Innovate UK

Technology Strategy Board (Innovate UK)

Annual Report & Accounts 2016/17

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Introduction from the Chairman

It's my pleasure to introduce Innovate UK's Annual Report and Accounts for the financial year 2016/17, which proved to be exceptionally busy, paving the way for much exciting work ahead.

The government's green paper 'Building our Industrial Strategy' placed research and innovation at the heart of making a real difference to the UK economy. The announcement of the government's £4.7 billion injection into research and development, including the Industrial Strategy Challenge Fund (ISCF), has opened up opportunities to engage with businesses. This is the greatest single increase in government research and development funding for almost 40 years, and we are working to identify big challenges that can be targeted through business-academic collaboration. The key announcements of challenges that the fund will support are being made throughout the year, and there is much more to come. I also welcome the additional £300 million investment that will help our country to develop talent – including fellowships to attract the top global talent and 1,000 PhD students in science, technology, engineering and maths.

My experience in business tells me that diversity is incredibly important for success. I am delighted to be an ambassador for Innovate UK's infocus Women in Innovation campaign, a first foray into competitions specifically targeted at under-represented groups. Analysis of Innovate UK's portfolio showed that just 1 in 7 lead applicants to our competitions were women. From a record 1,700 registrations, and 442 full applications, awards of £50,000 and a bespoke training and support package were made to 15 female entrepreneurs, with a further 19 finalists receiving the training and support package. The campaign reached BBC News, BBC Radio 4 Woman's Hour and ITN News London. I am looking forward to the announcement of the next infocus campaign, which is in the final stages of planning.

Innovate UK's pivotal role in supporting UK business is clear to see in the achievements of the many companies we support: from autonomous car software developer Oxbotica winning the smaller company category in the FT ArcelorMittal Boldness in Business awards, to women's health tech business Chiaro attracting £4.8 million of external investment.

We are working hard alongside the research councils to plan for the future as we move into UK Research and Innovation. Innovate UK's focus on supporting and inspiring business-led innovation has been protected during that process, and I am confident it will contribute strongly towards the government's industrial strategy aims of greater productivity and UK economic growth.

Phil Smith
Chairman

Foreword from the Chief Executive

I am delighted to introduce our Annual Report and Accounts for 2016/17, my second year as Chief Executive of Innovate UK.

I cannot begin this foreword without acknowledging the increasing relevance of innovation in the UK. With the launch of the government's industrial strategy and the announcement of the Industrial Strategy Challenge Fund (ISCF), our role, and our mission to support business-led innovation, have never been more important. But more on that later.

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 £2.2 billion in innovation, matched by £1.5 billion in industry funding – returning up to £16 billion to the economy. We have supported innovation in 8,000 organisations, creating around 70,000 new jobs; that's 8 for each company we have worked with.

Simplifying our structure and processes

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. This means continuous change and improvement in our own business to ensure we are fit for the future and we continue to provide the support that companies need. Following the Dowling Review recommendations, we have simplified our structure and processes. From the start of the 2016/17 financial year, we have taken a sector-based approach to our support for businesses, outlined on page 10, with fewer, broader competitions – making it simpler for businesses to identify the best funding opportunity for them.

Our 5-point plan for driving UK innovation and productivity growth remains as relevant as ever. And we ensure that all our activities are underpinned by this plan. A first this year was our very successful infocus Women in Innovation campaign as Phil Smith, an ambassador for the campaign, discusses in his introduction.

Our regional work

This year we have launched our network of 10 managers across the UK's nations and regions, working closely with local stakeholders. Keeping with the simplification agenda, our Enterprise Europe Network (EEN) is working with our Knowledge Transfer Network (KTN) colleagues to consolidate the connecting part of our role, with the aim of making it easier for businesses to seek innovation advice locally while identifying funding opportunities.

An exciting events programme

Innovate 2016 was a high point of the year. Again, run in partnership with the Department for International Trade, our innovation networking and showcase event was held outside London for the first

time, in Manchester. Innovate 2016 was complemented by the Venturefest events around the country, and a new series of local events in the nations and regions. Our range of events brings together small businesses, entrepreneurs, academics, investors and support services to foster new relationships and facilitate innovation.

Promoting UK business around the world

On the global stage, I attended the India-UK Tech Summit in November. It was a proud moment to hear Prime Minister Modi mention Innovate UK in his speech. The summit was followed by a connected cities mission to New Delhi, Pune and Kochi, and we have undertaken other missions to support SMEs in scaling their businesses, including to California, south-east Asia and, most recently, Canada.

Our financial forecasting relies largely on forecasts of grant usage from the businesses we fund and, in the past 2 years, we have adopted new processes to meet this budgeting challenge.

The year ahead

We now look to 2017/18; a year that will be strongly focused on the design and delivery of the first challenges within the ISCF, in partnership with the 7 research councils. We'll also continue to plan for our move into UK Research and Innovation, under the leadership of Sir John Kingman as interim chair and Professor Sir Mark Walport as chief executive-designate, and ensuring our business-facing role continues.

Our network of Catapults continues to mature, operating £850 million of open access research and demonstration facilities for the benefit of UK business. 2017/18 will see a series of reviews of the first 7 Catapults to evaluate economic outcomes from their use of public funding.

To improve efficiency as we scale our organisation, we will roll out our new digital application system, following trials on selected competitions. We will also launch a pilot programme of innovation loans, broadening the funding options we offer businesses at different stages of their journey from concept to commercialisation.

We have an expert and committed team, extremely strong partnerships across research, industry and government, regionally, nationally and globally, and a proven track record on which to build.

I look forward to another exciting year to come.

Dr Ruth McKernan, CBE
Chief Executive


UP TO
£13.1bn
Our investments in
innovative businesses
have returned up
to £13.1 billion to
the UK economy

Performance Report

3.1 Overview

Another successful year

It's been a significant year for Innovate UK, as we have been investing in innovative solutions to meet the big challenges in society and industry.

As a nation of scientific excellence, the UK uses research and innovation to accelerate business growth and productivity, and create jobs. In the financial year 2016/17, we committed almost £400 million in grant awards for more than 1,000 innovative projects, helping organisations develop new products, services and technologies.

A new challenge fund for innovation

As the pace of scientific discovery and innovation increases worldwide, the announcement in 2016/17 of a new Industrial Strategy Challenge Fund (ISCF) has helped provide the UK with a platform for the future to deliver the science that business needs.

This new fund will be a core part of the government's overall industrial strategy and will help us to identify and develop UK industries that are fit for the future, driving progress in technologies where the UK can build on existing areas of industrial and research strength.

The fund is being delivered by Innovate UK and the research councils, and will eventually be delivered by UK Research and Innovation. This will ensure that scientific investment truly delivers economic impact, jobs and growth right across the country – bringing together businesses, their supply chains, universities and other partners to build on research and innovation strengths.

An initial investment of £270 million from the government in 2017/18 will help with the development of disruptive technologies that have the potential to transform the UK economy.

The first 6 challenges to be funded through the ISCF include:

- leading the world in development, design and manufacture of batteries that will power the next generation of electric vehicles, helping to tackle air pollution
- developing cutting-edge artificial intelligence and robotics systems that will operate in extreme and hazardous environments, including offshore energy, nuclear energy, space and deep mining
- accelerating patient access to new drugs and treatments through developing new medicine manufacturing technologies, helping to improve public health
- ensuring the UK's reputation as a world leader in driverless car technology, a sector predicted to be worth £63 billion by 2035
- developing the next generation of affordable lightweight composite materials for aerospace, automotive and other advanced manufacturing sectors
- funding a £99 million satellite test facility that will allow the UK to construct future satellites and deliver payloads into orbit

Since the announcement of the new fund in November 2016, we've been working to gather input from UK industry and the research base on how this cross-disciplinary fund can best help to meet some of the greatest economic and societal challenges of our time.

Our Knowledge Transfer Network (KTN) held workshops across the UK in January 2017 to make sure that the initial challenges identified match UK business capability and are based on the best available evidence for scientific and commercial success.

Bringing research and innovation together

We have been working with the government and our colleagues in the research councils towards creating a new organisation that will bring together research and innovation within the UK.

This move follows the government decision to implement the recommendations of the Dowling[1] and Nurse[2] reviews of the research councils by creating UK Research and Innovation, a new body incorporating the 7 research councils, Innovate UK and the research and knowledge exchange functions of the Higher Education Funding Council for England.

Simplifying and scaling up

In the financial year 2016/17 we made significant changes to the way we work.

We reorganised our funding support and our teams into much clearer sector groups to make it easier for industry, investors and the government (local, devolved and central) to understand and access.

These sectors are:

- emerging and enabling technologies
- health and life sciences
- infrastructure systems
- manufacturing and materials

We successfully rolled out new competitions in each of these sectors as well as managing an open category for projects regardless of their technology or sector.

In 2016/17 we committed to spend up to £150 million (27% of our core budget of £561 million) on infrastructure systems, £137 million (24%) on manufacturing and materials, and £117 million (21%) on health and life sciences. The emerging and enabling technologies sector received around £86 million (15%), with £71 million (13%) going to our open programme.

[1] www.gov.uk/government/publications/business-university-research-collaborations-dowling-review-final-report
[2] www.gov.uk/government/collections/nurse-review-of-research-councils

Our 5-point plan

Our work is underpinned by the following 5-point plan:

1. Turning scientific excellence into economic impact and delivering results through innovation, in collaboration with the research community and government

We have:

- worked with the research councils and the Higher Education Funding Council for England (HEFCE) to create a new integrated body – UK Research and Innovation – to strengthen the UK's strategic approach to future challenges and maximise value from the government's annual £6 billion investment in research and innovation
- developed the Urban Living Partnership with the 7 research councils to identify, understand and address key challenges and opportunities for urban areas
- worked in partnership with the Engineering and Physical Sciences Research Council (EPSRC) to develop prototype devices and demonstrators of quantum technologies
- continued to invest, with our research council partners, in 4 innovation and knowledge centres (IKCs) to create early-stage critical mass in areas of disruptive technology including the Centre for Secure Information Technologies (CSIT) and the Synthetic Biology Innovation and Commercialisation Industrial Translation Engine (SynbiCITE)

2. Accelerating UK economic growth by nurturing high-growth potential SMEs in key market sectors, helping them to become mid-sized companies with strong productivity and export success

We have:

- run overseas entrepreneur missions in partnership with the Department for International Trade, giving UK entrepreneurs the chance to pitch their innovations to potential customers, partners and investors
- funded and organised the 2016 SME Innovation Awards to honour the UK's most enterprising small and medium-sized companies
- helped UK businesses to access the new Horizon 2020 €550 million (£470 million) funding programme in areas such as sustainable food security, smart cities and green vehicles
- commissioned independent research into finding out more about the challenges and barriers women entrepreneurs face and how we could better encourage and support them
- launched infocus, an initiative to spearhead our work in encouraging diversity in innovation and encourage more women to apply for our funding competitions and boost the UK economy

3. Building on innovation excellence throughout the UK, investing locally in areas of strength

We have:

- funded Venturefests throughout the UK, bringing together local entrepreneurs and investors to promote UK business innovation and growth
- organised a successful 2-day showcase event in Manchester – Innovate 2016 – in partnership with the Department for International Trade, bringing together the UK's most exciting entrepreneurs and generating an estimated £5.3 million in new business
- held 2 pilot 'Innovate UK in the regions' events to promote our services to businesses in these areas
- extended our regional work across England, Scotland, Wales and Northern Ireland

4. Developing Catapult centres within a national innovation network to provide access to new technologies, encourage inward investment and enable technical advances in existing businesses

We have:

- opened the Medicines Discovery Catapult to support pharmaceutical, biotechnology and research organisations and to help SMEs commercialise their ideas
- delivered a programme of Catapult-hosted events for universities in partnership with Universities UK
- begun construction of a £55 million large-scale cell and gene therapy manufacturing centre in Stevenage to help bring cell and gene therapies to market in the UK and internationally
- supported a new Compound Semiconductor Applications Catapult in Wales to provide research facilities that will help businesses speed up commercialisation

5. Evolving our funding models, ensuring businesses we work with get the right funding at the right time and helping public money go further and work harder

We have:

- streamlined and simplified our funding competitions into 4 sectors to make it easier for businesses to access
- set up a new 'open' category of competition to ensure that businesses with excellent ideas from any part of the economy can access funding
- made progress in preparing for our funding application process and competition management to move online in 2017/18
- begun work on setting up a pilot programme of innovation loans

The UK's innovation agency

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, Energy & Industrial Strategy (BEIS). 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 which better expresses our role and purpose. Innovate UK is now used in all communications (although for statutory purposes the name of the organisation is still the Technology Strategy Board).

Risks

The governance statement (page 47) outlines Innovate UK's policies on 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 Innovate UK's Governing Board at each of its meetings.

The main identified risks are covered in the risk management section within the governance statement.

A going concern

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

The total expenditure of £792.5 million (2015/16: £727.2 million) has been transferred to reserves. Total reserves at 31 March 2017 amounted to a deficit of £219.2 million (31 March 2016: £187.8 million deficit). 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, BEIS. 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 2017/18, taking into account the amounts required to meet Innovate UK's liabilities falling due in that year, has already been included in BEIS'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.

The Higher Education and Research Bill received Royal Assent on 27 April 2017. Under the provisions of this legislation, UK Research and Innovation will be established as a single, strategic body that will bring together the 7 research councils, Innovate UK and the research and knowledge exchange functions of the Higher Education Funding Council for England, to be known as Research England. It is anticipated that UK Research and Innovation will be established on 1 April 2018 and that Innovate UK's functions, assets and liabilities will transfer into the new organisation at that date.

The functions previously provided by Innovate UK will continue to be provided using the same assets and liabilities by UK Research and Innovation. It remains appropriate for the financial statements of Innovate UK for the year to 31 March 2017 to be prepared on a going concern basis in accordance with the Government Financial Reporting Manual issued by HM Treasury.

3.2 Performance summary

Financial: allocation and outturn

Innovate UK's core budget was £586.6 million (including £212.5 million to fund the Catapult network), and in addition we received a non-core budget of £251.8 million, making a total budget of £838.4 million. This represents a 9% increase on the previous year's budget of £772.0 million.

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, Energy & Industrial Strategy. Non-core refers to all other programmes delivered on behalf of government departments or other BEIS policy areas, which do not form part of Innovate UK's baseline and fiscal event funding defined as core.

Overall, Innovate UK recorded a £38.1 million (2015/16: £42.5 million) underspend against the budget allocation, giving an underspend against budget of 4.5%. To support the overall management of the department's finances, the Department for Business, Energy & Industrial Strategy asked Innovate UK to deliver a financial outturn consistent with its period 9 forecast, and final outturn was within 1.5% of this forecast.

Net expenditure for the year

In total, net expenditure for the year increased to £792.5 million (2015/16: £727.2 million).

Technology grants expenditure and accruals

There was an increase of £91.9 million (2015/16: £126.3 million) in technology grants expenditure to £812.8 million (2015/16: £720.9 million) driven by a £32.4 million increase in grants to Catapults and a £77.0 million increase in grants for non-core activity. 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 1h and 1n to the financial statements.

Operating expenditure

Average staff numbers in 2016/17, including interims and agency temps, decreased by 19, but staff costs increased by £0.5 million, largely driven by funding exit costs of £1.3 million. Programme support contract costs decreased by £1.4 million to £18.2 million. Other operating expenditure fell from £21.1 million in 2015/16 to £16.4 million in 2016/17, a reduction of 22%. This reduction was largely driven by a reduction of £4.5 million in year-on-year spend on communications and events.

Income

Co-funding increased by £17.4 million year-on-year, reflecting the increasing number of programmes being run in conjunction with, or on behalf of, delivery partners.

Non-current assets

Non-current assets increased by £8.2 million year-on-year from £8.1 million as at 31 March 2016 to £16.3 million as at 31 March 2017. This has largely been driven by £7.6 million of additions to non-current assets, representing investment in a new Innovation Funding Service for online funding applications.

Pension liabilities

The accounting treatment of pension liabilities and details of the funding arrangements are set out in Note 1i to the financial statements and the remuneration report. 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 2017 was £17.2 million (31 March 2016: £8.0 million) and assets less liabilities were a £219.2 million deficit (31 March 2016: £187.8 million deficit). Grant-in-aid financing received during the year from BEIS increased by £100.0 million to £761.0 million.

Creditor Payment Policy

Innovate UK's policy is to comply fully with the Prompt Payment 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 later. During 2016/17, Innovate UK paid 88% (2015/16: 85%) of its undisputed invoices within the 30-day period.

A prompt payment target of 5 days has been introduced for the public sector. In 2016/17, Innovate UK paid 28% (2015/16: 3%) of its operating expenditure invoices within the 5-day period. Although this is low due to weekly payment runs, improvements have been made on prior years as electronic approvals required from a large field-based workforce are now being accepted.

Innovate UK is currently working to implement a new finance and HR system from 1 April 2018 that will facilitate more regular payment runs and remote receipting of purchases.

3.3 Performance analysis

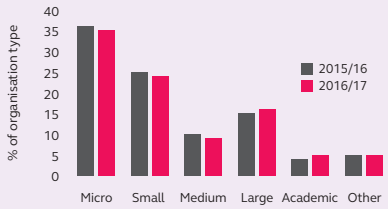
Core grant funding: April 2016 - March 2017

Organisations supported

2,900

By end of 2016/17

Organisation type



Average project size

£95,000

Median for new commitments in 2016/17

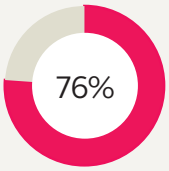
Number of live projects

2,400

At end of 2016/17

SMEs funded

2,100



2,900 total organisations – 2016/17

Cross-sector SMEs

230

SMEs active in >1 sector during 2016/17

Note: All figures relate to Innovate UK's core grant funding, excluding projects funded directly by the Department of Business, Energy & Industrial Strategy. Figures do not include Innovation Vouchers, Catapult core funding, or funding for our innovation networks.

