Innovate UK

# Annual Report & Accounts 2017/18

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# Technology Strategy Board (Innovate UK) Annual Report & Accounts 2017/2018

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Innovate UK

# Contents

# 1 Introduction from the Chairman

**Welcome to the Innovate UK Annual Report and Accounts 2017/18. It has been one of our busiest years yet and one in which our focus turned to the Industrial Strategy and specifically the Industrial Strategy Challenge Fund (ISCF).**

Last year, I wrote about the publication of the government's green paper on the Industrial Strategy and the announcement of a £4.7 billion investment in research and development. This year, I'm pleased to welcome the government's white paper on its Industrial Strategy. This has laid out in greater detail how and where the money will be spent across industry.

Innovate UK has already worked incredibly hard to help ensure the Industrial Strategy Challenge Fund is being delivered responsibly, collaboratively and to maximum effect. We have focused on the new 'Grand Challenges' – artificial intelligence and data economy, clean growth, the future of mobility and the ageing society. I welcome this focus and I'm excited to see how UK Research and Innovation – the new organisation that brings together Innovate UK, the 7 research councils and Research England – will build on the UK's progress in the fourth industrial revolution.

Elsewhere, the impact of Innovate UK's work continues to grow across the country and internationally. Over the last 10 years, the impact of this work has really shone through and, as a result of Innovate UK's activities and competitions, many companies have grown more quickly and more successfully, while others have partnered, merged or expanded beyond the UK, all contributing to economic growth and leadership.

Take Glasgow-based miniature satellite manufacturer Clyde Space, which has received support from and worked with Innovate UK for a number of years. It joined Swedish space company AAC Microtec at the start of 2018 in a deal worth £26 million. Or Manchester's smart energy company Upside Energy, which secured £5.5 million in its first major round of venture capital financing to help speed up the commercialisation and deployment of its platform.

News such as this from long-term Innovate UK partners gives me confidence that, as the organisation progresses as part of UK Research and Innovation, it will continue to be a leading force for business and in growing the UK economy exponentially in the years to come.

**Phil Smith**
**Chairman**

# 2 Foreword from the Chief Executive

**It's my pleasure to present the final Innovate UK Annual Report and Accounts. The 2017/18 report is both a milestone and a stepping stone for UK innovation.**

This is the last report and accounts for Innovate UK – in April 2018 we joined the research councils and Research England to form UK Research and Innovation. It would be easy for me to start with the question: where next for Innovate UK? But, I believe the answer to that question lies in the work we've done in the last 12 months on the Industrial Strategy Challenge Fund (ISCF), which we'll continue as part of UK Research and Innovation.

It's been a hugely successful year for Innovate UK. We oversaw the introduction of 2 significant waves of ISCF funding following the announcement of 4 'Grand Challenges' that both incorporate and support our sectors. We'll be taking a look at those in greater detail over the following pages.

In the meantime, let's revisit the impact Innovate UK has had on this country's economy as we mark a full decade since the organisation's inception in 2007. We have invested around £2.5 billion in innovation funding since 2007, matched by a further £1.8 billion in industry funding. This has returned up to £18 billion to the UK economy. We've supported innovation across 8,500 organisations, which has created 80,000 jobs – 9 for each company we've worked with.

## A year of change

Although things are changing, we are not slowing down. In fact, we will continue to expand our reach, reflecting the progress made by the companies we support. The competitions we've run via our sectors have continued to prove vital, but our reach will widen through the Grand Challenges and our open programme.

Elsewhere, we continue to hone our purpose and our goals as an organisation. We've continued to follow and refine our 5-point plan for driving UK innovation and have used this as a marker in our work supporting UK innovation.

## Ideas Mean Business

We've also branched out and continue to seek new audiences and individuals to bring innovative ideas to life. Following last year's successful Women in Innovation campaign, we have followed up with Ideas Mean Business.

We want to turn the idea of the traditional entrepreneur on its head. What do you picture when you think of an entrepreneur? For many, this image will suggest a lack of diversity. In the UK we have a wide talent pool and we want to make sure we're able to access and support it in its entirety by working with a more diverse generation of innovators alongside our regular support for businesses.

