

Innovate UK

Technology Strategy Board (Innovate UK) Annual Report and Accounts 2015/16



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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. Innovate UK works with people, companies and partner organisations to find and drive the science and technology innovations that will grow the UK economy - delivering productivity, new jobs and exports. Our aim at Innovate UK is to keep the UK globally competitive in the race for future prosperity.

Innovate UK is the trading name of the Technology Strategy Board, which is an executive non-departmental public body sponsored by the Department for Business, Innovation & Skills, and incorporated by Royal Charter in England and Wales with company number RC000818. Registered office: North Star House, North Star Avenue, Swindon SN2 1UE

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This Annual Report and Accounts covers the financial year 2015/16, ending 31 March 2016.

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.

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Introduction from the Chairman



It is my pleasure to introduce Innovate UK's Annual Report and Accounts for the financial year 2015/16 – an eventful and successful year.

In the summer of 2015 the new Government took office, followed in the autumn by the Comprehensive Spending Review, which brought welcome affirmation of the importance of the organisation's role and its place both in the innovation landscape and in the economic infrastructure of the UK.

This was the first full year of operating formally under the name of Innovate UK. This refreshed identity expresses the organisation's purpose well and this year has been welcomed across the worlds of business, government and research.

In May we welcomed Ruth McKernan on board as Innovate UK's new Chief Executive. She has quickly made her mark as a dynamic and effective leader, and together with the Executive Management Team has built on the good work of her predecessors and taken the organisation successfully through a year of improvement and change.

A major exercise for the team has been considering the organisational shape which will allow Innovate UK to achieve its goal of accelerating innovation most effectively in the future. The new sector grouping¹ which has been developed, in place from April 2016, will make Innovate UK's support easier to understand and more accessible to innovative UK businesses.

An increasingly visible indication of Innovate UK's success is the progress of the innovative companies with whom it has worked. It is gratifying to see many of the businesses involved growing from strength to strength – dramatically in some cases, as in the sale this year of start-up SwiftKey to Microsoft for \$250m.

We now look forward to the publication in 2016 of Innovate UK's new strategy for 2016-20. I am confident that its focus on the best ways to support and inspire business-led innovation, delivered by an excellent team, will result in even greater future impact in terms of increased productivity and economic growth.

Phil Smith
Chairman

¹ See page 8

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Foreword from the Chief Executive



I am very pleased to introduce our Annual Report and Accounts for 2015/16, my first year as Chief Executive of Innovate UK.

It has been another successful year for Innovate UK, and the impact of what we do is becoming ever clearer. Since 2007 we have invested around £1.8bn in innovation, which has been more than matched by the private sector – returning up to £13.1bn to the economy. We have supported innovation in 7,600 organisations, creating around 55,000 new jobs; more than 7 for each company we have worked with.

Helping companies start up and grow is an important part of our role – and Innovate UK is itself a good example of a ‘scale-up.’ In the 8½ years since inception our budget has grown to over £550m of core funding, plus more than £220m in delivery partnerships, managed by a team of about 300 staff. This means continuous change and innovation in our own business.

So in 2015/16 we focused on what we need to do to build on our success and achieve still greater impact in the future. At the start of the year, we introduced our new 5-point plan for driving UK innovation and productivity growth. We ensure that all our activities are underpinned by this plan. Towards the end of the year, we simplified our structure and processes following the Dowling Review recommendations. From April 2016 we

have a sector groups approach to our support for businesses, outlined on page 8, with fewer, broader competitions making it simpler for businesses to identify the best funding opportunity for them.

Our network of Catapults continues to develop, with two new Catapults announced this year: Medicines Discovery in the North West and Compound Semiconductor Applications in South Wales. This brings the network to eleven Catapults across the UK.

Vital to the support we offer is the strength of the Innovate UK ‘family’ – the Catapults network, the Knowledge Transfer Network, the Enterprise Europe Network and our National Contact Points, focusing on European innovation support. The Dowling Review called for simplification in the innovation landscape, and we are working across this family with the aim of making it easier for businesses seeking innovation advice and funding opportunities.

Innovate 2015 – our innovation, networking and showcase event run in partnership with UK Trade & Investment – was a high point. Held in November, it was our largest and most successful event to date. We look forward to Innovate 2016, in Manchester, which will be our first event of this scale outside London. Innovate 2015 was complemented by the Venturefest series of events around the country, bringing together small businesses, entrepreneurs, academics, investors and support services to foster new relationships and facilitate innovation.

In 2015/16 our innovation funding programmes, and the companies we work with, continued to make very good progress. Many of these companies’ stories are highlighted in our new publication *Innovation with Impact: 50 companies succeeding with Innovate UK*² which we will update each year.

Our financial forecasting relies largely on forecasts of grant usage from the businesses we fund, and in recent years this has given us significant budgeting challenges. In the past two years, we have focused on addressing this with new processes, and it is a testament to the hard work of our teams that we completed the year just 0.77% below the core spend budget planned.

We now look to 2016/17. During the year, the start of a new Spending Review period, we will publish our strategy for 2016-20. Operationally, we will roll out our simplified competition structure followed by initial trials of our new digital application system. An important programme, already under way, is working with government to design new innovation finance products, broadening the funding options we offer businesses for different stages of their journey from concept to commercialisation. We will also be further developing our regional presence in 2016/17, working in partnerships with existing networks.

Government is determined to ensure that the UK continues to play a leading role in European and international research. While the results of the European referendum may impact on some elements of Innovate UK’s current work in the medium to long term, there will be no immediate changes to our operations and we will continue to support businesses applying to EU programmes such as Horizon 2020.

We have an expert and committed team, extremely strong partnerships across research, industry and government and a proven track record up, at which to build.

I look forward to another exciting year to come.

Dr Ruth McKernan, CBE
Chief Executive

² Available at www.innovateuk.gov.uk

Performance Report

3.1 Overview

A year of transition

The 2015/16 financial year was a transitional one for Innovate UK.

It was the final year covered by our 5-year strategy, *Concept to Commercialisation – a strategy for business innovation 2011-2015*; so while we continued the work set out in that strategy, we were busy preparing its successor, to cover the next four years.

As part of the transition to the new strategy, this year we planned significant changes to the way we work. Our main focus for the last 5 years was on investing in high-potential innovation projects in several priority areas. This has enabled us to make excellent progress and build momentum right across the UK economy.

Our focus for the next period will be to build on that momentum to accelerate sector growth. This means focusing not only on the opportunities, but also on the growth of the businesses those opportunities create – and how those exciting new companies can accelerate the value chains of entire business sectors.

We therefore reorganised our support and our teams into much clearer sector groups, to take effect from 1 April 2016. These are:

- Emerging and Enabling Technologies
- Health and Life Sciences
- Infrastructure Systems
- Manufacturing and Materials

During the year we also developed a five-point plan which will underpin the activity of the sector groups, ensuring we focus on driving productivity growth:

1. Working with the research community and across Government to turn scientific excellence into economic impact
2. Accelerating UK economic growth, nurturing small, high-growth companies with strong productivity and export success
3. Building on innovation excellence throughout the UK, investing locally in areas of strength
4. Developing Catapults within a national innovation network
5. Evolving our funding models; helping public funding go further

We created a simplified structure for funding competitions to reduce the multiplicity of formats and make competitions clearer for business to access; and began work on a new streamlined online application system. To strengthen the way we connect businesses with knowledge, partners and opportunities, and increase our regional presence, we moved towards closer integration of our networks (Knowledge Transfer Network and Enterprise Europe Network) to form a joined up national and regional innovation support network for business.

All these changes are outlined in our Delivery Plan 2016/17 which was published on 8 April 2016.

While working on these developments, at the same time we completed another successful year supporting business

innovation through all our established programmes and processes.

Statutory basis and history

Innovate UK is the trading name of the Technology Strategy Board, which was incorporated by Royal Charter on 7 February 2007 and 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 around technology innovation that were previously the responsibility of the Secretary of State for Trade and Industry.

The organisation is a business-led executive Non-Departmental Public Body (NDPB) and its primary source of funds is Grant-in-Aid allocated by its sponsoring body, the Department for Business, Innovation & Skills (BIS). As the UK's innovation agency Innovate UK also delivers grant-funded innovation programmes on behalf of, and in partnership with, other government departments and public bodies.

In summer 2014, the organisation adopted Innovate UK as its trading name. This expresses better our role and purpose and was already widely familiar as it had been the address of our web presence since 2008. Innovate UK is now used in all communications (although for statutory purposes the name of the organisation is still the Technology Strategy Board).

Funding

Our support for innovative businesses essentially takes two forms: funding and connecting.

The businesses whose projects we support through funding range from pre-startup and early stage micro companies to larger corporates and multinationals.

Funding is usually provided through competitions. In 2015/16 these competitions fell into two broad categories: ‘challenge’ funding (where we identify a specific issue or problem and offer funding to businesses who can propose viable solutions) and responsive or ‘open’ funding (where businesses can approach us seeking funding for their own innovative ideas or concepts in any technology area).

Challenge funding

The types of challenge funding we offered in the year included:

- Catalysts: funding for businesses and researchers working in priority areas where the UK already has a leading research base, and where there is clear commercial potential. We run these competitions in partnership with the Research Councils.
- Collaborative research and development (CR&D): encouraging businesses to work with each other, and/or with academic researchers, on innovative projects to solve specific technical or societal challenges. New products, processes and services that emerge from these projects can contribute to both business and economic growth. We opened 15 new CR&D competitions in 2015/16,

addressing a wide variety of themes, (see priority areas section for details).

- Feasibility studies: enabling businesses to test innovative ideas to see whether they could be developed and eventually taken to market. We ran 15 competitions for feasibility studies this year.
- Small Business Research Initiative (SBRI): providing businesses with public sector procurement contracts (often funded by other public sector bodies) so they can research and develop new products and services that will solve public sector challenges. In 2015/16 Innovate UK funded three SBRI competitions – a long-term care revolution competition worth up to £4m, phase 2 of the learning technologies design for impact competition, worth up to £2m, and phase 1 of a stratified medicine competition, which is continuing into the next financial year and will eventually be worth up to £10m.

We also supported 43 SBRI competitions in partnership with and funded by other government bodies such as the NHS and MoD, amounting to around £63m of investment in innovation.

Responsive or ‘open’ funding

Responsive funding gives businesses the opportunity to approach us with an innovative idea. The responsive funding we offered in 2015/16 included:

- Funding for early-stage innovation projects from which successful new products, processes and services could emerge. Projects could be to prove a concept, prove a market, or develop a prototype, and grants ranged from £25k to £250k. Under the heading of Smart awards, Innovate UK received 2,227 applications for this type of support in 2015/16, and made 360 offers with a total value of £38.6m.

In October 2015 we ran our first SME Innovation Awards, recognising great examples of innovation among companies that had received funding support from Innovate UK. The winners in each category received their awards from Science Minister Jo Johnson at a House of Commons reception.



They were:

Innovation leading to business transformation: **Oxis Energy**

Innovation leading to new markets: **Cobalt Light Systems**

Innovation leading to productivity improvement: **Endomag**

Innovation attracting investment: **Discuva**

Inspirational innovation award: **Snap Fashion** (pictured)

- Helping startups and small and medium enterprises (SMEs) pay for specialist knowledge to help them innovate and grow. In 2015/16 we awarded £4.7m in Innovation Vouchers, each worth up to £5,000.
- Building knowledge and talent in business. Accessing and embedding the right knowledge and talent is fundamental to business growth and competitiveness. Knowledge Transfer Partnerships (KTPs) help businesses draw on the academic expertise in the research base by seconding a recently qualified individual into the company to work on an innovative project. In total, Innovate UK and the 12 KTP co-funding partners committed around £24m to KTPs during the year, with 238 KTPs

started and 290 projects completed. In 2015, Innovate UK and the sponsors of KTP commissioned an independent study which highlighted a £7.5-£8 return for every £1 of grant funding invested through the programme.

To a large extent, the UK's prospects for economic growth depend on SMEs, 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. The vast majority of our funding programmes provide opportunity for SMEs.

Whatever their size, our role is to help companies take their ideas on the difficult journey to market.

Connecting

The disconnected nature of the innovation landscape poses difficulties for businesses trying to find support. Our networks help businesses make connections with inspiration and ideas, with partners and collaborators and with potential customers. These connections and resources take many forms.

Catapults and other 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, transforming ideas into new products and services to generate economic growth.

Catapults offer concentrated expertise and, often, access to specialist facilities to develop and test ideas in reality. They use the power of people and organisations working together to unlock opportunities and speed new products and services towards commercial reality.

We have now established and funded 11 Catapults, (see map, right) each focusing on an area which is strategically important in global terms and where there is genuine potential for the UK to gain a competitive advantage.

