living for a world population that will reach more than 9bn people by 2050 is the main driver for our resource efficiency competence area.

Meeting that challenge will require a huge increase in the way we use, reuse, repair and recycle resources of all kinds and innovations will need to include new design approaches, materials and end-of-life technologies.

We also launched a £4.5m collaborative R&D competition with the Engineering and Physical Sciences Research Council – *Increasing Value from Waste* – that seeks to develop new supply chains that support a more circular economy. And we provided more than £5m in funding for 11 projects through our collaborative R&D competition that explored supply chain innovation towards a circular economy.

### **Enabling technologies**

The four enabling technologies – advanced materials; biosciences; electronics, sensors and photonics; and ICT – have a key role to play in helping businesses to develop high value products and services that meet market needs across all economic sectors and for them to generate significant growth in the UK.

In addition, electronics, sensors and photonics and ICT are often vital in enabling innovation in markets that rely on the ability to sense, transmit and harness data. A single market or challenge may often require a combination of technologies.

We ran a range of technologies-inspired innovation collaborative feasibility studies competitions in 2014-15 to encourage small and micro businesses to collaborate in the development of technological innovations.

### **Advanced materials**

Businesses in the UK that produce, process, fabricate and recycle materials form a critical element of the high value manufacturing supply chain. In the area of advanced materials we want to stimulate innovation that drives the development and exploitation of new high-value products, processes and services based on advanced materials technologies.

In the financial year 2014-15, we ran two *Technology Inspired Feasibility* competitions for advanced materials, providing funding for 23 projects.

### **Biosciences**

Biosciences play an important part in the development of products and services that are an integral part of our lives. They provide opportunities for replacing unsustainable production methods, reducing our reliance on fossil fuels, improving public health and encouraging development of new products and services in areas as diverse as healthcare and medicine, agriculture and food, energy, and personal care.

We launched two *Technology Inspired Feasibility* competitions for biosciences in 2014-15 that provided funding for 23 projects.

### **Electronics, sensors and photonics**

Electronics, sensors and photonics underpin activity in healthcare, energy, transport, environmental sustainability, built environment and consumer goods. The UK has a strong base in the uses of electricity and light and we envisage excellent opportunities for huge growth in this area.

In 2014-15 we ran phase two of the SBRI competition for sensor systems (*SAPIENT*) in 2014-15 that aims to encourage the design and integration of technologies to develop sensor systems. Projects will run until September 2015 and up to £2m is allocated to them.

In June 2014, we conducted a Robotics and Autonomous Systems mission to the US. This gave small, high-growth potential businesses the opportunity to deepen their understanding of the technologies being developed and commercialised in the US.

### **Information and Communication Technology (ICT)**

The aim of our ICT programme is to help UK industry profit from developments in software technology and software-intensive systems. During the year we provided four projects with funding through our *Technology inspired ICT feasibility studies* competition.

### **Emerging technologies**

Our aim is to identify high-potential technologies just emerging from the science base and help turn them into the growth sectors of tomorrow for UK business.

Among the collaborative R&D competitions we ran in 2014-15 were those for *Energy harvesting*, which funded seven projects with more than £2m, *Energy efficient computing*, which provided more than £2m in funding for five projects, and *Non-animal technologies*, which funded 16 projects. We also provided more than £2.1m in *Graphene feasibility studies* competitions - funding for 14 projects - and ran *Quantum technologies* competitions in which we provided more than £1.6m for five collaborative R&D projects and more than £2.7m for 16 feasibility studies projects.

## Development

We significantly increased our investment in the Emerging Technologies and Industries programme, and published an updated strategy for the area showing how we would continue to help UK businesses accelerate early stage technologies to market.

In collaboration with the National Centre for the Replacement, Refinement and Reduction of Animals in Research (NC3Rs), Defence Science and Technology Laboratory (DSTL) and research councils, we ran competitions in quantum technologies, non-animal technologies, energy harvesting, energy efficient computing and graphene; supported the creation of the National Strategy for Quantum Technologies (QT); and held road-mapping workshops in QT and non-animal technologies to help shape the future direction of these emerging sectors.

We continued to build innovation communities in emerging technology areas through Special Interest Groups (SIGs), to advocate the early use of excellent design in technology intensive R&D and to support early-stage critical mass building in selected areas through the Innovation and Knowledge Centres (jointly funded with EPSRC). And we extended our support for the Centre for Secure Information Technology (CSIT) in Belfast for a further five years.

## Continuously improving our capability

As part of our commitment to continually improving our capability, we have implemented a Business Improvement and Change (BIC) board through which we govern our delivery of cross-functional improvements and major change programmes.

Implementation of these is supported by a fully staffed Programme Management Office, which we established this year and from which delivery is focused through five key programmes:

- transforming our grant systems and services
- managing the programme to budget
- improving our current process
- improving SMEs' commercial success
- improving our brand.

While the BIC programme is still in its early stages, it has already realised cost benefits of more than £0.3m in the financial year 2014-15.

We have mapped our end-to-end customer process and used this to help inform decisions on project selection. In addition, we are rolling out a programme of Team Information Boards at individual team level to make performance more visible. Coupled with training in creative problem solving, this is building our organisational capability to drive improvements through the organisation and better meet the needs of our customers.

Over the last financial year, all customer-facing terms and conditions have been simplified and standardised, ensuring a consistent approach for customers and making our corporate governance compliant.

We have also put in place new and clearer data-sharing arrangements with our partners, helping us connect our customers with more forms of support, and have implemented an offer of SME Growth Support to grant winners. More than 500 SMEs have now been invited to participate in this scheme.

### 3.2 Grant Funding

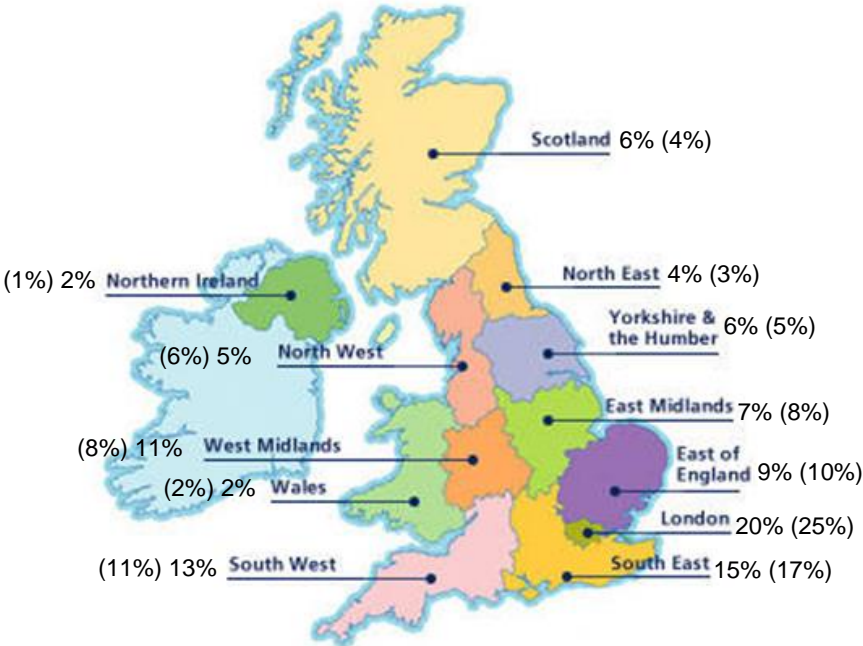
Funding application success rates, financial year 2014-15:

	2014-15
Project applications offered funding	1,401
Project applications meriting funding but not offered	1,358
Project applications not meriting funding	2,749
Total project applications	5,508

(Figures exclude 280 applications received for competitions run by Innovate UK on behalf of other agencies or organisations)

Of the 1,401 project applications offered funding, approximately 51% involved academic collaboration.

As at 31 March 2015, the geographical split of grants committed in the 2014-15 financial year was as follows with prior year comparative in brackets:



### **3.3 Financial Performance**

#### **Net expenditure for the year**

In total, net expenditure for the year increased to £597.5m (2013-14: £576.4m).

#### **Technology grants expenditure and accruals**

There was an increase of £22.5m in technology grants expenditure to £594.6m. A breakdown of grant expenditure by grant stream has been provided in Note 5.

Most grants are paid on claims for reimbursement made quarterly in arrears. Consequently, a substantial proportion of the grant expenditure has been accrued. The policy for accruing grant expenditure is outlined at Note 1g and 1m.

#### **Operating costs**

Average staff numbers in 2014-15, including interims and agency temps, increased by 67 to 324 in order to build up resource levels to deliver the ramping up of new and existing programmes and to improve the efficiency and effectiveness of operations. This resulted in staff costs increasing by £4.6m, or 28.1%, to £20.9m. Programme support contract costs increased by £0.7m, or 3.7%, to £20.7m.

Other operating costs increased by £3.7m, or 26.1%, to £17.8m. This is partly due to rent, rates and maintenance, where in 2013-14 there was a VAT release of £0.5m which was confirmed as not being due, and also additional office space required in 2014-15. Programme Communications and Events have also increased due to Programme Evaluation - which is new to 2014-15 - looking at the impact of Innovate UK investments.

#### **Pension liabilities**

The accounting treatment of pension liabilities and details of the funding arrangements are set out in the Note 1h Pension costs and The Directors' Report 4.2. Scheme documents may be obtained on request. Details of the salary and pensions benefits of senior employees are included in the remuneration report in this document.

#### **Cash flow**

As reported in the cash flow statement, there was a net cash outflow from operating activities in the year of £645.6m (2013-14: £568.5m).

#### **Current liquidity**

Cash held at 31 March 2015 was £(8.3)m (31 March 2014: £6.2m); payments were processed totalling £18.6m on 30 March 2015 and assets less liabilities were £121.5m (31 March 2014: £155.1m). This balance includes a foreign exchange loss of £0.5m on our Euro account due to the strengthening of Sterling on the date of conversion.

#### **Financing**

Grant-in-aid financing received during the year from BIS increased by £77m to £631m.

Co-funding for the year increased by £10.3m to £56.5m, of which £0.2m relates to EU funding. This represents an increase in co-funded programme expenditure.

Operating income of £1.5m (2013-14: £1.1m) was received from the recharging of Knowledge Transfer Partnership management fees to the other co-funders, rental income, ticket sales and Newton funding.

## Allocation and outturn

In the 2014-15 financial year, the budget increased by £30.3m to £615.9 (2013-14: £585.6m). The budget included £130m allocated for Catapult centres, £50.2m for Smart and £30m for the Biomedical Catalyst.

Overall, Innovate UK recorded £18.4m non-usable underspend against the budget allocation.

Within our core programme Innovate UK recorded an underspend of £0.2m and an underspend against our non-core allocation of £18.2m.

The following table gives a comparison of outturn against allocation:

	<b>Non-cash<sup>1</sup></b>	<b>Resource</b>	<b>Capital</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Total net expenditure for the year <sup>2</sup>	2,060	514,929	-	516,989
Treatment of capital grants	-	-	80,489	80,489
Expenditure on non-current assets <sup>3</sup>	-	-	-	-
2014-15 Outturn	2,060	514,929	80,489	597,487
2014-15 Budget Allocation	1,232	534,443	80,212	615,887
Variances	(828)	19,514	(277)	18,409
<i>of which:</i>				
Underspend	(828)	19,514	(277)	18,409
In year (over-)/underspend	-	-	-	-

<sup>1</sup> A non-cash item is an expense or income that appears on the statement of net expenditure yet does not actually represent a real cash outflow or inflow; the non-cash figure shown is the sum of the depreciation, amortisation expense, bad debt and exchange rate differences.

<sup>2</sup> Taken from the statement of comprehensive net expenditure.

<sup>3</sup> Taken from the statement of cash flows.

## 3.4 Going concern

The total expenditure of £597.5 has been transferred to reserves. Total government funds at 31 March 2015 amounted to a deficit of £121.5m (31 March 2014: deficit of £155.1m). Other reserve movements are shown in the statement of changes in taxpayers' equity.