Performance tracking and KPIs

We use our monitoring data to track our funding and activities throughout the year. We saw 1,100 projects completed during the year, with a further 2,400 ongoing at the end of the year. In these projects, we've supported 2,900 organisations, of which over three-quarters were SMEs.

In 2017/18 we will be rolling out a new project completion form, capturing the activities, outputs and expected outcomes of all Innovate UK-funded projects in a consistent, comprehensive manner. The data collected through this process will form the basis of our future performance tracking, providing information on our impact on collaborations, skills, technological development, commercial opportunities, and innovations coming to market.

This will greatly enhance our capability to provide timely performance measurement and tracking across our portfolio. In turn, this will complement our ongoing programme of longer-term, robust evaluation, which has provided the economic impact figures noted above. Details of our evaluation approach and plan will be set out in our forthcoming evaluation strategy.

Portfolio trends

The businesses Innovate UK supports through project funding range from pre-start-up and early-stage micro companies to large and corporate multinationals. The mix of this portfolio is described in the charts on the following pages.

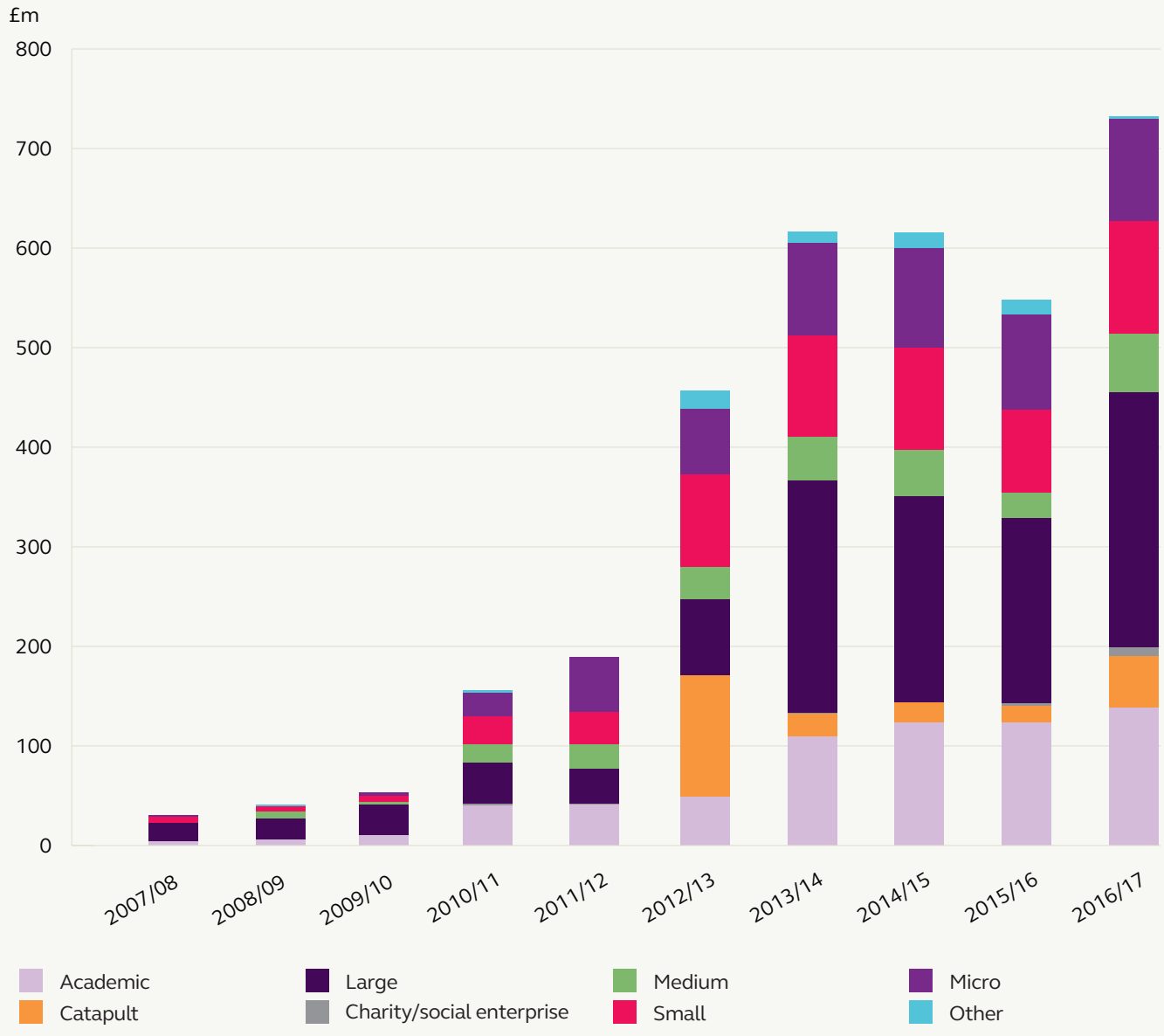
For commercial entities, Innovate UK follows EU organisational size definitions:

EU definitions of organisation size

Company category	Staff	Turnover (or)	Balance sheet total
Large	>250	> €50m	> €43m
Medium	<250	≤ €50m	≤ €43m
Small	<50	≤ €10m	≤ €10m
Micro	<10	≤ €2m	≤ €2m

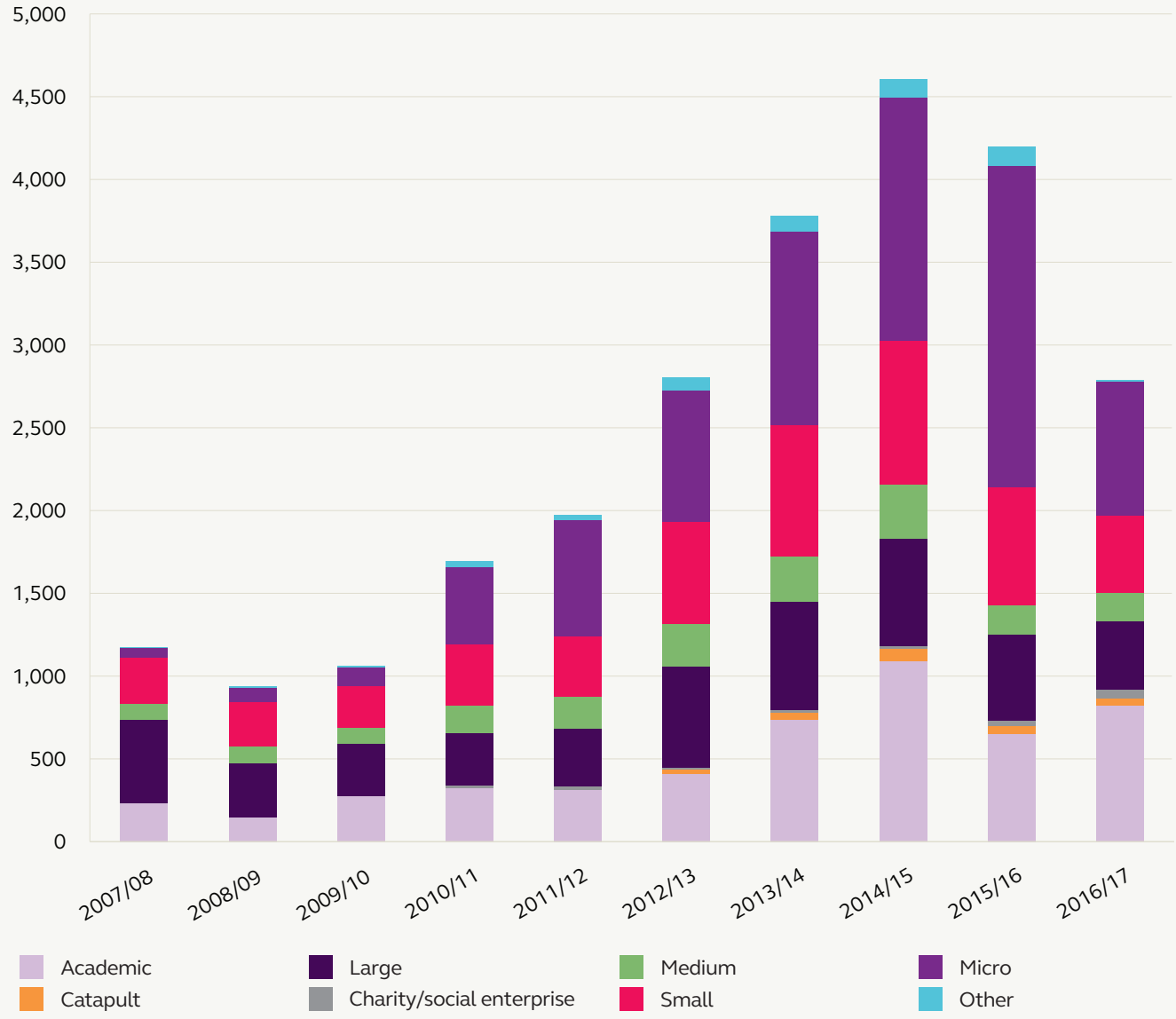
Note: Academic, Catapult, charities and those that do not meet the parameters above are shown separately.

Commitment by organisation size



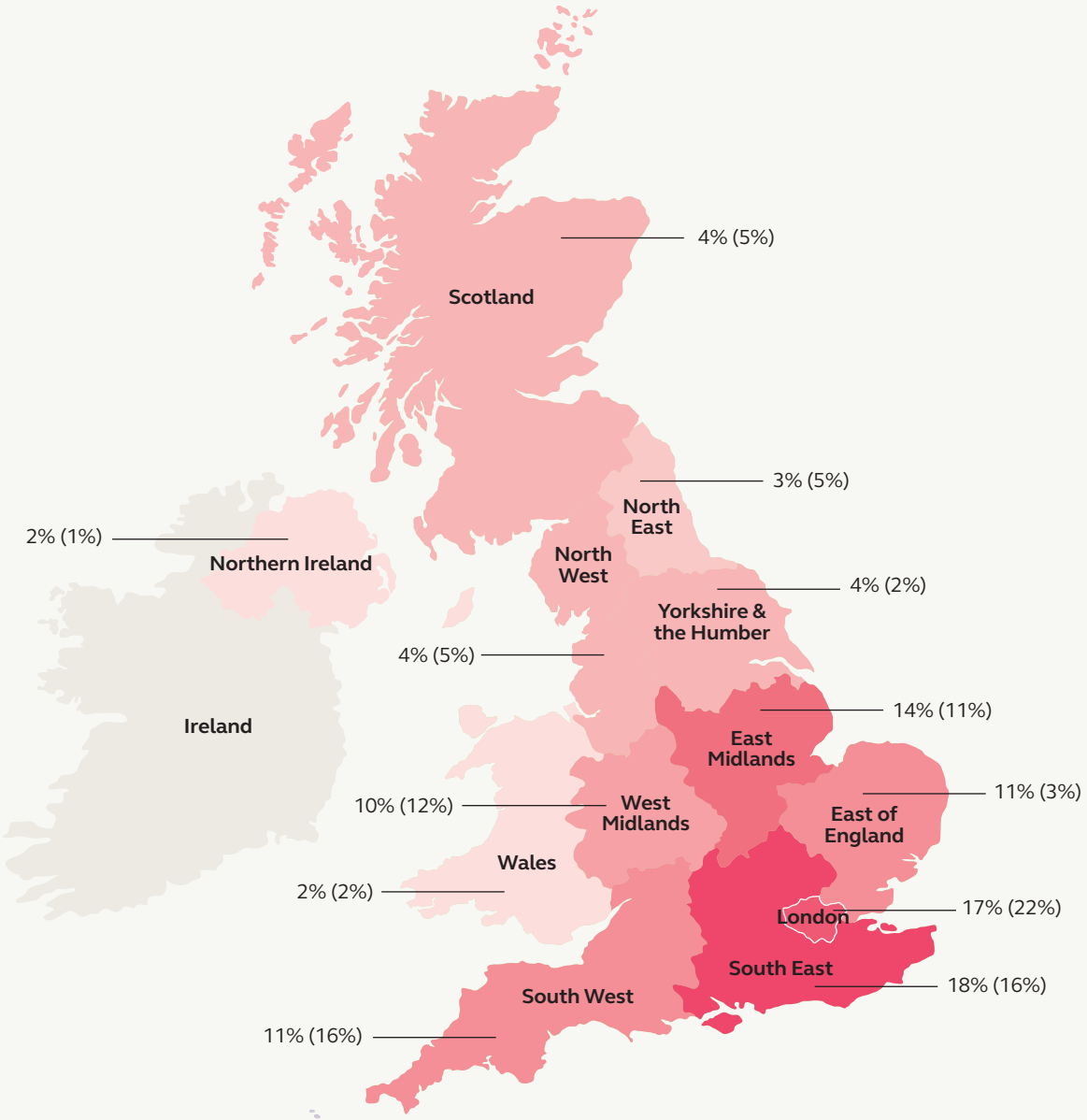
Note: Commitment is funding awarded in the year, which may be actually spent over several years. The value of the grant awarded to micro, small and medium enterprises has increased since the inception of Innovate UK, with a peak in 2014/15 with the Smart portfolio initiative. 2012/13 saw the launch of the Catapult programmes, with the majority of new investment being made in this year. The value of funding awarded to large organisations has been largely driven by partner activities in aerospace and automotive sectors.

Number of grants committed by organisation size



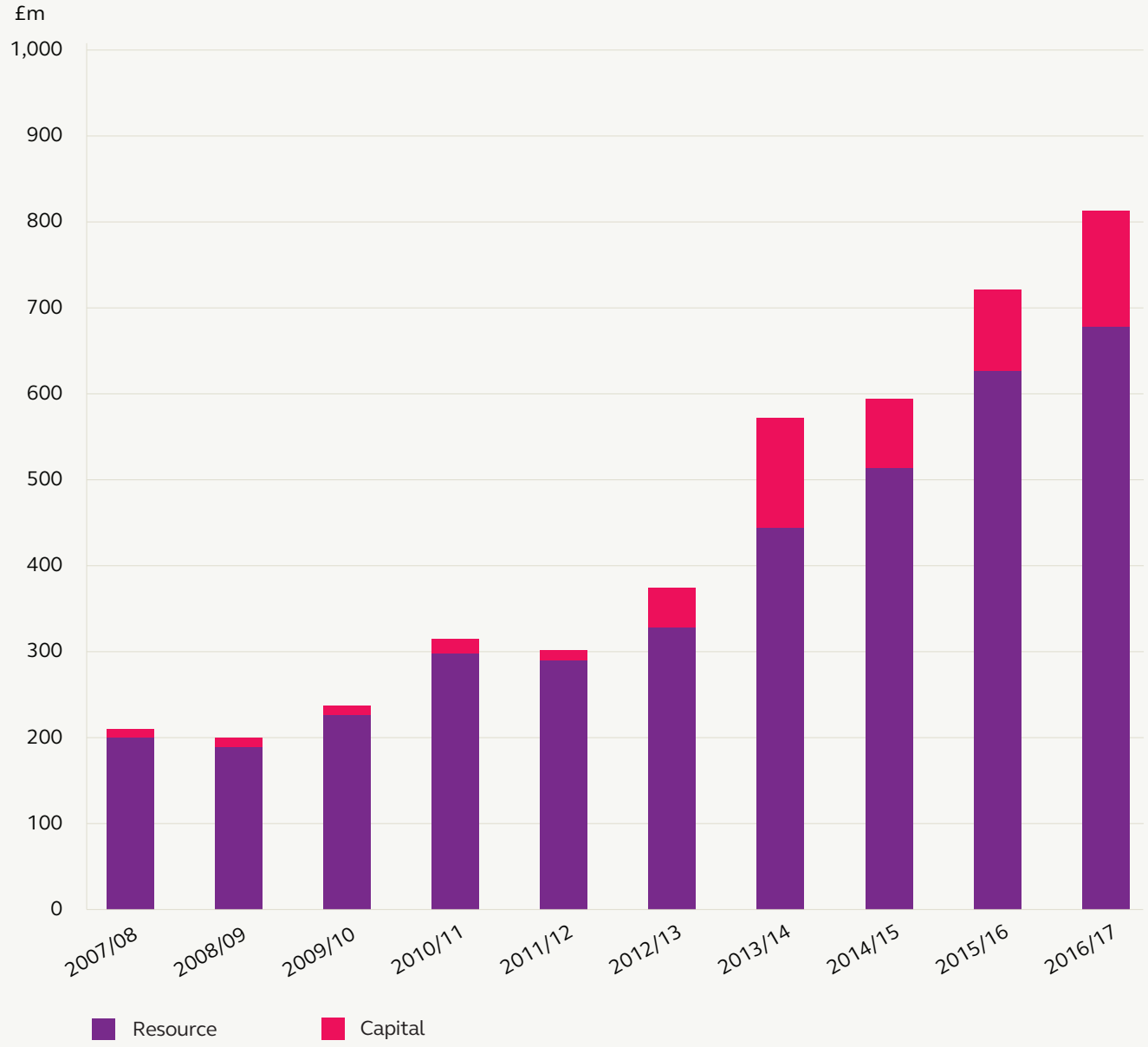
Note: The number of micro and small organisations funded has increased since Innovate UK's inception due to collaborative R&D competitions and the Smart programme.

Geographical split of grants committed 2016/17



Note: The map above shows the geographical split of grants committed in the 2016/17 financial year (with prior-year commitment figures in brackets).

Gross grant expenditure analysis



Note: Innovate UK's annual grant expenditure from inception to current year has increased from £210 million to £812.8 million. 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.