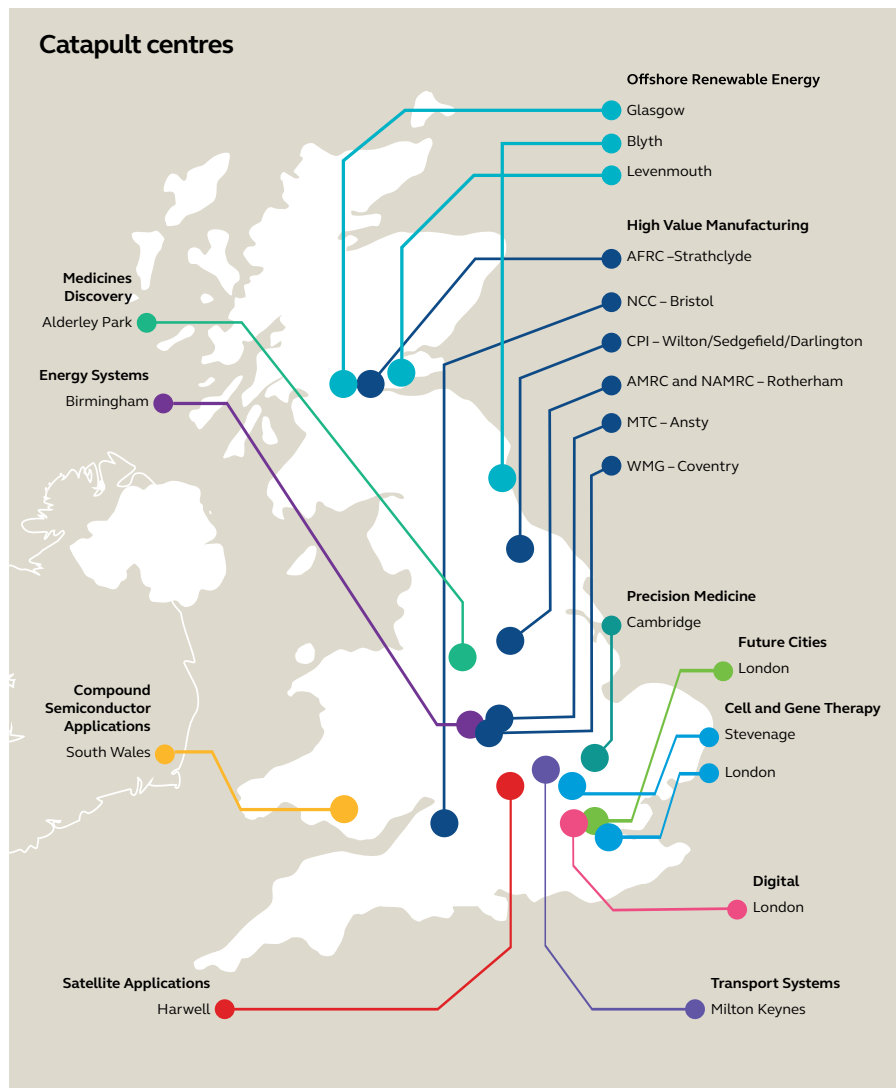
Highlights for each Catapult are included under Priority Areas. For more information see www.catapult.org.uk

Innovation and Knowledge Centres (IKCs) are a key component of our approach to commercialising emerging technologies. Based in universities, they help to create early stage critical mass in an area of disruptive technology.



This year's Best UK KTP Partnership award went to Signal Media and Essex University's School of Computer Science and Electronic Engineering for their work on natural language processing applications, which will allow Signal's media monitoring service to learn and adapt to users' needs.

The partnership has helped Signal to raise £1.2m from private investors and to grow from 3 to 23 staff – including taking on Miguel Martinez-Alvarez, the graduate who worked with Signal on the project, as head of research.



Networks

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) creates connections, dialogue and partnership between people with different expertise, specialisms and backgrounds.

The Enterprise Europe Network (EEN) is a multi-country network part-funded by the European Commission. It helps SMEs to build overseas collaborations and access European Union (EU) funding programmes, supply chain partnerships and export opportunities with a focus on innovation. Since early 2015, Innovate UK has run the EEN in England, Wales and Northern Ireland, aligned with Scottish Enterprise which manages the EEN in Scotland.

During the year we began a process to forge closer links between the KTN and EEN – and between the EEN and our National Contact Points who help businesses access European funding programmes – all to deliver a smoother, simpler service to companies seeking support.

During the year we continued to invest, with our research council partners, in four IKCs:

- Centre for Secure Information Technologies (CSIT) – Queen’s University Belfast
- Synthetic Biology Innovation and Commercialisation Industrial Translation Engine (SynbiCITE) - Imperial College London
- Sustainable Product Engineering Centre for Innovative Functional Industrial Coatings (SPECIFIC) - Swansea University
- Centre for Smart Infrastructure and Construction (CSIC) - University of Cambridge

We regularly organise events under the heading Collaboration Nation, where companies which have won feasibility study funding can showcase their projects to potential partners and investors. The autumn 2015 event featured 73 projects across the areas of advanced materials; biosciences; electronics, sensors and photonics; and information and communication technology.

European and international

European Union (EU) and international activities are an important part of our work, as the opening of our new office in Brussels this year reflects.

The EU's Horizon 2020 programme offers funding for projects that improve Europe's science base, help Europe attract investment in research and innovation, and address societal challenges affecting European countries - such as climate change or food security.

Innovate UK helps give UK businesses and research organisations visibility of Horizon 2020 funding opportunities through our network of National Contact Points and the Horizon 2020 UK web resource – which we relaunched on GOV.UK this year (www.gov.uk/horizon-2020).

In 2015/16, with other funders, we participated in two challenge competitions for EU funding: the ECSEL¹ Joint Technology Initiative and the Solar ERA-NET² photonics-based sensing technologies competition.

We also partnered with the Newton Fund to run collaborative research and development competitions in Turkey, Brazil, Mexico and Malaysia for the first time. The Newton Fund, managed by the Department for Business, Innovation & Skills, has £75m a year to promote the economic development and welfare of 15 partner countries.

¹ Electronic Components and Systems for European Leadership

² European Research Area Networks

Access to finance

Access to sources of investment is vital for high-growth potential businesses. We have helped businesses make connections with the financial investment community, particularly by inviting them to be represented on a searchable database of funded companies, the GrowthShowcase. This connects innovative UK SMEs with equity investors. In 2015/16 the number of companies represented grew from 60 to more than 92, and the number of investors using the platform from 200 to 243.

Missions

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

This year we ran 2 entrepreneur missions to the USA on the theme of space, and a connected cities entrepreneur mission to Malaysia and Singapore, in partnership with UKTI, for SMEs working in our urban living priority area.

In July 2015 we joined the UK government and the Newton Fund on a mission to Malaysia.

Innovate 2015

The Innovate 2015 event took place in November at Old Billingsgate, London and was run by Innovate UK in partnership with UKTI. The largest Innovate event yet, it shone a global spotlight on UK innovation, attracting more than 2,500 innovators, international investors and buyers to explore new collaborations and opportunities. A survey of attendees showed an 88% overall satisfaction rating.

Collaboration

...with Research Councils

We work extremely closely with the Research Councils, and already have a wide range of co-funded programmes. Of the collaborative projects we are currently supporting, some 82% involve academic partners. During 2015/16, Research Council co-funding committed to Innovate UK programmes amounted to some £290m for academics working on business-led collaborative projects. This is an increase of 37% over the previous year.

Currently, in an unprecedented partnership between Innovate UK and all 7 councils, we are developing the Urban Living Partnership; a programme that will harness the strength of UK research and innovation to make city life more healthy, prosperous and sustainable.

In September 2015, we invited consortia of research organisations, urban government, business, the civic sector and others to take part in a £2m pilot phase covering 4 or 5 cities, to scope out the challenge and refine the approach. At the end of the financial year, 41 city/research consortia had applied.

In November 2015 Sir Paul Nurse's review, Ensuring a Successful UK Research Endeavour, advised bringing the research councils together under one body. He advised that if included in this, Innovate UK's different customer focus and delivery mechanisms should be taken into account. The 2015 Comprehensive Spending Review confirmed the plan to include Innovate UK in the new body.

...with higher education institutions

This year saw substantial achievements through the Innovation and Commercialisation of University Research (ICURe) pilot programme, which we funded in partnership with the Higher Education Funding Council for England (HEFCE).

The programme aims to accelerate the successful commercialisation of UK academic research. In the pilot so far, out of 142 teams applying to the programme, from 13 universities, 63 teams were accepted into the programme and 51 have so far completed the training, mentoring and market validation of their commercialisation opportunity. From these, 21 new companies have been formed and 10 of these have shared in £5m public funding through the Innovate UK Aid for Start-Ups. In addition, these companies have already raised over £5.4m in private investment. Teams participating in the programme have also secured some £4.5m in research funding and numerous licencing deals are in negotiation.

The ICURe pilot will continue until September 2016 and additional applications have already been received which, if successful, will enter the programme during 2016/17.

Priority areas: highlights of the year

Over recent years, in line with our Concept to Commercialisation strategy, we have focused particularly on a number of priority areas, based on their potential to generate sustainable UK economic growth.

Across these areas there is a large portfolio of innovation projects which we have committed to invest in over the years, as well as new initiatives launched in 2015/16. Here are some highlights from each area.

Agriculture and food

In mid 2015 we launched a competition investing up to £10 million in collaborative R&D projects to address a societal challenge - enhancing the nutritional quality of food and drink through the reduction of sugar, salt and fats, and increasing dietary fibre.

The Agri-Tech Catalyst supports the proof of concept development of near-market agricultural innovations. This year it ran its fifth and sixth rounds of competitions, 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).

In 2013 the UK Strategy for Agricultural Technologies committed £90m to establish centres for agricultural innovation. Established with government funding through Innovate UK, the centres will help the UK turn agricultural innovation into commercial opportunities for UK businesses, encourage inward investment and improve farming practice. Agrimetrics, the first of the centres, opened in October 2015 and is focused on agricultural informatics and metrics. Three further centres will follow during 2016.

Built environment

We supported and part-funded LENDERS³, a project led by the UK Green Building Council, which encourages lenders to include houses' energy efficiency ratings in



In August 2015, Intrexon Corporation bought genetics-based insect control company Oxitec in a \$160m deal. Oxitec's early research was funded by BBSRC, and 3 grants from Innovate UK helped the company prove that research in the field. Trials in Brazil in June 2013 proved the company's techniques could completely suppress the Brazilian dengue mosquito – a capability that became particularly attention-grabbing around the end of the financial year, when the Zika virus became a national news story.

³ Levering Economics for New Drivers to Energy Reduction & Sustainability

mortgage calculations. If lenders buy into the idea that energy efficiency materially affects a house's value, the project could alter the structure of the mortgage market, encouraging productivity and energy efficiency in both the market and the housing stock itself.

The project will start by building an evidence base to support the case for the change, then create a methodology to allow lenders to make the change easily. It draws on the expertise of Nationwide Building Society, Principality Building Society, the Zero Carbon Hub, Constructing Excellence in Wales, the Building Research Establishment, the Energy Saving Trust, Arup and University College London.

This year we published the results of our Building Performance Evaluation Programme and launched the Building Data Exchange. We started working on this programme in 2009, making it one of the longest-running projects in our history.

The Building Data Exchange, created by the Digital Catapult, is the largest data collection of its kind in existence. It aims to help constructors make sense of the wealth of data amassed during the Building Performance Evaluation Programme, covering best practice and pitfalls in constructing modern, energy efficient buildings.

In February 2016 we invited five coding teams to a hackathon to discover gaps, visualisations and innovative applications among the data. The winning team, ActIf, built a SaaS (software as a service) program that gives users direct feedback about light and noise in their building, linking building performance explicitly to the comfort and happiness of the inhabitants.

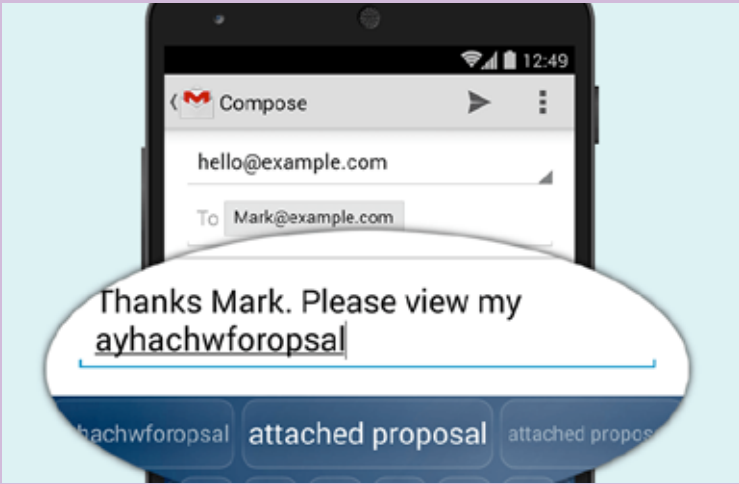
Digital economy

The 'internet of things' involves connected objects sharing data and insights with each other and with people, creating new value opportunities. We delivered an internet of things cities demonstrator, worth up to £10m, on behalf of (and funded by) the Department for Culture, Media and Sport (DCMS) – and followed it up with an internet of things hardware accelerator worth up to £1m, to support innovative startups working on internet of things hardware.

We have also been one of the main drivers behind the establishment of Hypercat, the industry standard for secure and interoperable internet of things applications.

Our third cross-platform production competition offered up to £4m of government funding (via the DCMS), to cutting edge digital media businesses creating film, TV and games content using the latest visual effects and performance capture technologies. This year also saw a notable success story emerge from a previous competition: 2013 winners Industrial Light & Magic wowed cinema audiences with their visual effects work on Star Wars: The Force Awakens, created in their newly established London studio.

In 2015/16 we continued to match established digital businesses with companies, often SMEs, which could help to solve their challenges through innovation. We offered up to £2m of



In February 2016, Microsoft bought predictive mobile keyboard company SwiftKey for \$250m.