## What next?

In 2018/19, we're moving forward as part of UK Research and Innovation. We will continue to work on ISCF competitions in partnership with the 7 research councils, funding and supporting efforts in the Grand Challenges of artificial intelligence and data, clean growth, the future of mobility and ageing society.

We have restructured our sector teams to reflect this new focus on the ISCF and the Grand Challenges, while our core funding will be delivered through our open programme. New challenge directors will be responsible for our work in these areas. Meanwhile, business will continue to benefit from co-funding through the Knowledge Transfer Partnership programme.

We will be implementing an improved governance and performance management approach to ensure the Catapult network plays a full role in catalysing innovation.

Our new innovation loans pilot will continue through to 2019. We've launched this new model for funding because innovations need different types of funding support to scale up and grow. These loans, we believe, will be most useful for innovations near to market.

As many of you know already, I made the decision to move on from Innovate UK in May 2018. I'm supremely proud of the work we've done as an organisation in my 3 years and I'm leaving the organisation in the highly capable hands of Dr Ian Campbell who will be the Interim Executive Chair of Innovate UK.

Ian will be leading an expert and dedicated team committed to creating economic growth in the future, and Innovate UK will continue to promote and accelerate UK innovation as the business-facing organisation within UK Research and Innovation.

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

# 3 Performance report

Pae Natwilai, founder and CEO of GetTrik. The company's platform automatically turns drone photos into interactive 3D models.

# 3.1 Overview

Innovate UK drives productivity and economic growth by supporting businesses to develop and realise the potential of new ideas. We connect businesses to the partners, customers and investors that can help them turn ideas into commercially successful products and services and business growth.

We fund business and research collaborations to accelerate innovation and drive business investment into R&D. Our support is available to businesses across all economic sectors, value chains and UK regions.

The following pages detail our funding over the 2017/18 financial year and our activities with partner organisations.

# 10 years in innovation

## This year has been a milestone for Innovate UK. It was our 10th year as an organisation and we celebrated a decade of shaping the future through innovation.

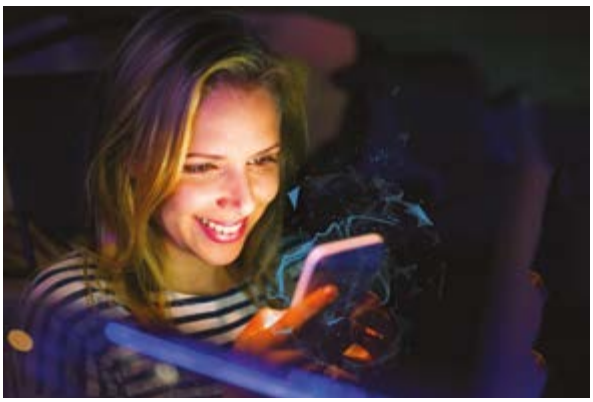
From our very first strategy – Connect and Catalyse – which provided funding to help businesses move closer to market, to the establishment of the Catapult network across the UK, Innovate UK has spent 10 years working to provide researchers and businesses with access to funding and facilities. This has led to spending of £2.5 billion on innovative projects.

In 2017/18 the value of new grants awarded in competitions for our core sectors was £177 million across 1,178 projects. This supported 2,465 unique organisations. The total spend on live projects in these sectors was £235 million. Note: these numbers apply only to core grant funding across our sectors for competitions run solely by Innovate UK. They exclude funding involving other agencies, managed programmes, Industrial Strategy Challenge Fund competitions and funding for Catapults.

The funding awards by our core sectors are lower than last year as our focus has shifted towards the Industrial Strategy Challenge Fund, the funding of which is outlined in the next section. The fund supports 4 Grand Challenges outlined by the UK government in its Industrial Strategy white paper, which closely mirrors our sector-based approach.