Developments and performance in the year

How we've helped business: Funding

We've changed the way we work to make it easier for businesses to access innovation advice and funding opportunities.

In 2016/17 we simplified the way we support businesses and made it easier for them to work with us. We streamlined our funding programme into 4 sector groups along with an 'open' programme:

- **emerging and enabling technologies:** identifying and investing in technologies and capabilities that will lead to the new products, processes and services of tomorrow and disrupt existing markets
- **health and life sciences:** focusing on agriculture, food and healthcare. The sector is underpinned by technologies developed in bioscience and medical research and enabled by expertise in engineering and physical sciences
- **infrastructure systems:** supporting the major global market opportunities in transforming our energy, transport and city systems that will help create the vibrant communities, integrated transport and sustainable energy that will enable people to thrive in tomorrow's more connected societies
- **manufacturing and materials:** focusing on advancing manufacturing readiness so R&D and technology developments can be delivered at scale across a range of sectors, increasing productivity and growth to capture the value in the UK
- **open programme:** funding competitions and programmes open to all innovative businesses, regardless of the technology or sector in which they are working. This enables businesses to address high-growth opportunities in any part of the economy

We made these changes in line with recommendations from the Dowling and Nurse Reviews.

Our investment decision criteria remained the same:

- what are the global opportunities?
- what are the unique strengths that the UK brings to those opportunities?
- is the timing right?
- why is public sector investment required?

A simplified route to funding

Innovate UK supports businesses of all sizes, ranging from pre-start-up and early-stage micro companies to larger corporates and multinationals. We understand businesses need to access support and funding as quickly and as efficiently as possible. That's why we've made it easier for all businesses, especially SMEs, to access every aspect of the support available across the Innovate UK network. By bringing together all Innovate UK activities and services, and those we deliver for other public sector funding bodies and EU/international organisations, we've been able to provide businesses with a fully integrated offering.

A clearer competition structure

We created a single innovation funding stream for each sector group, so that businesses can compete for grants and contracts. Over the past year, we've run 2 new-style competitions for each sector, as well as 2 open competitions for business ideas from any sector.

These were broader in scope than previous competitions and focused on groups of interrelated sectors. Having a clear competition structure and timetable has meant that businesses now have specific deadlines they can work towards. By running 2 open competitions, we've been able to provide funding opportunities for businesses from every sector.

A delivery partner for innovation

We've also managed competitions for grants or contracts on behalf of government departments and other public sector organisations and we've continued to connect businesses with 'lead customers' for their innovations. One of the ways we've done this in the public sector is through the Small Business Research Initiative (SBRI) programme. In 2016/17 we brought together businesses and government departments to solve tough challenges, such as the need to develop vaccines for global epidemics and to find new technologies for the nuclear decommissioning sector.

Regional teams prove invaluable

We now have teams of regional managers across the 8 English regions as well as managers in Scotland, Wales and Northern Ireland. They have proved invaluable in driving innovation strategy thinking in each of their regions and with our stakeholders. We've extended this programme to April 2018.

A great example is how our regional managers in the north are working with all 11 northern local enterprise partnerships on the development of an innovation strategy for the Northern Powerhouse.

Regional hubs have now been established in Manchester, Birmingham, Glasgow and Belfast. In Scotland, the co-funding of the Biomedical Catalyst by Scottish Enterprise and the Medical Research Council was an outstanding success. Scottish Enterprise funded 7 additional companies, successfully demonstrating how regional strategies can be implemented alongside our UK-wide competition framework.

Pilot events in the regions

We held the first 2 pilot 'Innovate UK in the regions' events in the West Midlands and the east. The aim was to give regional businesses an understanding of the funding and support that are available from Innovate UK and the Knowledge Transfer Network, the Enterprise Europe Network and Catapults as well as from other regional partners, such as the local enterprise partnerships, regional growth hubs and other trade organisations. We're now considering how best to roll out these events across the country leading up to the Innovate 2017 showcase in Birmingham.

SME Innovation Awards celebrates success

In October, we honoured the UK's most enterprising small and medium-sized companies at an awards ceremony in the Houses of Parliament.

The 2016 SME Innovation Awards recognised the many successful projects that we have co-funded. They celebrate the projects and companies that show their impact on business growth and the economy.

As well as an overall award for inspirational innovation, there were 4 specific awards for innovation leading to business transformation, new markets, attracting investment and productivity improvement.

Jo Johnson MP, Minister of State for Universities, Science, Research and Innovation, presented the awards and chose Dearman as the overall winner, drawn from all the nominated companies. Dearman has developed a liquid nitrogen engine, attracting more than £16 million in investment and is well on the way to creating thousands of jobs.

Case study

Biofuel breakthrough in US for specialist engineering firm

UK-based engineering company, Whitefox Technologies, has successfully exploited market opportunities in the US after attending 'Clean and Cool' missions run by Innovate UK and the Department for International Trade.

Whitefox specialises in membrane-based technologies with a focus on efficient ethanol production. Their solution minimises waste and emissions whilst increasing energy efficiency and returns on production.

Whitefox attended 2 missions – in San Francisco and Brazil – designed to help entrepreneurs meet potential new investors, project partners and customers.

The missions helped Whitefox gain knowledge of the biofuels industry and understand the legislation on low-carbon fuels in the US. This gave them the confidence to pitch their technology solutions to US biofuel producer Pacific Ethanol.

Pacific Ethanol successfully trialled Whitefox's ethanol dehydration unit at its Madera plant in 2015 then agreed a commercial deal in 2016.

International demand for ethanol is growing, with 850 million gallons exported from the US every year, so this represents a huge market opportunity for Whitefox.

Connecting

Our core connecting services

Innovate UK helps businesses turn great ideas into successful commercial products and services not only by funding but also by connecting those businesses to equally vital support. This might be to expert advice, sector insight, potential new partners, testing facilities or international market opportunities.

In the financial year 2016/17 we helped businesses make connections by:

- linking them with academics, government, funding and business opportunities
- providing support to exploit ideas and capabilities
- bringing companies together with people they wouldn't usually meet, including new partners for commercial, technology and R&D collaborations
- helping SMEs find new markets for their products and new ways of sourcing, selling or licensing technology, including access to international missions and brokerage events
- helping SMEs be 'investment ready' and understand how to access funding and finance
- providing one-to-one specialist support to improve innovation management and bring products and processes to market more rapidly
- helping SMEs understand how to protect intellectual property
- providing businesses with hands-on support, coaching and training to increase their capability to grow internationally
- supporting special interest groups (SIGs) in areas of high potential

A simplified innovation network

We provide our 'connecting' services for innovators through the Knowledge Transfer Network (KTN) and Enterprise Europe Network (EEN).

The **Knowledge Transfer Network** (KTN) creates connections, dialogue and partnerships between people with different expertise, specialisms and backgrounds. For more information visit **www.ktn-uk.co.uk**

The **Enterprise Europe Network** (EEN) helps ambitious businesses innovate, grow internationally and scale up. Jointly funded by Innovate UK and the European Commission, EEN has experts from 21 partner organisations across England, Northern Ireland and Wales who advise and connect those looking to commercialise ideas and succeed in new markets. For more information visit **www.enterprise-europe.co.uk**

We work closely with our colleagues at Scottish Enterprise who lead EEN delivery in Scotland.

EEN reaches out to more than 60 countries – including the USA, Canada, India and China – connecting businesses from a local UK contact point with 3,000 experts in 600 partner organisations.

We have forged closer links between the KTN and EEN – and between the EEN and our national contact points, which help businesses access European funding programmes – to provide a simpler service to companies seeking support.

How we've connected businesses

EU programmes

We increased business participation in the Horizon 2020 programme, giving UK businesses the chance to access funding and develop relationships with organisations in the EU and beyond. We also developed the role of our Catapult network to assist UK businesses, particularly SMEs, in accessing Horizon 2020 opportunities.

We've continued to support and encourage UK businesses and universities to bid for EU funding while the UK remains a member of the EU, following the government's announcement that it will underwrite payment of awards when projects continue beyond UK membership.

Closer links between EEN, KTN and our national contact points have enabled us to provide more effective support for UK business. As well as providing support through programmes such as Eurostars, we have continued to provide advice on opportunities in specific areas of the Horizon 2020 programme. We have been supporting businesses with their applications too.

We encouraged UK businesses to access the new Horizon 2020 €550 million (£470 million) funding programme launched in October. This offers support for projects in 6 key areas – sustainable food security, rural innovation and business, marine projects, the bioeconomy, smart cities, and green vehicles.

An international focus

In the financial year 2016/17 we focused our international efforts on increasing opportunities for businesses through our relationships with other countries.

Newton Fund: A key part of this programme was the Newton Fund, which encourages UK business to take part in international collaborations in science and innovation. The Newton Fund is part of the UK's official development assistance programme and, since its launch in 2014, has provided £75 million each year, with partner countries providing matched resources. In August, we welcomed the news that funding for the Newton Fund has been extended to 2021.

Newton Fund projects focus on finding solutions to societal challenges in 16 developing countries. The list of participating countries was expanded in summer 2016 to include Kenya.

The projects we've supported this year, in partnership with the Newton Fund, include competitions to:

- create affordable gene-based diagnostics for non-communicable diseases in South Africa
- develop solutions for the agri-food sector in Turkey
- improve life in Brazilian cities through urban innovation
- provide healthcare and technology solutions in India

Entrepreneur missions: These also play an important role in supporting businesses, particularly high-growth potential SMEs. We have worked with colleagues at UKTI, now the Department for International Trade, to run 2 overseas trade missions. These took UK entrepreneurs working in the space sector to the USA and those in the connected cities sector to India to pitch their solutions to potential overseas customers, partners and investors.

Innovate 2016

Innovate UK, in partnership with the Department for International Trade, ran another successful 2-day showcase event in November, bringing together the UK's most exciting entrepreneurs and exploring the technologies and innovation opportunities of the future. This is the first time the event has taken place outside the capital – in Manchester. It attracted more than 2,000 innovators, international investors and buyers to explore new collaborations and opportunities, and generated an estimated £5.3 million worth of business.

A survey of attendees revealed that 92% would recommend the event and 69% of UK innovators intend to use government innovation support tools in future, with 58% saying they now feel more informed about government support.

Venturefests

In 2016/17 we supported Venturefest events across the UK. Aimed at innovators, entrepreneurs and investors, the Venturefest Network comprises 12 large-scale innovation-led events across the UK. They stimulate collaborations, promote high growth and create a platform for inventive businesses to be well integrated into local, national and international supply chains.

Each Venturefest is tailored to the culture, specialist strengths and interests of its area. Venturefest events aim to be seen locally as "the right place to meet the right people" for high-growth business to innovate and scale up.

In 2016/17, 12 Venturefests took place, attracting around 8,800 attendees and generating new business worth an anticipated £14.3 million.

Case study

Transforming the baby food market

A baby food business supported by Innovate UK is transforming the market in the UK and globally. Ella's Kitchen has developed a range of organic food for babies and toddlers and is now the number one baby food brand in the UK. The company has a 20% share of the UK baby food sector and a global turnover of more than £750,000.

Company founder, Paul Lindley, describes the inspiration behind Ella's Kitchen: "I was doing my weekly shop and I just couldn't find anything that didn't have loads of additives. I set up Ella's Kitchen because I passionately believe that Ella, my daughter, along with her generation, should have the opportunity to eat better food and to discover that healthy food can be fun, tasty and cool."

Ella's Kitchen has taken part in 3 Knowledge Transfer Partnerships (KTPs) with the University of Reading, which have helped to bring new skills and knowledge to the business.

The first KTP helped the company develop a multi-sensory marketing approach and improve children's enjoyment of healthy food. A later project focused on transforming the company's approach to sourcing raw materials to help maintain consistently high-quality products and reduce costs. With its third KTP, the company is aiming to improve food packaging to gain competitive advantage.

Collaboration and partnerships

Working with Research Councils UK

We have continued our close partnership working with Research Councils UK (RCUK) in support of our shared vision to "deliver UK economic growth by enabling an innovative, high-value, knowledge-based economy with high productivity".

This year we focused on creating a new strong, single voice for the country – UK Research and Innovation. The new organisation will incorporate the 7 research councils, Innovate UK and the research funding element of the Higher Education Funding Council for England. As part of UK Research and Innovation, Innovate UK will maintain its duty to support business-led innovation, right across the country.

In the meantime, we continued working with all 7 research councils to trial new partnership approaches based around urban living. The aim has been to bring together the best in academic research and business-led innovation to identify, understand and address key challenges and opportunities for urban areas.

The Urban Living Partnership has taken a 'whole city' approach, giving people living in Birmingham, Bristol, Leeds, Newcastle, Gateshead and York the chance to improve their city's health, wellbeing and prosperity as they face the challenges of modern urban living. These range from community health and crime to social inclusion and employment.

Partners in the £3.9 million first phase of the initiative are contributing £1.9 million and include IBM UK Limited, Arup, Atkins Global, the Environment Agency, Natural England and the Future Cities Catapult. The partnership committed to invest funding of up to £400,000 to support each pilot project to conduct a 'diagnostic' phase that started in April.

Catapults and other centres

The Catapults are independent organisations that receive core funding from government through Innovate UK. They form a network of world-leading technology and innovation centres designed to transform the UK's capabilities for innovation in specific areas and help drive future economic growth.

They provide businesses with access to the kind of expertise, facilities and equipment they would not find together elsewhere. They use the power of people and organisations working together to unlock opportunities and speed products and services towards commercial reality.

We have established and funded 11 Catapults, 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. There are 7 well-established Catapults, with others set up more recently. They all have their own strategies and business plans.

For more information see **www.catapult.org.uk**

In 2016/17 we continued to support the Catapult network by strengthening links with research funders and the academic community. We have delivered a programme of Catapult-hosted events for universities in partnership with Universities UK and continued with the successful fellowship model developed by the Catapults and the research councils.

Cell and Gene Therapy Catapult

The Cell and Gene Therapy Catapult helps companies translate early-stage research into commercially viable and investable therapies. In 2016/17, construction work continued on its large-scale cell therapy manufacturing centre in Stevenage. The centre opens in 2017 and will help bring cell and gene therapies to market in the UK and internationally.

Compound Semiconductor Applications Catapult

The new Compound Semiconductor Applications Catapult in Wales is now in start-up phase. Its focus will be to help UK businesses exploit the significant advances made by UK researchers over the past 2 decades. It will provide development facilities to speed up the commercialisation of compound semiconductors in areas including healthcare, the digital economy, energy, transport, defence and security, and space.

Digital Catapult

The Digital Catapult supports UK companies with the practical application of digital innovation and culture. A focus for the Digital Catapult in 2016/17 has been on 2 sectors that have the most untapped

potential for delivering future economic growth and where digital innovation can make the greatest impact, to increase productivity, efficiency and scale. These sectors are digital manufacturing and the creative industries.

Energy Systems Catapult

The Energy Systems Catapult works with companies that are focused on exploiting the opportunities created by the need to transform global energy systems; not only playing a part in accelerating technology-based solutions, but also engaging with government to address the market mechanisms and business models that will be needed to enable such solutions. In October, the Energy Systems Catapult moved to new premises in Birmingham city centre.

Future Cities Catapult

The Future Cities Catapult advances urban innovation, to grow UK companies and make cities better. From its Urban Innovation Centre in London, it provides data analysis, while on-the-ground demonstrators in a network of collaborating cities provide opportunities for testing new approaches. Combined, they help discover which new ideas can have the biggest impact on our urban environments.

High Value Manufacturing Catapult

The High Value Manufacturing (HVM) Catapult's 7 centres offer access to world-class equipment, expertise and collaborative opportunities. This year, the Catapult continued its HVM Reach programme, to extend its work with high-growth potential SMEs in supply chains and its HVM Plus programme, reaching out to more sectors. The Catapult helps UK companies to address challenges in areas that include additive manufacturing, metals processing, composites, industrial biotechnology and digital manufacturing. It operates the Graphene Application Centre (through the Centre for Process Innovation) and the new National Formulation Centre.

Medicines Discovery Catapult

The Medicines Discovery Catapult was launched in 2016. Its aim is to develop and validate new ways of discovering new medicines to support and grow the UK's commercial drug discovery sector.

Offshore Renewable Energy Catapult

The Offshore Renewable Energy Catapult provides companies with support for developing innovative wind, wave and tidal energy technologies. These technologies help to reduce the cost of offshore renewable energy, transforming the industry and delivering economic benefits to the UK. The Catapult enables SMEs to test and demonstrate their technologies on a full-size turbine based at Levenmouth, Scotland.

Precision Medicine Catapult

The board of directors of the Medicines Discovery Catapult (MDC) and the Precision Medicine Catapult (PMC) have proposed the transfer of some aspects of the scientific mission of PMC to the MDC. MDC will now focus on medicines, diagnostics, biomarkers, and early-stage clinical trial support. They believe the move reflects the change in precision medicine becoming mainstream and integrated within modern drug discovery and will drive efficiencies and serve as a community one-stop-shop for all drug-based approaches. The PMC will close as an entity in its own right.

Satellite Applications Catapult

The Satellite Applications Catapult's world-class facilities and expertise enable the best businesses, researchers and end-users to develop new satellite-based products, services and applications, translating ideas from concept to market.

Transport Systems Catapult

The Transport Systems Catapult is at the forefront of the drive towards intelligent mobility – using new and emerging technologies to transport people and goods in a smarter and more efficient way. The Catapult is helping UK businesses create products and services that meet the needs of the world's transport systems as

they respond to ever-increasing demands. Key to the Catapult's mission is helping sell UK capability on the global stage, while also promoting the country as a superb testbed for the transportation industry.