Innovate UK granted SwiftKey £15k for a feasibility study in 2008, then £50k to develop a working prototype in 2009. The SwiftKey app was downloaded more than 100,000 times in its first week on Google Play, and more than 1m times within 24 hours of listing on Apple's App Store. Now one of the best-selling mobile apps of all time, it is installed on more than 300m devices worldwide.

funding competitions and business support through our IC tomorrow programme, in the fields of virtual/augmented reality, quantified/digital health, urban living/smart spaces and the retail and sharing economy.

Energy

The Energy Catalyst was set up in 2013 to encourage innovation to address the energy 'trilemma' of reducing emissions, improving security of supply and reducing cost. It was established by Innovate UK, the Engineering and Physical Sciences Research Council (EPSRC) and the Department of Energy and Climate Change (DECC), working in partnership. DFID joined as a co-funder in 2016. This year the Energy Catalyst ran its third round of competitions for innovative projects in this area.

We launched a new Energy Systems Catapult, and continued our support for the Offshore Renewable Energy Catapult.

We also ran a competition for a second phase of research into integrated supply chains for energy systems, with winning projects focusing on areas such as food refrigeration in retailing, and community energy systems.

Health and care

In 2015 work began on the new Cell and Gene Therapy Catapult Manufacturing Centre in Stevenage, for which we will provide up to £34m of funding between 2014 and 2017.

This year we launched the Precision Medicine Catapult, with its headquarters in Cambridge and regional centres in Manchester, Leeds, Belfast, Cardiff, Glasgow and Oxford. In July 2015 the Chancellor of the Exchequer announced a new Catapult to be established in Cheshire, the Medicines Discovery Catapult. Together with the Cell and Gene Therapy Catapult, this forms a complementary network of centres focusing on different aspects of healthcare innovation.

In December 2015, the major players in stratified and precision medicine came together for an event capitalising on Innovate UK's last 5 years of co-ordinating funders and government to align strategy in this field. At the event we launched the beta version of Mapping the UK Precision Medicine Landscape (www.pmlandscape.ktn-uk.org), which maps all the facilities and infrastructure supporting precision medicine, to encourage collaboration between companies, academics and clinical organisations.

High value manufacturing

The Industrial Biotechnology Catalyst is run in partnership with the BBSRC and 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. This year the Industrial Biotechnology Catalyst ran its fourth round of competitions.

We continued our support for the High Value Manufacturing Catapult with up to £56m of funding in the year. Two new High Value Manufacturing Catapult centres, the National Biologics Manufacturing Centre and the Advanced Engineering Training Centre, opened their doors this year, and development began on the National Formulation Centre, a unique resource that will deliver the next generation of formulated products across a wide range of markets.

The Manufacturing Technology Centre, also part of the High Value Manufacturing Catapult, has been working in partnership with the Aerospace Technology Institute to complete the Advanced Engineering Training Centre, which opened its doors to students in September 2015.

Resource efficiency

We continued to support the Great Recovery project, run by the Royal Society of Arts, which aims to help the UK shift to a more 'circular' economy. We also awarded around £4m of funding, in partnership with EPSRC, to a series of projects focusing on recovering valuable materials from waste – looking at materials as diverse as coffee, egg shells, kaolin and cement kiln dust.

Space applications

We with capital we ran two entrepreneur missions to the USA on the theme of space, one focusing on space applications and the other on CubeSat - a miniaturised satellite concept for space research. Both resulted in tangible inward investments for companies involved.

In-orbit demonstrators was a key programme under development in 2015/16. In 2014 a new demonstrator satellite, TechDemoSat-1, was launched, and under the control of the Satellite Applications Catapult has been successfully sending data from the eight research projects and experiments on board. Building on this success, in 2016 the Catapult acquired the first of four further small satellites (with co-funding from Innovate UK). The in-orbit demonstration projects run on these will be provided by UK businesses sourced through Innovate UK competitions.

In November 2015, Innovate UK and the Natural Environment Research Council (NERC) launched a funding competition for collaborative R&D projects and technical feasibility studies focused on innovations to improve the productivity of agri-food systems using satellite technology.

Transport

In the aerospace sector, we ran a third highly innovative technologies in aerospace competition worth up to £10m.

A major delivery partnership is with the Aerospace Technology Institute (ATI). At the end of 2015/16 the portfolio value – the funding commitment total of ‘live’ ATI projects combined with new offers – was in the region of £600m.

In low carbon vehicles, we collaborated with the Office for Low Emission Vehicles (OLEV) on two joint-funded competitions offering a total of up to £40m. The first was Integrated Delivery Programme competition 12: seeding tomorrow’s vehicle technologies today, with funding for a wide range of vehicle technologies.

The second competition focused on lightweight vehicle structures.

We also opened two competitions aiming to position the UK as a global centre for intelligent mobility:

- transport as a system – enhancing the end to end journey, worth up to £10m
- connected and autonomous vehicles, offering up to £20m from the Centre for Connected and Autonomous Vehicles. This resulted in eight new projects to develop enhanced communication between vehicles and roadside infrastructure or urban information systems.

We continued our support for projects in the Niche Vehicle Network Programme with £1.2m of direct programme funding, which included £500k from OLEV.

We continued to work as the delivery partner with the Advanced Propulsion Centre (APC). In 2015 Innovate UK launched the fourth and fifth competitions which it has managed on behalf of the APC and BIS. At the end of 2015/16 the portfolio value was over £180m.

In other areas of transport, we launched a Marine Technologies Roadmap in association with the Department of Transport (DfT), and continued our partnership with the Rail Safety and Standards Board delivering matched grant funding for SMEs innovating for the Rail Sector.

During the year we continued our funding for the Transport Systems Catapult in Milton Keynes.

Urban living

In November 2015 we announced the findings of an investigation into the return on investment from our 2012 Future Cities Demonstrator competition.

Out of 30 local authorities, each of which ran a £50k feasibility study, 29 reported significant benefits. Most of the authorities received further investment from partner organisations as a result of the study, and at least three quarters had taken forward at least some aspects of their studies by the end of 2013. Five of the participating authorities – Belfast, Bristol, London, Milton Keynes and Peterborough – have raised £107m between them in additional private and public investment to help realise aspects of their studies.

The Demonstrator also led to new and ongoing partnerships between the cities’ authorities and their local businesses and universities.

From October we ran our Future Cities Dialogues programme to explore future scenarios for urban living and discuss these directly with the public. Results will shape our future programme and will be published later in 2016.

Also in October we opened our Cities Integrated by Design competition. Successful projects are developing the business cases for wider integration of planned infrastructure work with other city systems to generate greater value and solve multiple urban challenges.

Emerging technologies

This year we ran the first ever call for feasibility studies in the field of biofilms, with up to £2.5m from Innovate UK and BBSRC to help companies evaluate the potential of recent developments in biofilm science and to develop processes, tools and techniques to exploit biofilms for beneficial applications. Further investments were made in quantum technologies and graphene.

In January 2016, the Chancellor of the Exchequer announced that we would establish a new Compound Semiconductor Applications Catapult based in Wales. Compound semiconductors are at the heart of many devices we use today, and are central to development of the 5G network, high-efficiency lighting, power electronics for the next generation of electric vehicles and new imaging techniques.

During 2015 we published two significant roadmaps – looking at opportunities in quantum technologies and non-animal technologies.

Enabling technologies

This year we published our strategy for Design in Innovation and accompanied it with a new Design in Innovation award – the first award of its kind ever in the UK. The winner, announced at Innovate 2015, was Arctic Shores, a company using gaming technology to help employers make accurate personality assessments of job candidates

Our Collaboration Nation event in October 2015 gave small and micro businesses the opportunity to showcase the results of projects funded by the £3m Technology

Inspired feasibility study competition to potential partners and investors.

Among the Innovation and Knowledge Centres which we co-fund is the Centre for Secure Information Technologies (CSIT) at Queen's University in Belfast, which received phase 2 funding this year from Innovate UK and EPSRC. The number of new jobs created in the cybersecurity cluster in Belfast now exceeds 1,200, driven largely by the CSIT. In 2015 the Centre was awarded a Queen's Anniversary Prize for Higher and Further Education.

Risks

The Governance Statement (page 28) 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.

The main identified risks are covered in the Risk Management section within the Governance Statement.

Going concern

Innovate UK is treated as a going concern on the following basis.

The total expenditure of £727.2m (2014/15: £597.5m) has been transferred to reserves. Total reserves at 31 March 2016 amounted to a deficit of £187.8m (31 March 2015: £121.5m). 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 2019/20.

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's Management Statement issued by DIUS, the Department for Innovation, Universities and Skills, the precursor to BIS, in June 2007.

The Comprehensive Spending Review presented in November 2015, covering 2016/17 to 2019/20, confirmed allocated budgets for Innovate UK until 2019/20. Accordingly, it has 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.

3.2 Performance Summary

As the UK's innovation agency, our role is to fund, support and connect innovative British businesses to accelerate sustainable economic growth. Economic evaluation shows the very significant impact of our work since we were established in 2007 (see right).

Financial performance

In the 2015/16 financial year, against the real cash outflow allocation, we recorded an underspend of £4.2m (0.77%) against a budget of £547.5m.

For more details see Performance Analysis.

The Impact of Innovate UK



3.3 Performance Analysis

Financial: allocation and outturn

In the 2015/16 financial year, the budget increased by £161.9m (2014/15: £30.3m) to £777.8m (2014/15: £615.9m).

Core funding is defined as budget which forms Innovate UK's baseline funding agreed at Spending Reviews or through fiscal events and allocated via the Innovation Directorate in the Department for Business, Innovation & Skills (BIS).

Non-Core refers to all other programmes delivered on behalf of Government Departments or other BIS policy areas,

which do not form part of Innovate UK's baseline and fiscal event funding defined as core.

Innovate UK's Core budget was £553.3m and in addition we received a Non-Core budget of £224.5m, making a total budget of £777.8m.

Overall, Innovate UK recorded £47.5m (2014/15: £18.4m) underspend against the budget allocation.

Within our Core programme, Innovate UK recorded an underspend of £9.2m against a budget of £553.3m (2014/15: £0.2m).

This included a £5.0m underspend against Non-Cash¹ (budget allocation of £5.8m), which could not be utilised during the year.

Therefore against the real cash outflow allocation, Innovate UK recorded an underspend of £4.2m (0.77%), against a budget of £547.5m.

Innovate UK recorded an underspend against our Non-Core allocation of £38.9m against a budget of £224.5m (2014/15: £18.2m).

The table below gives a comparison of outturn against allocation:

	Non-Cash ¹ £000	Resource £000	Capital £000	Total £000
Total net expenditure for the year ²	804	632,187	-	632,991
Treatment of capital grants	-	-	94,235	94,235
Total comprehensive net expenditure for the year	804	632,187	94,235	727,226
Expenditure on non-current assets ³	-	-	3,078	3,078
2015/16 Outturn - Total Expenditure	804	632,187	97,313	730,304
2015/16 Budget Allocation	5,784	648,811	123,200	777,795
In year (over-)/underspend	4,980	16,624	25,887	47,491

¹ 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.

² Taken from the Statement of Comprehensive Net Expenditure.

³ Taken from the Statement of Cash Flows.

How we operate

We continuously improve our capability across a range of metrics, to ensure we focus on the needs of business, remain effective and deliver good value for money. In 2015/16 we made strong progress in this area.

Business improvement and change

Our Business Improvement and Change (BIC) programme was launched in 2014/15 as a three-year transformation plan to focus on cross-functional projects to help the organisation scale up.

Two BIC projects were successfully completed in 2015/16: Improving our Brand; which included fully adopting the trading name Innovate UK, and Improving our IT Experience, building a next-generation, flexible IT service recognising the needs of our staff whether office-based or in the field.

The BIC portfolio consists of five other projects which progressed well and will continue.

- **Transforming our innovation systems and services.** We made very good progress in developing our new end-to-end online system for competition applications, with the endorsement of the Government Digital Service. The system was piloted in Spring 2016, to go live later in the year and will ensure an easier and more consistent journey for the customer as well as more efficient processing internally. During the year we also planned a new CRM (customer relationship management) system.
- **Managing the portfolio to budget.** This involves measures to improve the accuracy of forecasting grant

expenditure by the companies whose projects we support; it is due to complete in 2016.

- **Finance Transformation:** this year we focused on identifying requirements for developing our finance systems.
- **Improving our current processes,** which focuses on a number of areas. In 2015/16 we simplified the system used for Knowledge Transfer Partnerships (KTP) to make it more consistent.
- **Simplification** of our funding and connecting offers. This programme includes the simplification of our funding competitions into fewer and broader options (to be launched in May 2016), and the ongoing development of our 'connecting' service, which will offer clearer guidance and signposting for innovative businesses.

The BIC programmes generated annualised savings of £1.29m in 2015/16.

Alongside BIC, we have a proactive programme to look more widely at areas to improve and have trained the entire organisation in continuous improvement.

Integrated customer support

Integrated customer support is vital to our work, so in 2015/16 we fully rolled out our new Customer Support Service structure, which enables more first-time resolution of customer calls. We managed over 43,000 queries through the support service; 90% were resolved within 48 hours and over 95% within 120 hours. A new telephony platform has also enabled more accurate and timely management of calls.

Our annual survey showed that our customer satisfaction levels exceeded the national public sector averages.

Impact and evaluation

Measuring the impact of what we do is critical to enable understanding of the impact and value we create. Robust evaluation helps us to improve delivery and impact and, with more rigorous analysis of opportunities, will help steer future investments.

This year we published an evaluation of the Smart programme for early stage funding.