The deficit reflects the inclusion of liabilities falling due in future years which will be met by future grant-in-aid from Innovate UK's sponsoring department, BIS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant-in-aid for 2015-16, taking into account the amounts required to meet Innovate UK's liabilities falling due in that year, has already been included in BIS's estimates for the year, which have been approved by Parliament. Longer term commitments are contained within existing funding allocations arising from the Government's spending review settlement figures which cover up to 2015-16.

Innovate UK's financial commitments on grants beyond that period can be met well within the minimum reasonably anticipated income for those years. Such grants issued by Innovate UK are made under statutory powers within the terms of the Science and Technology Act 1965, applied upon the objects set out in Article 2 of the Technology Strategy Board Royal Charter. This is confirmed in



Innovate UK Management Statement issued by DIUS, the Department for Innovation, Universities and Skills, the precursor to BIS, in June 2007. With the new Government and the upcoming Comprehensive Spending Review covering 2016-17 onwards, Innovate UK is planning its future operations based on a number of scenarios dependant on the final budget outcome. Although a risk, Innovate UK will plan to adhere to the allocation it is assigned. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements. The Triennial Review published in October 2013 concluded that Innovate UK should continue as an executive NDPB.

### **3.5 Risk**

The governance statement outlines Innovate UK's policy with regard to corporate governance, internal control and risk management. The factors and influences that may have an effect on present and future performance are listed in risk registers and the most important are identified to the Governing Board at each of its meetings.

#### **Major contracts**

Innovate UK has a number of significant contracts for the support and delivery of its technology grant programmes. The costs of these are shown in the Notes to the Accounts under Note 3 as Programme Support Contracts.

### **3.6 Creditor Payment Policy**

Innovate UK's policy is to comply fully with the Better Payment Practice Code for the payment of goods and services. The policy is to make payments in accordance with the timing stipulated in the contract with suppliers. Where there is no contractual provision, every effort is made to ensure that payment is effected within 30 days of receipt of goods or services, or presentation of a valid invoice or similar demand for payment, whichever is the later. During 2014-15, Innovate UK paid 78.7% (2013-14: 72.6%) of its undisputed invoices within the 30 day period.

A prompt payment target of five days was introduced for the public sector. In 2014-15, Innovate UK paid 1.7% (2013-14: 0.8%) of its invoices within the five day period; this is low due to weekly payment runs and manual approvals required from a large field based workforce.

### **3.7 People Information**

The following were the main objectives for human resources (HR) management in 2014-15:

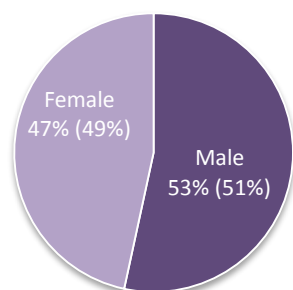
- develop and resource a comprehensive workforce plan for Innovate UK to deliver the right number of people with the right skills, experiences, and competencies in the right jobs at the right time, at an optimum cost
- recruit into key roles, at Executive Director level, to strengthen the Leadership Team
- continue effective staff consultation and engagement, using feedback from the Employee Survey
- embed Innovate UK values
- manage rewards in line with the public sector restrictions whilst also attracting and retaining the required skills and expertise
- develop capability – ensuring that Innovate UK Board management and staff have the appropriate skills/experience to deliver high performance and fulfil business objectives
- launch a Graduate Recruitment Scheme
- support the establishment of the KTN (Knowledge Transfer Network) and individual organisations

- support the establishment of an Innovate UK Brussels office
- support the transition to the new EEN Strategy with Innovate UK as lead
- support the Executive Management Team to develop and implement actions resulting from the staff survey results
- continue to monitor the effectiveness of field-working and other working arrangements to support the organisation
- implement a HR information management system to ensure employee data is maintained in one central area with the ability to perform work tasks more swiftly and provide reporting tools as required.
- introduce a new performance management programme to ensure a customised approach to capture current performance and development requirements.

## Equal opportunities

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

As at 31 March 2015 the gender split for all staff employed at Innovate UK was as follows (2013-14):



As at 31 March 2015 there were five male and two female directors.

## Employee involvement

Information is provided to employees through the Internal Communications briefing process, Chief Executive staff updates, all-staff meetings, Human Resources Staff and Managers' Guidance, office notices, email, intranet and a pocket guide to Innovate UK. Consultation with employees takes place through meetings with line management, senior staff and the Staff Consultative Council, through bilateral, directorate and sectional meetings, and through working groups set up to look at specific organisational issues and, where appropriate, through all-staff meetings.

Innovate UK disseminates financial information by issuing reports to the Governing Board, to the Executive Management Team and to budget holders. Successful Spending Review bids and budgetary information are detailed in emails, press notices and the Annual Report and Accounts, all of which have a wide circulation.

All staff receive a briefing on, and copies are made available of, the Innovate UK 2011-2015 corporate strategy *Concept to Commercialisation* and the annual Delivery Plan, and are then involved in developing and implementing directorate and personal objectives, which flow from the Delivery Plan, through the performance management process.

Biannual all-staff meetings are in place to brief staff on progress, achievements and challenges associated with the plan. In addition, these meetings engage, consult with and empower staff towards continual organisational improvement.

An annual staff survey is undertaken. The executive team agrees key actions based on the survey results.

### **Health and safety**

Innovate UK's policy is to set and maintain high standards of health and safety performance to ensure the health and safety of staff as well as that of others who may work in or visit the premises. To achieve this, Innovate UK has a health and safety statement and policy, signed by the Chief Executive and the other Executive Directors. The policy covers responsibilities, competencies, risks, controls, the provision of advice, performance measurement and staff consultation. The policy is accessible to all staff through Innovate UK's intranet along with all health and safety guidance and procedures.

Innovate UK's Health and Safety Officer and Representatives meet on a regular basis as Innovate UK's Health and Safety Committee. Its role is to review the adequacy of safety training and the supply of information, consider accident statistics and safety audit reports and to help Innovate UK's Health and Safety Officer carry out his/her duties. Institution of Occupational Safety and Health training has been undertaken by members of the Health and Safety Committee. Representatives from the Committee undertake quarterly safety audits and reports are made to the Executive Management Team and Staff Consultative Council. Innovate UK continues to monitor health and safety risks, to train staff and take appropriate action.

Attention is given to the risks associated with business travel. Driver training is in place, with on road training mandated for employees who drive 10k+ business miles annually, classroom training mandated where mileage is between 5k and 10k miles each year and optional classroom training available for all employees. Innovate UK has promoted safe cycling and facilitates cycling training.

## **3.8 Sustainability and Social Reporting**

Our Governing Board has recognised the importance of taking sustainability into account in all our activities. We accept the definition of sustainability as that which "meets the needs of the present without compromising the ability of the future generations to meet their own needs" and have published a sustainability statement and policy that sets out Innovate UK's position.

We take this rationale into account when evolving programmes and projects, and continue to focus our programme of investments in business innovation towards recognising the importance of markets created by the need to move to a more sustainable model.

Many of our programmes have a clear theme of environmental or resource sustainability as a driver of innovation, and about two-thirds of projects we fund have a sustainability objective. We have introduced a methodology in assessing grant applications in our collaborative R&D competitions to ensure that sustainability considerations are central to the assessment and outcome.

In 2011-12 we developed a sustainability framework, together with Forum for the Future, to help in evaluating the candidate areas for Catapult centres, refreshing our technology strategies, and evaluating potential new areas of investment under development.

We cannot expect our external stakeholders to take our advice and leadership on sustainability unless we can show that we take this seriously in our own operations. Innovate UK is committed to following the joint Research Council Environmental Policy Statement which calls for:

- compliance with all relevant legislation
- minimising the adverse impacts of new buildings and refurbishments

- making efficient use of natural resources
- operating effective arrangements for waste disposal and recycling
- promoting effective environmental supply management
- working with staff to promote more economic forms of transport
- providing appropriate information and training to new staff.

Waste: The joint Swindon-based Research Councils show that approximately 70.3% of waste is recycled.

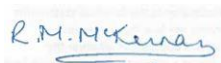
Water: We continue to achieve good practice consumption figures for our water consumption at 2.6m<sup>3</sup> per full-time equivalent (FTE) - good practice is between 4 and 6 m<sup>3</sup>. The annual charge was £0.002m.

Gas: Gas consumption was 110.3 kWh/m<sup>2</sup>, with an annual charge of £0.007m.

Electricity: Electricity consumption was 77.3 kWh/m<sup>2</sup>, with an annual charge of £0.012m.

We also seek to be a socially responsible employer. As a small organisation we have in place an effective policy and programme to deliver at a scale relative to our organisation. To achieve this we have introduced a range of measures to:

- help us to understand and measure the impacts of our operations and various activities on the environment and reduce those impacts over time
- promote staff purchase of bicycles and cycling to work
- support staff acting as science, technology, engineering and maths (STEM) ambassadors;
- support staff requiring childcare (through a childcare voucher scheme)
- increase the use of remote (video and telephone) conferencing instead of travel
- support staff through continuous training and development.



**Ruth McKernan**  
**Chief Executive**  
 25 June 2015

## 4. DIRECTORS' REPORT

This report is presented in accordance with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 which came into force on 1 October 2013.

### 4.1 Sickness and Absence

The calculation of Innovate UK's sickness/absence rates is as follows, with figures for 2013-14 shown in brackets.

<b>2014-15 (Prior year 2013-14)</b>	<b>Absence rate as a % of total working days</b>		<b>Average working days lost to sickness (per member of staff)</b>	
All staff	1.52%	(1.19%)	3.93	(3.02)
Excluding one staff (two in 2013-14) on long-term sick leave	1.33%	(0.92%)	3.44	(2.34)

### 4.2 Pension Liabilities

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

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

As the RCPS is an unfunded multi-employer defined benefit scheme, Innovate UK is unable to identify its share of the underlying assets and liabilities. Details can be found in the accounts of the Research Councils' Pension Scheme at [www.bbsrc.ac.uk](http://www.bbsrc.ac.uk).

The last full actuarial valuation was carried out by GAD as at 31 March 2006. Following consideration of the valuation report the employer's contribution rate was set at 26.0%. The contribution rate reflects benefits as they are accrued, not when the costs are actually incurred, and reflect the past experience of the scheme. The next full scheme valuation by GAD is on hold pending advice from HM Treasury.

For 2014-15, employer's contributions of £2.8m (2013-14: £2.1m) were paid to the RCPS at 26% (2013-14: 26%) of pensionable pay.

Pension details of Senior staff can be found in the Remuneration report.

### **4.3 Governing Board & Senior Management**

Details of Governing Board Members and Directors can be found within the Remuneration report.

### **4.4 External Auditors' Remuneration**

The external auditor did not undertake any non-audit work during the year. Details of the remuneration can be found within Note 4 of the accounts.

### **4.5 Information Security**

#### **Personal data incidents**

Records are kept of personal data incidents. No laptops were stolen (2013-14: 1); one smartphone was lost/stolen (2013-14: Nil); and one memory stick was lost/stolen (2013-14: Nil). One dongle and no RSA were lost (2013-14: six). There was a low risk of loss of personal data as all laptops are encrypted.

The above incidents did not need to be reported to the Information Commissioner. No other loss of personal data has been reported during the financial year 2014-15.

#### **Management of information risk**

Following the revision of the HMG Security Policy Framework by the Cabinet Office in April 2014, Innovate UK has ensured its continued compliance with the standard laid down by the Data Handling Review. Quarterly reviews and risk assessments regarding data held are undertaken with the identified Information Asset Owners (IAOs). In relation to personal data it has been identified that Innovate UK does not carry a great risk as it does not hold significant levels of personal data, although as the organisation grows this risk will increase. The latest version of the newly named Departmental Security Health Check was externally audited on 27 April 2015 for the 2014-15 period. There is little change, but as Innovate UK transitions to refreshing its IT equipment and platforms, there will be an emphasis on training to ensure staff are kept up to date with policies to mitigate against risk.