Agri-tech centres

In 2013 the UK Strategy for Agricultural Technologies committed over £80 million to establish centres for agricultural innovation. There are now 4 agri-tech centres covering:

- precision agriculture
- agri-big-data
- crop health and protection
- livestock excellence

The centres were established with government funding through Innovate UK, with the aim of developing applied solutions to solve the problems the industry faces, helping to turn agricultural innovation into commercial opportunities for UK businesses, encourage inward investment and improve farming practice. We are continuing to work with the agri-tech centres – and the agri-food companies clustered around these centres – to identify opportunities and funding, connect players, signpost investors, support the rollout of technology on farms and help unlock overseas markets.

Innovation and knowledge centres

Innovation and knowledge centres (IKCs) are based at universities and help create early-stage critical mass in areas of emerging technology. They have an important role to play in helping to commercialise early-stage disruptive technologies.

In 2016/17 we continued to invest, with our research council partners, in 4 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

Case study

Keyboard app developer Swiftkey bought by Microsoft

A business started by 2 young friends with the support of Innovate UK was bought in 2016 by Microsoft in a deal reported to be worth $250 million.

Swiftkey is best known for the predictive keyboard that can now be found on millions of smartphones.

The business was founded by Cambridge graduates Jon Reynolds and Dr Ben Medlock. They won a £15,000 grant from Innovate UK in 2008 to test out their idea. A second £50,000 award helped them to prototype it.

The Swiftkey app was downloaded by 100,000 people in the first week of its launch in 2010. By 2016, it was installed on more than 300 million devices.

In a blog post, executive vice-president technology and research Harry Shurn commented: "We love SwiftKey's technology and we love the team that Jon and Ben have formed. We believe that together we can achieve orders of magnitude greater scale than either of us could have achieved independently."

Highlights from our sector groups

Emerging and enabling technologies

Our emerging and enabling technologies programme seeks to identify, and invest in, technologies and capabilities that will lead to the new products, processes and services of tomorrow – those with the potential to create billion-pound industries and disrupt existing markets.

Our focus

The UK is strong in fundamental research across many different disciplines but has, in the past, struggled to fully commercialise these opportunities. The most promising emerging technologies and industries need to be guided through the innovation process if they are to achieve market success.

Enabling technologies or capabilities have the potential to make a difference in many sectors yet they can be slow to spread and be adopted by multiple target industries. They need support and tailoring to realise that potential.

That's why our focus has been to identify and speed up the development of technologies and capabilities that lead to new products, processes and services in major new industries:

- **emerging technologies:** finding and proving early-stage technologies from the research base
- **enabling technologies:** supporting underpinning technologies that have the potential to create a broad swathe of new products and services across many sectors

Funding competitions

In 2016/17 we invested around £30 million in 2 emerging and enabling technologies competitions to help stimulate the development of new products and services.

The aim of the competitions was to help businesses broaden their innovation activities and find new sources of revenue from new products, processes or services. We invited businesses to harness emerging and enabling technologies across the economy; to develop and scale-up research and development to bring ideas, processes and products closer to commercial release; and to use design processes to better understand customer motivations and behaviour.

We also invested £4 million in creating innovative projects to speed up the use of compound semiconductors in areas such as power electronics, radio frequency (RF)/ microwave, photonics and sensors.

In partnership with the Engineering and Physical Sciences Research Council (EPSRC), we ran competitions to develop prototype devices and demonstrators of quantum technologies and to support and speed up the creation of new partnerships across robotics and autonomous systems.

European and international projects

We ran the last in a series of 3 space missions in support of the Space Innovation and Growth with a group of innovative UK businesses visiting California in November.

Key delivery partners

We have continued to work closely with the science base generally, and the research councils specifically, to jointly identify and support the translation of early-stage technologies through our emerging and enabling technologies programme.

We have collaborated across government to identify opportunities to work together in solving specific challenges through the Small Business Research Initiative (SBRI) programme. This has included the Department of Health, the Medical Research Council, the Nuclear Decommissioning Authority, the Home Office's Office for Security and Counter-Terrorism (OSCT), the Department for Environment, Food & Rural Affairs (Defra) and the devolved administrations in Scotland, Wales and Northern Ireland.

Innovate UK also provides support to European Space Agency programmes on behalf of, and in partnership with, the UK Space Agency.

Case study

New Aston Martin DB11 features UK firm's low-carbon innovation

A revolutionary aluminium forming process pioneered by a spin-out from Imperial College London is playing a vital role as a weight-saving, low emissions technology in the new Aston Martin DB11.

Impression Technologies Ltd has built on 13 years of advanced metallurgical and process research by the scientists at Imperial College to create complex, deep-drawn aluminium pressings through a patented technology called Hot Form Quench (HFQ).

HFQ panels have been incorporated into the DB11's new aluminium bonded architecture, with packaging, weight and cost benefits for the vehicle.

ITL developed HFQ with support from the Engineering and Physical Sciences Research Council, Innovate UK and the Office for Low Emission Vehicles.

ITL secured £4 million in venture capital investment in 2015, plus £2 million funding from the Advanced Manufacturing Supply Chain Initiative, to invest in the world's first dedicated HFQ production cell.

Health and life sciences

Innovate UK's health and life sciences sector group focuses on agriculture and food and healthcare. It's underpinned by technologies developed in bioscience and medical research, and enabled by expertise in engineering and physical sciences.

Our focus

A growing global population, ageing demographic, rising wealth and the burden of diseases are increasing the demand for food and improved healthcare. This demand can only be addressed through companies bringing new products and solutions to market.

Our focus in 2016/17 has been to continue to encourage investment in UK healthcare businesses and help them apply their biology, engineering and design skills to develop market-leading solutions for some of our greatest societal challenges. We've been working to help companies prepare for market by introducing them to investors and other opportunities such as Horizon 2020 funding.

Our main areas of focus are:

- precision medicine: capturing value in the UK in areas such as diagnostics, therapeutics, medical technologies, digital health and direct-to-consumer products
- advanced therapies (cell, gene and other therapies): capturing value from therapeutics development and manufacturing
- preclinical technologies: addressing pharmaceutical preclinical productivity challenges, including capturing more value for UK contract research organisations by validation of potential technologies
- improving agriculture productivity: through, for example, new breeding technologies, better control of pests, weeds and pathogens and the increased uptake of robotics/autonomous systems, satellites, sensors and photonics
- enhanced food quality: developing high-value, healthy, nutritious foods of known provenance by supporting the reduction of salt, sugar and fat; increasing fibre and biofortification and developing new proteins
- biosciences: exploiting the outputs of bioscience and biomedical research will underpin many new products and services across the bioeconomy. Gene editing, synthetic biology and analytical technologies will create the bedrock on which many new health and agri-food products will be developed

Funding competitions

In the first round of our health and life sciences funding competition we committed up to £15 million to projects that addressed the technical or commercial challenges in this sector. In the second round, we offered a further £15 million.

In the health and life sciences sector we ran a new Agri-Tech Catalyst competition worth up to £4 million. We invited businesses and universities to submit proposals for increasing the pace and scale of uptake of agricultural innovation by farmers in developing countries. The overall aim was to reduce poverty and hunger for smallholder farmers and, by encouraging them to farm more efficiently and sustainably, help bring about a positive impact on rural income and food security.

A Biomedical Catalyst funding competition offered businesses a share of up to £10 million to develop innovative healthcare technologies and processes that will prevent disease, enable earlier and better detection rates, and provide tailored treatments.

A further competition worth up to £11 million invited proposals for collaborative research and development projects to stimulate large-scale manufacturing in the cell and gene therapy sector. The aim was to develop the manufacturing capability of candidate cell and gene therapies so that they can be readied for pivotal clinical trials and early market supply.

Case study

UK tech company develops pelvic floor exercise tracker

Elvie is the first product launched by British women's tech company, Chiaro. Users can use their smartphones to track progress and improve their technique.

One in 3 women have bladder problems yet there has been no technological innovation in this area until now.

Tania Boler, Chiaro's founder, says: "Elvie is so important for every woman out there. What we did was take the best of medical technology and turn it into something elegant and simple."

Innovate UK awarded the business a grant in its start-up phase.

"Innovate UK has been an amazing partner," says Tania. She says that the grant award confirmed to her that the business and idea had real merit. "I quit my job the next day."

The company has grown quickly, from 5 employees in 2015 to 22 by the end of 2016, to an expected 30 by the second quarter of 2017.

Infrastructure systems

Our work in infrastructure systems focuses on identifying major global market opportunities, for UK-based firms, in transforming our energy, transport and city systems that will help create the vibrant communities, integrated transport and sustainable energy that will enable people to thrive in tomorrow's more connected societies.

Infrastructure systems underpin almost every aspect of modern society – from energy and transport to health and the digital economy.

Our focus

Whether powering our lives at home or work, providing efficient mobility to people and goods, enabling access to good education and healthcare, keeping us warm and comfortable or connecting us to the world, infrastructure is key for our future. The UK has the potential to lead the world in these areas. With increasing economic, social and environmental pressures, we need solutions that make reliable and efficient systems.

Key focus areas are:

- energy systems to light, heat and power our society in a clean, affordable and secure way. Technologies and services that can optimise and integrate an energy system to better meet the needs of its users in the most efficient, reliable and cost-efficient manner
- energy supply innovations that lead to significant cost reductions, improved asset integrity and supply chain development for current and future UK and global civil nuclear and offshore wind markets
- connected transport for personal mobility and freight. Improving the transport infrastructure through innovative systems design, connecting people and goods through intermodal transport, and at the same time optimising efficiency, and reducing societal costs
- smart city solutions enabling cities to be managed holistically enabling all citizens to be healthier, happier and more productive and resilient
- smart infrastructure that responds intelligently and dynamically to changes in its environment, including user demands and other types of infrastructure, to achieve improved capacity, resilience and performance

Funding competitions

We opened the first of our new-style infrastructure systems funding competitions in July, offering businesses a share of up to £15 million. The aim was to encourage the development of business-led innovative solutions to help provide affordable, sustainable and secure energy, connected transport, and urban living solutions. We followed this up with a second round, worth a further £15 million, in December.

We also established the Energy Systems Catapult in Birmingham, and continue to invest in the Future Cities, Transport Systems and Offshore Renewable Energy Catapults, as well as funding 2 innovation and knowledge centres (IKCs) – the Centre for Smart Infrastructure and Construction and SPECIFIC (Buildings as Power Stations) – and the Energy Research Accelerator (ERA).

In November we took 22 UK companies to the India-UK Tech Summit in New Dehli, which took place during the Prime Minister's trade visit to India. In March we took a delegation of 10 UK SMEs to Singapore to establish links and innovation partnerships between British and Singaporean SMEs.

We continue to run the £15 million Digital Built Britain programme in partnership with BEIS on behalf of the government. It supports the development of intelligent building information models (BIM) to both reduce whole-life costs and carbon emissions of the built environment, and improve productivity and infrastructure capacity.

We ran an £18 million 'first of a kind' programme to deploy new infrastructure systems technologies for the first time in commercial contexts.

We also ran a nuclear manufacturing competition for BEIS, and a nuclear decommissioning demonstrator for the National Nuclear Laboratory. We have partnered with the Engineering and Physical Sciences Research Council, BEIS and the Department for International Development to run the Energy Catalyst.

Case study

Making cities smarter places to live and work

Internet of things and smart cities technology business nquiringminds is helping UK cities to work in a more connected way, thanks to support from Innovate UK.

The business won a £1 million SBRI (Small Business Research Initiative) contract in 2015 to develop an open city data platform that gathers data from different sources and allows cities to capture, secure, analyse and use data, in order for them to run smarter.

The nquiringminds platform is now being used by Hampshire County Council and the cities of Southampton, Cambridge and Liverpool.

Nick Allott, chief executive, said: “Having Innovate UK behind us gives us a huge amount of validation, and this allows us to work with cities who might otherwise not trust a small technology company.”

The company has grown from 2 people when it was set up in 2010 to employ 12 in 2016.

Manufacturing and materials

The aim of this programme is to drive growth through sustainable increases in long-term productivity across all UK economic sectors.

Our focus

During the year we focused on advancing manufacturing readiness so that R&D and technology developments can be delivered at scale and at pace to the market, enabling UK industry to increase productivity and capture the value from technology investment.

There are opportunities to boost the growth of UK manufacturing supply chains through innovation such as in digital manufacturing, additive manufacturing, composites, materials integration and industrial biotechnology. Yet the range of innovation activities companies are undertaking is narrowing, which may make exploitation of new technologies less likely. Over the past year, our aim has been to help businesses increase resource efficiency and longer-term commercial success by broadening out to innovate in new revenue streams.

Funding competitions

In the financial year 2016/17 we ran 2 new-style funding competitions in the manufacturing and materials sector. Round 1 offered businesses a share of up to £25 million to develop innovative projects focused on identified technical or commercial challenges which will lead to increased UK SME productivity, competitiveness and growth. The second round of the competition, worth a further £15 million, opened in November.

We also invested £4.5 million in a competition that challenged businesses to develop smarter, better-connected 3D printing solutions. The aim was to help companies overcome barriers to business growth in additive manufacturing and to explore and develop their wider digital manufacturing capabilities.

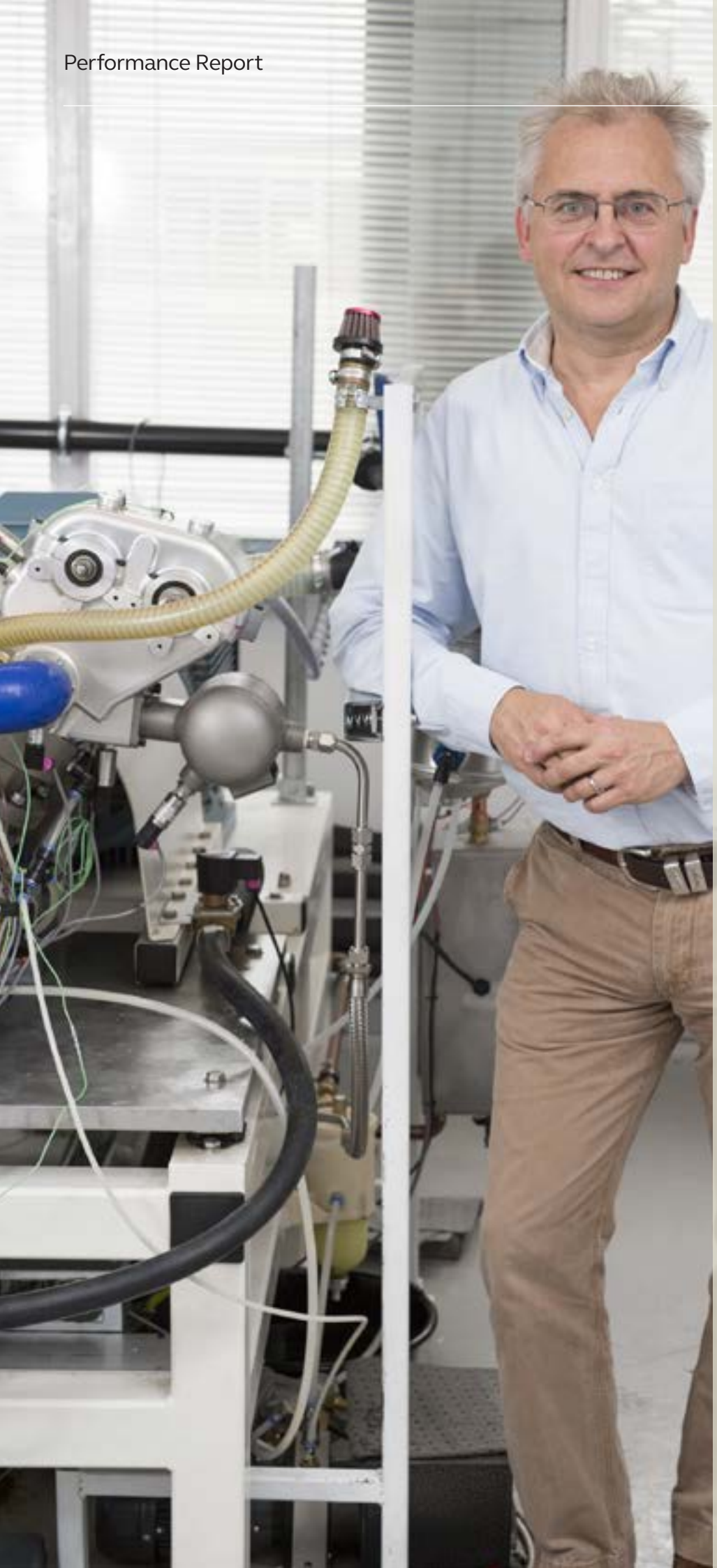
Key delivery partners

Innovate UK delivers automotive and aerospace research, development and technology for the Office for Low Emission Vehicles (OLEV), the Advanced Propulsion Centre (APC) and the Aerospace Technology Institute (ATI) programmes.

In July, in partnership with OLEV, we launched a competition, worth up to £24 million, to enable industry-led research trials and development of innovative vehicles or on-vehicle technology for the freight, logistics, utilities and emergency industries.

On behalf of the Centre for Connected & Autonomous Vehicles (CCAV), we held the second round of a competition to inspire businesses to research and develop connected and autonomous vehicles and show how these vehicles would work as part of a wider transport system. CCAV committed to invest up to £30 million, and Innovate UK £5 million, in this competition.

We also ran a competition worth up to £25 million in partnership with the Advanced Propulsion Centre (APC) and the Department for Business, Energy & Industrial Strategy to advance demonstrated low carbon automotive technologies towards commercialisation.



Case study

‘Clean and cold’ power firm wins £16 million investment

Dearman has developed technologies that use a novel piston engine powered by liquid air or liquid nitrogen to deliver zero-emission cold and power.

In 2016, the company received a £16 million investment from Park Vale Capital.

The technology’s first major application is for transport refrigeration units but it’s also being developed for use in back-up power systems for buildings and for more fuel-efficient vehicle engines.