We also published an independent evaluation of Knowledge Transfer Partnerships which showed a strong return on investment (see page 10).

We engaged more with the academic community on impact research and evaluation, contributing to the funding of the Enterprise Research Centre, building the evidence around how small companies grow, and establishing an Innovation Caucus to draw on excellence across the social sciences to inform our decision making and delivery of support.

People and resource planning

To achieve our objectives, we have a highly skilled team of specialist and professional staff with a wide range of capabilities, most with a strong track record in business.

During the year we recruited into key roles at Executive Director level, to strengthen the Leadership Team in line with our new sector grouping to take effect from 1 April 2016.

We have developed 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. We aim to manage rewards

in line with the public sector restrictions whilst also attracting and retaining the required skills and expertise.

With a need to carefully manage our overhead costs, we operate a rigorous approach to recruitment management. Our staff base during the year remained stable.

At the beginning of the year we launched our first graduate recruitment scheme, tapping into new talent to find a small number of potential key staff for the future. Seven new graduates joined us during the year under the scheme and have received structured support for their development, as well as contributing directly to our activities.

We continue to develop all our staff with a well-established process of quarterly reviews, at which personal development plans are reviewed, and a broad core training programme. We have introduced 360 degree feedback to support personal development plans.

At Innovate UK we aim to embed equality and diversity in all we do. We have a comprehensive suite of employment policies that embrace ACAS (Advisory, Conciliation and Arbitration Service) best practice and in 2015/16 rolled out management recruitment and selection training that included “dignity at work” and “unconscious bias” awareness. We collect data on our staff in terms of gender and ethnicity, and in 2015/16 worked on our diversity strategy and action plan which will be published in 2016.

In December, the Government announced its Comprehensive Spending Review covering 2016-20. This indicated that Innovate UK’s annual investment in

innovation during this period would remain at the same levels as in 2015/16 – but that, as stated in our 5-point plan, our support for business would evolve to include a wider range of finance products. These may include loans or other models. Therefore from December 2015 we began to work with BIS on what form these products can best take to meet the needs of business, and how they can be delivered.

Currently, much of Innovate UK’s expenditure in a year is in fulfilling grant commitments from previous years. This change has implications for resource planning across all our activities – including the possibility that our staffing requirement will change. We will therefore start work during 2016/17 to determine the required shape, size and skillsets of the organisation to meet our future needs. A voluntary exit scheme was opened in March 2016. The intent of this is to support the re-shaping of Innovate UK in 2016/17 and to mitigate any requirement for redundancies.

Employee engagement

Staff engagement is a key metric for us. Innovate UK takes part in the Civil Service People Survey and this year’s results showed we have an engagement index 9 percentage points above the survey average, and 5 points above the survey’s high performer index. The Executive Management Team agrees key actions based on each year’s survey results.

Information is provided to employees through all-staff meetings, internal briefings, Human Resources Staff and Managers’ Guidance, office notices, email, and the intranet site. The Chief Executive’s regular all staff updates brief staff on progress, achievements and challenges

associated with the organisation. In addition, these meetings engage, consult with and empower staff towards continual organisational improvement.

Consultation with employees takes place through meetings with line management, senior staff and the Staff Consultative Committee (SCC), 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. The SCC, which was established in 2009 in line with the Information and Consultation of Employees Regulations 2005 (ICE), meets on a regular basis.

Innovate UK encourages the involvement of employees in the organisation’s performance through a performance related pay scheme. The outcome is dependent on the achievement of personal stretch objectives and the overall performance of Innovate UK.

Communication

For an organisation such as Innovate UK, outstanding communication is an integral part of achieving its goals.

Research is showing that, one year after adopting the name Innovate UK, we are three times more visible to businesses than we were previously.

We employ a mix of channels to deliver our communications, but we are heavily digitally biased. In 2015/16 we began to deliver an audience-driven digital content strategy which quickly began to reap rewards, with online data showing a continuously upward trend of engagement with our online presence over the year.

Portfolio Trends

The businesses whose projects Innovate UK supports through funding range from pre-startup and early micro companies to large and corporate multi-nationals.

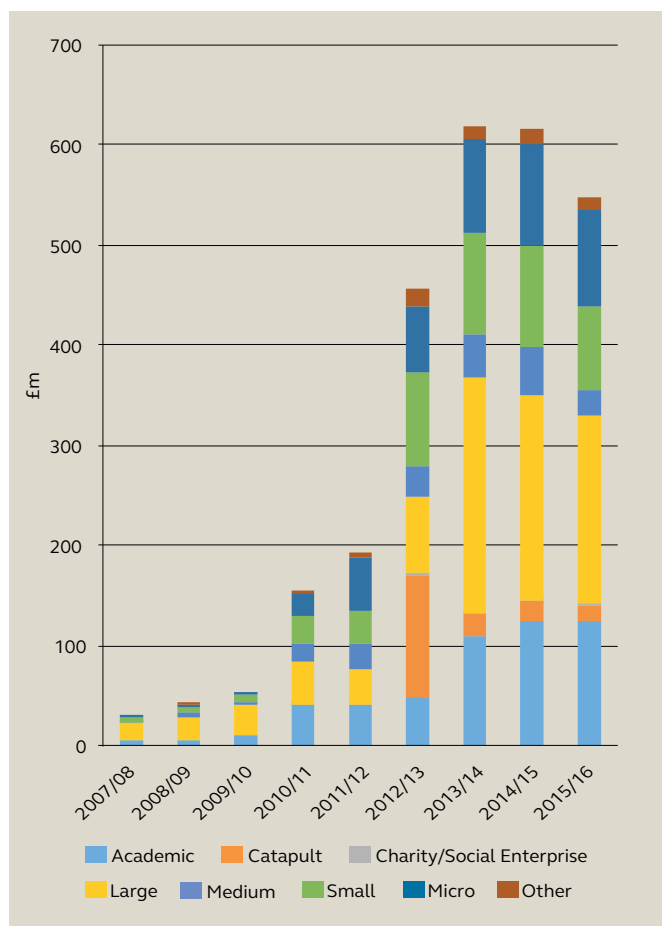
To date, Innovate UK has funded a range of organisations; the mix of this portfolio is depicted and described below.

For commercial entities, Innovate UK follows EU organisational size definitions, summarised below:

Academic, Catapult, Charities and those that do not meet the parameters below are shown separately.

Company category	Staff headcount	Turnover or	Balance Sheet Total
Large	> 250	> € 50 m	> € 43 m
Medium	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Grant Commitment by Size of Organisation

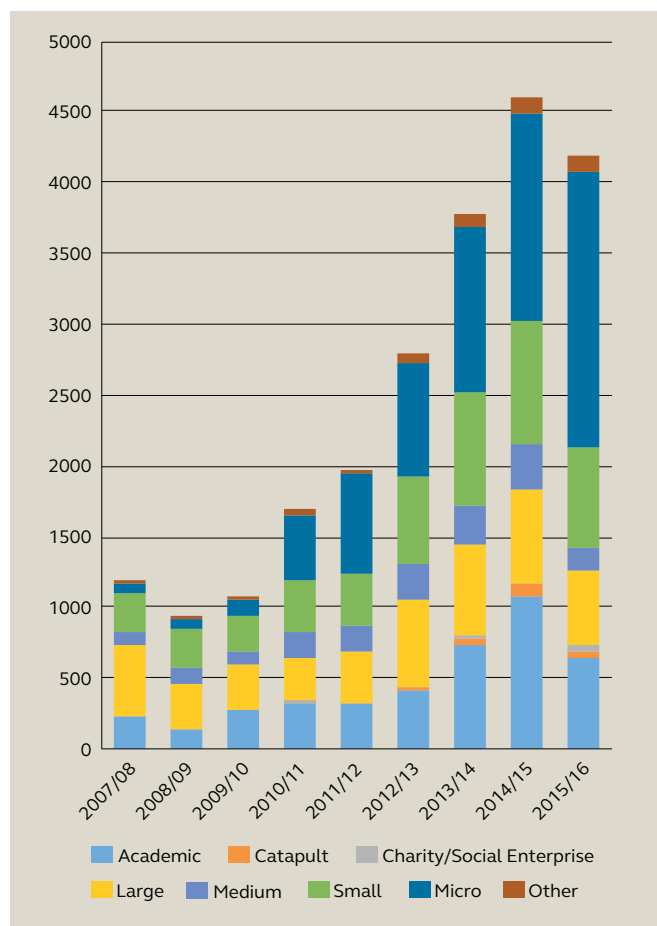


Commitment is funding awarded in the year, which may be actually spent over several years. The value of grant awarded to micro, small and medium enterprises has increased over the period, more recently driven by the Smart programme.

2012/13 saw the launch of the Catapult initiative, with a number of Catapults committed to in the year.

The value of funding awarded to large organisations has been largely driven by partner activities in aerospace and automotive sectors.

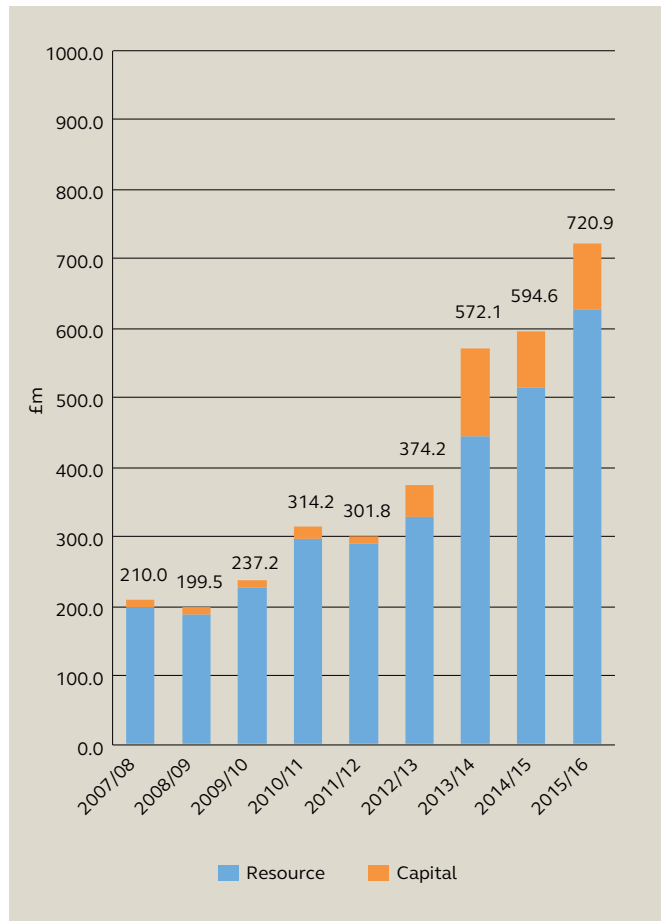
Number of Grants by Size of Organisation



The number of micro and small organisations funded has increased during the period due to Collaborative R&D competitions and the Smart programme.

As there are currently only 11 Catapults, the number of grants awarded is smaller in comparison to the overall number of organisations that Innovate UK funds. For Catapults, graph shows project grants only. Core funding for Catapults is shown on page 55.

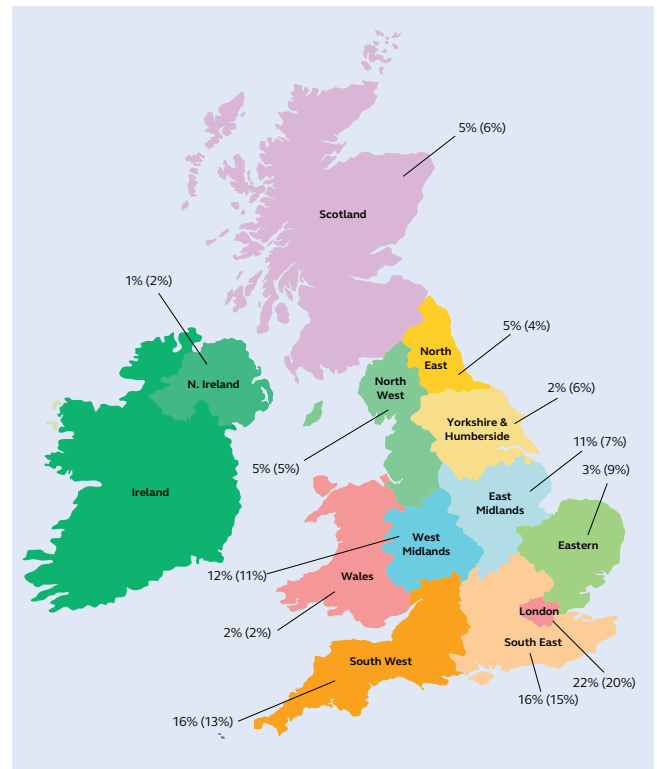
Resource and Capital Expenditure Analysis



Innovate UK’s annual grant expenditure from inception to current year has increased from £210.0m to £720.9m.

In recent years Capital expenditure has seen an increase with the introduction of the Catapult Centres and an injection of funding to what has grown to 11 Catapults across the UK.

Funding by region



This map shows the geographical split of grants committed in the 2015/16 financial year (with prior year comparative figures in brackets).

Funding is distributed throughout the country in line with our 5-point plan.

Review of financial performance

Net expenditure for the year

In total, net expenditure for the year increased to £727.2m (2014/15: £597.5m).

Technology grants expenditure and accruals

There was an increase of £126.3m (2014/15: £22.5m) in technology grants expenditure to £720.9m (2014/15: £594.6m). A breakdown of grant expenditure by grant stream has been provided in Note 5 to the Financial Statements.