# The Industrial Strategy Challenge Fund

In November 2016, the Chancellor of the Exchequer announced that £4.7 billion in funding would be invested over 4 years as part of the government's National Productivity Investment Fund, designed to add high-value investment from 2017/18 to 2021/22 to areas that are critical for productivity. This is the Industrial Strategy Challenge Fund (ISCF), which is part of the government's Industrial Strategy. In 2017/18, Innovate UK and the research councils awarded grant funding through 2 waves of challenges under the ISCF. Together, we committed to provide businesses with £270 million in funding from the ISCF.



## Grand Challenges

The government published its Industrial Strategy white paper in November 2017, highlighting 4 'Grand Challenges' that ISCF funding would fall under.

**The Grand Challenges are:**

- **AI & Data Economy:** putting the UK at the forefront of the artificial intelligence and data revolution
- **Clean Growth:** maximising the advantages for UK industry from the global shift to clean growth
- **Future of Mobility:** becoming a world leader in shaping the future of mobility
- **Ageing Society:** harnessing the power of innovation to help meet the needs of an ageing society

# Wave 1 challenges

The first 3 ISCF competitions were launched in June 2017. Details of these competitions and ISCF investments by partner organisations are outlined here.

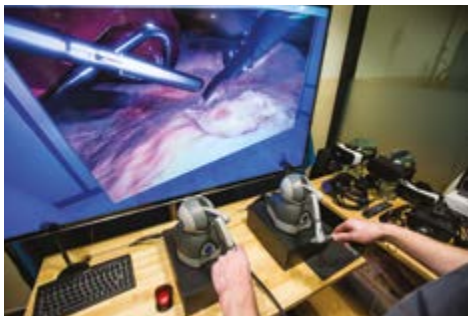
## Faraday Battery Challenge

This £246 million investment in battery development aims to power the next generation of electric vehicles and help to tackle air pollution.

We awarded £40 million in funding for 27 projects involving 66 organisations to support the design, development and manufacture of batteries for the electrification of vehicles.

£80 million was made available through the Advanced Propulsion Centre to set up an automotive manufacturing development facility. This will be led by Coventry and Warwickshire Local Enterprise Partnership and Warwick Manufacturing Group.

There was a further £65 million committed through the Engineering and Physical Sciences Research Council for the Faraday Institution, an independent national centre for battery research.



## Leading Edge Healthcare Challenge

This challenge is a £181 million fund to develop first-of-a-kind technologies to speed up manufacture of new drugs and treatments. It includes a £146 million commitment to medicines manufacturing and £35 million for the new Digital Health Catalyst over 4 years.

In 2017/18, we awarded £15 million to 22 projects across 58 organisations in a first round of funding for companies working in medicines manufacturing. Funding totalling £16 million was also available via 2 rounds of Digital Health Catalyst competitions for solutions that improve patient outcomes and access to healthcare. A second round of medicines manufacturing funding was made available in March 2018 providing a further £10 million for innovation projects in medicines manufacturing.

We also provided £21 million to set up 3 advanced therapy treatment centres across the UK and £5.6 million towards the manufacture and production of viral vectors.

## Robots for a Safer World Challenge

There is £93 million in funding available to develop artificial intelligence and robotics systems for extreme environments.

We invested £19 million in 2017/18 on projects involving 90 organisations, covering technology from autonomous submarines to manufacturing in space.

As part of the same programme, the Engineering and Physical Sciences Research Council awarded £44.5 million to 4 research hubs working in areas that include off-shore and nuclear energy and space. A further £4.3 million was provided through the Natural Environment Research Council for 5 projects developing sensors capable of monitoring changing oceans.

## Other wave 1 challenges

Three more ISCF challenges were announced in this first wave:

- **driverless vehicles:** investment to ensure the UK is at the forefront of the driverless cars revolution
- **manufacturing and materials of the future:** for development of new, affordable, light-weight composite materials
- **satellites and space technology:** new satellite test facility to support new technologies, manufacturing and testing

## Wave 2 challenges

Eight new ISCF challenges were announced for a second wave of funding competitions, representing an additional £729.5 million of investment in research and innovation.