Dearman technology is being tested in the Innovate UK and Office for Low Emission Vehicles co-funded Cool E transport refrigeration project.

The company expects the transport refrigeration system to be in full manufacture by 2018. This could create thousands of jobs in the UK and provide significant economic and environmental benefits. It’s estimated that if all of London’s truck refrigeration was zero emission, the reduction in particulate emissions would be the same as taking more than 300,000 new diesel cars off the road.

Open programme

The open programme is accessible to all businesses undertaking innovation for any technology and in any sector.

Our focus

At Innovate UK, we understand that taking a new idea or concept to market can be challenging, particularly for small, young innovative businesses. The aim of our open programme is to help businesses explore high-growth opportunities wherever their concept or idea comes from.

Open competitions also enable businesses to engage in open innovation through partnership working with the academic base which can, in turn, help them improve capacity and capability and make them more competitive.

Our focus is to help businesses overcome barriers to innovation and create new products, processes and services by:

- reducing financial risk and the funding gap through co-funding with businesses
- helping businesses validate their ideas to attract follow-on private investment
- enabling businesses to access knowledge and expertise

Funding competitions

In the financial year 2016/17 we ran 2 new-style open programme funding competitions. These competitions were open to all UK businesses and aimed at enhancing UK competitiveness, growth and national productivity.

In each round we offered £15 million to support innovative research and development projects. We invited businesses to develop new products, processes and services with commercial potential. In line with the aims of our open programme, these projects could be drawn from any technology, engineering or industrial area, including our 4 priority growth sectors.

Case study

Next-generation bank tops £200 million capital

In 2016/17, Atom Bank – the first bank to be designed exclusively for mobile – agreed terms for a further £83 million in equity, taking its total capital to £219 million.

The latest tranche of investment is evidence of a growing appetite for Atom's revolutionary banking model - taking the best practices from digital businesses and applying them to the banking industry.

Atom is engaged in a 3-year Knowledge Transfer Partnership (KTP) with the Department of Mathematical Sciences at Durham University. The KTP is helping the business to understand the functional and financial relationship between key banking activities and help it to optimise how it manages its people, products and processes.

Durham-based Atom Bank launched in April 2016 offering fixed-saver accounts and secured business lending for SMEs. Since then, the bank has launched its first mobile mortgage product, which allows borrowers to manage everything they need via Atom's mobile app.

How we operate

Business performance and change

A 3-year transformation plan

We launched our business improvement and change programme in financial year 2014/15 as a 3-year transformation plan that would focus on cross-functional projects to help the organisation scale up. This has already helped us improve our operational efficiency, and during 2016/17 we continued to build on these achievements.

Transformation of innovation funding services and systems

We continued our work in 2016/17 to bring the application process and management of funding competitions online and to prepare for the launch of the new Innovation Funding Service in 2017/18, enabling the majority of our funding schemes to be accessed online.

Simplifying our offer

We changed the way we support businesses and made it easier for them to engage with us by simplifying our funding programme into 5 themes and providing a single, integrated point of access for support through the Knowledge Transfer Network (KTN) and Enterprise Europe Network (EEN).

Customer service

A key focus in the year 2016/17 has been to ensure that we provide a more efficient organisation for customers, maintaining and improving our existing high levels of support.

We completed the integration of a new customer relationship management platform and telephony system to improve customer service. We managed over 49,000 queries through the service; 91% of emails were resolved within 48 hours and over 96% within 120 hours.

We also worked to ensure we have the knowledge and systems in place to support the new online Innovation Funding Service and applications process.

Impact and evaluation

Our economics and performance team has been working on 3 major initiatives throughout the year:

Tailoring our evaluation programme to fit our new structure

New processes and programmes require new evaluations, and we have been working to ensure our ongoing evaluation programme continues to cover all of our key activities. This year we have published an interim evaluation of the Biomedical Catalyst, and continued our ongoing evaluations of Smart, Innovation Vouchers, and our strategic investments in low-impact buildings and sustainable agriculture and food. We have initiated new evaluations covering the entire Catapult network and our pilot of Innovation to Commercialisation of University Research (ICURe). We have also developed a new evaluation strategy setting out plans to commence evaluations of our fund and connect activities in 2017, including all our new strategic sector groups and our open programme, which will be published early in the new financial year.

Introducing a new system of performance tracking

Throughout 2016/17 we have engaged with sector experts and businesses to develop and pilot a new project completion form to be completed by all project participants. This is now being rolled out and will greatly enhance our data monitoring to cover project activities, outputs, and expected impacts on innovation business performance. This data will feed into our performance reports, also developed this year, increasing our transparency and access when it comes to reporting our performance.

Engaging with the research community

This year we have continued our funding of the Enterprise Research Centre, supporting world-class research into how companies grow and how we can better support them to do so through business-led innovation. Following a successful first phase of the Innovation Caucus, we launched a second phase in January this year with a new, expanded network of 66 social science academics supporting innovation-led growth and promoting greater engagement between the social sciences and businesses.

Beyond the academic community, we have continued to partner with Nesta's Innovation Growth Lab, to increase the understanding and use of randomised control trials in innovation policy, and continued our support for the ScaleUp Institute and Big Innovation Centre.

People and resource planning

The financial year 2016/17 was a time of transition and change for Innovate UK as we worked to ensure the organisation has the right skills, capabilities and working practices in place to achieve our strategic goals over the next 4 years.

Innovate UK has a highly skilled and capable team of specialist and professional staff, most with strong business experience. A key area has been on developing our people and maintaining a strong pipeline of talent.

Graduate recruitment scheme

In February we invited university leavers from across various fields of study to join our graduate scheme and work at the heart of UK innovation. We recruited 16 graduates to work across our organisation. The 2-year programme will provide on-the-job training and tailored learning and development to help graduates build skills that will further their careers.

We have a number of processes in place to ensure the core values of diversity and inclusion are reflected across our organisation.

Our office move

We completed a smooth transition from offices in North Star House to Polaris House in February 2017. The move resulted in a 33% reduction in office space and a 50% reduction in accommodation costs, while delivering a flexible, enhanced working environment allowing any member of staff to work from any desk. This has received very positive employee feedback. The costs of upgrading the new offices are being met from ongoing savings in occupation costs.

Communication

For Innovate UK, outstanding communication is an integral part of achieving our goals. In the financial year 2016/17 we focused on the 4 main areas of our communications strategy:

Building visibility

We've been working hard to raise our visibility and increase online engagement. Since changing our name from the Technology Strategy Board to Innovate UK, our visibility to businesses has grown from 10% to nearly 50%. In March 2015 only 29% of MPs were aware of our work but by March 2017 this, too, had increased to 50%.

We've increased our Twitter followers from just under 28,000 in February 2015 to nearly 82,000 in March 2017. YouTube subscribers have tripled over a similar period.

Powering our sector groups

The transition this year to 4 sector groups has highlighted the importance of good communication – as we build sector links across government and research, listen to businesses and understand their needs, highlight future opportunities and technology directions in each area and promote funding opportunities to businesses.

Enabling our networks

We have evolved our innovation networks and strengthened our local presence as part of our new co-ordinated regional support for business.

Facilitating organisational performance

Great internal communication ensures our people are engaged with our goals and can focus on delivering the best outcomes possible. Our staff surveys show that on average we score above the highest-performing Civil Service organisations for staff engagement.

Although we employ a mix of channels to deliver our communications, we are heavily digitally biased. Our audience-driven digital content strategy is helping us achieve consistently higher digital engagement. We supplement our digital programme with proactive media relations and live events.

Inspiring women in innovation

Gender diversity is an important issue for Innovate UK. We believe that there is a huge opportunity to boost the UK economy by getting more women innovating in businesses. We know that, previously, just 14% of applicants to our funding competitions have been led by women despite the fact that success rates between men and women are similar. That's why we commissioned independent research into finding out more about the challenges and barriers women face and how we can better encourage and support them.

The research findings, published in August, revealed that securing funding is the biggest challenge for women innovators. Funding organisations are often seen as inaccessible and male dominated with bureaucratic and time-consuming application systems.

Innovate UK has an important role in encouraging and supporting women innovators, which is why we launched infocus, a new initiative to spearhead our work in encouraging diversity in innovation.

Our first action in this campaign was the launch of a new funding competition, Women in Innovation, designed to enable and encourage more women to take part in Innovate UK competitions. Each winner received £50,000 and a tailored business support package. They also received mentoring from well-known business leaders acting as infocus ambassadors. These included Nicola Mendelsohn, Facebook VP for Europe, the Middle East and Africa; Soraya Jones, Cambridge Wireless founder and former CEO; and Claire Williams, Williams F1 Deputy Team Principal.

We also ran a networking event in February for all competition applicants, giving them a chance to practise pitching their ideas, get advice from innovation experts and network with peers and business leaders.

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".

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.

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 recycle approximately 72.6% of waste (2015/16: 70.3%).

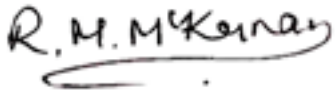
Water: We continue to achieve good practice consumption figures for our water consumption at 2.0m^3 per full-time equivalent (FTE) – good practice is between 4.0m^3 and 6.0m^3. The annual charge was £1,000 (2015/16: 2.0m^3 with an annual charge of £2,000).

Gas: Gas consumption was 193.4 kWh/m^2, with an annual charge of £6,000, (2015/16: 112.9 kWh/m^2 with an annual charge of £7,000).

Electricity: Electricity consumption was 78.1 kWh/m^2, with an annual charge of £7,000 (2015/16: 198.7 kWh/m^2, with an annual charge of £21,000).

We also seek to be a socially responsible employer. We have an effective policy and programme to deliver at a scale relative to our small 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
6 July 2017

Accountability Report

4.1 Corporate Governance Report

4.1.1 Directors' report

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, Energy & Industrial Strategy, are defined in the Management Statement and Financial Memorandum, which are subject to periodic review.

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

Governing Board

Members of the Governing Board are appointed by the Secretary of State for Business, Energy & Industrial Strategy based on 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 5 times in 2016/17.

Governing Board membership and attendance

Name	Role	Max no. of meetings to be attended	Meetings actually attended	Attendance rate (%)
Harry Swan	Member	5	5	100
Hazel Moore	Member	5	5	100
Ian Shott	Member	1	1	100
Prof. John Latham	Member	5	2	40
Mike Carr	Member	1	1	100
Phil Smith	Chair	5	5	100
Dr Robert Sorrell	Member	1	1	100
Dr Ruth McKernan	Member/ Chief Executive	5	5	100
Tera Allas	Member	5	5	100
Tim Edwards	Member	5	5	100

Appointments are made in accordance with the Code of the Commissioner for Public Appointments. Three members left the Governing Board in 2016 (at the end of their official term of office). There were 7 non-executive vacancies on the Board for a considerable part of 2016/17, which affected the work of the Board and its Committees. A recruitment exercise has been conducted to increase the number of Governing Board members. On 21 April 2017, the Secretary of State for Business, Energy & Industrial Strategy announced that Gerard Grech, Priya Guha and Simon Devonshire had been appointed to the Innovate UK Board.

Members are required to declare their personal interests. Details of members' declared interests are available on the Innovate UK website – www.innovate.gov.uk

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, and along with information on the current strategy and delivery plan, as well as previous Board papers, the Management Statement (including the Royal Charter) and the Financial Memorandum.

During 2016/17 the Governing Board's key activities have included:

- approving and monitoring the annual delivery plan
- reviewing Innovate UK's organisational and financial performance

- implementing new arrangements for the review and approval of Catapult business plans
- reviewing arrangements for the new Industrial Strategy Challenge Fund and its impact on Innovate UK
- contributing to the development of the new organisation UK Research and Innovation

The Governing Board's work has been supported and informed by the Audit and Risk Assurance Committee, the Remuneration Committee and the Catapults Committee.

4.1.2 Statement of Accounting Officer's responsibilities

Under the Science and Technology Act 1965, the Secretary of State for Business, Energy & Industrial Strategy (with the consent of HM 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 (FReM) and in particular to:

- observe the Accounts Direction issued by the Secretary of State for Business, Energy & Industrial Strategy (with the consent of HM Treasury), including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis and make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the FReM 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 of Business, Energy & Industrial Strategy 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 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 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 2016/17. It gives a clear understanding of the work of the Board and its control structure. It records the stewardship of the organisation and provides a sense of the organisation's performance and of how successfully it has coped with the challenges and opportunities it faced.

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 5-point plan published in 2015:

- accelerating UK economic growth
- building on innovation excellence
- developing Catapults
- working with the research community and across government
- evolving our funding models

The government has taken legislation through Parliament to create a new organisation, UK Research and Innovation. This will be a single, strategic body that will bring together Innovate UK, the 7 UK Research Councils and the research and knowledge exchange functions of the Higher Education Funding Council

for England into a single organisation to strengthen the links between research and innovation.

The government has also announced plans to establish an Industrial Strategy Challenge Fund to help the UK capitalise on its strengths in Science and Innovation. It will be delivered by Innovate UK and the UK research councils initially and then by UK Research and Innovation. This will significantly enhance Innovate UK's role and funding.

Innovate UK is currently establishing a special purpose vehicle to facilitate a pilot programme of innovation loans.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee includes 4 members of the Governing Board and one independent member. It met 4 times in the financial year 2016/17 to review internal and external audit matters, Innovate UK's financial position and its risk management arrangements.

The terms of reference for the Committee (updated in 2014) 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.

Audit and Risk Assurance Committee members

Name	Role	Maximum no. of meetings	Meetings attended
Andrew Fyfe	Independent Member	2	2
Prof. John Latham	Chair of Committee	3	2
Mike Carr	Board Member	1	1
Dr Robert Sorrell	Chair of Committee	1	1
Stewart Davies	Board Member	1	-
Tera Allas	Board Member	4	4
Tim Edwards	Board Member	4	4

Dr Robert Sorrell, Mike Carr and Stewart Davies left the Committee on 30 June 2016 when their period of appointment as Governing Board members ended. Prof. John Latham succeeded Dr Robert Sorrell as Chairman of the Committee from 1 July 2016.

Andrew Fyfe, the independent member, was appointed to the Committee from December 2013 to strengthen its financial and accounting expertise. His appointment ended in December 2016.

During 2016/17 the Committee's principal activities have included:

- reviewing the organisation's financial performance
- improving the quality of risk management in the organisation
- reviewing outcomes from reviews carried out by internal and external audit
- considering the progress of the monitoring officer procurement exercise

Catapults Committee

In April 2014 the Board established a Catapults Committee. The purpose of the Committee was to oversee the Catapults programme. It was given delegated authority by the Board to approve a number of Catapult business plans. The Committee met 3 times in 2016/17. Members of the Catapults Committee in 2016/17 were:

Catapults Committee members

Name	Role	Meetings attended
Tera Allas	Board Member	3
Tim Edwards	Board Member	3

At its meeting in December 2016 the Governing Board adopted a new process for approving Catapult business plans. The intention is to move to a single, aligned approach across all the approving bodies, including Innovate UK, BEIS and HM Treasury, so that a consistent set of criteria and expectations are set, with each approving body focused on the appropriate dimension of the investment decision. The Catapults themselves should be engaged only once in the process. The reviews will be the responsibility of new-style Catapult Review Committees whose membership will be independently

appointed and change to reflect the nature of the Catapult being reviewed. The existing Catapults Committee was therefore disbanded in January 2017.

The key features of the new governance arrangements in this area include:

- the Catapult Review Committees will be responsible for the evaluation of the Catapults on a sector-by-sector basis to report back to Innovate UK
- the Innovate UK Executive Management Team will be responsible for making recommendations for the funding profile of the Catapult portfolio based on the reports from the Catapult Review Committees
- the Innovate UK Governing Board will be responsible for ensuring that the Catapult review process has been conducted appropriately, for reflecting on the proposed portfolio and for approving the funding profile of the Catapult portfolio for submission to BEIS ministers/HM Treasury

The new arrangements apply only to the renewal of business plans every 5 years. The first plan prepared by a new Catapult will still be subject to review and approval by the Innovate UK Governing Board.

BEIS is also conducting its own wider review of the Catapults.

Executive Management Team

The Executive Management Team includes the Chief Executive and Directors. It meets fortnightly to ensure a corporate approach to business delivery and to review performance. It is responsible for managing Innovate UK operations and finances in line with the strategy, objectives and plans approved by the Governing Board.

There is a process of formal delegation of responsibilities from the Chief Executive to the Directors. Each year the Directors provide to the Chief Executive formal statements on the level of internal control and governance exercised within their directorates. The 2016/17 declarations confirmed that satisfactory arrangements existed across the organisation. A new Interim Chief Financial Officer was appointed in October 2016.

A new management and directorate structure has been in place since April 2016. This is 'sector' based 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. Details of those who were members of the Executive Management Team during the reporting period are provided in the Remuneration Report.

Since 1 April 2017, Kevin Baughan has been appointed as Deputy Chief Executive and Mike Biddle has replaced him as Development Director. Anne Dixon has commenced a secondment to BEIS to support the establishment of UK Research and Innovation and Sarah Vodden has been appointed as Interim Operations Director. Tim Sawyer has been appointed as Chief Investment Officer.

Risk management and internal control within the Board

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. It reviews 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.