Established principles include:

- encryption of all laptops and mobile phones
- communication of the information assurance policy to all staff and appropriate partners
- communication of the new Government Security Classification policy to all staff and appropriate stakeholders
- online new Government Classification training for all staff
- online Information Assurance training for all new staff with annual refresher training for all staff in line with Cabinet Office guidelines
- higher level annual training for identified information asset owners and refresher training for those that have been in the role for two years
- refresher training, conducted by National Archives, for the Senior Information Risk Officer and the Information Security Officer
- accreditation the accreditation of the \_connect platform
- awareness sessions for identified partner and delivery bodies.

These arrangements to monitor and assess information risks will also identify and address any weaknesses and ensure continuous improvements.

## 5. REMUNERATION REPORT

### General

Section 421 of the Companies Act 2006 requires the preparation of a Remuneration Report containing certain information about the directors' remuneration in accordance with the requirements of Part 4 and Schedule 8 of Statutory Instrument 2008 No. 410.

### Remuneration of the Chief Executive

The remuneration of the Chief Executive of Innovate UK is reviewed and approved by the Department for Business Innovation & Skills (BIS).

### Remuneration policy

The performance of Executive Directors is assessed annually by the Chief Executive through the performance management process, and against annual stretch objectives, and approved by Innovate UK's Remuneration Committee. These assessment outcomes are used to calculate the individual contractual performance-related pay in line with the agreed target scale and the annual salary reviews in line with the provisions of the Pay Remit approved by BIS. The remuneration of Innovate UK's Governing Board members and Chairman is reviewed annually by BIS. In 2014-15 membership of Innovate UK's Remuneration Committee consisted of:

- Phil Smith (Chairman)
- Hazel Moore (Governing Board Member)
- Sara Murray (Governing Board Member)

The performance awards paid to the Chief Executive and Executive Directors are based on achievement of individual and organisational objectives, agreed at the beginning of the performance cycle. The performance award for the Chief Executive and Executive Directors is up to 20% of base salary.

### Contractual policy

The Chief Executive in post during 2014-15 was contracted until the end of December 2014. The Department for Business Innovation & Skills appointed an Interim Chief Executive to cover the period until the newly appointed Chief Executive joined Innovate UK on 1 May 2015.

We currently have six Executive Directors who are permanent employees of Innovate UK. In addition, we have one Executive Director engaged on a non-permanent, secondment basis as follows:

- Executive Director of IT - Secondment

The newly appointed Chief Executive is subject to a notice period of six months; all permanent Executive Directors are subject to a notice period of six months.

Governing Board members and the Chairman are not employees of Innovate UK and received a letter of appointment from BIS. The terms of appointment allow for members to resign from office by notice in writing to the Secretary of State. Members may also be removed from office by the Secretary of State on grounds of incapacity, misbehaviour or a failure to observe the terms and conditions of appointment.

## Audited information

### Details of 2014-15 remuneration for Innovate UK Chief Executive and Executive Directors

#### Remuneration of senior employees

The UK corporate governance code requires the disclosure of information on salary and pension entitlements of each company director. The Government is committed to adopting best commercial practice and therefore requires non-departmental public bodies to report in accordance with modified UK corporate governance code principles. The following disclosures are considered appropriate for Innovate UK:

#### Salary, performance pay and benefits in kind

Where an individual has only served for part of the year, equivalent salary is reported in brackets.

Single Total Figure of Remuneration										
Chief Executive and Directors	2014-15					2013-14				
	£'000					£'000				
	Salary and allowances banded for the period in post	Performance Pay	Benefits in Kind (cash equivalent)	Pension Benefits	Total	Salary and allowances* banded for the period in post	Performance Pay	Benefits in Kind (cash equivalent)	Pension Benefits	Total
Mr Iain Gray Chief Executive	195 - 200 (260 - 265)	40 - 45	-	-	235 - 245	260 - 265	45 - 50	-	75 - 80	380 - 395
Dr David Grant Interim Chief Executive	20-25 (80-85)	-	-	-	20-25 (80-85)					
Mr Graham Hutchins Director	110 - 115	15 - 20	-	25 - 30	150 - 165	115 - 120	15 - 20	-	15 - 20	145 - 160
Mr David Way Director	N/A	N/A	N/A	N/A	N/A	70 - 75 (90 - 95)	10 - 15	-	10 - 15	90 - 105
Mr Mark Glover Director	120 - 125	20 - 25	-	-	140 - 150	120 - 125	20 - 25	-	45 - 50	185 - 200
Mr David Bott Director	N/A	N/A	N/A	N/A	N/A	120 - 125 (165-170)	10 - 15	-	-	130 - 140
Mr Simon Edmonds Director	135 - 140	20 - 25	-	20 - 25	175 - 190	135 - 140	5 - 10	-	85 - 90	225 - 240
Mr Nigel Townley	90 - 95	-	-	-	90 - 95	20 - 25 (90 - 95)	5 - 10	-	-	25 - 35
Mrs Aileen Thompson	90 - 95 (190 - 195)	-	-	-	90 - 95	80 - 85 (190 - 205)	-	-	-	80 - 85
Mr Simon Bennett	N/A	N/A	N/A	N/A	N/A	50 - 55 (100 - 110)	-	-	-	50 - 55
Mrs Anne Dixon	70 - 75 (100 - 105)	-	-	20 - 25	90 - 100	N/A	N/A	N/A	N/A	N/A
Mrs Linda Wallace	85 - 90 (110 - 115)	-	-	25 - 30	110 - 120	N/A	N/A	N/A	N/A	N/A
Mr Kevin Baughan	140 - 145 (145 - 150)	-	-	50 - 55	190 - 200	N/A	N/A	N/A	N/A	N/A
Highest Earner's Total Remuneration (£'000)	305 - 315					305 - 315				
Median Total Remuneration	33,489					39,984				
Ratio	9.26					7.95				

#### Notes

Mr Iain Gray	Ended employment in December 2014, and opted out of the pension scheme in March 2014
Dr David Grant	Interim Chief Executive 1 January to 30 April 2015
Mr David Way	Ended employment in December 2013
Mr David Bott	Ended employment in December 2013
Mr Mark Glover	Opted out of the scheme in March 2014
Mr Simon Edmonds	Lump sum transfer into pension scheme in FY 14-15 and 13-14
Mr Nigel Townley	Seconded from Cisco January 2014 to present
Mrs Aileen Thompson	Interim Director October 2013 to September 2014
Mr Simon Bennett	September 2013 to August 2014
Mrs Anne Dixon	Commenced employment in August 2014
Mrs Linda Wallace	Commenced employment in July 2014
Mr Kevin Baughan	Commenced employment in May 2014
Where applicable	Allowances include car, mortgage differential and season ticket



The banded remuneration of the highest-paid Director in Innovate UK in the financial year 2014-15 was £305k-£315k (2013-14, £305k-£315k). This was 9.26 times (2013-14, 7.95) the median remuneration of the workforce, which was £33,489 (2013-14, £39,984). This decrease in the median remuneration is driven by an increase in the number of operational and administrative staff.

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

	2014-15 £000	2013-14 £000
<b>The aggregate of salary costs, bonus and benefits in kind for senior employees:</b>	1,160	1,057

#### Salary and allowances, including performance pay

Salary and allowances, including performance pay, covers both pensionable and non-pensionable amounts and includes: gross salaries; performance pay or bonuses; overtime; allowances and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties.

#### Benefits in kind

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

#### Pension Benefits

<b>Chief Executive and Executive Directors</b>	<b>Total of accrued pension at age 60 as at 31 March 2015 and related lump sum</b>	<b>Real increase / (decrease) of pension and related lump sum at age 60*</b>	<b>Cash Equivalent Transfer Value (CETV) at 1 April 2014</b>	<b>CETV at 31 March 2015</b>	<b>Real increase / (decrease) in CETV</b>
£000					
Iain Gray Chief Executive	N/A	N/A	N/A	N/A	N/A
David Grant Interim Chief Executive	N/A	N/A	N/A	N/A	N/A
Graham Hutchins Executive Director	15-20	0-2.5	182	211	13
Kevin Baughan Executive Director	0-5	2.5-5	-	43	31
Mark Glover Executive Director	N/A	N/A	N/A	N/A	N/A
Anne Dixon Executive Director	0-5	0-2.5	-	21	15
Linda Wallace Executive Director	0-5	0-2.5	-	26	19
Simon Edmonds Executive Director	80-85	5-7.5	381	426	20

## Unaudited information

### Cash Equivalent Transfer Value

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

### Real increase in CETV

The real increase in the value of the CETV reflects the increase effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. Where the individual was not in post for the full year, the CETV at 31 March 2014 represents the value at their start date and the CETV at 31 March 2015 represents the value at their end date.

## Audited information

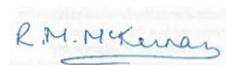
### Remuneration of Governing Board members

The standard honorarium paid to Governing Board members amounted to £9,180 per annum (2013-14: £9,180 per annum). The emoluments of the present Chairman, Phil Smith, were £15,720 – however, this payment goes towards a charitable donation. Non-consolidated bonus, benefits in kind and pension arrangements do not apply to Governing Board members. Total remuneration paid to Governing Board members is as follows:

	2014-15 £000	2013-14 £000
<b>Governing Board members' annual honoraria</b>		
Michael Carr	5-10	5-10
Dr Stewart Davies	5-10	5-10
Dr David Grant CBE	0-5	5-10
Andrew Milligan*	-	5-10
Sara Murray	5-10	5-10
Colin Paynter*	0-5	5-10
Ian Shott CBE	5-10	5-10
Professor, Sir Christopher Snowden FRS	5-10	5-10
Dr Robert Sorrell	5-10	5-10
Hazel Moore	5-10	5-10
Doug Richard	5-10	5-10
Phil Smith*	15-20	15-20

\* Payments made to charitable organisations through payroll 'just giving'.

Expenses paid to the Governing Board members in relation to travel and subsistence (T&S) reimbursements for the year 2014-15 were £34,446.



**Dr Ruth McKernan**  
**Chief Executive**

25 June 2015

## 6. STATEMENT OF RESPONSIBILITIES OF INNOVATE UK AND OF ITS CHIEF EXECUTIVE

Under the Science and Technology Act 1965, the Secretary of State for Business, Innovation & Skills (with the consent of the Treasury) directed the Technology Strategy Board (trading as Innovate UK) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Innovate UK and of its net expenditure, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by the Secretary of State for the Department of Business, Innovation & Skills (with the consent of the Treasury), including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis.

The Accounting Officer for the Department for Business, Innovation & Skills appointed the Chief Executive as Accounting Officer of Innovate UK. 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 Innovate UK's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money* published by the HM Treasury.

# 7. GOVERNANCE STATEMENT

## Chief Executive & Accounting Officer

### Introduction

This Governance Statement sets out the governance structures, risk management and internal control procedures that have operated within Innovate UK during 2014-15. It gives a clear understanding of the work of the Board and its control structure. It records the stewardship of the organisation and provides a sense of the organisation's performance and of how successfully it has coped with the challenges it faces. During 2014-15 the Technology Strategy Board changed its name to Innovate UK as part of a wider rebranding exercise.