The breakdown of investment is:

- £170 million for transforming construction
- £102.5 million for prospering from the energy revolution
- £90 million for transforming food production
- £33 million to support new products and services that exploit immersive technologies such as augmented and virtual reality
- £196 million to support early diagnosis and precision medicine by using the wealth of data and real-world NHS experience available
- £98 million to support healthy ageing
- £20 million to investigate the potential of next-generation services
- £20 million to investigate the potential of quantum technologies

The challenges were identified and defined through teams at Innovate UK, the research councils, the Knowledge Transfer Network and the Department for Business, Energy and Industrial Strategy in consultation with experts from relevant businesses and sectors.

In the 2017/18 financial year, Innovate UK invested £72 million in the first wave 2 challenge competition. The funding came under the transforming construction challenge and was for a core innovation hub to develop and commercialise digital and manufacturing technologies for the construction sector.

## Sector competitions

We also provided grant funding in 2017/18 through an open programme in addition to 4 sectors:

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

These Innovate UK structures were put in place in 2016/17 and provided clear understanding and access to our funding for industry, investors and the government.

## A new focus

We have looked again at the structure of our programmes in the light of our becoming part of UK Research and Innovation and of the new focus on the 4 Grand Challenges of the government's Industrial Strategy.

Our new directorates are:

- **artificial intelligence and data economy**
- **ageing society, health and nutrition**
- **manufacturing, materials and mobility**
- **clean growth and infrastructure**
- **commercialisation and open**

This new structure came into effect on 1 March 2018.

# Our 5-point plan

**The changes we have made to our structure support and still reflect our 5-point plan for economic growth, announced in 2015. The plan continued to underpin our work in 2017/18. The 5 points are:**

## 1

### Turning scientific excellence into economic impact through collaboration

- we invested funding from our core budget into businesses and their collaborators through our 4 sectors and open programme
- we worked extensively with the research councils and other partners to provide funding from the ISCF across the first 2 waves of challenges
- we managed competitions in collaboration with partners including the Aerospace Technology Institute, Advanced Propulsion Centre, Centre for Connected and Autonomous Vehicles, and Office for Low Emission Vehicles
- we worked through a smooth transition to UK Research and Innovation alongside the research councils and Research England to achieve the best results from the government's investment into its Industrial Strategy
- we continued our investment in Knowledge Transfer Partnerships and the Biomedical Catalyst

## 2

### Accelerating UK economic growth through nurturing high-growth potential SMEs in key market sectors

- we ran missions overseas for SMEs, including to the USA, Canada and Australia, allowing UK entrepreneurs to pitch their ideas and innovations to potential investors
- we published a report, *Scaling Up: The Investor Perspective,* which featured impactful insight from investors aimed at businesses looking to grow quickly
- we encouraged businesses to access funding from Horizon 2020 and Eurostars

## 3

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

- we continued investing in businesses in regions across England, Scotland, Wales and Northern Ireland, supported by our regional managers appointed in 2016
- we funded Venturefests across the UK to bring together local businesses and investors and promote growth
- we held Innovate 2017 in Birmingham, which brought together local and national innovators and international delegates, saw new innovations recognised, and led to the generation of new business

## 4

### Developing and providing access to Catapult centres within a national innovation network

- we evaluated the longer-established Catapults towards the end of their 5-year funding agreements and provided full support for the independent review of the Catapult programme undertaken by EY
- we saw the Catapults continue to carry out government projects, such as the Energy Systems Catapult's Smart Systems and Heat Programme, which is helping develop clean and affordable energy as part of the government's Industrial Strategy
- we invested in various regional events and national centres, including 4 innovation and knowledge centres and agri-tech centres

## 5

### Evolving funding models, ensuring businesses get the right funding at the right time

- we carried out an investment accelerator pilot to help provide simultaneous grant and venture capital funding for early-stage projects
- we introduced a £50 million pilot for innovation loans to help provide access to finance for companies that are closer to market
- we began moving our funding application and competition management process to the Innovation Funding Service, a new platform making it simpler to apply and manage applications online

# Who we have helped

## Funding for businesses

In 2017/18 we channelled our support to innovative businesses through 4 sectors and an open programme:

- **emerging and enabling technologies:** including high-potential technologies just emerging from university or other research, and cross-cutting technologies and capabilities such as digital, satellite applications, sensors, robotics and design
- **health and life sciences:** including health and care technologies, agriculture, food and biosciences
- **infrastructure systems:** including connected transport, energy systems and supply, and urban living
- **manufacturing and materials:** including new manufacturing and materials technologies, processes, business models and systems, resource efficiency and exploitation of digital approaches
- **open programme:** any high-value innovative technology, business model or process in any area of the economy

We continued to provide funding for businesses of all sizes from pre-start-up and early-stage companies to established corporate bodies. We worked with partners at home and abroad to help businesses to access opportunities.

### In making investment decisions we ask:

- 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?

## Innovation loans

Announced in 2015, we introduced a £50 million pilot scheme for innovation loans in 2017/18. It will run until 2019 and is available for business innovation projects. We want businesses to have access to finance and support regardless of where they are on the route to market. Innovation loans differ from our grant funding because they focus on innovations that are closer to commercialisation.

This programme opened to small and medium sized enterprises (SMEs) for late-stage research and development projects that have not yet reached the point of commercialisation. We launched innovation loans through Innovate UK Loans Ltd, a wholly-owned subsidiary of Innovate UK. Businesses can borrow between £100,000 and £1 million over a loan period of 10 years.

# Helping innovators

Last year's Women in Innovation programme started to address the under-representation of women in innovation.

This first-of-its-kind funding award and campaign increased the number of women-led project proposals into Innovate UK from 1 in 7 to 1 in 5. In March 2018, a second phase of awards was announced and the competition, which opens later in 2018, will seek ideas that address the 4 Grand Challenges of the government's Industrial Strategy.

## Ideas Mean Business

We also continued to explore ways of helping support great ideas through a new focus on young innovators by partnering with the Prince's Trust to launch Ideas Mean Business – our second diversity campaign – in December 2017.

It is a support programme open to 18-30 year olds from a wide range of backgrounds looking to take their ideas to the next level. Applicants have been given advice, guidance and the opportunity to access funding to help realise their innovative ideas.

The best ideas were announced in June 2018 with award winners receiving an allowance, 1:1 coaching and mentoring from an innovation champion.

Our goal is for these young innovators to become role models for a new generation of young people from diverse backgrounds and to show that ideas can mean business.

Innovate UK
Women in Innovation

#IDEAS MEAN BUSINESS


A delegate uses a virtual reality headset on a bike at Innovate 2017 at the NEC, Birmingham, 9 November 2017

# Innovate 2017

## Innovate 2017 took place in November 2017 at the National Exhibition Centre (NEC) in Birmingham.

The year's event was the biggest yet, with 2,566 delegates and 240 speakers from across industry and government, including Claire Perry, Minister of State at the Department for Business, Energy and Industrial Strategy, and UK Research and Innovation chief executive Sir Mark Walport.

We spent 2 days discussing some of the biggest global challenges, including the UK's need to develop and nurture talent in cyber security, both in schools and in the workplace – a consensus reached by the panel, which included figures from the private and public sectors and a former hacker.

The event also hosted 50 pupils from 4 schools in the midlands, who took part in activities designed to inspire the next generation of business leaders. We also announced an additional £30 million in funding for our Knowledge Transfer Partnerships programme from the National Productivity Investment Fund, which will create new jobs for graduates.

We gave our design in innovation award to Pae Natwilai, chief executive and founder of automation company GetTrik and one of our women in innovation award holders. We also unveiled our innovation loans, a £50 million pilot programme for single, small or medium-sized enterprises working on late-stage research and development projects.



# Highlights from our sectors

## Emerging and enabling technologies

### The opportunities that technology provides to businesses and organisations to transform the lives of individuals remain significant.

Our work in emerging and enabling technologies includes finding and proving technologies that are only just beginning to emerge from the research base – such as graphene and biofilms. It also includes technologies that can lead to the creation of revolutionary new products, processes and services across multiple sectors. Our support speeds up the development of these technologies and helps them to benefit major industries.