Innovate UK has recognised the opportunities to improve its risk management arrangements further and a development programme is under way. Key features of this include:

- more comprehensive explanations of risk and mitigating actions in the corporate risk register
- more robust risk registers at directorate level
- better reporting to the Executive Management Team, Audit and Risk Assurance Committee and Governing Board

Risk Register – top risks at year end

Risk	Action
1. Innovate UK may fail to effectively manage its own strategy and implement change, particularly in the context of external factors which it cannot control, such as Brexit and transition to UK Research and Innovation and implementation of the Industrial Strategy Challenge Fund	• We will continue to be fully engaged in the BEIS and UK Research and Innovation workstreams shaping the new organisation. Our Governing Board and Executive Management Team meet regularly to monitor the external environment and to ensure that our management response is appropriate • We have teams in place to operationalise the increased budgets available through the Challenge Fund • We are further developing our staffing structures to meet these new challenges and opportunities
2. There may be a lack of, or poor, business intelligence and financial management information, leading to an ineffective control of multi-year expenditure which may result in the inability to make effective decisions	• A finance transformation programme is being implemented including an upgrade to the existing finance system to ensure its stability • We are also beginning the procurement of a new Innovate UK finance and human resources system • We are investigating ways of improving how we forecast future claims by grant recipients. This will help us improve the control of multi-year expenditure
3. Failure of operational systems to support delivery of 'fund and connect' to our customers	• We are designing more permanent staffing structures to support operational systems • We are completing the implementation of a new digitised Innovation Funding Service. This will provide a more stable platform for managing grant applications and will provide a better experience for grant applicants • We are increasing staff resources in our competitions and customer service teams to cope better with increasing levels of grant applications
4. Responsive mode funding may reduce in size and scope during the transition to UK Research and Innovation	• We shall be maximising opportunities in challenge-based funding available from the 2016 Autumn Statement

Audit

Internal audit was provided by RSM LLP in 2016/17. 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. The opinion for 2016/17 was that Innovate UK has an adequate and effective framework for risk management, governance and internal control. The auditors also noted that their work had identified scope for further improvement.

In addition to the above the Government Internal Audit Service also carried out 2 reviews at Innovate UK.

During 2016/17 Innovate UK received a number of audit reports from the above work. In 2 of these audit reports, Information Governance and Grant Processes, the auditors were able to provide only limited assurance.

Further details of these audits and management's response are provided below in the section on opportunities for improving internal control. For all the reports we have agreed action plans to implement recommendations. In 2016/17 Internal Audit followed up the implementation of recommendations made in earlier audits and found that most recommendations had been implemented. Innovate UK has also established its own process for tracking the implementation of audit recommendations. This was presented to the Audit and Risk Assurance Committee at its meeting in June 2017.

External Audit is provided by the National Audit Office (representatives of which also attend Innovate UK's Audit Committee.) The NAO is giving an unqualified audit report on Innovate UK's 2016/17 financial

statements. As part of their work the NAO also identified a number of potential control improvements. None of these were high risk and we have agreed an action plan to implement their recommendations.

Opportunities for improving internal control

During 2016/17 a number of areas were identified either internally or through audit reviews where there was scope for improvement in the control environment. Key areas are described below.

Grants and finance systems

Innovate UK has become increasingly aware of the inadequacies of its current grant and finance systems given the growth of the organisation. Current arrangements are not suitable for an organisation of this size and scale. Innovate UK is committed to developing new arrangements which are fit for purpose and provide the information for more effective management of the business. A new grants application portal has recently been launched in public beta and procurement for a new finance and HR system has begun. The new system should be in place in 2018.

Monitoring arrangements

Innovate UK appoints monitoring officers to oversee and report on the progress of projects undertaken by companies using grant monies. The current arrangements may not consistently provide the level of assurance required by Innovate UK. Innovate UK has therefore commenced a major procurement exercise in this area. This provides an opportunity to redesign our monitoring process and to maximise the assurance we derive from this activity. The new arrangements will be in place in early 2018.

Counter fraud activities

An increasing number of potential fraudulent grant claims have been identified. One suspected fraud involves potential fraudulent claims across multiple companies and grants. This suspected fraud is currently being investigated by the National Crime Agency. Innovate UK is fully cooperating with the agency in its investigation. Innovate UK has also referred a number of small suspected frauds to Action Fraud. While it is not currently possible to quantify precisely the scale of frauds Innovate UK believes that its total losses will not exceed £2 million spread across a number of years.

A review of grant processes by the Government Internal Audit Service in May 2017 identified a number of weaknesses in this area which potentially increase the risk of fraud. Its principal recommendations included the need for more rigorous scrutiny of grant applications.

Innovate UK is working hard to improve its counter fraud arrangements. Actions include:

- the development of a counter fraud plan which has been shared with BEIS and the Cabinet Office
- the appointment of an investigations/ assurance manager
- developing a programme of proactive grant assurance visits in respect of categories of grants thought to be at particular risk
- better counter fraud training and awareness for Innovate UK staff
- strengthening of controls in the grant assessment, award and payment areas

Information assurance

A number of external reviews and audits during 2016 indicated weaknesses in informative assurance, particularly in the areas of staff training/awareness and risk assessment. While there have been no significant data breaches or cyber attacks, Innovate UK has nevertheless recognised the need to do more in this area, particularly in the light of the impending new General Data Protection Regulations applicable from 2018. Current actions include:

- development of new training for staff
- establishment of a new Information Security and Risk Committee
- clearer identification of information assets and associated risks
- participation in wider UK research councils' General Data Protection Regulations project
- achievement of Cyber Essentials accreditation

Improving efficiency

Innovate UK has continued to take a wide range of measures to improve its own efficiency and to contribute to wider savings programmes. These have included:

- the delivery of over £1 million annual savings through our business improvement and change programme
- the introduction of a customer relations management system to streamline our engagements with grant recipients and other stakeholders
- the development of a new innovation funding system. We have worked closely with BEIS 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 either on Innovate UK's payroll or that of the government organisation from which they have been seconded.

MacPherson Review

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

Data breaches

There have been no significant data breaches during 2016/17 that needed to be referred to the Information Commissioner's Office. Records are kept of personal data incidents. There was a low risk of loss of personal data as all laptops are encrypted.

Devices lost or stolen

Device lost/stolen	2016/17	2015/16
Phone	2	2
Laptop	1	1
Tablet	–	2

Review of effectiveness

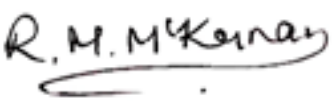
As Accounting Officer I have responsibility for conducting an annual review of the effectiveness of the organisation's system of governance, risk management and internal control.

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 and 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 regularly in order to consider Innovate UK's plans, strategic direction, performance reports and corporate governance issues
- Directors' and senior managers' annual statements on internal control. These statements provide the main evidence for the adequacy of internal control as they come from the managers responsible for the development and maintenance of the internal controls framework. The Directors have assured me that a satisfactory level of internal control existed in 2016/17
- regular reports by the internal auditors, 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 4 times a year to discuss all aspects of corporate governance, including risk management and internal control
- a grant assurance regime involving monitoring officer visits and periodic independent audit reports which provide assurance on the eligibility of costs claimed 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. Innovate UK will continue to strengthen its arrangements in 2017/18 through:

- developing more robust and integrated finance and grant systems and procedures
- establishing sound governance arrangements for new innovation loans
- continuing to develop its counter-fraud arrangements
- integrating with RCUK's arrangements to deliver a solid foundation for UK Research and Innovation
- preparing for the implementation of the new General Data Protection Regulations



Dr Ruth McKernan
Chief Executive
6 July 2017

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.

The remuneration of the Chief Executive of Innovate UK is reviewed and approved by BEIS.

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 BEIS.

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 base salary and for Executive Directors up to 20% of base salary.

As at 31 March 2017 our Executive Management Team consisted of the Chief Executive and 9 executive directors. The Chief Executive is an employee of Innovate UK, appointed for a fixed term of 5 years, and must give 6 months' notice of leaving but is entitled to 12 months from Innovate UK.

Of the 9 Executive Directors, 8 are permanent employees with a notice period of 6 months each way. One, the Interim Chief Financial Officer, is on secondment to Innovate UK for 24 months from 3 October 2016, with a notice period of one month each way.

Governing Board members and the Chairman are not employees of Innovate UK and received a letter of appointment from BEIS. 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.

Chief Executive's and Executive Directors' remuneration

Remuneration of senior employees

The UK corporate governance code requires the disclosure of information on the 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.

Remuneration Committee

The Remuneration Committee met twice in 2016/17 and advised on executive salaries and other benefits.

Remuneration Committee Members

Name	Role	Number of meetings attended
Harry Swan	Board Member	2
Hazel Moore	Board Member	2
Prof John Latham	Board Member	2
Phil Smith	Chair of Committee	2

Audited information

Salary and benefits in kind

	2016/17 £000's					2015/16 restated £000's				
	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
Anne Dixon *Chief Operating Officer*	115-120	15-20	–	44	180-185	115-120	20-25	–	41	175-180
Dr David Grant *Interim Chief Executive*	N/A	N/A	N/A	N/A	N/A	05-10 (80-85)	–	–	–	05-10 (80-85)
Graham Hutchins *Director of Finance & Governance*	N/A	N/A	N/A	N/A	N/A	100-105 (115-120)	10-15 (10-15)	–	31	140-145 (165-170)
Ian Campbell *Director of Health and Life Sciences*	50-55 (100-105)	5-10 (15-20)	–	19	75-80 (135-140)	N/A	N/A	N/A	N/A	N/A
Ian Meikle *Interim Director of Infrastructure Systems*	95-100	10-15	–	34	145-150	N/A	N/A	N/A	N/A	N/A
Kevin Baughan *Chief Development Officer*	160-165	25-30	–	55	240-245	155 - 160	30 - 35	–	57	245-250
Linda Wallace *Chief Communications Officer*	115-120	15-20	–	43	175-180	110 - 115	15-20	–	41	170-175
Lynne Patmore *Interim Chief Financial Officer*	110-115 (145-150)	–	–	–	110-115 (145-150)	75-80 (145-150)	–	–	–	75-80 (145-150)
Mark Glover *Director of Strategy and Planning*	N/A	N/A	N/A	N/A	N/A	75-80 (135-140)	10-15 (15-20)	–	–	90-95 (160-165)
Nigel Townley *Interim IT Director*	N/A	N/A	N/A	N/A	N/A	70-75 (145-150)	–	–	–	70-75 (145-150)
Nigel Townley *Director of IT*	115-120	15-20	–	44	180-185	55-60 (115-120)	20-25 (20-25)	–	21	90-95 (155-160)
Paul Mason *Interim Director of Emerging and Enabling Technologies*	100-105	10-15	–	35	145-150	N/A	N/A	N/A	N/A	N/A
Ruth Elliot *Interim Chief Financial Officer*	55-60 (95-100)	–	–	–	55-60 (95-100)	N/A	N/A	N/A	N/A	N/A
Dr Ruth McKernan *Chief Executive*	200-205	45-50	–	–	250-255	235-240 (250-255)	40-45 (40-45)	–	–	275-280 (295-300)
Simon Edmonds *Director Materials and Manufacturing*	140-145	20-25	–	29	195-200	140-145	20-25	–	64	225-230
Highest earner's total remuneration (£'000)			250-255					275-280 (295-300)		
Medial total remuneration			49,995					51,809		
Range of staff remuneration			24,166-117,243					23,911-122,450		
Ratio			5.0					5.6		

Notes:

Lynne Patmore	Interim Chief Financial Officer September 2015 to December 2016
Ruth Elliot	Appointed in October 2016 on secondment
Paul Mason	Appointed in March 2016
Ian Campbell	Appointed in October 2016
Ian Meikle	Appointed in March 2016
**Where applicable*	*Allowances include car, mortgage differential and season ticket*
***Performance pay*	*2016/17 figures are based on actual payments, 2015/16 were initially based on estimates and have been restated to include actual payments made*

Salary and allowances, including performance pay

Audited information

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, severance payments, employer pension contributions or the cash equivalent transfer value of pensions.

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

The banded remuneration of the highest-paid director in Innovate UK in the financial year 2016/17 was £250,000 - £255,000 (2015/16: £295,000 - £300,000). This was 5.0 times (2015/16: 5.6) the median remuneration of the workforce, which was £49,995 (2015/16: £51,809).

In 2016/17, there were no (2015/16: nil) employees that received remuneration in excess of the highest-paid director. Remuneration ranged from £24,166 to £117,243 (2015/16: £23,911 to £122,450).

£000	Total of accrued pension at age 60 as at 31 March 2017 and related lump sum	Real increase/ (decrease) of pension and related lump sum at age 60	Real cash equivalent transfer value (CETV) at 31 March 2017	CETV at 31 March 2016	Increase/ (decrease) in CETV
Anne Dixon *Chief Operating Officer*	5-10	2.5-5	98	58	31
Ian Campbell *Director of Health and Life Sciences*	0-5	0-2.5	12	–	8
Ian Meikle *Interim Director of Infrastructure Systems*	10-15	0-2.5	149	121	17
Kevin Baughan *Chief Development Officer*	5-10	2.5-5	151	97	39
Linda Wallace *Chief Communications Officer*	5-10	2.5-5	109	66	33
Nigel Townley *Director of IT*	0-5	2.5-5	56	18	29
Paul Mason *Interim Director of Emerging and Enabling Technologies*	15-20	0-2.5	249	214	23
Simon Edmonds *Director Materials and Manufacturing*	25-30 plus lump sum 75-80	0-2.5 plus lump sum 5-7.5	584	526	28

Note: No CETV information is available for Ruth Elliot who is on secondment from BEIS and is not a member of the Research Councils' Pension Scheme. Innovate UK paid pension contributions of £12,376 for the period in post.

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 scheme 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 2016 represents the value at their start date and the CETV at 31 March 2017 represents the value at their end date.

Remuneration of Governing Board members

Audited information

The standard honorarium paid to Governing Board members amounted to £9,180 per annum (2015/16: £9,180). The emoluments of the present Chairman, Phil Smith, were £15,720 (2015/16: £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.

Expenses paid to the Governing Board members in relation to travel and subsistence reimbursements for the year 2016/17 were £7,800 (2015/16: £8,500).

External auditors' remuneration

Innovate UK's accounts are audited by the Comptroller and Auditor General in accordance with section 2(2) of the Science and Technology Act 1965. The auditors' remuneration totalled £97,000 (2015/16: £95,000) for the statutory audit fee. No additional non-audit work or other services were performed by the auditors during the year.

Governing Board members' annual honoraria

	2016/17 £000	2015/16 £000
Phil Smith*	15-20	15-20
Hazel Moore	5-10	5-10
Prof John Latham	5-10	5-10
Timothy Edwards	5-10	5-10
Harry Swan	–	–
Tera Allas	5-10	5-10
Stepped down during 2016/17		
Michael Carr	0-5	5-10
Ian Shott CBE	0-5	5-10
Dr Robert Sorrell	0-5	5-10

**Payments made to charitable organisations through payroll 'JustGiving'*

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 or 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.

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 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 to 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 over 10,000 business miles annually, classroom training mandated where mileage is between 5,000 and 10,000 miles each year and optional classroom training available for all employees. Innovate UK has promoted safe cycling and facilitates cycling training.

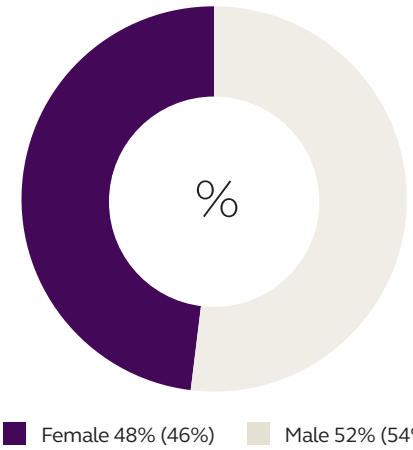
Employee Assistance Programme

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

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 2017 the gender split for all staff employed at Innovate UK was as follows (2015/16 figures in brackets):



As at 31 March 2017 there were 6 male and 4 female directors who are of an equivalent grade to Senior Civil Servants (2015/16: 3 male and 4 female Executive Directors).

Audited information

Average number of persons employed

Full-time equivalent	**2016/17 number**	2015/16 number
Permanent staff	**259**	288
Agency and interim staff	**44**	34
Total staff	**303**	**322**

Staff costs (perm/temp, inc pensions)

	2016/17 £000	2015/16 £000
Permanent staff		
Salaries and wages	**16,080**	16,485
Social security costs	**1,783**	1,661
Superannuation costs	**3,439**	3,552
Permanent staff total	**21,302**	**21,698**
Agency and interim staff	**1,686**	831
Board members' fees	**56**	52
Total staff costs	**23,044**	**22,581**

Pension arrangements

The Biotechnology and Biological Sciences Research Council (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 either to join the RCPS or open a partnership pension account, which is a stakeholder pension with an employer contribution.

Employer contributions are salary related and range from 8.0 to 26.0% (2015/16: 10.0 to 26.0%) of pensionable pay.

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. The RCPS is administered by the research councils' Joint Superannuation Services, a unit within the 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 RCPS at www.bbsrc.ac.uk.

Formal actuarial valuations are used to determine employer and employee contribution rates. The last actuarial valuation undertaken for the RCPS, as at 31 March 2006, was completed in 2008/09. An actuarial valuation as at 31 March 2010 was initiated but not completed

due to HM Treasury suspending all public sector pension scheme valuations while reform policies were being developed. HM Treasury concluded its reform policy which enabled the Government Actuary Department to start the process of completing a revised scheme valuation. This valuation will be as at 31 March 2012 in accordance with HM Treasury revised scheme valuation directions. The conclusion of the scheme valuation is directly linked to the reform of the RCPS and therefore future employer contribution rates will be established once the scheme reforms are implemented, which is expected in April 2018.

Compensation schemes and exit packages

Audited information

During 2016/17 Innovate UK ran a voluntary exit scheme. The intent of the scheme was to support reshaping the organisation as Innovate UK prepared to live within its funding envelope, as set out in the spending review of 2015.

In the year there were 41 exit packages agreed (2015/16: 3). The total net redundancy cost incurred by Innovate UK was £1,321,000 (2015/16: £128,000).