Innovate UK's role is to help accelerate economic growth through the stimulation and support of business-led innovation. It works across business, academia and government, helping companies take concepts through to commercialisation. This means tackling the barriers to innovation by reducing risk, promoting collaboration and creating a more effective innovation environment, using its convening power to make connections and to bring different partners together. Key activities in 2014-15 to achieve these objectives have included:

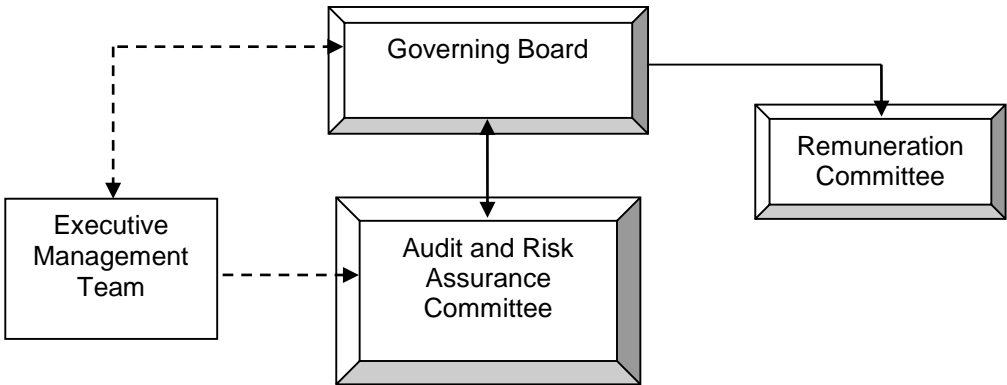
- planning to expand the network of Catapult centres following the Hauser review. The Catapults are world-leading centres of innovation designed to accelerate commercialisation in specific fields
- developing new channels of support for SMEs
- taking the UK lead for the delivery of the European Union's new innovation programme Horizon 2020
- establishing a new unified Knowledge Transfer Network spanning all industry sectors

Further information on Innovate UK's role and ambitions can be found in its strategy document *2011-15 Concept to Commercialisation*. This is underpinned by a series of annual delivery plans.

### How the Board is managed

Innovate UK is an executive non-departmental public body established by Royal Charter. Innovate UK's working relationship and lines of accountability with its sponsor, the Department for Business Innovation & Skills, are defined in the *Management Statement and Financial Memorandum*, which are subject to periodic review.

In my role as Innovate UK's Accounting Officer I am supported by a governance framework which includes the Governing Board, its Committees and Executive Directors.



## Governing Board

Members of the Governing Board are appointed by the Secretary of State for Business, Innovation & Skills and are drawn from business, the public sector and research communities by reason of their knowledge and experience of the exploitation of science, technology and new ideas by business.

Members have corporate responsibility for the actions of Innovate UK. The Governing Board meets at regular intervals throughout the year and exercises oversight of the activities of the organisation. It is specifically responsible for setting the strategic direction, vision and mission, agreeing corporate objectives, and approving the published strategies and annual delivery plans. It seeks to ensure that all activities, either directly or indirectly, contribute towards its mission. It brings an external perspective to ensure that the organisation is challenged on its economic impact and it monitors in year progress against the Delivery Plan. The Governing Board delegates responsibility to me as Chief Executive, and to other staff to the maximum extent possible. A formal process of delegation exists within the organisation which sets out responsibilities and financial limits.

The Governing Board met seven times in 2014-15. The table below shows Governing Board membership and attendance in 2014-15.

Name	Role	Number of Meetings	Number of Meetings Attended	Attendance Rate (%)
Phil Smith	Chair	7	7	100
Iain Gray CBE	Chief Executive	5	5	100
Mike Carr	Member	7	6	86
Dr Stewart Davies	Member	7	4	57
Dr David Grant CBE	Member/ Interim Chief Executive	4	4	100
Andrew Milligan	Member	2	2	100
Sara Murray OBE	Member	7	6	86
Colin Paynter	Member	3	1	33
Ian Shott CBE	Member	7	7	100
Professor, Sir Christopher Snowden	Member	7	7	100
Dr Robert Sorrell	Member	7	7	100
Doug Richard	Member	5	4	80
Hazel Moore	Member	7	7	100
Harry Swan	Member	2	2	100
Tera Allas	Member	1	1	100

Mr Iain Gray's contract as Chief Executive ended on 31 December 2014 and he was succeeded by Dr David Grant on an interim basis. I was appointed as Chief Executive from 1 May 2015.

Appointments are made in accordance with the Code of Practice of the Commissioner for Public Appointments. Governing Board members are required to declare their personal interests. Details of members' declared interests are available on the Governing Board's website. Members of the Governing Board are individually assessed by the Chair for contribution and effectiveness when the Secretary of State is considering their reappointment. New members receive a formal introduction to the Board, which involves meeting with the Executive Directors, introductory meetings with other Governing Board members and the Board Secretary along with information on the current Strategy and Delivery Plan, as well as previous Board papers, Management Statement (including royal charter) and Financial Memorandum.

During 2014-15 the Governing Board’s activities have focused on:

- approving and monitoring the annual delivery plan
- overseeing the financial situation and actions to reduce the potential in year deficit
- approving new IT strategies
- establishing a new Catapults Committee and reviewing plans for the expansion of the Catapults network
- the rebranding and renaming of the organisation
- senior appointments to the Executive Team

In line with good governance the Governing Board has undertaken a self-assessment exercise. The results of this exercise fed into the development of the new Board Operating Framework.

The Governing Board is supported and informed by the Audit and Risk Assurance Committee, the Remuneration Committee and the Catapults Committee.

**Audit and Risk Assurance Committee**

The Audit and Risk Assurance Committee includes three members of the Governing Board and one independent member. They met four times in the financial year 2014-15 to review internal and external audit matters, Innovate UK’s financial position and its risk management arrangements. The Committee reviewed and updated its terms of reference in 2013 in line with the latest guidance from HM Treasury. The terms of reference include monitoring of the application of internal controls and risk management, oversight of Innovate UK’s corporate governance arrangements and review of the financial statements. The Audit and Risk Assurance Committee receives and considers reports from both internal and external auditors.

The Audit and Risk Assurance Committee members in 2014-15 were:

Name		Meetings Attended (max 4)
Dr Robert Sorrell	Chair of Committee	4
Mike Carr	Board Member	4
Dr Stewart Davies	Board Member	4
Andrew Fyfe	Independent Member	4

The independent member was appointed to the Committee from December 2013 to strengthen its financial and accounting expertise. At the beginning of 2014-15 Dr Robert Sorrell replaced Mr Andrew Milligan as Chair of the Committee.

During 2014-15 the Committee’s activities have focused on reviewing:

- the Board’s financial position and actions taken to reduce the in year financial deficit
- key risks in the corporate risk register
- outcomes from reviews carried out by Internal and External Audit.

In addition to the formal meetings of the Committee, the Chairman has met with the Director of Finance and Governance on several occasions to discuss the Board’s financial position.

### **Remuneration Committee**

The Remuneration Committee met twice in 2014-15 and advised on executive salaries and other benefits. Members of the Remuneration Committee in 2014-15 were:

<b>Name</b>	<b>Role</b>	<b>Number of Meetings</b>	<b>Meetings Attended</b>
Phil Smith	Chair of Committee	2	2
Dr David Grant CBE	Board Member	1	0
Hazel Moore	Board Member	2	2
Colin Paynter	Board Member	1	1
Sara Murray OBE	Board Member	1	1

The Director of Innovation from the Department for Business, Innovation & Skills also has attendance rights at the Committee.

### **Catapults Committee**

In April 2014 the Board established a new Catapults Committee. The purpose of the Committee is to oversee the Catapults programme. It was given delegated authority by the Board to approve a number of Catapult business plans. Members of the Catapults Committee in 2014-15 were:

<b>Name</b>	<b>Role</b>	<b>Meetings Attended (max 4)</b>
Ian Shott CBE	Chair	4
Mike Carr	Board Member	4
Dr Robert Sorrell	Board Member	4

### **Executive Management Team**

The Executive Management Team (EMT) includes the Chief Executive and Directors. It is responsible for the operational delivery of the Board's strategy. During 2014-15 it met twice a month to ensure a corporate approach to business delivery and to review performance. It is responsible for managing Innovate UK operations and finances in line with the strategy, objectives and plans approved by the Governing Board.

There is a process of formal delegation of responsibilities from the Chief Executive to the Directors. Each year the Directors provide to the Chief Executive formal statements on the level of internal control and governance exercised within their Directorates. The 2014-15 declarations confirmed that satisfactory arrangements existed across the organisation.

During 2014-15 new appointments were made to the posts of Director of Communications, Director of Operations and Director of Technology and Innovation.

## **Risk Management and Internal Control within the Board**

### **Risk Management**

Risk management remains central to the work of Innovate UK. The EMT has identified the key internal and external risks facing Innovate UK and the achievement of its objectives. They review the progress in managing these risks regularly. The internal control process ensures that all risk procedures and activities are reviewed by management and staff delegated to do so. Delegated members of staff are aware of their responsibility to embed risk management in their activities.

Risks are evaluated in terms of impact and likelihood. Actions have been identified to mitigate risks. Innovate UK has determined its risk appetite according to the nature of the risk. It has a high tolerance for risk associated with research and development work, but a much lower tolerance for operational risks.



During 2014 Internal Audit undertook a review of Innovate UK's risk management arrangements and concluded that the organisation has satisfactory risk management processes which are operating effectively.

At each meeting the EMT reviews the top corporate risks. These are set out in the table below along with the actions being taken to mitigate the risks:

<b>Top Corporate Risks</b>	<b>Mitigating Actions</b>
Projected expenditure may exceed budget allocation leading to year end overspend	<ul style="list-style-type: none"> <li>• Improved monitoring of expenditure against budget</li> <li>• Review of operational controls over grant programmes</li> <li>• Review of Catapult finances</li> </ul>
2015 Spending Review or other post election changes could threaten Innovate UK's financial capacity to deliver enhanced role	<ul style="list-style-type: none"> <li>• Communicate current impact and future opportunities to BIS and other stakeholders</li> </ul>
Weaknesses in financial systems for grant and other activities (and consequent need for additional controls) could lead to error, loss or fraud	<ul style="list-style-type: none"> <li>• Business improvement activity and investment in new IT infrastructure</li> <li>• Grants of the Future project underway</li> </ul>
Future admin budget may not be sufficient to provide effective support to additional non-core Programme activity and expanded role as UK Innovation Agency may therefore be compromised	<ul style="list-style-type: none"> <li>• Review allocation of costs between programme and admin</li> </ul>
Malicious attacks on IT systems by external individuals/agencies or accidental loss of data by Innovate UK staff may lead to interruption of service, financial penalties and reputational damage	<ul style="list-style-type: none"> <li>• Implement recommendations of independent review of IT security following data breaches</li> <li>• Undertake further penetration testing</li> <li>• Acquire CyberEssentials accreditation</li> <li>• Provide further staff training</li> </ul>

## **Audit**

Internal Audit is provided by the UK Research Council's Audit and Assurance Services Group. Their work programme is risk based and aligned with the Board's own risk management and assurance framework. Key audits in 2014-15 have included:

<b>Audit Area</b>	<b>Assurance Outcome</b>	<b>Comments</b>
Project Governance	Moderate	
Counter Fraud Arrangements	Moderate	
Budgetary Control/Organisational Development	Underway	
Eurostars Grant Controls	Substantial	
Contractual Management of IT Suppliers	Limited	Opportunities identified to improve tendering and contract management procedures
Compliance with Cabinet Office Controls	Moderate	
Purchase to Pay	Moderate	
Health and Safety - Travel arrangements	Limited	Opportunities identified to improve risk assessment of overseas trips
Joint Superannuation Scheme	Substantial	
Contractual relationship with Catapults	Moderate	

For all the reports we have agreed action plans to implement recommendations. Internal Audit has also provided an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Its opinion for 2014-15 was that it could provide a moderate level of assurance.

In 2015 Internal Audit followed up the implementation of recommendations made in earlier audits. They found that most recommendations had been implemented.

External Audit is provided by the National Audit Office which provides an audit report on the financial statements of Innovate UK. In completing the 2013-14 audit the National Audit Office reported to the Board on the need for improved processes for project monitoring, better controls over journal transfers and more robust processes for recovery of grant overpayments. During 2014-15 Innovate UK has improved its processes to address these issues.

### **Control Issues in 2014-15**

During 2014-15 a number of areas were identified in which there was scope for improvement in the control environment.