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 in Note 1g and 1m to the financial statements.

Operating expenditure

Average staff numbers in 2015/16, including interims and agency temps, decreased by 2 to 322. This is in response to the recruitment freeze in place. Staff costs increased by £1.7m, to £22.6m (2014/15: £20.9m).

Programme support contract costs decreased by £1.1m to £19.6m (2014/15: £20.7m).

Other operating expenditure increased by £3.3m to £21.1m (2014/15: £17.8m).

Pension liabilities

The accounting treatment of pension liabilities and details of the funding arrangements are set out in the Note 1h to the Financial Statements, Pension costs, and the Remuneration Report 4.2. Scheme documents may be obtained on request from Joint Superannuation Services (JSS) Pension Administration. Details of the salary and pensions benefits of senior employees are included in the Remuneration Report in this document.

Current liquidity

Cash held at 31 March 2016 was £8.0m (31 March 2015: £(8.3)m) and assets less liabilities were £187.8m (31 March 2015: £121.5m). This balance includes a foreign exchange gain of £0.4m (2014/15: loss £0.5m) on the Euro account due to the strengthening of Euro on the date of conversion.

Financing

Grant-in-aid financing received during the year from BIS increased by £30.0m (2014/15: £77.0m) to £661.0m (2014/15: £631.0m).

Co-funding for the year decreased by £1.1m (2014/15: £10.3m) to £55.4m (2014/15: £56.5m). Included in Co-funding is £3m of EU funding (2014/15: £0.2m). A breakdown by Co-Funder has been provided in Note 8 to the Financial Statements.

Operating income of £2.8m (2014/15: £1.5m) was received from the recharging of Knowledge Transfer Partnership management fees to the other co-funders, rental income, ticket sales and Newton funding.

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 2015/16, Innovate UK paid 85.4% (2014/15 78.7%) of its undisputed invoices within the 30 day period.

A prompt payment target of five days was introduced for the public sector. In 2015/16, Innovate UK paid 3.4% (2014/15: 1.7%) of its operating expenditure invoices within the five day period; this is low due to weekly payment runs and manual approvals required from a large field based workforce.

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.

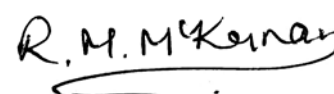
Water: We continue to achieve good practice consumption figures for our water consumption at 2.0m³ per full-time equivalent (FTE) - good practice is between 4 and 6 m³. The annual charge was £0.002m.

Gas: Gas consumption was 112.9 kWh/m², (2014/15: 110.3 kWh/m²) with an annual charge of £0.007m.

Electricity: Electricity consumption was 198.7 kWh/m², with an annual charge of £0.021m (2014/15: 77.3kWh/m², 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.



Dr Ruth McKernan

Chief Executive

5 July 2016

4

Accountability Report

4.1 Corporate Governance Report

4.1.1 Directors' Report

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.

Our key ambitions were emphasised in our Five Point Plan published in 2015 including

- Accelerating UK economic growth
- Building on Innovation Excellence
- Developing Catapults
- Working with the Research Community and across Government
- Evolving our funding

How Innovate UK 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.

Name	Role	Maximum Number of Meetings to be attended	Number of meetings actually attended	Attendance rate (%)
Phil Smith	Chair	6	6	100
Mike Carr	Member	6	6	100
Prof John Latham	Member	4	4	100
Dr Ruth McKernan	Member/Chief Executive	6	6	100
Ian Shott	Member	6	6	100
Dr Robert Sorrell	Member	6	6	100
Hazel Moore	Member	6	6	100
Harry Swan	Member	6	6	100
Tim Edwards	Member	4	4	100
Tera Allas	Member	6	6	100
Dr Stewart Davies	Member	1	1	100
Sara Murray	Member	1	1	100

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 six times in 2015/16. The table above shows Governing Board membership and attendance in 2015/16.

Sara Murray and Dr Stewart Davies left the Board in 2015/16. Professor John Latham and Tim Edwards joined the Board in 2015/16. All four attended the maximum number of meetings available to them.

Dr David Grant acted as Interim Chief Executive up to 30 April 2015. I was appointed as Chief Executive from 1 May 2015.

Appointments are made in accordance with the Code of Commissioner for Public Appointments. Governing Board members are required to declare their personal interests. Details of members' declared interests are available on the Innovate UK 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 2015/16 the Governing Board's activities have focused on:

- Approving and monitoring the annual delivery plan
- Contributing to a new five year strategy document
- Reviewing the organisation's financial performance
- Reviewing plans for the restructuring of the organisation
- Senior appointments to the Executive Team
- Encouraging further diversity both within the organisation itself and amongst grant applicants

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.

Company directorships and other significant interests held by members of the Governing Board and Executive Directors can be found in Note 17 to the Financial Statements, Related Party Transactions.

4.1.2 Statement of Accounting Officer's Responsibilities

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 me, 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 Managing Public Money published by the HM Treasury.

The Accounting Officer is required to confirm that, as far as she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that she takes the personal responsibility for the annual report and accounts and the judgements required for determining that it is fair balanced and understandable.

4.1.3 Governance Statement

This Governance Statement sets out the governance structures, risk management and internal control procedures that have operated within Innovate UK during 2015/16. It gives a clear understanding of the work of the organisation 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 and opportunities it faced.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee includes four members of the Governing Board and one independent member. It met four times in the financial year 2015/16 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 2014 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 2015/16 were as shown in the following table.

Name	Meetings attended
Mike Carr Board Member	4
Tim Edwards Board Member	2
Tera Allas Board Member	2
Dr Robert Sorrell Chair of Committee	4
Andrew Fyfe Independent Member	4
Stewart Davies Board Member	2

Stewart Davies left the Committee in 2015. Tim Edwards and Tera Allas joined the Committee in 2015. All three attended the maximum number of meetings available to them.

The independent member was appointed to the Committee from December 2013 to strengthen its financial and accounting expertise. During 2015/16 the Committee's activities have focused on:

- Appointing new internal auditors
- Reviewing the organisation's financial performance
- Reviewing key risks in the corporate risk register and in particular the adequacy of financial systems
- Reviewing outcomes from reviews carried out by Internal and External Audit

The first significant action of the reinvigorated Board and new CEO has been to appoint new auditors and to raise the bar on the processes and governance within Innovate UK, recognising the fast growth of the organisation over the past few years. In particular, the Board has focused on improving the robustness of financial processes and financial forecasting. In addition to the formal meetings of the Committee the Chairman met with the Director of Finance and Governance on occasions to discuss improvements to the existing processes.

Remuneration Committee

The Remuneration Committee met three times in 2015/16 and advised on executive salaries and other benefits. Members of the Remuneration Committee in 2015/16 were:

Name	Meetings attended
Phil Smith Chair of Governing Board	3
Harry Swan Board Member	3
Hazel Moore Board Member	3
Prof John Latham Board Member	2
Sara Murray Board Member	1

Sara Murray attended the April 2015 meeting before leaving the Board.

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 2015/16 were:

Name	Meetings attended
Ian Shott Chair	4
Mike Carr Board Member	4
Dr Robert Sorrell Board Member	4
Tera Allas Board Member	3
Tim Edwards Board Member	2

Tera Allas and Tim Edwards both joined the Committee during 2015/16 and attended the maximum number of meetings available to them.

Executive Management Team

The Executive Management Team includes the Chief Executive and Executive Directors. It is responsible for the operational delivery of the Board's strategy. It meets 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 Executive Directors. Each year the Executive Directors provide to the Chief

Executive formal statements on the level of internal control and governance exercised within their Directorates.

The 2015/16 declarations confirmed that satisfactory arrangements existed across the organisation. A new interim Chief Financial Officer was appointed in September 2015.

A new management and directorate structure is in place from April 2016. This is "sector group" based with industries grouped together e.g. Health and Life Sciences, and allows the organisation to deliver more effectively its current role and to focus its work in the areas where it can do most to improve productivity in the UK economy.

Risk Management and Internal Control

Risk Management

Risk management remains central to the work of Innovate UK. The Executive Management Team 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 the 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.

Internal Audit has reviewed Innovate UK's risk management arrangements and concluded that the organisation has satisfactory risk management processes which are operating effectively. At each meeting the Board reviews the top corporate risks. The current top risks include:

- Proposed integration with the Research Councils may impact on Innovate UK's role and/or budget, and therefore on our ability to deliver our goals. We are working closely with other stakeholders to achieve effective implementation of the new arrangements with minimal disruption. The White Paper entitled *Higher Education: Success as a Knowledge Economy is clear* Innovate UK will continue to have a separate budget allocated.
- Approval to proceed with New Innovation Finance Products, expected to comprise one third of our budget (assuming current levels) by financial year 2019/20, rests with Treasury.
- The current finance systems require updating and proposals for new arrangements are being discussed with BIS.

Audit

Internal Audit was provided by the UK Research Councils' Audit and Assurance Services Group in 2015/16. Their work programme is risk based and aligned with the Board's own risk management and assurance framework. Internal Audit has provided an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Its opinion for 2015/16 was moderate assurance.

During 2015/16 Innovate UK received three specific audit reports in which the auditors were only able to provide limited assurance. These audits were;

- IT Strategy and Governance
- Monitoring Officers
- Finance System

Further details of these audits and management's response are provided below in the section on control weaknesses. For all the reports we have agreed action plans to implement recommendations. In 2016 Internal Audit followed up the implementation of recommendations made in earlier audits and found that most recommendations had been implemented.

During 2016 Innovate UK undertook a full procurement exercise to appoint new internal auditors. RSM were appointed as internal auditors from April 2016.

External Audit is provided by the National Audit Office (representatives of which also attend Innovate UK's Audit and Risk Assurance Committee) which provides an audit report on the financial statements of Innovate UK. In completing the 2014/15 audit the National Audit Office reported a number of low risk control issues. During 2015/16 Innovate UK has improved its processes to address these issues.

Control Issues in 2015/16

During 2015/16 a number of areas were identified either internally or through audit reviews where there was scope for improvement in the control environment:

Finance System

Innovate UK has become increasingly aware of the inadequacies of its finance system with the growth of the organisation. Current arrangements are not suitable for an organisation of this size and scale. Plans are well in hand to develop a new finance platform with BIS. Short term actions are being taken to stabilise the existing processes and systems.

Monitoring Arrangements

Innovate UK appoints monitoring officers to oversee and report on the progress of projects undertaken by companies using grant monies. There is some evidence borne out by a recent audit report that there is some variation in the quality of reports received. The current arrangements may not therefore consistently provide the level of assurance required by Innovate UK. The Chief Operating Officer has already brought forward a series of proposals to improve the rigour of this process which have been

agreed by the Executive Management Team. These include a new monitoring process, a review of the skill sets needed by Monitoring Officers and new arrangements for procuring monitoring services. These measures are currently being implemented.

Counter Fraud Activities

Five grants were identified in 2015/16 where there is evidence of potential fraudulent activity by claimants. None of these involve material financial sums. Innovate UK is working with other government departments and agencies to improve its counter fraud arrangements including a wider range of random checks. The organisation is taking part in the Cabinet Office's wider counter fraud exercises.

Information Security

Personal data incidents

Records are kept of personal data incidents.

Device lost	2015/16	2014/15
Smartphone	2	1
Memory stick	0	2
Laptop	1	0
Tablet	2	0

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 2015/16 (2014/15: nil).

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. 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 should the organisation grow the risk will increase. The latest version of the Departmental Security Health Check was externally audited on 5 May 2016 for the 2015/16 period. There is little change, but should Innovate UK refresh 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

- the accreditation of the _connect platform which comprises a grant management system application and a collaboration portal
- 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.

Efficiency Measures and the BIS 2020 Programme

Innovate UK has continued to take a wide range of measures to improve its own efficiency and to contribute to the wider BIS 2020 programme. These have included;

- The delivery of over £1 million annual savings through our Business Improvement and Change Programme
- A reorganisation of our office accommodation which is currently saving us £150,000 per year rising to £430,000 in later years
- Updated travel booking and expenses arrangements based on new technology which significantly reduce administrative costs
- The development of a new Innovation Funding System. We have worked closely with the Department for Business, Innovation & Skills and the Research Councils to ensure that the benefits of this work are shared across Government.

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, Executive Directors and senior officials with significant financial responsibility are on the organisation's payroll.

UK Research and Innovation

The Government published a White Paper in May 2016 "Success as a Knowledge Economy." The paper proposes the integration of Innovate UK, the Research Councils and some Higher Education Funding Council functions into a new organisation, UK Research and Innovation. Detailed planning for this has now begun and it is intended that the new organisation should be in operation in 2018.

MacPherson Review

The review of quality assurance of Government analytical models undertaken by Sir Nicholas MacPherson and published by HM Treasury in March 2013 made a number of recommendations about the identification and protection of business critical analytical models. Innovate UK is compliant with these recommendations.

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.

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 auditors 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;
- Executive 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 Executive Directors have assured me that a satisfactory level of internal control existed in 2015/16

- 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;
- 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 Innovate UK's overall governance and internal control structures are currently appropriate for the level of risk it faces. However I note that the adequacy of our financial systems presents a continuing risk. Innovate UK will continue to strengthen its arrangements in 2016/17 through;

- Developing more robust finance and grant systems and procedures
- Continuing to simplify the organisation from the business perspective by enhancing our regional presence, using simplified competition structures and building relationships with other Innovation organisations
- Working with the Department of Business, Innovation & Skills to develop a range of new innovation finance products.