Exit packages – cost per band

	No. of voluntary redundancies agreed
<£10,000	6 (2)
£10,000 to £25,000	14 (-)
£25,000 to £50,000	12 (-)
£50,000 to £100,000	9 (1)
£100,000 to £150,000	– (–)
£150,000 to £175,000	– (–)
Total	**41 (3)**

Note: Comparative figures for 2015/16 are shown in brackets.

Summary of off-payroll engagements

Innovate UK assures the tax arrangements of public sector appointees by including contractual clauses enabling us to seek tax assurance of off-payroll workers into our standard frameworks. A preliminary review was undertaken of contractors costing over £220 per day for periods longer than 6 months as of 31 March 2017. The disclosures in the tables below relate to monitoring officers who play an essential role in monitoring delivery of our grant-funded projects and provide essential technical expertise. Innovate UK is currently undertaking an extensive procurement exercise including public tender to refresh its monitoring officer arrangements. The new contract will include more robust off-payroll assurance requirements and Innovate UK will undertake sample checks to ensure compliance with the new requirements.

For all off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than 6 months

No. of existing engagements as of 31 March 2017	306
Of which …	
No. that have existed for less than 1 year at time of reporting	5
No. that have existed for between 1 and 2 years at time of reporting	23
No. that have existed for between 2 and 3 years at time of reporting	31
No. that have existed for between 3 and 4 years at time of reporting	25
No. that have existed for 4 or more years at time of reporting	222

For all new off-payroll engagements, or those that reached 6 months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than 6 months

No. of new engagements, or those that reached 6 months in duration, between 1 April 2016 and 31 March 2017	5
No. of the above which include contractual clauses giving the right to request assurance in relation to income tax and National Insurance obligations	5
No. for whom assurance has been requested	0
Of which …	
No. for whom assurance has been received	0
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received	0

For any off-payroll engagements of Board Members and/or senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017

No. of off-payroll engagements of Board Members and/or senior officials with significant financial responsibility during the financial year	0
No. of individuals that have been deemed Board Members and/or senior officials with significant financial responsibility during the financial year. This figure includes both off-payroll and on-payroll engagements	16

Sickness and absence rates for Innovate UK

2016/17	Absence rate as a % of total working days
All staff	2.00% (1.46%)
Excluding 1 long-term sick (2015/16: 4 staff)	1.82% (1.16%)
2016/17	**Average working days lost to sickness (per member of staff)**
All staff	5.07 (3.69)
Excluding 1 long-term sick (2015/16: 4 staff)	4.61 (2.93)

The Innovate UK Executive Management Team, supported by HR, have taken direct action to promote the good health and wellbeing of our staff in response to an increase in staff sickness levels during 2016/17. A number of initiatives have been undertaken recently to support health, both physical and mental, including courses related to mental health awareness and first aid, resilience training, dignity and wellbeing at work sessions as well as other health-related topics.

Furthermore, additional training has recently been held to support managers with the effective and rigorous management of ongoing sickness absence. This line manager training outlined the policies and processes in effect to support colleagues experiencing long or medium-term sickness absence to return to work. Innovate UK supports managers, via the HR function, to report and monitor absence levels proactively and take action to address patterns that might emerge.

Where absence is related to office conditions, desk assessments are carried out to ensure a good working environment for staff, with follow-up actions and specialist equipment delivered where necessary. The Health and Safety Committee also meets regularly to ensure optimum and legally compliant conditions exist.

As part of a recent 'Wellbeing Week', free health check-ups were provided to employees to encourage a healthier lifestyle; also as part of this programme activities were held to promote fitness and movement, as well as to give guidance on nutrition. These principles have continued, with many teams forming walking groups in response; staff now regularly use lunch breaks to undertake exercise and group activities, often with colleagues across the research councils.

Innovate UK also provides an Employee Assistance Programme, which gives free advice and guidance on a range of workplace and personal issues, including health. This free and confidential service can be accessed by any employee who requires assistance and encourages personal responsibility among staff for managing issues prior to sickness absence occurring.

4.4 Parliamentary Accountability and Audit Report

Regularity of expenditure

I can confirm that for the financial year ended 31 March 2017, 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 HM Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2016/17.

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).

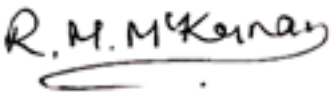
Losses and special payments

No special payments relating to severance or otherwise, including making gifts, occurred during the year (2015/16: nil).

Remote contingent liabilities

As at 31 March 2017 Innovate UK does not have any remote contingent liabilities. Contingent liabilities which meet the criteria set out in International Accounting Standard 37 are stated in Note 15 to the Financial Statements.

The above statements have been audited.



Dr Ruth McKernan
Accounting Officer
6 July 2017

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

I certify that I have audited the financial statements of Technology Strategy Board for the year ended 31 March 2017 under the Science and Technology Act 1965. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report, Staff Report and the Parliamentary Accountability disclosures 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 Technology Strategy Board; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance Report and the Accountability 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 and report.

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 2017 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 Report, Staff Report and the Parliamentary Accountability disclosures 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 Report, Staff Report and the Parliamentary Accountability disclosures 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

17 July 2017

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

Financial Statements

Statement of comprehensive net expenditure for the year ended 31 March 2017

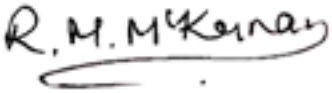
Expenditure	Notes	2016/17 £000	2015/16 £000
Staff costs	2	23,044	22,581
Programme support costs	3	18,174	19,613
Other operating expenditure	4	16,423	21,123
Technology grants	5	812,765	720,902
Depreciation and amortisation	9, 10	178	1,197
Loss on disposal of assets	9	103	–
Total operating expenditure		**870,687**	785,416
Operating income	7	(5,277)	(2,761)
Co-funding income	8	(72,831)	(55,409)
Total net expenditure for the year		**792,579**	727,246
Net gain on investment property	11	(105)	(20)
Total comprehensive net expenditure for the year		**792,474**	727,226

The notes on pages 68 to 88 form part of these accounts.

Statement of financial position as at 31 March 2017

Assets	Notes	31 March 2017 £000	31 March 2016 £000
Non-current assets			
Property, plant and equipment	9	994	453
Intangible non-current assets	10	10,271	2,703
Investment properties	11	5,075	4,970
Total non-current assets		**16,340**	8,126
Current assets			
Trade and other receivables	12	83,340	60,289
Cash and cash equivalents	13	17,163	8,045
Total current assets		**100,503**	68,334
Total assets		**116,843**	76,460
Current liabilities			
Trade and other payables	14	(113,693)	(85,026)
Accruals	14	(222,396)	(179,206)
Total current liabilities		**(336,089)**	(264,232)
Non-current assets less net current liabilities		**(219,246)**	(187,772)
Assets less liabilities		(219,246)	(187,772)
Taxpayers' equity			
General reserve		(219,246)	(187,772)

The notes on pages 68 to 88 form part of these accounts.



Dr Ruth McKernan
Chief Executive
6 July 2017

Statement of cash flows for the year ended 31 March 2017

	Notes	2016/17 £000	2015/16 £000
Total expenditure for the year		**(792,474)**	(727,226)
Adjusted for:			
Depreciation and amortisation	9, 10	**178**	1,197
Loss on disposal of fixed assets	9	**103**	-
Increase in receivables	12	**(23,051)**	(918)
Increase in payables	14	**71,857**	85,418
Net cash outflows from operating activities		**(743,387)**	(641,529)
Cash flows from investing activities			
Purchase of intangible assets	10	**(7,599)**	(2,673)
Purchase of property, plant and equipment	9	**(810)**	(406)
Gain on investment property – non-cash	11	**(105)**	(20)
Proceeds on disposal of fixed assets		**19**	-
Net cash outflows from investing activities		**(8,495)**	(3,099)
Cash flows from financing activities			
Grant-in-aid received		**761,000**	661,000
Net cash inflows from financing activities		**761,000**	661,000
Net increase in cash and cash equivalents		**9,118**	16,372
Cash and cash equivalents at 1 April		**8,045**	(8,327)
Cash and cash equivalents at 31 March		**17,163**	8,045

The notes on pages 68 to 88 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2017

	Government funds £000	Total reserves £000
Balance as at 31 March 2015	(121,546)	(121,546)
Retained deficit	(727,246)	(727,246)
Gain on investment property	20	20
Comprehensive net expenditure for 2015/16	(727,226)	(727,226)
Grant-in-aid (GIA)	661,000	661,000
Balance at 31 March 2016	**(187,772)**	(187,772)
Retained deficit	(792,579)	(792,579)
Gain on investment property	105	105
Comprehensive net expenditure for 2016/17	(792,474)	(792,474)
GIA	761,000	761,000
Balance at 31 March 2017	**(219,246)**	(219,246)

The notes on pages 68 to 88 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 2016/17 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, Energy & Industrial Strategy 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 2016/17 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, BEIS.

As set out on page 13, the functions previously provided by Innovate UK will continue to be provided using the same assets and liabilities by UK Research and Innovation. It remains appropriate for the financial statements of Innovate UK for the year to 31 March 2017 to be prepared on a going concern basis in accordance with the FReM.

Adoption of standards and changes in policy 2016/17

All IFRS, interpretations and amendments to published standards, effective at 31 March 2017, 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 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.

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 not been incorporated into the FReM. IFRS 9 will be implemented in 2018/19, and IFRS 15 is anticipated to be adopted in the 2018/19 FReM.

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.

b. Non-current assets

Capital expenditure includes the purchase of property, plant and equipment valued at £3,000 or more. Individual items valued at less than the threshold are capitalised if they constitute integral parts of a composite asset that is in total valued at more than the threshold. Individual items valued at less than the threshold and not forming part of a composite asset have not been capitalised.

Property, plant and equipment

Property, plant and equipment are accounted for in accordance with International Accounting Standard 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 and 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 lives, 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 5 to 10 years and computers over 3 years.

Innovate UK conducted an impairment review on property, plant and equipment as a result of a premises move and asset values have been amended as appropriate.

Intangible assets

Intangible assets are accounted for in accordance with International Accounting Standard (IAS) 38 and are carried at historical cost less accumulated amortisation. Acquired software is amortised over 5 years.

Amortisation

Amortisation is calculated on a straight-line basis to write off assets over their useful economic lives, commencing from when they are available to use. IT expenditure and software purchased is amortised over 5 years.

Impairment

The recoverable amount of property, plant and equipment and intangible assets is measured annually to establish whether there is need for impairment in accordance with IAS 36.

Investment properties

Investment properties are measured using the fair value model as per International Financial Reporting Standard 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. Derivatives and financial instruments

Innovate UK recognises and measures financial instruments in accordance with IAS 39: Financial Instruments: Recognition and Measurement as interpreted by the FReM.

Trade receivables

Trade and other receivables are classified as loans and receivables are initially recognised and carried at original invoice amount. Subsequently, an estimate for doubtful debts is made when collection of the full amount is no longer probable and is offset against the original invoice amount. Bad debts are written off when identified with the relevant permission obtained from BEIS.

Trade and other payables

Trade and other payables are recognised in the period in which related money, goods or services are received or when a legally enforceable claim against Innovate UK is established or when the corresponding assets or expenses are recognised.

Innovate UK's financial assets and liabilities noted above are accounted for at amortised cost. There is no material difference between the fair value of the financial assets and liabilities and the amortised cost amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash held within the Government Banking Service.

d. 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.

e. Grant-in-aid and other income

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'.

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.

f. 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.

g. Value Added Tax

Innovate UK is registered for VAT jointly with 7 research councils as part of a cost-sharing group and does not reclaim input VAT. Accordingly all purchases are shown inclusive of VAT.

h. 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 (see Note 1n below) and are included in accruals in the statement of financial position.

i. Pension costs

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

j. Contingent liabilities

The disclosure of contingent liabilities in the Notes to the Accounts is prepared in accordance with International Accounting Standard (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.

k. Operating leases

Operating lease rental charges are included in the category 'Information technology and communications charges' within the expenditure heading 'other operating expenditure', 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.

l. 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.

m. 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.

n. Accounting estimates and 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 of 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.

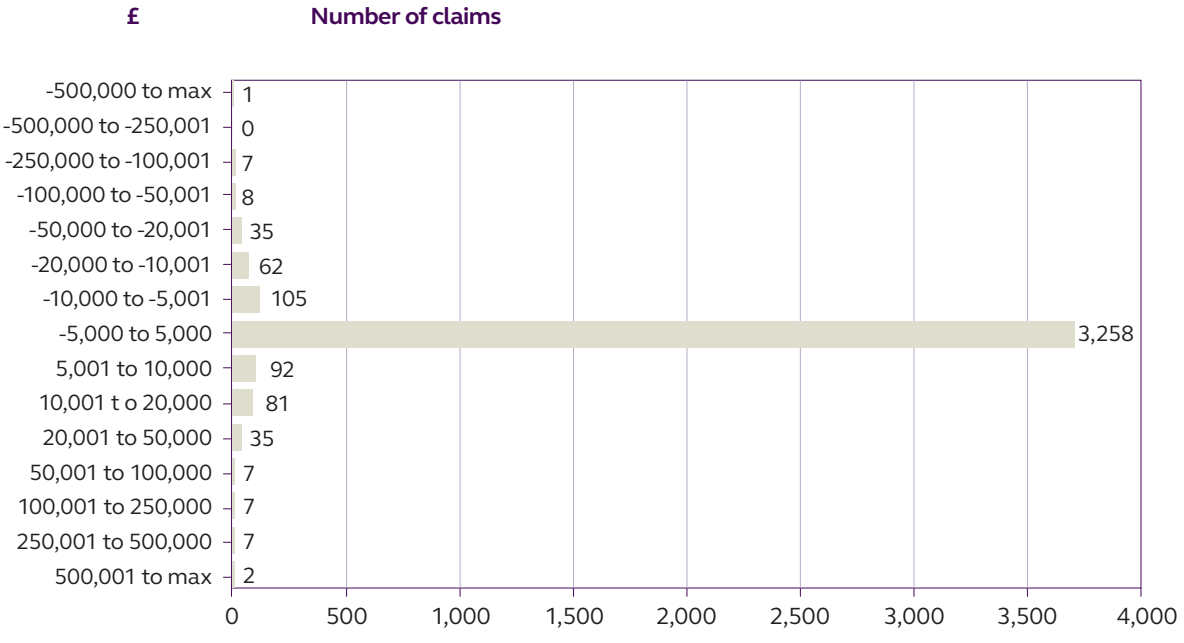
The accrual estimate is based on participants' forecast of expenditure submitted with their latest claim, adjusted for the participants' historical forecasting accuracy. For a number of large non-core projects, the KTN and Catapult Centres, Innovate UK contacts the participants directly to obtain further 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 2017 was £209.2 million (2015/16: £165.9 million), of which the core accrual totalled £81.6 million (2015/16: £99.6 million).

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 2 to 5 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.

As at 30 April 2017, the remaining grant accrual that has yet to unwind amounted to £66.1 million (2015/16: £72.9 million).

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 3,702 (2015/16: 1,917) claims which were received at 30 April 2017, 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 – 3,258 (2015/16: 1,717) were within +/- £5,000 of the amounts originally accrued.