- In preparation for increased budget allocations in future years Innovate UK expanded its grant commitments in 2013-14. A potential £45m overspend against budget was identified at the beginning of 2014-15, so control measures were put in place during 2014-15 to mitigate and manage it, including:
  - improved management of competition start dates
  - review of co-funding arrangements
  - increased scrutiny of proposed project amendments.

Consequently Innovate UK's financial outturn in 2014-15 was on budget. A longer-term project has recently commenced to improve the financial and operational control of our grants portfolio.

- Two data breaches occurred in 2014-15 during which confidential commercial information was mistakenly released. These incidents were investigated and there has subsequently been a full independent review of data security within the organisation. A plan has been devised for implementation of the recommendations. The breaches occurred through human error and failure to follow established procedures. There was no need to make a formal report of these breaches to the Office of the Information Commissioner.

- Internal audit and other reviews identified some instances of poor procurement practice. A new procurement policy has now been issued and regular checks will be carried out on compliance.

## **Value for Money**

In the current economic climate Innovate UK fully recognises its responsibilities to exercise tight financial control and achieve value for money in all its activities. To achieve these aims in 2014-15 it has:

- established a business improvement and change programme to deliver services more effectively
- updated its controls over procurement and its travel and subsistence policy
- used shared services facilities for procurement and building services
- published on its public website details of all grant funded projects and expenditure items over £25,000.

## **Tax Assurance**

Innovate UK has implemented the recommendations of HM Treasury's Review of the tax arrangements of public sector appointees. I confirm that the Chief Executive, Governing Board members, Executive Directors and senior officials with significant financial responsibility are on the organisation's payroll or have provided the appropriate assurances about their tax affairs.

## **MacPherson Review**

Innovate UK is compliant with the recommendations of the MacPherson review of quality assurance of Government analytical models.

## **Review of Effectiveness**

As Accounting Officer I have responsibility for conducting an annual review of the effectiveness of the organisation's system of governance, risk management and internal control. I have been in post only since 1 May 2015 but I have sought and received satisfactory assurances from my predecessors as Chief Executive.

Those assurances are informed by the work of executive managers and internal auditors within the organisation who have responsibility for the development and maintenance of the governance structure, internal control framework, and comments made by the external auditor in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The review is informed by:

- the Governing Board which meets every two months in order to consider Innovate UK's plans, strategic direction, performance reports and corporate governance issues
- Directors' and Senior Managers' Annual Statements on Internal Control. These statements provide the main evidence for the adequacy of internal control as they come from the managers responsible for the development and maintenance of the internal controls framework. The Directors have assured me that a satisfactory level of internal control existed in 2014-15
- regular reports by the internal Audit and Assurance Service including the Director of Internal Audit's independent opinion on the adequacy and effectiveness of Innovate UK's systems of

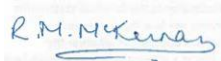
internal control; he has provided moderate assurance.

- The National Audit Office's report on the financial statements
- the Audit and Risk Assurance Committee which meets at least four times a year to discuss all aspects of corporate governance, including risk management and internal control
- a grant validation procedure involving monitoring officer visits and reports, and periodic audit reports which provide assurance on the regularity of innovation project expenditure by grant recipients.

I have also considered the control issues described above.

The conclusion of my review is that the Board's overall governance and internal control structures are appropriate for the level of risk it faces. It will continue to strengthen its arrangements in 2015-16 through:

- continuing improvements in financial management and forecasting
- strengthening arrangements for data security
- updating governance and procurement policies and procedures
- further evaluating the impact of its work in the light of a forthcoming Comprehensive Spending Review.



**Ruth McKernan**  
**Chief Executive**  
25 June 2015

## **8. 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 Technology Strategy Board for the year ended 31 March 2015 under the Science and Technology Act 1965. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Technology Strategy Board, Chief Executive and Auditor**

As explained more fully in the Statement of the Technology Strategy Board's and Chief Executive's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Science and Technology Act 1965. 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 Technology Strategy Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Technology Strategy Board; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

### **Opinion on regularity**

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

### **Opinion on financial statements**

In my opinion:

the financial statements give a true and fair view of the state of Technology Strategy Board's affairs as at 31 March 2015 and of the net expenditure for the year then ended; and

the financial statements have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State directions issued thereunder.

### **Opinion on other matters**

In my opinion:

the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Science and Technology Act 1965; and

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

### **Matters on which I report by exception**

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

adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

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

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

the Governance Statement does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

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

## 9. FINANCIAL STATEMENTS AND NOTES

### STATEMENT OF COMPREHENSIVE NET EXPENDITURE for the year ended 31 March 2015

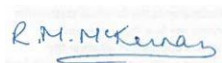
Expenditure		2014-15 <u>£000</u>	2013-14 <u>£000</u>
	<b>Notes</b>		
Staff costs	2	20,947	16,348
Programme support costs	3	20,722	19,984
Other operating costs	4	17,839	14,149
Technology and Grants	5	594,559	572,057
Depreciation and Amortisation	9,10	1,552	1,574
<b>Total operating expenditure</b>		<b>655,619</b>	<b>624,112</b>
Operating income	7	(1,462)	(1,147)
Co-funding Income	8	(56,313)	(41,820)
Eu income	8	(216)	(4,453)
<b>Total expenditure for the year</b>		<b>597,628</b>	<b>576,692</b>
net gain on investment property	11	(150)	(300)
<b>Total comprehensive net expenditure for the year</b>		<b>597,478</b>	<b>576,392</b>

The notes on pages 45 to 67 form part of these accounts.

# STATEMENT OF FINANCIAL POSITION

## as at 31 March 2015

		31 March 2015 <u>£000</u>	31 March 2014 <u>£000</u>
<b>Assets</b>	<b>Notes</b>		
<b>Non-current assets:</b>			
Property, plant and equipment	9	116	183
Intangible assets	10	1,158	2,643
Investment properties	11	4,950	4,800
<b>Total non-current assets</b>		<u>6,224</u>	<u>7,626</u>
<b>Current assets</b>			
Trade and other receivables	12	59,371	32,790
Cash and cash equivalents	13	(8,327)	6,249
<b>Total current assets</b>		<u>51,044</u>	<u>39,039</u>
<b>Total assets</b>		<u>57,268</u>	<u>46,665</u>
<b>Current liabilities</b>			
Trade and other payables	14	(27,882)	(28,121)
Bad debt provision	14	-	
Accruals	14	(150,932)	(173,612)
<b>Total current liabilities</b>		<u>(178,814)</u>	<u>(201,733)</u>
<b>Non-current assets less net current liabilities</b>		<u>(121,546)</u>	<u>(155,068)</u>
<b>Assets less liabilities</b>		<u>(121,546)</u>	<u>(155,068)</u>
<b>Taxpayers' equity</b>		<u>(121,546)</u>	<u>(155,068)</u>
Government funds		<u>(121,546)</u>	<u>(155,068)</u>



**Ruth McKernan**  
**Chief Executive**  
 25 June 2015

The notes on pages 45 to 67 form part of these accounts.



## STATEMENT OF CASH FLOWS

### for the year ended 31 March 2015

	Notes	2014-15 <u>£000</u>	2014-15 <u>£000</u>	2013-14 <u>£000</u>	2013-14 <u>£000</u>
<b>Cash flows from operating activities</b>					
Total expenditure for the year		(597,694)		(580,845)	
EU income		216		4,453	
Adjusted for:					
Depreciation and amortisation	9,10	1,552		1,574	
Gain on investment property	11	(150)		(300)	
Increase in receivables	12	(26,581)		(24,709)	
Increase in payables	14	(22,919)		31,331	
<b>Net cash outflows from operating activities</b>			(645,576)		(568,496)
<b>Cash flows from investing activities</b>					
Purchase of intangible assets	10	0		0	
Purchase of property, plant and equipment	9	0		(49)	
<b>Net cash outflows from investing activities</b>			0		(49)
<b>Cash flows from financing activities</b>					
Grant-in-aid received		631,000		554,000	
<b>Net cash inflows from financing activities</b>			631,000		554,000
Net decrease in cash and cash equivalents			(14,576)		(14,545)
Cash and cash equivalents at 1 April			6,249		20,794
Cash and cash equivalents at 31 March	13		(8,327)		6,249
Bank balance			(8,327)		6,249

The notes on pages 45 to 67 form part of these accounts.

## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY for the year ended 31 March 2015

	Notes	Government Funds	Total Reserves
		<u>£000</u>	<u>£000</u>
<b>Balance at 31 March 2013</b>		<b>(132,676)</b>	<b>(132,676)</b>
Retained deficit		(576,692)	(576,692)
Gain on acquisition		300	300
<b>Total recognised income and expense for 2013-14</b>		<b>(576,392)</b>	<b>(576,392)</b>
Grant-in-aid		554,000	554,000
<b>Balance at 31 March 2014</b>		<b>(155,068)</b>	<b>(155,068)</b>
Retained deficit		(597,628)	(597,628)
Gain on investment property		150	150
<b>Total recognised income and expense for 2014-15</b>		<b>(597,478)</b>	<b>(597,478)</b>
Grant-in-aid		631,000	631,000
<b>Balance at 31 March 2015</b>		<b>(121,546)</b>	<b>(121,546)</b>

The notes on pages 45 to 67 form part of these accounts.

# NOTES TO THE ACCOUNTS

## 1 STATEMENT OF ACCOUNTING POLICIES

### a. Basis of Accounting and Accounting Convention

These financial statements have been prepared in accordance with the 2014-15 *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 the most appropriate to the particular circumstances of Innovate UK for the purpose of giving a true and fair view has been selected.

These financial statements have been prepared under the historical cost convention, modified by the revaluation of non-current assets, where material. They comply with the Accounts Direction issued by the Secretary of State for Business, Innovation & Skills on 31 March 2010 in accordance with section 2(2) of the Science and Technology Act 1965.

The particular policies adopted by Innovate UK for 2014-15 are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

These financial statements are presented in £ sterling, the functional currency, and all values are rounded to the nearest thousand, except where indicated otherwise.

#### Going Concern

The accounts have been prepared on the basis of a Going Concern. Any deficit shown on the Government Funds will be extinguished over time, having regard to the resource and capital budgets to which Innovate UK can expect to have access from the sponsoring department, BIS.

#### Adoption of Standards and Changes in Policy 2014-15

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2015, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FReM.

#### Adoption of Standards and Changes in Policy effective for future financial years

The International Accounting Standards Board (IASB) and IFRIC issued certain standards and interpretations with an effective date after these financial statements. Where these changes are relevant to Innovate UK circumstances they are listed below and will be adopted at the effective date. They have not been adopted early and their adoption is not expected to have a material impact on Innovate UK's reported income or net assets in the period of adoption.

*IFRS 9 Financial Instruments: Classification and Measurement* (amended to be effective for periods beginning on or after 1 January 2015): – IFRS 9 is a replacement for IAS 39 and introduced new requirements for the disclosure of Financial Instruments and restatement of prior years. Innovate UK does not expect there to be any transactions requiring disclosure but will assess further as appropriate for the 2015-16 financial statements.

*IFRS 11 Joint Arrangements*: IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Innovate UK does not expect there to be any transactions requiring disclosure but will assess further as appropriate for the 2015-16 financial statements.

The IASB has published *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*, providing an exemption from consolidation of subsidiaries under *IFRS 10 'Consolidated Financial*

*Statements* for entities which meet the definition of an “investment entity”, such as certain investment funds. Instead, such entities would measure their investment in particular subsidiaries at fair value through profit or loss in accordance with *IFRS 9 Financial Instruments* or *IAS 39 Financial Instruments: Recognition and Measurement*.

## **b. Non-current assets, depreciation and amortisation**

Capital expenditure includes the purchase of property, plant and equipment valued at £250 or more. Individual items valued at less than the threshold are capitalised if they constitute integral parts of a composite asset that is in total valued at more than the threshold. Individual items valued at less than the threshold and not forming part of a composite asset have not been capitalised.