Overall, we have complied with the requirements of HM Treasury's Corporate Governance Code in all material aspects, relevant to the size and complexity of the organisation.

4.2 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 2015/16 membership of Innovate UK's Remuneration Committee consisted of:

- Phil Smith, Chair of Committee
- Harry Swan, Board Member
- Hazel Moore, Board Member
- Professor John Latham, Board Member
- Sara Murray, 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 is up to 25% of salary and for Executive Directors up to 20% of base salary.

Contractual policy

As at 31 March 2016 our Executive Management Team consisted of the Chief Executive and six executive directors.

The Chief Executive is an employee of Innovate UK, appointed for a fixed term of 5 years, and must give six months notice of leaving but is entitled to 12 months from Innovate UK.

Of the six Executive Directors, five are permanent employees with a notice period of six months each way. One, the Chief Financial Officer, is employed on a 'fixed term' basis for 12 months from September 2015, with a notice period of three months each way.

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 2015/16 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, full time equivalent salary is reported in brackets.

	2015/16 £'000					Restated 2014/15 £'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
Chief Executive and Executive Directors										
Dr Ruth McKernan Chief Executive	235 - 240 (250 - 255)	35 - 40 (35 - 40)	-	-	275 - 280 (290 - 295)	N/A	N/A	N/A	N/A	N/A
Iain Gray Chief Executive	N/A	N/A	N/A	N/A	N/A	195 - 200 (260 - 265)	40 - 45 (55 - 60)	-	-	240 - 245 (320 - 325)
Dr David Grant Interim Chief Executive	5 - 10 (80 - 85)	-	-	-	5 - 10 (80 - 85)	20 - 25 (80 - 85)	-	-	-	20 - 25 (80 - 85)
Graham Hutchins Director of Finance & Governance	100 - 105 (120 - 125)	10 - 15 (10 - 15)	-	31	140 - 145 (165 - 170)	110 - 115	15 - 20	-	25	155 - 160
Lynne Patmore, Interim Chief Financial Officer	75 - 80 (145 - 150)	-	-	-	75 - 80 (145 - 150)	N/A	N/A	N/A	N/A	N/A
Mark Glover, Director of Strategy & Planning	75 - 80 (135 - 140)	10 - 15 (15 - 20)	-	-	90 - 95 (155 - 160)	120 - 125	20 - 25	-	-	140 - 145
Simon Edmonds Director of Catapult Programme	140 - 145	25 - 30	-	64	230 - 235	135 - 140	20 - 25	-	24	190 - 195
Nigel Townley Interim IT Director	70 - 75 (145 - 150)	-	-	-	70 - 75 (145 - 150)	90 - 95	-	-	-	90 - 95
Nigel Townley IT Director	55 - 60 (115 - 120)	10 - 15 (20 - 25)	-	21	90 - 95 (160 - 165)	N/A	N/A	N/A	N/A	N/A
Aileen Thompson Interim Director	N/A	N/A	N/A	N/A	N/A	90 - 95 (190 - 195)	-	-	-	90 - 95 (190 - 195)
Anne Dixon Chief Operating Officer	115 - 120	20 - 25	-	41	175 - 180	70 - 75 (115 - 120)	10 - 15 (15 - 20)	-	25	145 - 150 (135 - 140)
Linda Wallace Director of Communications	110 - 115	20 - 25	-	41	175 - 180	85 - 90 (110 - 115)	10 - 15 (15 - 20)	-	30	160 - 165 (130 - 135)
Kevin Baughan Director of Technology & Innovation	155 - 160	30 - 35	-	57	245 - 250	140 - 145 (145 - 150)	20 - 25 (25 - 30)	-	50	235 - 240 (225 - 230)

Salary, performance pay and benefits in kind

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

	2015/16 £'000	Restated 2014/15 £'000
Highest Earner's Total Remuneration (£'000)	275 - 280 (290 - 295)	240 - 245 (320 - 325)
Median Total Remuneration	51,809	50,297
Range of Staff Remuneration	£23,911 - £122,450	£23,691 - £120,000
Ratio	5.6	6.4

Notes

Dr Ruth McKernan	Commenced employment May 2015
Iain Gray	Ended employment December 2014, and opted out of the pension scheme in March 2014
Dr David Grant	Interim Chief Executive 1st January to 30th April 2015
Graham Hutchins	Ended employment January 2016
Lynne Patmore	Interim Chief Financial Officer September 2015 - September 2016
Mark Glover	Opted out of the pension scheme in March 2014, and ended employment October 2015
Simon Edmonds	Lump sum transfer into the pension scheme in FY14/15
Nigel Townley	Seconded from Cisco January 2014 - September 2015, then commenced employment October 2015
Aileen Thompson	Interim Director October 2013 to September 2014
Anne Dixon	Commenced employment August 2014
Linda Wallace	Commenced employment July 2014
Kevin Baughan	Commenced employment May 2014
*Where applicable	Allowances cover car, mobile phone and alternative accommodation.

The banded annual equivalent remuneration of the highest-paid Director in Innovate UK in the financial year 2015/16 was £290.0k – £295.0k (2014/15: £320.0k-£325.0k). This was 5.6 times (2014/15: 6.4) the median remuneration of the workforce, which was £51,809 (2014/15: £50,297).

Staff remuneration ranged from £23,911-£122,450 (2014/15: £23,691-£120,000). Total remuneration includes salary, allowances, 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.

The aggregate of salary costs, bonus and benefits in kind for senior employees in 2015/16 was £1.213m (2014/15: £1.160m).

Pension Benefits

£000	Total of accrued pension at age 60 as at 31 March 2016 and related lump sum	Real increase/(decrease) of pension and related lump sum at age 60	Cash equivalent transfer value (CETV) at 31 March 2015	Real CETV at 31 March 2016	increase/(Decrease) in CETV
Graham Hutchins Director of Finance & Governance	15.0 - 20.0	0.0 - 2.5	211.0	246.0	25.0
Linda Wallace Director of Communications	0.0 - 5.0	0.0 - 2.5	26.0	66.0	29.0
Simon Edmonds Director of Catapult Programme	95.0 - 100.0	12.5 - 15.0	426.0	526.0	61.0
Anne Dixon Chief Operating Officer	0.0 - 5.0	0.0 - 2.5	21.0	58.0	27.0
Kevin Baughan Director of Technology & Innovation	5.0 - 10.0	2.5 - 5.0	43.0	97.0	38.0
Nigel Townley IT Director	0.0 - 5.0	0.0 - 2.5	N/A	17.0	13.0

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.

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 2015 represents the value at their start date and the CETV at 31 March 2016 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 (2014/15: £9,180). The emoluments of the present Chairman, Phil Smith, were £15,720 (2014/15: £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:

	2015/16 £000	2014/15 £000
Governing Board members' annual honoraria		
Phil Smith*	15-20	15-20
Michael Carr	5-10	5-10
Ian Shott CBE	5-10	5-10
Dr Robert Sorrell	5-10	5-10
Hazel Moore	5-10	5-10
Harry Swan	-	-
Tera Allas	5-10	-
Professor John Latham	5-10	-
Timothy Edwards	5-10	-
Stepped down during 2015/16:		
Professor, Sir Christopher Snowden FRS	0-5	5-10
Sara Murray	0-5	5-10
Dr Stewart Davies	0-5	5-10
Doug Richard	-	5-10
Dr David Grant CBE	-	0-5
Stepped down during 2014/15:		
Andrew Milligan*	-	-
Colin Paynter*	-	0-5

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

Expenses paid to the Governing Board members in relation to travel and subsistence reimbursements for the year 2015/16 were £8.5k (2014/15: £34.4k).

External Auditors' Remuneration

Details of the external auditors' remuneration can be found within Note 4 of the financial statements.

4.3 Staff Report

Equal opportunities

Innovate UK's policy on recruitment and selection is based on the ability of a candidate to perform the job regardless of disability, gender reassignment, marriage and civil partnership, pregnancy and maternity; race, religion or belief, sex or sexual orientation.

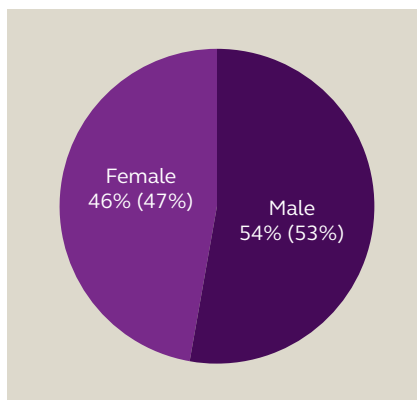
Full and fair consideration is given to applications for employment from disabled people where they have the appropriate skills to perform the job. Innovate UK works closely with its medical adviser and a health and safety advisory service. If disablement should occur during employment, Innovate UK would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

Innovate UK has a thorough recruitment and assessment process that enables appointment on merit. We ask all applicants who have declared a disability if any adjustments need to be made to assist them at interview or in role.

Diversity

Recognising its importance, in 2015/16 we began a programme to analyse and actively manage diversity across our activities. The first step has been to review the data we currently collect, which focuses on the gender and ethnicity of our staff and certain contractors.

As at 31 March 2016 the gender split for all staff employed at Innovate UK was as follows (2014/15):



As at 31 March 2016 there were three male and four female directors that are of an equivalent grade to Senior Civil Servants (2014/15: five male and two female Executive Directors).

The composition of the 'heads' or Band 2 employees in Innovate UK (senior managers) was 18% female and 82% male (2014/15: 19% and 81%).

In terms of ethnicity, of staff sharing the information (which is not compulsory), 9% are from an ethnic minority (2014/15: 9%). The average figure for the Civil Service is around 10%.

In 2015/16 we also looked beyond our employed staff to collect data on our contracted assessors, who assess funding applications, and monitoring officers, who monitor the projects we fund. As at August 2015, 83% of assessors were male and 17% female, while 78% of monitoring officers were male and 22% female.

We also began to look at how we can collect diversity-related data more widely across our activities, such as in applications for funding. We aim to identify underrepresented groups and to encourage them to come forward, seeking to understand any barriers that might exist and helping innovators to overcome them.

We are working to formalise the principles of diversity and inclusion by which we will strive to work and will publish a strategy and action plan for diversity and inclusion by the end of March 2017.

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.

Employee Assistance Programme

Innovate UK operates an Employee Assistance Programme which offers a confidential service to employees seeking advice or support on workplace or personal issues.

Staff costs

a. Remuneration of senior employees

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

b. Staff costs

	2015/16 £000	2014/15 £000
Permanent staff		
Salaries and wages	16,485	13,654
Social security costs	1,661	1,352
Superannuation costs	3,552	2,907
Permanent staff total	21,698	17,913
Agency and interim staff	831	2,938
Board members' fees	52	96
Total staff costs	22,581	20,947

c. Average number of persons employed

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

	2015/16 number	2014/15 number
Permanent staff	288	258
Agency and interim staff	34	66
Total staff	322	324

d. Remuneration of Governing Board and Committee members

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

e. Pension arrangements

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.

The last full actuarial valuation was carried out by Government Actuary's Department (GAD) as at 31 March 2006. Following consideration of the valuation report the employer's contribution rate was set at 26%. 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 2015/16, employer's pension contributions totalled £3.6m (2014/15: £2.9m) of which £3.4m (2014/15: £2.8m) were paid to the RCPS at 26.0% (2014/15: 26.0%) of pensionable pay.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Included in the employers' contributions of £3.4m above, £38k (2014/15 £29k) were paid to the partnership appointed stakeholder pension provider. Employer contributions are salary related and range from 10.0 to 26.0 per cent (2014/15: 10.0 to 26.0 per cent) of pensionable pay.

f. Compensation schemes and exit packages

During 2015/16 there were 3 exit packages agreed (2014/15: 3). The total net redundancy cost incurred by Innovate UK was £128.7k (2014/15: £14.7k). Comparative figures for 2014/15 are shown in brackets.

Exit packages cost band	Number of voluntary redundancies agreed
<£10,000	2 (3)
£10,000 to £25,000	0 (0)
£25,000 to £50,000	0 (0)
£50,000 to £100,000	1 (0)
£100,000 to £150,000	0 (0)
£150,000 to £175,000	0 (0)
Total	3 (3)

g. Off-payroll engagements

Table 1: For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months. Comparative figures for 2014/15 are shown in brackets.

	2015/16
No. of existing engagements as of 31 March 2016	0 (18)
Of which...	
No. that have existed for less than 1 year at time of reporting	0 (10)
No. that have existed for between 1 and 2 years at time of reporting	0 (5)
No. that have existed for between 2 and 3 years at time of reporting	0 (3)
No. that have existed for between 3 and 4 years at time of reporting	0 (0)
No. that have existed for between for 4 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 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months. Comparative figures for 2014/15 are shown in brackets.

	2015/16
No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	0 (4)
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 (0)
No. for whom assurance has been requested	0 (4)
Of which...	
No. for whom assurance has been received	0 (1)
No. for whom assurance has not been received	0 (3)
No. that have been terminated as a result of assurance not being received	0 (3)

Table 3: For any off-payroll engagements of Board Members and/or senior officials with significant financial responsibility, between 1 April 2015 and March 2016. Comparative figures for 2014/15 are shown in brackets.

	2015/16
No. of off-payroll engagements of Board Members and/or senior officials with significant financial responsibility during the financial year	0 (0)
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	0 (1)

Sickness and Absence

The calculation of Innovate UK's sickness/absence rates is as follows, with figures for 2014/15 are shown in brackets.