2 Staff costs

	2016/17 £000	2015/16 £000
Permanent staff		
Salaries and wages	16,080	16,485
Social security costs	1,783	1,661
Superannuation costs	3,439	3,552
Permanent staff total	**21,302**	21,698
Agency and interim staff	1,686	831
Board members' fees	56	52
Total staff costs	**23,044**	22,581

3 Programme support contracts

	2016/17 £000	2015/16 £000
Third party programme support contracts	3,218	2,292
IT platform	1,741	3,376
Monitoring officer and assessment fees and expenses	13,215	13,945
Total	**18,174**	19,613

Note: The charges for third party programme support contracts are for the management and delivery of Innovate UK programmes. The 2016/17 figure includes £2.331 million (2015/16: £2.245 million) 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

	2016/17 £000	2015/16 £000
Travel and subsistence	**1,696**	2,045
Utilities, rent, rates and maintenance	**787**	898
Programme communications and events	**8,043**	12,538
Intervention management	**2,873**	2,897
General administration	**2,526**	1,797
Recruitment	**194**	380
Employee relocation costs	**8**	51
Office equipment	**(21)**	37
Information technology and communications charges	**536**	751
Auditors' remuneration	**97**	95
Interest paid	**37**	27
Exchange rate gains	**(353)**	(393)
Total	**16,423**	21,123

5 Technology grants

	2016/17			2015/16 (restated)		
	Gross grant expenditure £000	**Co-funding income £000**	**Net grant expenditure £000**	Gross grant expenditure £000	Co-funding income £000	Net grant expenditure £000
EMERGING AND ENABLING TECHNOLOGIES						
Biosciences	546	–	546	687	–	687
Development	5,854	8	5,862	7,806	(109)	7,697
Digital services	19,633	(6,254)	13,379	20,235	(267)	19,968
Electronics, photonics and electrical systems	7,138	(1,106)	6,032	14,261	(1,623)	12,638
European Union	4,460	150	4,610	4,556	(457)	4,099
Open competitions	343	–	343	–	–	–
ICURe	4,264	(500)	3,764	880	–	880
SME growth	(8)	–	(8)	171	–	171
Knowledge Transfer Partnerships	20,618	(5,494)	15,124	20,954	(5,785)	15,169
Smart competitions	28,479	–	28,479	49,749	(216)	49,533
Small Business Research Initiative	425	(223)	202	2,317	(22)	2,295
Space	1,354	(296)	1,058	1,531	(359)	1,172
Vouchers and Launchpads	(224)	–	(224)	5,993	33	6,026
Subtotal emerging and enabling technologies	**92,882**	**(13,715)**	**79,167**	129,140	(8,805)	120,335
HEALTH AND LIFE SCIENCES						
Biosciences	2,432	(146)	2,286	4,781	(254)	4,527
Food supply	23,740	(5,593)	18,147	16,677	(5,687)	10,990
Healthcare	54,328	(10,336)	43,992	50,780	(5,932)	44,848
Small Business Research Initiative	–	–	–	1,395	(444)	951
Subtotal health and life sciences	**80,500**	**(16,075)**	**64,425**	73,633	(12,317)	61,316

	2016/17			2015/16 (restated)		
	Gross grant expenditure £000	**Co-funding income £000**	**Net grant expenditure £000**	Gross grant expenditure £000	Co-funding income £000	Net grant expenditure £000
INFRASTRUCTURE SYSTEMS						
Built environment	5,833	206	6,039	7,232	(1,132)	6,100
Development	(118)	–	(118)	1,402	–	1,402
Energy	38,472	(2,766)	35,706	41,254	(7,868)	33,386
Infrastructure systems	2,212	–	2,212	–	–	–
European Union	–	–	–	192	–	192
Transport	15,539	(4,089)	11,450	10,730	(4,032)	6,698
Urban living	10,244	(204)	10,040	6,880	–	6,880
Subtotal infrastructure systems	**72,182**	**(6,853)**	**65,329**	67,690	(13,032)	54,658
MANUFACTURING AND MATERIALS						
Materials and manufacturing	2,341	–	2,341	–	–	–
Advanced materials	2,848	(9)	2,839	4,344	45	4,389
High value manufacturing	29,435	(233)	29,202	29,452	(910)	28,542
Micro nano technology centres	72	–	72	575	(35)	540
Small Business Research Initiative	–	–	–	139	(76)	63
Sustainability	2,323	–	2,323	4,246	10	4,256
Transport	43,272	(31,200)	12,072	32,449	(14,057)	18,392
Subtotal manufacturing and materials	**80,291**	**(31,442)**	**48,849**	71,205	(15,023)	56,182
DEVELOPMENT						
Development	697	–	697	–	–	–
Knowledge Transfer Networks	12,242	5	12,247	15,918	(247)	15,671
Newton	2,014	–	2,014	465	–	465
European Union	3,177	–	3,177	3,512	(309)	3,203
Subtotal development	**18,130**	**5**	**18,135**	19,895	(556)	19,339
CATAPULTS	**214,649**	**(2,596)**	**212,053**	182,211	(5,090)	177,121
NON-CORE	**254,131**	**(2,155)**	**251,976**	177,128	(586)	176,542
TOTAL	**812,765**	**(72,831)**	**739,934**	720,902	(55,409)	665,493

Note: During 2016/17 we reorganised our funding support into much clearer sector groups (comparative figures for 2015/16 have been restated to reflect this).

6 Operating segments

	2016/17			2015/16 (restated)		
Core sector competitions	**Gross expenditure £000**	**Income £000**	**Net expenditure £000**	Gross expenditure £000	Income £000	Net expenditure £000
Emerging and enabling technologies	92,882	(13,715)	79,167	129,140	(8,805)	120,335
Health and life sciences	80,500	(16,075)	64,425	73,633	(12,317)	61,316
Infrastructure systems	72,182	(6,853)	65,329	67,690	(13,032)	54,658
Manufacturing and materials	80,291	(31,442)	48,849	71,205	(15,023)	56,182
Development	18,130	5	18,135	19,895	(556)	19,339
Catapult centres	214,649	(2,596)	212,053	182,211	(5,090)	177,121
Non-core projects	254,131	(2,155)	251,976	177,128	(586)	176,542
Total grant expenditure	**812,765**	**(72,831)**	**739,934**	720,902	(55,409)	665,493
Programme delivery costs	18,174	–	18,174	19,613	–	19,613
Programme staff costs	13,390	–	13,390	12,455	–	12,455
Other programme-related spend	10,578	–	10,578	12,623	–	12,623
Admin staff costs	9,654	–	9,654	10,126	–	10,126
Other admin costs	6,126	–	6,126	9,697	–	9,697
Other operating income	–	(5,277)	(5,277)	–	(2,761)	(2,761)
Net gain on revaluation of investment property	–	(105)	(105)	–	(20)	(20)
Total expenditure	**870,687**	**(78,213)**	**792,474**	785,416	(58,190)	727,226

Notes: 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.

During 2016/17 we reorganised our funding support and our teams into much clearer sector groups to make it easier for industry, investors and the government (local, devolved and central) to understand and access (comparative figures for 2015/16 have been restated to reflect this).

The income amounts represent co-funding financing received from EU and other government 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

	2016/17 £000	2015/16 £000
Knowledge Transfer Partnership (KTP) management fee recharge	**(764)**	(798)
Ticket sales	**(152)**	(166)
Rental income	**(483)**	(521)
Newton income	**(3,287)**	(971)
Other income	**(591)**	(305)
Total	**(5,277)**	(2,761)

Notes: The KTP management fee recharge represents our partners' share of the costs associated with the management and delivery of the KTP programme. The charge is 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 £2.509 million (2015/16: £2.680 million). Innovate UK's share of these costs was £1.745 million (2015/16: £1.882 million).

Ticket sales of £0.152 million (2015/16: £0.166 million) were received for the Innovate 2016 event.

The rental income relates to the Blyth property (detailed in Note 11), which is let on 2 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 £0.433 million (2015/16: £0.478 million) per annum. The lease for Offshore House runs conterminously to the main lease, with a passing rent of £0.050 million (2015/16: £0.043 million) per annum.

Income was received from BEIS of £3.287 million (2015/16: £0.971 million) 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 £0.591 million (2015/16: £0.305 million) relates to contributions received from organisations towards the expenditure incurred on running programmes.

8 Co-funding income

	2016/17 £000	2015/16 £000
Income from Department for Business, Energy & Industrial Strategy Group		
Biotechnology and Biological Sciences Research Council	**326**	387
Engineering and Physical Sciences Research Council	**1,477**	2,103
Economic and Social Research Council	**478**	831
Department for Business Energy & Industrial Strategy	**305**	34
Department of Energy & Climate Change	**1,529**	7,901
Medical Research Council	**915**	2,318
Natural Environment Research Council	**79**	652
UK Space Agency	**261**	71
Other BEIS bodies	**335**	221
Subtotal	**5,705**	14,518
Income from central government departments and agencies		
Department for Environment, Food & Rural Affairs	**5,050**	5,226
Department for International Development	**2,935**	587
Department for Culture, Media & Sport	**6,754**	–
Department of Health	**10,709**	1,918
Department for Transport	**33,507**	19,435
Other government departments	**8,238**	8,377
Subtotal	**67,193**	35,543
Income from other bodies		
European Community	**(1,569)**	3,033
Other UK bodies	**1,502**	2,315
Subtotal	**(67)**	5,348
Total income	**72,831**	55,409

9 Property, plant and equipment

	Furniture and fittings £000	Computers £000	Total £000
Cost			
At 1 April 2016	**717**	**317**	**1,034**
Additions	**605**	**205**	**810**
Reclassify	**11**	**–**	**11**
Disposals	**(675)**	**(52)**	**(727)**
Cost at 31 March 2017	**658**	**470**	**1,128**
Depreciation			
At 1 April 2016	**546**	**35**	**581**
Charge for the year	**55**	**103**	**158**
Disposals	**(582)**	**(23)**	**(605)**
Depreciation at 31 March 2017	**19**	**115**	**134**
Net Book Value: At 31 March 2017	**639**	**355**	**994**
Cost			
At 1 April 2015	619	9	628
Additions	98	308	406
Disposals	–	–	–
Cost at 31 March 2016	717	317	1,034
Depreciation			
At 1 April 2015	503	9	512
Charge for the year	43	26	69
Disposals	–	–	–
Depreciation at 31 March 2016	546	35	581
Net Book Value: At 31 March 2016	171	282	453

Note: During the year Innovate UK moved premises and as a result disposed of furniture and fittings and computer equipment no longer being used. Innovate UK received £0.019 million as proceeds on the disposal of the computer equipment.

10 Intangible non-current assets

	Information technology £000	Software purchased £000	Total £000
Cost			
At 1 April 2016	10,550	61	10,611
Additions	7,599	–	7,599
Disposals	–	–	–
Reclassify	(11)	–	(11)
Cost at 31 March 2017	**18,138**	**61**	**18,199**
Amortisation			
At 1 April 2016	7,847	61	7,908
Charge for the year	20	–	20
Disposals	–	–	–
Amortisation at 31 March 2017	**7,867**	**61**	**7,928**
Net Book Value:			
As at 31 March 2017	**10,271**	**–**	**10,271**
Cost			
At 1 April 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

Note: Additions in the year of £7.599 million (2015/16: £2.673 million) relate to development costs of the first phase of development of an IT platform for an 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 is 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 2017 £000	31 March 2016 £000
Carrying value as at 1 April	**4,970**	4,950
Revaluations	**105**	20
Carrying value as at 31 March	**5,075**	4,970

Notes: Investment properties are measured using the fair value model.

The investment properties are valued at £5.075 million (2015/16: £4.970 million) and the cumulative changes in fair value recognised for the period ending 31 March 2017 in the statement of comprehensive net expenditure amounted to a net gain of £0.105 million (2015/16: £0.020 million).

The properties were valued on 22 March 2017 by independent valuers Cushman & Wakefield, in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. 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.

Future receipts from operating lease

	Land and buildings	
	31 March 2017 £000	31 March 2016 £000
Not later than one year	**483**	483
Later than one year and not later than 5 years	**–**	483
Later than 5 years	**–**	–
Total	**483**	966

Note: The Blyth property income is based on 2 leases; the main lease relates to the majority of the site for a term of 25 years from 8 April 2011, with the next break clause in one year.

12 Trade and other receivables

	31 March 2017 £000	31 March 2016 £000
Amounts falling due within one year		
Trade receivables	**15,835**	15,485
Other receivables	**5**	15
Bad debt provision	**(436)**	(95)
Prepayments	**32,886**	27,163
Accrued income	**35,050**	17,721
Total trade receivables	**83,340**	60,289
Analysis of receivables balance		
Bodies external to government	**37,262**	33,740
Other central government bodies	**46,069**	26,478
Local authorities	**9**	71
Total	**83,340**	60,289

13 Cash and cash equivalents

	31 March 2017 £000	31 March 2016 £000
Sterling account	**15,771**	6,502
Euro account	**1,392**	1,543
Total	**17,163**	8,045

Note: The net funds at 31 March 2017 of £17,163,337 (2015/16: £8,044,698) comprise cash held within the Government Banking Service.

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 2017 was £4,850,244 (2015/16: £3,147,150).

The corresponding third party asset held was £4,836,589 (2015/16: £5,261,209). The difference of £13,655 relates to the foreign exchange differential (2015/16: £2,114,058 related 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 2017 £000	31 March 2016 £000
Amounts falling due within one year		
Trade payables	**112,086**	83,294
Other payables	**16**	404
Other taxation and social security	**449**	416
Deferred income	**842**	767
VAT	**300**	145
Grant accruals	**209,248**	165,919
Other accruals	**13,148**	13,287
Total	**336,089**	264,232

(b) Analysis by source	31 March 2017 £000	31 March 2016 £000
Amounts falling due within one year		
Other central government bodies	**3,472**	3,379
Local authorities	**765**	376
NHS bodies	**1,173**	436
Public corporations and trading funds	**2,237**	23,156
Bodies external to government	**328,442**	236,885
Total	**336,089**	264,232

15 Contingent liabilities

As at 31 March 2017 Innovate UK has a single contingent liability. The liability may arise if Innovate UK has to provide a grant to the Natural Renewable Energy Centre in order for it 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 any time between now and the year 2033 depending on the development of the site, at an estimated cost of £2.646 million.

16 Commitments

a. Capital expenditure

Innovate UK has no capital commitments to disclose.

b. Operating lease commitments at year end

	Land and buildings		Other	
	31 March 2017 £000	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000
Not later than one year	**74**	234	**230**	230
Later than one year and not later than 5 years	**–**	82	**–**	–
Later than 5 years	**–**	–	**–**	–
Total	**74**	316	**230**	230

The termination option for the lease on North Star House was exercised during March 2016, and comes to an end in June 2017. Innovate UK now has an informal licence to occupy office space in Polaris House. No rent is payable; however, a service charge relating to the costs of operating and maintaining the Polaris House estate is payable based on the amount of floorspace occupied.

c. Grant commitments

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

	31 March 2017 £000	31 March 2016 (restated) £000
Payable within one year	**637,945**	543,593
Payable in 2 to 5 years	**391,637**	740,760
Payable beyond 5 years	**–**	–
Total commitment	**1,029,582**	1,284,353

Note: Prior year comparative has been restated to be on a consistent basis with the current year position.

17 Related party transactions

Innovate UK is a non-departmental public body, sponsored by the Department for Business, Energy & Industrial Strategy during the period covered by this Annual Report and Accounts. BEIS is regarded as a related party.

During the year, Innovate UK had a number of transactions with BEIS and with other entities for which BEIS was regarded as the parent department, such as: the Arts and Humanities Research Council; the BBSRC; the EPSRC; the Economic and Social Research Council; the Natural Environment Research Council; the Medical Research Council; and the Science and Technology Facilities Council.

In addition, Innovate UK had material transactions with other government departments and with other central government bodies, such as: the Intellectual Property Office, the Foreign and Commonwealth Office, the Department for Environment, Food and Rural Affairs, the Department of Health, the Department for Transport 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 was 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

		2016/17			2015/16		
Director	**Organisation**	**Net expenditure/ (income) £**	**Debtor £**	**Creditor £**	Net expenditure/ (income) £	Debtor £	Creditor £
Anne Dixon	UK Shared Business Services	**83,709**	**–**	**–**	493,504	4,750	143,468
Professor Sir Christopher Snowden	University of Surrey	**–**	**–**	**–**	914,278	–	103,021
	Universities UK	**–**	**–**	**–**	235	–	–
Dr David Grant	IQE	**–**	**–**	**–**	57,222	–	7,728
	Renishaw PLC	**–**	**–**	**–**	699,402	–	159,095
	DSTL	**–**	**–**	**–**	450,921	–	–
Harry Shaw	Thomas Swan & Co Ltd	**34,952**	**–**	**–**	41,360	–	14,593
	Cella Energy Ltd	**220,867**	**–**	**–**	–	–	–
Ian Meikle	Energy Technology Institute	**6,133,400**	**–**	**–**	–	–	–
Ian Shott CBE	University of Nottingham	**–**	**–**	**–**	3,791,391	–	1,748,426
	BPE Design and Support	**–**	**–**	**–**	74,779	–	8,864
Professor John Latham	CU Services Ltd	**–**	**–**	**–**	8,149	–	–
	Coventry University	**394,871**	**–**	**–**	330,454	**–**	**–**
	Coventry University Enterprises Ltd	**409,084**	**–**	**113,878**	649,324	–	106,595
	Serious Games Ltd	**–**	**–**	**–**	38,707	–	10,648
	Design Council Advisory Board	**–**	**–**	**–**	(263)	–	–
	Connected Digital Economy Catapult	**–**	**–**	**–**	11,382,915	–	–

		2016/17			2015/16		
Director	**Organisation**	**Net expenditure/ (income) £**	**Debtor £**	**Creditor £**	Net expenditure/ (income) £	Debtor £	Creditor £
Lynne Patmore	Satellite Applications Catapult	**–**	**–**	**–**	8,787,309	–	5,266,722
Mark Glover	Science and Technology Facilities Council	**–**	**–**	**–**	137,179	(9,507)	17,498
	Knowledge Transfer Network	**–**	**–**	**–**	16,063,613	(7,903)	–
Nigel Townley	CISCO Systems Ltd	**–**	**–**	**–**	162,982	–	(21,469)
Phil Smith	CISCO Systems Ltd	**(6,094)**	**–**	**–**	162,982	–	(21,469)
	CISCO International Ltd	**410,378**	**–**	**–**	–	–	–
	IQE	**1,862**	**–**	**–**	–	–	–
	IQE Europe	**671,610**	**–**	**–**	–	–	–
	IQE Silicon Compounds Ltd	**18,271**	**–**	**–**	–	–	–
	University College London	**1,769,340**	**–**	**12,322**	–	–	–
	National Centre for Universities and Business	**–**	**–**	**–**	391,000	–	–
Dr Robert Sorrell	BP	**–**	**–**	**–**	16,909	–	–
Dr Ruth McKernan*	Medical Research Council	**(40,441)**	**(343,847)**	**–**	(2,326,525)	(544,455)	–
Sara Murray	Buddi Limited	**–**	**–**	**–**	55,382	–	17,017
Simon Edmonds	Advanced Propulsion Centre	**46,980**	**–**	**–**	31,800	–	–
Dr Stewart Davies	Augean Plc	**–**	**–**	**–**	6,738	–	–
Tim Edwards	Cell Therapy Catapult	**–**	**–**	**–**	17,690,312	–	10,096,954
	Atopix Therapeutics Ltd	**262,942**	**–**	**–**	–	–	–

* Medical Research Council in post to 30 September 2016.

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 International Accounting Standard (IAS) 32, IAS 39 and International Financial Reporting Standard 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, BEIS, 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 £0.353 million (2015/16: £0.393 million gain). 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

There have been no material events between the statement of financial position date and the date the accounts were authorised for issue requiring an adjustment to the financial statements. The date the accounts were authorised for issue is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The Higher Education and Research Bill received Royal Assent on 27 April 2017. Under the provisions of this legislation, UK Research and Innovation will be established as a single, strategic body that will bring together the 7 research councils, Innovate UK and the research and knowledge exchange functions of the Higher Education Funding Council for England. It is anticipated that UK Research and Innovation will be established on 1 April 2018 and that Innovate UK's functions, assets and liabilities will transfer into the new organisation at that date.

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