### Property, plant and equipment

Property, plant and equipment are accounted for in accordance with IAS 16. These assets are carried at modified historical cost less accumulated depreciation and any accumulated impairment losses.

In the opinion of Innovate UK there is no material difference between the depreciated historical and current cost values of the computing, office equipment and intangible assets. Accordingly these assets have not been revalued. This position is kept under review.

### Depreciation

Depreciation is calculated on a straight-line basis to write off assets over their useful economic life, commencing from when they are available to use and continuing to depreciate them until they are derecognised, even if during that period the items are idle. Furniture and fittings are depreciated over five to ten years and computers over three years.

### Intangible assets

Intangible assets are accounted for in accordance with IAS 38 and are carried at historical cost less accumulated amortisation. Acquired software is amortised over five years.

### Amortisation

Amortisation is calculated on a straight-line basis to write off assets over their useful economic life, commencing from when they are available to use. Information Technology (IT) expenditure and software purchased is amortised over five years.

### Impairment

The recoverable amount of the assets is measured annually to establish whether there is need for impairment in accordance with IAS 36. Innovate UK conducted its annual impairment review and concluded that there was no impairment requirement in 2014-15.

### Investment properties

Investment properties are measured using the fair value model as per IFRS 13. The fair value of investment properties reflects the market conditions at the end of the reporting period based on the rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions.

A gain or loss arising from a change in the fair value of investment property is recognised in the statement of comprehensive net expenditure in the period in which it arises.

## **c. Ownership of equipment purchased with Innovate UK grants**

Equipment purchased by an organisation with grant funds supplied by Innovate UK belongs to the organisation and is not included in Innovate UK’s non-current assets. Through the Conditions of Grant

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

**d. Grant-in-aid**

Grant-in-aid (GIA) is regarded as a contribution from a controlling entity thereby giving rise to a financial interest in the organisation; additional payments from the controlling entity are treated the same. Hence it is accounted for as financing on a cash basis. GIA is credited to the Government Funds in the statement of financial position. As a result, the income and expenditure account shows net expenditure for the year rather than a surplus or deficit, and is consequently named 'statement of comprehensive net expenditure'.

**e. Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated using the closing rate, which is the rate of exchange ruling at the year end date. Transactions in foreign currencies are recorded at the actual rate ruling at the time of the transaction. Gains and losses arising from movements in foreign exchange rates are taken to the statement of comprehensive net expenditure.

**f. Value added tax**

Innovate UK does not reclaim input VAT and therefore accounts for its transactions gross of VAT. Accordingly all purchases are shown inclusive of VAT.

**g. Technology grants**

Technology grant expenditure is recognised in the period in which eligible activity creates an entitlement in line with the terms and conditions of the grant. Accrued grants are charged to the statement of comprehensive net expenditure on the basis of estimates (refer to note 1m below) and are included in the accruals in the statement of financial position.

**h. Pension costs**

Employees of Innovate UK are entitled to be members of the Research Councils' Pension Schemes. The schemes are multi-employer unfunded defined benefit schemes and Innovate UK is unable to identify its share of underlying liabilities. Therefore the amount charged in the statement of net expenditure represents the contributions payable to the schemes in respect of current employees in the accounting period.

**i. Contingent liabilities**

The disclosure of contingent liabilities in the notes to the accounts is prepared in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*. No disclosure is made for those contingencies where crystallisation is considered to be remote or the amounts involved are immaterial.

**j. Operating leases**

Operating lease rental charges are included in the category Information Technology & Communications Charges within the expenditure heading Other Operating Costs which is shown in Note 4, and charged in the period they relate to in accordance with IAS 17. Operating lease rental income is included in Operating Income which is shown in Note 7.

#### **k. Co-funding income**

Innovate UK recognises grant-in-aid and any other grants from the parent department as financing. Therefore funding from other bodies is recognised as income on an accruals basis.

Where public and private sector bodies have agreed to fund or co-fund some of Innovate UK's research expenditure, such income is recognised when Innovate UK is entitled to the income. Income is deferred where there are conditions in the co-funding agreement that have not been met as at the year end.

#### **l. IFRS 8 – Operating segments**

The disclosure of the various operating segments allows for greater transparency with regard to financial reporting and has been presented in line with the financial investment strategy and the presentation of financial performance in the monthly management accounts.

#### **m. Accounting estimates and key accounting judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying value of the asset or liability. Where applicable these uncertainties are disclosed in the Notes to the Accounts.

In accordance with IAS 8, changes to accounting estimates are recognised:

- a) in the period in which the estimate is changed, if the change affects only that period
- b) in the period of the change and future periods, if the change affects both.

The only estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the technology grant accrual policy.

#### **Technology Grant Accrual**

The accounts include a grants accrual for each project where it has been determined that there is an unclaimed amount due to participants.

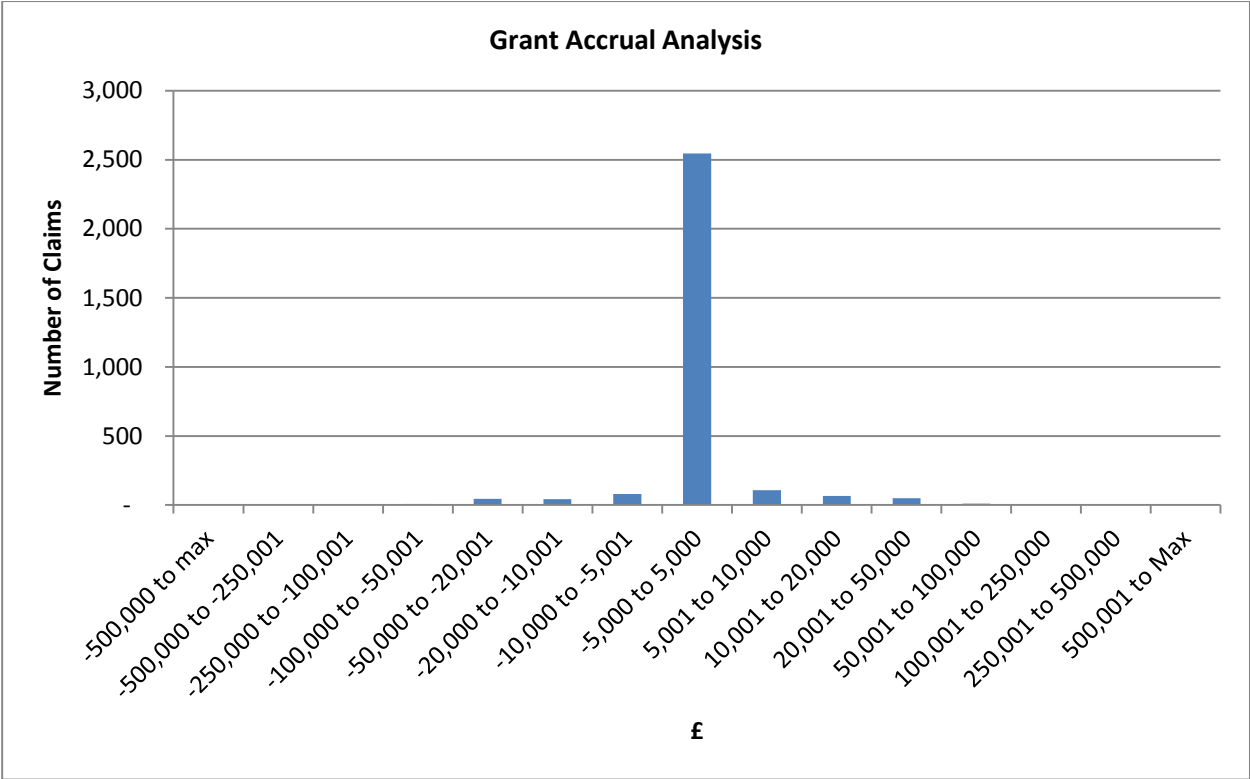
The accrual is based on participants' forecast of expenditure submitted with their latest claim, adjusted for the participants' historical forecasting accuracy. For a number of large projects, KTNs, the Micro and Nanotechnology (MNT) Centre and Catapults, Innovate UK contacts the participants directly to obtain further information and assurances on claims due at the year end date. For those grants that are based on procurements, Innovate UK confirms the accruals based on purchase orders raised for the period. The technology grant accrual at the end of March 2015 was £117.8m (2013-14: £165.6m).

The major sources of uncertainty in the estimate relate to the profiling of incurring and defraying the project costs that create the entitlement to the grant and the amount of the grant not utilised at the end of the project. The projects funded by Innovate UK are typically collaborations between private businesses and academia; this aspect introduces a degree of interdependency between project partners that may impact on the timing of individual work-packages. In addition, projects are typically two to five years long, which permits a degree of flexibility for grant recipients in the scheduling of their project activity. The projects seek to develop new technology-based products and services for future markets and as such are inherently uncertain in terms of their success and, related to this, the project duration and activity costs ultimately incurred.

The projects are accrued for on an estimated basis; the combined estimates of all the amounts owed to the projects make up a portfolio of liabilities for which Innovate UK is responsible.

As at 30 April 2015, the remaining grant accrual that has yet to unwind amounted to £34.0m. Within this amount there is an element of uncertainty as to the exact amount which will be claimed.

Of the participant risk adjusted share of this grant accrual, on a sample of 2,955 claims which were received at 30 April 2015, we can give an indication of the likely claim profile and therefore substantiate the accrual. From the chart below it can be seen that the majority of claims submitted (2545) were within +/- £5,000 of the amounts originally accrued.



## 2. STAFF COSTS

### a. Remuneration of senior employees

Remuneration of senior employees can be found in the Remuneration Report.

### b. Staff costs

	2014-15 £000	2013-14 £000
Permanent staff		
- Salaries and wages	13,654	10,047
- Social security costs	1,352	1,038
- Superannuation costs	2,907	2,113
	17,913	13,198
Agency and interim staff	2,938	3,048
Board members' fees	96	102
<b>Total staff costs</b>	<b>20,947</b>	<b>16,348</b>

### c. Average number of persons employed

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

	2014-15 Number	2013-14 Number
Permanent staff	258	185
Agency and interim staff	66	72
	<u>324</u>	<u>257</u>

### d. Remuneration of Governing Board and Committee members

Remuneration of Governing Board Members' details can be found in the Remuneration Report.

### e. Pension arrangements

Pension arrangements can be found in the Directors' Report.



**f. Compensation schemes and exit packages**

During 2014-15 there were three exit packages agreed (2013-14: None).

The total net redundancy cost incurred by Innovate UK was £14.7k (2013-14: None).

<b>Exit packages cost band</b>	<b>Number of voluntary redundancies agreed</b>
<£10,000	3 (0)
£10,000 to £25,000	0 (0)
£25,000 to £50,000	0 (0)
£50,000 to £100,000	0 (0)
£100,000 to £150,000	0 (0)
£150,000 to £175,000	0 (0)
	3 (0)
	3 (0)

**g. Off-payroll engagements**

Table 1: For all off-payroll engagements as of 31 March 2015, for more than £220 per day and that last for longer than six months. Comparative figures for 2013-14 are shown in brackets.

<b>No. of existing engagements as of 31 March 2015</b>	<b>2014-15</b>
	<b>18 (5)</b>
Of which...	
No. that have existed for less than one year at time of reporting	10 (1)
No. that have existed for between one and two years at time of reporting	5 (4)
No. that have existed for between two and three years at time of reporting	3 (0)
No. that have existed for between three and four years at time of reporting	0 (0)
No. that have existed for between for four or more years at time of reporting	0 (0)

Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months. Comparative figures for 2013-14 are shown in brackets.

<b>No. of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015</b>	<b>2014-15</b>
	<b>4 (4)</b>
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	0 (2)
No. for whom assurance has been requested	4 (4)
Of which...	
No. for whom assurance has been received	1 (4)
No. for whom assurance has not been received	3 (0)
No. that have been terminated as a result of assurance not being received	3 (0)

Table 3: For any off-payroll engagements of Board Members and/or senior officials with significant financial responsibility, between 1 April 2014 and March 2015. Comparative figures for 2013-14 are shown in brackets.