2015/16	Absence rate as a % of total working days
All staff	1.46% (1.52%)
Excluding 4 staff (1 in 2014/15) on long-term sick leave	1.16% (1.33%)

2015/16	Average working days lost to sickness (per member of staff)
All staff	3.69 (3.93)
Excluding 4 staff (1 in 2014/15) on long-term sick leave	2.93 (3.44)

Governing Board & Senior Management

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

4.4 Parliamentary Accountability and Audit Report

Regularity of Expenditure

I can confirm that for the financial year ended 31 March 2016, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money, and that Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2015/16.

Fees and Charges

Innovate UK does not supply public services for which a fee, charge or levy is appropriate to be applied (as per Chapter 6 of Managing Public Money).

Losses and Special Payments

No special payments relating to severance or otherwise, including making gifts occurred during the year (2014/15: nil).

Remote Contingent Liabilities

As at 31 March 2016 Innovate UK does not have any remote contingent liabilities. Contingent liabilities which meet the criteria set out in IAS 37 are stated in Note 15 to the Financial Statements.

Long Term Expenditure Trends

Please refer to the Performance Report Analysis on pages 22 and 23, showing key trends on Innovate UK's business.



Dr Ruth McKernan

Chief Executive

5 July 2016

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

I certify that I have audited the financial statements of the Technology Strategy Board for the year ended 31 March 2016 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 and Staff Report and the Parliamentary Accountability and Audit Report that is described in that report as having been audited.

Respective responsibilities of the Technology Strategy Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer'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 the 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 the Technology Strategy Board's affairs as at 31 March 2016 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability and Audit Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Science and Technology Act 1965; and
- the information given in the Performance Report and Accountability 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability and Audit 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

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Financial statements and notes

Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

Expenditure	Notes	2015/16 £000	2014/15 £000
Staff costs	2	22,581	20,947
Programme support costs	3	19,613	20,722
Other operating costs	4	21,123	17,839
Technology and Grants	5	720,902	594,559
Depreciation and Amortisation	9, 10	1,197	1,552
Total operating expenditure		785,416	655,619
Operating income	7	(2,761)	(1,462)
Co-funding income	8	(52,376)	(56,313)
EU income	8	(3,033)	(216)
Total expenditure for the year		727,246	597,628
Net gain on investment property		(20)	(150)
Total comprehensive net expenditure for the year		727,226	597,478

The notes on pages 49 to 68 form part of these accounts.

Statement of Financial Position as at 31 March 2016

Assets	Notes	2015/16 £000	2014/15 £000
Non-current assets:			
Property, plant and equipment	9	453	116
Intangible assets	10	2,703	1,158
Investment properties	11	4,970	4,950
Total non-current assets		8,126	6,224
Current assets			
Trade and other receivables	12	60,289	59,371
Cash and cash equivalents	13	8,045	(8,327)
Total current assets		68,334	51,044
Total assets		76,460	57,268
Current liabilities			
Trade and other payables	14	(85,026)	(27,882)
Accruals	14	(179,206)	(150,932)
Total current liabilities		(264,232)	(178,814)
Assets less liabilities		(187,772)	(121,546)
Taxpayers' equity			
General reserve		(187,772)	(121,546)

The notes on pages 49 to 68 form part of these accounts.



Chief Executive

5 July 2016

Statement of Cash Flows for the year ended 31 March 2016

	Notes	2015/16 £000	2014/15 £000
Cash flows from operating activities			
Total expenditure for the year		(727,226)	(597,478)
Adjusted for:			
Depreciation and amortisation	9,10	1,197	1,552
Gain on investment property	11	(20)	(150)
Decrease/(Increase) in receivables	12	(918)	(26,581)
(Decrease)/Increase in payables	14	85,418	(22,919)
Net cash outflows from operating activities		(641,549)	(645,576)
Cash flows from investing activities			
Purchase of intangible assets	10	(2,673)	-
Purchase of property, plant and equipment	9	(406)	-
Net cash outflows from investing activities		(3,079)	-
Cash flows from financing activities			
Grant-in-aid received		661,000	631,000
Net financing		661,000	631,000
Net increase/(decrease) in cash and cash equivalents		16,372	(14,576)
Cash and cash equivalents at 1 April		(8,327)	6,249
Cash and cash equivalents at 31 March	13	8,045	(8,327)

The notes on pages 49 to 68 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	Notes	General Reserve £000	Total Reserves £000
Balance at 31 March 2014		(155,068)	(155,068)
Retained deficit		(597,628)	(597,628)
Revaluation gain		150	150
Comprehensive net expenditure for the year 2014/15		(597,478)	(597,478)
Grants from sponsoring department		631,000	631,000
Balance at 31 March 2015		(121,546)	(121,546)
Retained deficit		(727,246)	(727,246)
Revaluation gain		20	20
Comprehensive net expenditure for the year 2015/16		(727,226)	(727,226)
Grants from sponsoring department		661,000	661,000
Balance at 31 March 2016		(187,772)	(187,772)

The notes on pages 49 to 68 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 2015/16 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 2015/16 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 General Reserve 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 2015/16

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2016, 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.

In accordance with the FReM, these financial statements have not applied IFRS 9: Financial Instruments, IFRS 15: Revenue from Contracts with Customers or IFRS 16: Leases. These standards have been issued but are not yet effective or endorsed by the European Union or incorporated into the FReM. IFRS 9 and IFRS 15 are anticipated to be adopted in the 2018/19 FReM, and the adoption date of IFRS 16 is still to be determined.

The potential impacts of IFRS 9 and IFRS 15 are not expected to have a material impact on Innovate UK's financial statements. The potential impact of IFRS 16 is still to be determined and is dependent upon any FReM interpretations or adaptations applied. Any such interpretations or adaptations are currently being determined, and the outcome of this work is not yet known.

Apart from the change in accounting policy detailed above, no other changes in IFRS were adopted by the FReM during 2015/16.

In line with HM Treasury's Simplifying and Streamlining Annual Report and Accounts project, the 2015/16 financial statements have been re-presented in accordance with the NDPB Green – Illustrative Accounts issued by HM Treasury. This has resulted in the split between Administration and Programme income and expenditure being removed from financial statements and the headings used in the Statement of Comprehensive Net Expenditure following the format used in the Whole of Government Accounts. There is no impact on the overall net result for the year for the comparative figures.

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 2015/16.

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 General Reserve 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. Taxation and VAT

Innovate UK is exempt from income and corporation tax by way of its Crown exemption.

Innovate UK is registered for VAT jointly with seven Research Councils as part of a Cost Sharing Group (CSG) and does not reclaim input 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 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 comprehension 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. This has been presented in line with the financial investment strategy which focuses on those areas of the economy where the UK has strength and which will provide the greatest impact.

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:

- in the period in which the estimate is changed, if the change affects only that period
- 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 technology grant accrual is an accounting estimate. The accounts include a grant accrual for each project where it has been determined that there is an unclaimed amount at the year end that is due to participants.

The accrual estimate is based on participants' forecast of expenditure submitted with their latest claim, adjusted for the participants' historical forecasting accuracy. For a number of large Non-Core projects, the KTN and Catapult Centres, 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 2016 was £165.9m (2014/15: £117.8m).

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

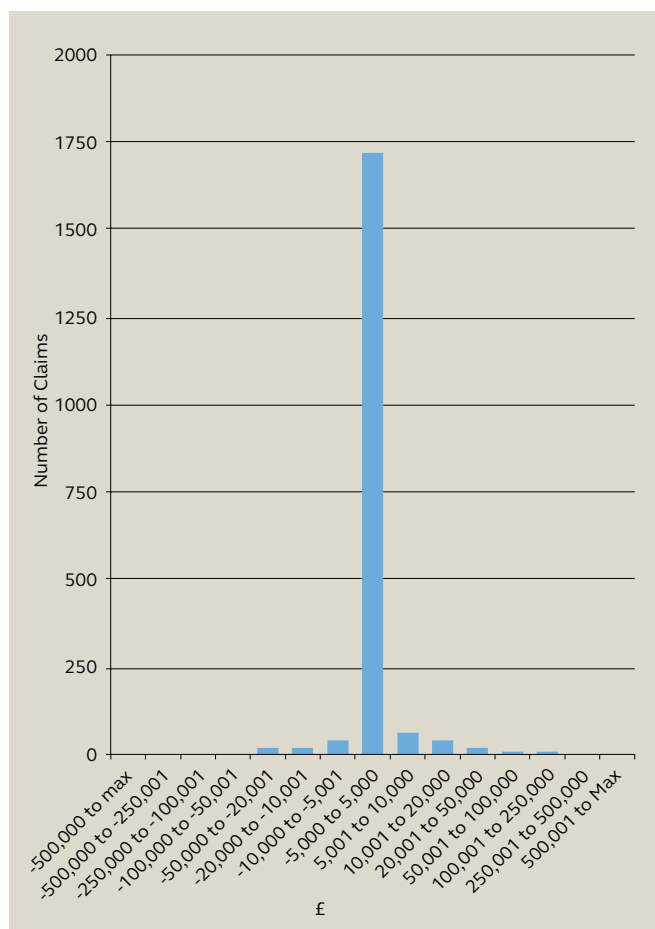
long, which permits a degree of flexibility for grant recipients in the scheduling of their project activity. The projects seek to develop new technology-based products and services for future markets and as such are inherently uncertain in terms of their success and, related to this, the project duration 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 2016, the remaining grant accrual that has yet to unwind amounted to £72.9m. 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 1,917 claims which were received at 30 April 2016, 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 (1,717) were within +/- £5k of the amounts originally accrued.

Grant Accrual Analysis



2. Staff costs

a. Remuneration of senior employees

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

b. Staff costs

	2015/16 £000	2014/15 £000
Permanent staff		
Salaries and wages	16,485	13,654
Social security costs	1,661	1,352
Superannuation costs	3,552	2,907
Permanent staff total	21,698	17,913
Agency and interim staff	831	2,938
Board members' fees	52	96
Total staff costs	22,581	20,947

3. Programme support contracts

	2015/16 £000	2014/15 £000
Third party programme support contracts	2,292	2,625
IT platform	3,376	4,133
Monitoring officer and assessment fees and expenses	13,945	13,964
Total	19,613	20,722

The charges for third party programme support contracts are for the management and delivery of Innovate UK programmes. The 2015/16 figure includes £2.2m (2014/15: £2.4m) 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 expenditure

	2015/16 £000	2014/15 £000
Travel and subsistence	2,045	1,935
Utilities, rent, rates and maintenance	898	1,096
Communications and events	12,538	7,803
Intervention management	2,897	2,799
General administration	1,797	1,966
Recruitment	380	1,145
Employee relocation costs	51	75
Office equipment	37	24
Information technology and communications charges	751	358
Auditor's remuneration	95	99
Interest paid	27	15
Exchange rate (gains)/losses	(393)	524
Total	21,123	17,839

The amount charged for the year for operating leases was £589k. Of this, £241k (2014/15: £348k) was included within rent, £29k (2014/15: £62k) within rates and £319k (2014/15: £545k) Building Services/Maintenance.

Auditor's remuneration includes £97k (2014/15: £97k) for the statutory audit fee. The figures have been impacted by a £2k over accrual relating to the 2014/15 audit of Innovate UK, the fee for which was finalised after the publication of the 2014/15 financial statements.

5. Technology grants

	Gross grant expenditure £000	2015/16 Co-funding income £000	Net grant expenditure £000	Gross grant expenditure £000	2014/15 Co-funding income £000	Net grant expenditure £000
Thematic interventions						
Energy	41,239	(7,868)	33,371	25,868	(3,070)	22,798
Sustainability	4,246	10	4,256	6,243	(1,767)	4,476
Built environment	7,232	(1,132)	6,100	6,759	(1,063)	5,696
Urban living	6,880	-	6,880	2,623	(120)	2,503
Food supply	16,677	(5,687)	10,990	12,640	(6,058)	6,582
Transport	42,960	(18,089)	24,871	42,473	(18,871)	23,602
Space	1,531	(359)	1,172	1,068	(951)	117
Healthcare	50,780	(6,376)	44,404	52,436	(5,838)	46,598
High value manufacturing	29,453	(910)	28,543	19,488	(405)	19,083
Digital services	20,235	(267)	19,968	13,169	(80)	13,089
Advanced materials	4,774	10	4,784	7,073	159	7,232
Biosciences	5,467	(254)	5,213	9,656	(1,064)	8,592
Electronics, photonics & electrical systems	5,347	(659)	4,688	10,800	(1,323)	9,477
Information & communication technology	8,904	(965)	7,939	9,226	(686)	8,540
Development	9,208	(109)	9,099	3,709	(1,065)	2,644
Subtotal thematic	254,933	(42,655)	212,278	223,231	(42,202)	181,029
Small Business Research Initiative	4,902	(97)	4,805	6,048	(1,091)	4,957
European Union	8,725	(766)	7,959	3,464	2,196	5,660
Grant for Research & Development	49,749	(216)	49,533	48,166	0	48,166
Knowledge Transfer Networks	15,918	(247)	15,671	11,596	(308)	11,288
Knowledge Transfer Partnerships	20,979	(5,784)	15,195	18,360	(6,015)	12,345
Micro and Nanotechnology Centres	145	-	145	919	-	919
Vouchers	5,993	33	6,026	2,955	(921)	2,034
Subtotal responsive	106,411	(7,077)	99,334	91,508	(6,139)	85,369
Catapult Centres	182,211	(5,090)	177,121	143,716	(8,188)	135,528
Non-core projects	177,347	(587)	176,760	136,104	-	136,104
Total grant expenditure	720,902	(55,409)	665,493	594,559	(56,529)	538,030
Universities and not-for-profit private sector	99,684			82,214		
Other private sector	605,535			499,411		
Public sector	15,683			12,934		
Total	720,902			594,559		

6. Operating segments

	2015/16			2014/15		
	Gross expenditure £000	Income £000	Net expenditure £000	Gross expenditure £000	income £000	Net expenditure £000
Thematic interventions	254,933	(42,655)	212,278	223,231	(42,202)	180,029
Responsive interventions	106,411	(7,077)	99,334	91,508	(6,139)	85,369
Catapult Centres	182,211	(5,090)	177,121	143,716	(8,188)	135,528
Non-Core Projects	177,347	(587)	176,760	136,104	-	136,104
Total grant expenditure	720,902	(55,409)	665,493	594,559	(56,529)	538,030
Programme delivery costs	19,613	-	19,613	20,722	-	20,722
Innovation climate	12,538	-	12,538	7,803	-	7,803
Intervention management	2,897	-	2,897	2,799	-	2,799
Payroll related costs	22,581	-	22,581	20,947	-	20,947
Other overheads	6,885	-	6,885	8,789	-	8,789
Other operating income	-	(2,761)	(2,761)	-	(1,462)	(1,462)
Net gain on revaluation	-	(20)	(20)	-	(150)	(150)
Total expenditure	785,416	(58,190)	727,226	655,619	(58,141)	597,478

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 or 'challenge' interventions are where we identify a specific issue or problem in a priority area and offer funding to businesses who can propose viable solutions. In responsive or 'open' funding, businesses can approach us seeking funding for their own innovative ideas or concepts in any technology area.

The Knowledge Transfer Network represents investment in networks and knowledge exchange, as well as public engagement activities.

The Small Business Research Initiative process provides 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

	2015/16 £000	2014/15 £000
KTP management fee recharge	(798)	(635)
Ticket sales	(166)	(100)
Rental income	(521)	(521)
Newton income	(971)	(206)
Other income	(305)	-
Total	(2,761)	(1,462)

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 2015/16, 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 £2,680k (2014/15: £2,633k). Innovate UK's share of these costs was £1,882k (2014/15: £1,999k). 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 concurrently to the main lease with a passing rent of £43k per annum.

Ticket sales of £166k (2014/15: £100k) were received for the Innovate UK 2015 event.

GIA was received from BIS of £971k (2014/15: £206k) 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.

Other income of £305k (2014/15: nil) relates to contributions received from organisations towards programme expenditure on Sciencewise and NHS Testbeds project.

8. Co-funding income

	2015/16 £000	2014/15 £000
Income from BIS Group		
Biotechnology & Biological Sciences Research Council	387	1,232
Engineering & Physical Sciences Research Council	2,103	3,094
Economic & Social Research Council	831	1,028
Medical Research Council	2,318	3,123
Natural Environment Research Council	652	1,620
Business Innovation & Skills	34	1,502
UK Space Agency	71	951
Other BIS bodies	221	206
Total income from BIS Group	6,617	12,756
Income from Central Government Departments		
Department for Environment, Food & Rural Affairs	5,226	6,189
Department for Transport	19,435	23,637
Department of Energy and Climate Change	7,901	3,593
Department of Health	1,918	1,174
Other Government Departments	8,964	6,410
Total income from Central Government Departments	43,444	41,003
Income from Other Bodies		
European Community	3,033	216
Other UK	2,315	2,554
Total income from Other Bodies	5,348	2,770
Total income	55,409	56,529

9. Property, plant and equipment

	Furniture and Fittings £000	Computers £000	Total £000
Cost			
At 31 March 2015	619	9	628
Additions	98	308	406
Disposals	-	-	-
Cost at 31 March 2016	717	317	1,034
Depreciation			
Depreciation at 1 April 2015	503	9	512
Charge for the year	43	26	69
Disposals	-	-	-
Depreciation at 31 March 2016	546	35	581
Carrying Value:			
At 31 March 2016	171	282	453
At 1 April 2015	116	-	116
Cost			
At 1 April 2014	619	9	628
Additions	-	-	-
Disposals	-	-	-
Cost at 31 March 2015	619	9	628
Depreciation			
Depreciation at 1 April 2014	436	9	445
Charge for the year	67	-	67
Disposals	-	-	-
Depreciation at 31 March 2015	503	9	512
Net Book Value:			
At 31 March 2015	116	-	116
At 1 April 2014	183	-	183

10. Intangible non-current assets

	Information Technology £000	Software Purchased £000	Total £000
Cost			
At 31 March 2015	7,877	61	7,938
Additions	2,673	-	2,673
Disposals	-	-	-
Cost at 31 March 2016	10,550	61	10,611
Amortisation			
At 1 April 2015	6,719	61	6,780
Charge for the year	1,128	-	1,128
Disposals	-	-	-
Amortisation at 31 March 2016	7,847	61	7,908
Net Book Value:			
As at 31 March 2016	2,703	-	2,703
As at 1 April 2015	1,158	-	1,158

	Information Technology £000	Software Purchased £000	Total £000
Cost			
At 1 April 2014	7,877	61	7,938
Additions	-	-	-
Disposals	-	-	-
Cost at 31 March 2015	7,877	61	7,938
Amortisation			
At 1 April 2014	5,234	61	5,295
Charge for the year	1,485	-	1,485
Disposals	-	-	-
Amortisation at 31 March 2015	6,719	61	6,780
Net Book Value:			
As at 31 March 2015	1,158	-	1,158
As at 1 April 2014	2,643	-	2,643

Included in the above carrying cost is £31k (2014/15: £1,158k) 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.

Additions in the year of £2,673k relate to development costs of the first phase of development of an IT platform for end to end application process for all Innovate UK grant funding, with a consistent and simple online customer journey. This has been developed in line with the Government Digital by Default directive and Government Digital Service Standards. In addition to this Innovate UK are building a simplified Grant System architecture. A key component of the architecture is the Integration Layer that allows the subsystems of the grant platform to communicate and interact without the need to undertake complex customisation of the software to build direct system to system interfaces.

11. Investment properties

	31 March 2016 £000	31 March 2015 £000
Carrying value as at 1 April 2015	4,950	4,800
Additions	-	-
Transfers in (out)	-	-
Revaluations	20	150
Disposals	-	-
Carrying value as at 31 March 2016	4,970	4,950

Investment properties are measured using the fair value model.

The investment properties are valued at £4.97m (2014/15: £4.95m) and the cumulative changes in fair value recognised for the period ending 31 March 2016 in the Statement of Comprehensive Net Expenditure (SoCNE) amounted to a net gain of £0.02m.

The properties were valued on 22 March 2016 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 two 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 2016 £000	31 March 2015 £000
Not later than one year	483	521
Later than one year and not later than five years	483	1,042
Later than five years	-	-
Total	966	1,563

The decrease in the rental income due reflects a rent review carried out in April 2016 due to surrender of a portion of the site.

12. Trade and other receivables

	31 March 2016 £000	31 March 2015 £000
Amounts falling due within one year		
Trade receivables	15,485	20,625
Other receivables	15	48
Bad debt*	(95)	(69)
VAT recoverable	-	-
Prepayments	27,163	30,936
Accrued income	17,721	6,410
EU accrued income	-	1,421
Total trade receivables	60,289	59,371
Analysis of receivables balance:		
Bodies external to government	33,740	35,406
Other Central Government Bodies	26,478	23,965
Local Authorities	71	-
Total	60,289	59,371

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

13. Cash and cash equivalents

	31 March 2016 £000	31 March 2015 £000
Sterling account	6,502	(13,517)
Euro account	1,543	5,189
Total	8,045	(8,327)

The net funds at 31 March 2016 of £8,044,698 (2014/15: £(8,327,293)) comprise cash held within the Government Banking Service. At 31 March 2015 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.

Cash held on behalf of Third Parties

Innovate UK holds a Third Party Euro bank account; this represents cash received from the European Commission and is held on behalf of European Partners to be distributed at a future date on completion of agreed claims and milestones.

The balance as at 31 March 2016 was £3,147,150 (2014/15: £1,177,688).

The corresponding Third Party Asset held was £5,261,209 (2014/15: £1,177,688). The difference of £2,114,058 relates to a transfer carried out post year end to the Third Party Euro bank account and the foreign exchange differential.

14. Trade and other payables

(a) Analysis by type	31 March 2016 £000	31 March 2015 £000
Amounts falling due within one year		
Trade payables	83,294	25,738
Other payables	404	383
Other taxation and social security	416	432
Deferred income	767	1,219
VAT	145	110
Financial liabilities		
Grant accruals	165,919	141,890
Other accruals	13,287	9,042
Total	264,232	178,814

(b) Analysis by source	31 March 2016 £000	31 March 2015 £000
Amounts falling due within one year		
Other Central Government Bodies	3,379	3,071
Local Authorities	376	15
NHS bodies	436	-
Public corporations and trading funds	23,156	89
Bodies external to government	236,885	175,639
Total	264,232	178,814

15. Contingent liabilities

As at 31 March 2016 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 3 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 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Not later than one year	234	227	230	277
Later than one year and not later than five years	82	284	-	-
Later than five years	-	-	-	-
Total	316	511	230	277

After an initial 18-month rent-free period, rental payments commenced in May 2010. Innovate UK had the option to terminate the lease on 8 June 2017 or 18 June 2022 by giving the landlord at least 12 months' prior written notice. This termination option was exercised in March 2016.

c. Grant commitments

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

	31 March 2016 £000	31 March 2015 £000
Payable within one year	563	767
Payable in two to five years	1,089	1,693
Payable beyond five years	-	-
Total commitment	1,652	2,460

17. Related party transactions

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; NERC; the Medical Research Council (MRC); 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 Government.

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 were involved in the recommendation of grants awarded to the body to which they are connected.

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 Governing Board and Executive Director material transactions

Director	Organisation	Net Expenditure £	Debtor £	2015/16		2014/15	
				Creditor £	Net Expenditure £	Debtor £	Creditor £
Anne Dixon	UKSBS (UK Shared Business Services)	493,504	4,750	143,468			
Aileen Thompson	Institute of Directors				2,700		
Professor, Sir Christopher Snowden	University of Surrey Universities UK	914,278 235		103,021	444,648 195		223,121
Colin Paynter	Astrium Ltd Surrey Satellite Technology Ltd Airbus				489,424 535,039 154,929		145,751 617,617
Dr David Grant	IQE Renishaw Plc DSTL	57,222 699,402 450,921		7,728 159,095	146,909 451,629 2,701,337		4,863 123,583
Harry Swan	Thomas Swan & Co. Ltd	41,360		14,593			2,362
Iain Gray CBE	City University London Energy Technologies Institute Institute of Directors RSA (Royal Society for the Encouragement of Arts) University of the West of England				605,211 6,490,000 2,700 135,000 477,147		138,620 1,769,300 97,079
Ian Shott CBE	University of Nottingham BPE Design and Support	3,791,391 74,779		1,748,426 8,864	3,678,261 2,637		1,480,327 3,240
Professor John Latham	CU Services Limited Coventry University Enterprises Serious Games Limited Design Council Advisory Board Digital Catapult	8,149 649,324 38,707 (263) 11,382,915		106,595 10,648			
Lynne Patmore	Satellite Applications Catapult	8,787,309		5,266,722			
Mark Glover	Science & Technology Facilities Council Knowledge Transfer Network	137,179 16,063,813	(9,507) (7,903)	17,498	132,858 13,360,533	5,000	18,045 2,778
Nigel Townley	CISCO Systems Ltd	162,982		(21,469)	490,638		175,017
Phil Smith	CISCO Systems Ltd NCUB (National Centre for Universities & Business)	162,982 391,000		(21,469)	490,638 200,000		175,017
Dr Robert Sorrell	BP	16,909					
Dr Ruth McKernan	Medical Research Council	(2,326,525)	(544,455)				
Sara Murray	Buddi Limited	55,382		17,017			
Simon Edmonds	Advanced Propulsion Centre	31,800					
Dr Stewart Davies	Augean Plc	6,738			3,458		
Tim Edwards	Cell Therapy Catapult	17,690,312		10,096,954			

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 and has incurred a gain of £393k (2014/15: £524k loss). 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 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.

In May 2016 the Government white paper 'Success as a Knowledge Economy' was published. This outlined how it intends to take forward implementing the recommendations of Sir Paul Nurse's 2015 review. The white paper confirmed the plans to create a new body, to be called UK Research and Innovation, encompassing the seven research councils, Innovate UK and elements of the work of HEFCE.

The establishment of UK Research and Innovation recognises the vital role innovation plays and further strengthens the UK's ability to turn scientific excellence into economic impact. Innovate UK will be working with Government, and will continue to work closely with the Research Councils, as the proposals develop.

The voluntary exit scheme was closed to employees at the beginning of May 2016. The intent of the scheme is to support the re-shaping of Innovate UK in 2016/17 and to mitigate any requirement for redundancies. At this stage the cost implications are not known.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

On 14 July 2016, following a machinery of Government change it was announced that Innovate UK's sponsoring department, the Department for Business, Innovation and Skills, is having its responsibilities changed. The sponsor department for Innovate UK is now the Department for Business, Energy and Industrial Strategy.

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