	<b>2014-15</b>
No. of off-payroll engagements of Board Members and/or senior officials with significant financial responsibility during the financial year	0 (1)
No. of individuals that have been deemed Board Members and/or senior officials with significant financial responsibility during the financial year.	
This figure should include both off-payroll and on-payroll engagements	1 (2)

### 3. PROGRAMME SUPPORT CONTRACTS

	<b>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>
Third party programme support contracts	2,625	3,009
IT platform	4,133	6,052
Monitoring officer and assessment fees and expenses	13,964	10,923
	<u>20,722</u>	<u>19,984</u>

The charges for third party programme support contracts are for the management and delivery of Innovate UK programmes. The 2014-15 figure includes £2.4m (2013-14: £2.1m) for KTP support costs. The monitoring officer fees are incurred on the monitoring of projects and the authorisation of claims within the collaborative research and development programme.

#### 4. OTHER OPERATING COSTS

	<b>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>
Travel and subsistence	1,935	1,353
Utilities, rent, rates and maintenance	1,096	(190)
Communications and events	7,803	6,450
Intervention management	2,799	2,970
General administration	1,966	2,095
Recruitment	1,145	907
Employee relocation costs	75	28
Office equipment	24	23
Information technology and communications charges	358	412
Auditor's remuneration	99	98
Interest paid	15	-
Exchange rate losses	524	3
	<b>17,839</b>	<b>14,149</b>

The amount charged in the year for operating leases was £450,481 (2013-14: £601,361). Of this, £0 (2013-14: £239,737) was included within information technology and communications charges and relates entirely to equipment, £347,852 (2013-14: £361,624) was included within rent, rates and maintenance and £102,629 (2013-14: £0) was included within general administration.

Auditor's remuneration includes £99,000 (2013-14: £98,000 plus £4,000 for additional work) for the statutory audit fee.

## 5. TECHNOLOGY GRANTS

	2014-15			2013-14		
	Gross grant expenditure £000	Co-funding income £000	Net grant expenditure £000	Gross grant expenditure £000	Co-funding income £000	Net grant expenditure £000
<b>Thematic interventions</b>						
Energy	25,868	(3,070)	22,798	24,203	(2,447)	21,756
Sustainability	6,243	(1,767)	4,476	3,738	(429)	3,309
Built environment	6,759	(1,063)	5,696	32,794	(2,914)	29,880
Urban living	2,623	(120)	2,503	0	0	0
Food supply	12,640	(6,058)	6,582	9,723	(6,132)	3,591
Transport	42,473	(18,871)	23,602	30,779	(14,273)	16,506
Space	1,068	(951)	117	5,004	(1,965)	3,039
Healthcare	52,436	(5,838)	46,598	50,205	(2,761)	47,444
High value manufacturing	19,488	(405)	19,083	14,190	(108)	14,082
Digital services	13,169	(80)	13,089	14,728	(20)	14,708
Advanced materials	7,073	159	7,232	6,920	(460)	6,460
Biosciences	9,656	(1,064)	8,592	5,515	(1,167)	4,348
Electronics, photonics & electrical systems	10,800	(1,323)	9,477	9,598	(1,679)	7,919
Information & communication technology	9,226	(686)	8,540	8,969	(775)	8,194
Development	3,709	(1,065)	2,644	5,504	(428)	5,076
<b>Subtotal thematic</b>	<b>223,231</b>	<b>(42,202)</b>	<b>181,029</b>	<b>221,870</b>	<b>(35,558)</b>	<b>186,312</b>
<b>Responsive interventions</b>						
Small Business Research Initiative	6,048	(1,091)	4,957	7,947	(2,058)	5,889
European Union Grant for Research & Development	3,464	2,196	5,660	2,773	(2,579)	194
Knowledge Transfer Networks	48,166	0	48,166	42,378	(8)	42,370
Knowledge Transfer Partnerships	11,596	(308)	11,288	16,648	(482)	16,166
Catapult Centres	18,360	(6,015)	12,345	17,682	(3,659)	14,023
Micro and Nanotechnology Centres	143,716	(8,188)	135,528	154,521	(1,250)	153,271
Non-core projects	919	0	919	598	0	598
Vouchers	136,104	0	136,104	104,750	0	104,750
	2,955	(921)	2,034	2,890	(679)	2,211
<b>Subtotal responsive</b>	<b>371,328</b>	<b>(14,327)</b>	<b>357,001</b>	<b>350,187</b>	<b>(10,715)</b>	<b>339,472</b>
<b>Total grant expenditure</b>	<b>594,559</b>	<b>(56,529)</b>	<b>538,030</b>	<b>572,057</b>	<b>(46,273)</b>	<b>525,784</b>
<b>Analysis of technology grants recipients:</b>						
Universities and not-for-profit private sector	82,214			65,196		
Other private sector	499,411			481,468		
Public sector	12,934			25,393		
<b>Total</b>	<b>594,559</b>			<b>572,057</b>		

## 6. OPERATING SEGMENTS

	2014-15			2013-14		
	Gross expenditure £000	Income £000	Net expenditure £000	Gross expenditure £000	Income £000	Net expenditure £000
<i>Thematic interventions</i>	223,231	(42,202)	180,029	221,870	(35,558)	186,312
<i>Responsive interventions</i>	371,328	(14,327)	357,001	350,187	(10,715)	339,472
<b>Total grant expenditure</b>	<b>594,559</b>	<b>(56,529)</b>	<b>538,030</b>	<b>572,057</b>	<b>(46,273)</b>	<b>525,784</b>
Programme delivery costs	20,722	-	20,722	19,984	-	19,984
Innovation climate	7,803	-	7,803	6,450	-	6,450
Intervention management	2,799	-	2,799	2,970	-	2,970
Payroll related costs	20,947	-	20,947	16,348	-	16,348
Other overheads	8,789	-	8,789	6,303	-	6,303
Other operating income	-	(1,462)	(1,462)	-	(1,147)	(1,147)
Net gain on revaluation	-	(150)	(150)	-	(300)	(300)
<b>Total expenditure</b>	<b>655,619</b>	<b>(58,141)</b>	<b>597,478</b>	<b>624,112</b>	<b>(47,720)</b>	<b>576,392</b>

Innovate UK's reportable segments are aligned to its internal management accounts and its financial investment strategy, which focuses on those areas of the economy where the UK has strength and which will provide the greatest impact.

Thematic programmes focus on societal challenges, cross-cutting competencies, enabling technologies and emerging technologies. The Knowledge Transfer Network represents investment in networks and knowledge exchange, as well as public engagement activities. Small Business Research Initiatives provide public sector procurement contracts to business for R&D to develop new products and services. EU programmes aim to assist UK businesses in accessing EU R&D funding, and in collaborating with EU partners.

The co-funding amounts represent financing received from EU and other governmental bodies, with whom Innovate UK works in partnership.

Total assets are not analysed by segment as assets are not allocated to segments in the management accounts.

## 7. OPERATING INCOME

	2014-15	2013-14
	£000	£000
KTP management fee recharge	(635)	(654)
Ticket sales	(100)	28
Rental income	(521)	(521)
Newton income	(206)	-
	<b>(1,462)</b>	<b>(1,147)</b>

The KTP management fee recharge represents our partners' share of the costs associated with the management and delivery of the KTP programme.

The financial objective is to ensure that every sponsor, including Innovate UK, shares the cost of managing and delivering the KTP programme. In 2014-15, the charge was calculated on the basis of the estimated cost to manage and deliver KTPs, calculated at the beginning of the financial year with reference to the active partnerships at the end of the previous year. The full cost of the estimated management and delivery charge was £2,633,296 (2013-14: £3,569,651). Innovate UK's share of these costs was £1,998,920 (2013-14: £2,915,251). Taking one year with another, the financial objective of sharing the costs of management and delivery on an equitable basis between the sponsors is achieved.

This information is provided for fees and charges purposes.

The rental income relates to the Blyth property which is let on two leases. The main lease relates to the majority of the site for a term of 25 years from 8 April 2011, with a passing rent of £478k per annum. The lease for Offshore House runs conterminously to the main lease with a passing rent of £43k per annum.

Ticket sales of £100k (2013-14: £28k) were received for the Innovate UK 2014 event.

GIA was received from BIS for the Newton Fund. This is a scheme which will focus on research and innovation capacity building in areas relevant to social and economic development challenges.

## 8. CO-FUNDING INCOME

	<b>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>
<b>Income from BIS Group</b>		
Biotechnology & Biological Sciences Research Council	1,232	1,532
Engineering & Physical Sciences Research Council	3,094	1,243
Economic & Social Research Council	1,028	1,001
Medical Research Council	3,123	1,170
Natural Environment Research Council	1,620	964
Business Innovation & Skills	1,502	2,133
UK Space Agency	951	1,965
Other BIS bodies	206	136
<b>Total income from BIS Group</b>	<b>12,756</b>	<b>10,144</b>
<b>Income from Central Government Departments</b>		
Department for Environment, Food & Rural Affairs	6,189	6,121
Department for Transport	23,637	14,136
Department of Energy and Climate Change	3,593	-
Department of Health	1,174	790
Other Government Departments	6,410	9,242
<b>Total income from Central Government Departments</b>	<b>41,003</b>	<b>30,289</b>
<b>Income from Other Bodies</b>		
European Community	216	4,453
Other UK	2,554	1,387
<b>Total Income from other bodies</b>	<b>2,770</b>	<b>5,840</b>
<b>Total income</b>	<b>56,529</b>	<b>46,273</b>

## 9. PROPERTY, PLANT AND EQUIPMENT

	Furniture and Fittings	Computers	Total
	£000	£000	£000
<b>Cost</b>			
At 1 April 2014	619	9	628
Additions	0	0	0
Disposals	0	0	0
<b>Cost at 31 March 2015</b>	<b>619</b>	<b>9</b>	<b>628</b>

### Depreciation

Depreciation at 1 April 2014	436	9	445
Charge for the year	67	0	67
Disposals	0	0	0
<b>Depreciation at 31 March 2015</b>	<b>503</b>	<b>9</b>	<b>512</b>

### Net Book Value:

<b>At 31 March 2015</b>	<b>116</b>	<b>0</b>	<b>116</b>
At 1 April 2014	183	0	183

	Furniture and Fittings	Computers	Total
	£000	£000	£000
<b>Cost</b>			
At 1 April 2013	570	9	579
Additions	49	0	49
Disposals	0	0	0
<b>Cost at 31 March 2014</b>	<b>619</b>	<b>9</b>	<b>628</b>

### Depreciation

At 1 April 2013	366	7	373
Charge for the year	70	2	72
Disposals	0	0	0
<b>Depreciation at 31 March 2014</b>	<b>436</b>	<b>9</b>	<b>445</b>

### Net Book Value:

<b>At 31 March 2014</b>	<b>183</b>	<b>0</b>	<b>183</b>
At 1 April 2013	204	2	206



## 10. INTANGIBLE NON-CURRENT ASSETS

	Information Technology £000	Software Purchased £000	Total £000
<b>Cost</b>			
At 1 April 2014	7,877	61	7,938
Additions	0	0	0
Disposals	0	0	0
<b>Cost at 31 March 2015</b>	<b>7,877</b>	<b>61</b>	<b>7,938</b>

<b>Amortisation</b>			
At 1 April 2014	5,234	61	5,295
Charge for the year	1,485	-	1,485
Disposals	-	-	-
<b>Amortisation at 31 March 2015</b>	<b>6,719</b>	<b>61</b>	<b>6,780</b>

### Net Book Value:

<b>At 31 March 2015</b>	<b>1,158</b>	<b>0</b>	<b>1,158</b>
At 1 April 2014	2,643	0	2,643

	Information Technology £000	Software Purchased £000	Total £000
<b>Cost</b>			
At 1 April 2013	7,877	61	7,938
Additions	0	0	0
<b>Cost at 31 March 2014</b>	<b>7,877</b>	<b>61</b>	<b>7,938</b>

<b>Amortisation</b>			
At 1 April 2013	3,735	58	3,793
Charge for the year	1,499	3	1,502
Disposals	0	0	0
<b>Amortisation at 31 March 2014</b>	<b>5,234</b>	<b>61</b>	<b>5,295</b>

### Net Book Value:

<b>At 31 March 2014</b>	<b>2,643</b>	<b>0</b>	<b>2,643</b>
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Included in the above carrying cost is £1,158,000 (2013-14: £2,643,000) for development costs of an internally developed IT platform (\_connect), comprising a grant management system application and a web portal that facilitates collaboration between Knowledge Transfer Network members, other industry groups and Innovate UK technologists. The Information Technology asset is an intangible asset and it has been capitalised since January 2011. The asset is amortised from this date for a period of five years. The assets were tested in May 2013 and there was no need for impairment. Additional expenditure in 2014-15 of £3.5m was expended on \_connect; however, this was not deemed to add

benefit to Innovate UK, but rather the external users of the system, and has therefore not been capitalised.

## 11. INVESTMENT PROPERTIES

	31 March 2015	31 March 2014
	£000	£000
<b>Carrying value as at 1 April 2014</b>	4,800	4,500
Additions	0	0
Transfers in (out)	0	0
Revaluations	150	300
Disposals	0	0
<b>Carrying value as at 31 March 2015</b>	<b>4,950</b>	<b>4,800</b>

Investment properties are measured using the fair value model.

The investment properties are valued at £4.95m (2013-14: £4.8m) and the cumulative changes in fair value recognised for the period ending 31 March 2015 in the Consolidation Statement of Comprehensive Net Expenditure (SoCNE) amounted to a net gain of £0.15m. The properties were valued on 20 January 2015 by independent valuers DTZ, in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors (MRICS). This valuation has been adopted at the reporting date on the grounds that there were no material changes in fair value between the valuation date and the reporting date.

The Blyth property income is based on two leases; the main lease relates to the majority of the site for a term of 25 years from 8 April 2011, with the next breakout clause in three years and a passing rent of £478k per annum. The lease for Offshore House runs conterminously to the main lease with a passing rent of £43k per annum.

### Future Receipts from Operating Lease

	Land and Buildings	
	31 March 2015	31 March 2014
	£000	£000
Not later than one year	-	521
Later than one year and not later than five years	521	521
Later than five years	-	-
<b>Total</b>	<b>521</b>	<b>1,042</b>

## 12. TRADE AND OTHER RECEIVABLES

	31 March 2015	31 March 2014
	£000	£000
<b>Amounts falling due within one year</b>		
Trade receivables	20,625	8,279
Other receivables	48	190
Bad debt*	(69)	(60)
VAT recoverable	-	607
Prepayments **	30,936	15,928
Accrued income	6,410	5,190
EU accrued income	1,421	2,656
<b>Total trade receivables</b>	<b>59,371</b>	<b>32,790</b>
<b>Analysis of receivables balance:</b>		
Bodies external to government	35,406	22,621
Other Central Government Bodies	23,965	9,914
Local Authorities	-	255
<b>Total</b>	<b>59,371</b>	<b>32,790</b>

\*The bad debt provision is based on a review of Innovate UK doubtful trade receivables.

\*\*Prepayments have increased due to additional advances on grants on the new five year grant funding agreements and two new Catapult centres.

## 13. CASH AND CASH EQUIVALENTS

The net funds at 31 March 2015 of £(8,327,293) comprise cash held within the Government Banking Service (31 March 2014: £6,249,390). Innovate UK held a negative cash balance as a payment file of £18.6m was processed on 30 March 2015 and GIA was in transit.

Third Party Assets held at 31 March 2015 were £1,177,688 (31 March 2014: £3,079,491). This represents cash received from the European Commission and held on behalf of European Partners to be distributed at a future date on completion of agreed claims and milestones.

## 14. TRADE AND OTHER PAYABLES

(a) Analysis by type	31 March	31 March
	2015	2014
	£000	£000
<b>Amounts falling due within one year</b>		
Trade payables	25,738	26,684
Other payables	383	272
Bad debt provision	-	-
Other taxation and social security	432	308
Deferred income	1,219	857
VAT	110	
Financial liabilities		
Grant accruals	141,890	165,607
Other accruals	9,042	8,005
<b>Total</b>	<b>178,814</b>	<b>201,733</b>

### (b) Analysis by source

#### Amounts falling due within one year

Other Central Government Bodies	3,071	3,197
Local Authorities	15	0
NHS bodies	0	5
Public corporations and trading funds	89	0
Bodies external to government	175,639	198,531
<b>Total</b>	<b>178,814</b>	<b>201,733</b>

## 15. CONTINGENT LIABILITIES

As at 31 March 2015 Innovate UK has a single contingent liability. The liability may arise if Innovate UK has to provide a grant to Narec (Natural Renewable Energy Centre) in order for them to be able to decommission a weather monitoring platform in the North Sea. This is currently collecting data to support the development of an offshore wind test site. This may take place anytime between three and 25 years from now dependent on the development of the site, at an estimated cost of £2.5m.

## 16. COMMITMENTS

### a. Capital expenditure

Innovate UK has no capital commitments to disclose.

### b. Operating lease commitments

	Land and Buildings		Other	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Not later than one year	227	189	277	289
Later than one year and not later than five years	284	448	-	-
Later than five years	-	-	-	-
<b>Total</b>	<b>511</b>	<b>637</b>	<b>277</b>	<b>289</b>

In connection with a move to new offices, Innovate UK entered into a lease. After an initial 18-month rent-free period, rental payments commenced in May 2010. Innovate UK may terminate the lease on 8 June 2017 or 18 June 2022 by giving the landlord at least 12 months' prior written notice.

### c. Grant commitments

Innovate UK had the following commitments at the statement of financial position date:

	31 March 2015 £m	31 March 2014 £m
Payable within one year	767	598
Payable in two to five years	1,693	1592
Payable beyond five years	-	102
<b>Total commitment</b>	<b>2,460</b>	<b>2,292</b>

## 17. RELATED PARTY TRANSACTIONS

- a. Innovate UK is a NDPB, sponsored by BIS during the period covered by this Annual Report and Accounts. BIS is regarded as a related party.

During the year, Innovate UK had a number of transactions with BIS and with other entities for which BIS was regarded as the parent Department, such as: AHRC; BBSRC; EPSRC; ESRC; MRC; the Natural Environment Research Council (NERC); and the Science & Technology Facilities Council (STFC).

In addition, Innovate UK had material transactions with other government departments and with other central government bodies, such as: Intellectual Property Office, Foreign and Commonwealth Office, Defra, the Department of Health, the DFT, DECC and the Ministry of Defence.

Innovate UK also had material transactions with devolved administrations, such as the Scottish Government and the Welsh Assembly Government.

- b. These accounts provide disclosure of all material financial transactions with those who have been defined as 'Directors'. In the context of Innovate UK this has been taken to include members of the Executive Board and all Governing Board members.

During the year, Innovate UK did not enter into any transactions with any such Directors. However, it did enter into a number of material transactions with bodies connected with Directors, who had no direct interest in the grant concerned. The information includes transactions with any related party of these Directors. The disclosed transactions are receipted co-funding income, grant and administrative expenditure, and year end receivables, payables and accrued income and grant expense balances where such analysis is available. None of the Directors was involved in the recommendation of grants awarded to the body to which they are connected.

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

## Innovate UK Board Material Transactions

Director	Organisation	2014-15			2013-14		
		Net Expenditure £	Debtor £	Creditor £	Net Expenditure £	Debtor £	Creditor £
Aileen Thompson	Institute of Directors	2,700			14,835		
Andrew Milligan	Standard Life Investments	1,853					
Anne Dixon	NPL Management Ltd	370,604		105,475			
	Medical Research Council	701,973	341,502	2,500			
Professor, Sir	University of Surrey	444,648		223,121	595,197		550,177
Christopher Snowden	The Royal Society	8,901			9,912		3,720
	Science & Technology Facilities Council				63,821		
	IET				3,500		
	Universities UK	195					
Colin Paynter	Astrium Ltd	489,424		145,751	1,104,169		592,942
	Surrey Satellite Technology Ltd	535,039		617,617	3,150,234		91,807
	Airbus	154,929					
Dr David Bott	Royal Society of Arts				22,384		
	Institute of Materials, Minerals & Mining				1,559,860		597,951
	Frost & Sullivan Ltd				59,825		
	University of Sheffield				4,638,581		316,499
Dr David Grant	IQE	146,909		4,863	217,634		45,189
	Renishaw Plc	451,629		123,583	252,623		168,087
	DSTL	2,701,337			1,982,482		
	IET				3,500		
Harry Swan	Cella Acquisition Ltd T/T Cella Energy	128,768		49,151	49,151		
	Thomas Swan & Co. Ltd			2,362	2,362		
Iain Gray CBE	City University	605,211		138,620	407,939		
	Energy Technologies Institute	6,490,000		1,769,300	10,208,000		
	Institute of Directors	2,700			14,835		
	RSA (Royal Society for the Encouragement of Arts)	135,000			22,384		
	University of the West of England	477,147		97,079	545,669		

Director	Organisation	2014-15			2013-14		
		Net Expenditure £	Debtor £	Creditor £	Net Expenditure £	Debtor £	Creditor £
Ian Shott	University of Nottingham	3,678,261		1,480,327			
	Shott Consulting				2,091		
	Chemoxy Int Ltd				10,893		
	BPE Design and Support	2,637		3,240			
Mark Glover	Science & Technology Facilities Council	132,858	5,000	18,045			
	Knowledge Transfer Network	13,360,533		2,778			
Mike Carr	Ordnance Survey				2,071		
	British Telecom	337,853					
Nigel Townley	CISCO Systems Ltd	490,638		175,017	443,590		
Phil Smith	CISCO Systems Ltd	490,638		175,017	443,590		
	NCUB (National Centre for Universities & Business)	200,000					
Dr Robert Sorrell	Institute of Directors	2,700					
	BP				41,858		
Sara Murray	RSA (Royal Society for the Encouragement of Arts)	135,000			22,384		
Simon Edmonds	Energy Technologies Institute	6,490,000		1,769,300			
Dr Stewart Davies	Augean Plc	3,458			16,096		13,269
	Balfour Beatty				57,057		54,496
Tera Allas	BIS (Department for Business, Innovations & Skills)	(126,514)	208,662				



## **18. FINANCIAL INSTRUMENTS**

Due to the largely non-trading nature of its activities and the way in which it is financed, Innovate UK is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IAS 32, IAS 39 and IFRS 7 mainly apply. Innovate UK has very limited powers to borrow or invest funds, and its financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Innovate UK in undertaking its activities.

### **Liquidity and credit risks**

Innovate UK's net revenue resource requirements are financed by resources voted on annually by Parliament. In order to meet liabilities falling due in future years Innovate UK is dependent on continuing funding from its sponsoring department, BIS, and other government bodies, who have committed to co-fund specific projects and/or programmes.

### **Interest rate risk**

None of Innovate UK's financial assets or liabilities is subject to interest; therefore Innovate UK is not exposed to interest rate risk.

### **Foreign currency risk**

Innovate UK has been exposed to foreign currency risk during the reporting period of £0.5m. Innovate UK will continue to assess the potential risk throughout the year but does not anticipate any material change due to the volume of transactions.

## **19. EVENTS AFTER THE REPORTING PERIOD**

In accordance with the requirements of post Statement of Financial Position events are considered up to the date on which the accounts are authorised for issue; this is interpreted as the same date as the date of the Certificate Report of the Comptroller and Auditor General. There are no post Statement of Financial Position events between the statement of financial position date and this date.

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