### Priority areas

**We worked in 7 priority areas in 2017/18:**

- **emerging technologies** – including quantum technologies, biofilms and graphene
- **digital technologies** – including data, artificial intelligence and machine learning
- **space and satellite technologies** – exploiting data from satellites and developing new space hardware
- **electronics, sensors and photonics** – compound semiconductors, photonics-based sensing, laser manufacturing and more
- **robotics and autonomous systems** – including next-generation manufacturing and working in extreme environments
- **design** – embedding human-centred design at the early stages of innovation
- **creative economy** – next-generation creative content and immersive technologies

### Funding

We launched a £16 million investment in June across 2 competitions for technologies and systems for extreme and challenging environments as part of the ISCF Robotics for a Safer World Challenge. This included £6 million for a demonstrator programme and £10 million for collaborative research and development projects for new and novel systems, focusing primarily on offshore energy, nuclear energy, space and deep mining.

We also invested £24.5 million in competitions across our priority areas. This included £6 million in quantum technologies, and £1 million in supporting human-centred design activities.

### Connecting

We supported brokerage events for UK companies to build R&D collaborations with companies from China, Canada and South Korea, and worked with European partners to encourage UK businesses to compete for some of the €2 billion available in our priority areas via Horizon 2020.

The Compound Semiconductor Applications, Digital, and Satellite Applications Catapults received £23.3 million in total from our budget. The Centre for Secure Information Technologies (CSIT) received £500,000.




# Dressipi

London-based technology firm Dressipi has teamed up with leading high street retailers to provide an artificial intelligence-powered personal styling service for consumers.

The aim is to provide customers with a tailored shopping experience online and instore by linking major retailers and providing them with data-driven and actionable insights into why customers buy and return specific products.

The company worked on a 12-month collaborative project with Arcadia Group, Marks & Spencer and Shop Direct and now provides a platform that allows retailers to offer shoppers personalised shopping online and offline.

Dressipi was co-founded by Donna North and Sarah McVittie.

> **“It was ground-breaking – with 3 competitors who would never normally work together. Having that funding and support from Innovate UK allowed it to be a true R&D project, and these big retailers felt very comfortable in that environment.”**

**Sarah McVittie**
Founder

# Health and life sciences

## One of the greatest challenges facing the world is a growing, ageing population.

Our work in health and life sciences focuses on new technologies in bioscience and medical research, growing expertise in engineering and physical sciences, and helps to tackle some of the biggest food and health challenges facing the world.

**We worked in 7 priority areas in 2017/18:**

- **precision medicine** – patient management based on personalised diagnoses
- **advanced therapies** – cell and gene therapy, and tissue engineering
- **preclinical technologies** – accelerating medicine development
- **improving agriculture productivity** – advanced plant and animal breeding, precision engineering and resilience
- **pathogens** – monitoring and targeting deadly pathogens entering the food supply
- **enhanced food quality** – improving safety, nutrition and affordability
- **biosciences** – addressing opportunities across health, food and energy

## Funding

We awarded £23 million through the ISCF Leading Edge Healthcare Challenge – £15 million in the first round of a medicines manufacturing challenge and £8 million through the Digital Health Technology Catalyst. This included feasibility studies and research and development projects aimed at improving patient outcomes and transforming healthcare through digital innovation.

We also invested £24.5 million in competitions to support projects across our priority areas, including £6 million in the 'precision medicine: impacting through innovative technology' competition. A £3 million accelerator pilot also provided simultaneous grant funding and venture capital investment in early-stage projects across agri-food, biosciences and health.

£34 million was awarded through the Biomedical Catalyst, a partnership between Innovate UK and the Medical Research Council to help businesses and researchers address healthcare challenges.

The Cell and Gene Therapy and Medicines Discovery Catapults and the Cell and Gene Therapy Manufacturing Centre received £25.9 million from our budget, while the 4 agri-tech centres received £18.6 million to support the government's agri-tech strategy.

Elsewhere, we awarded £8 million through a Newton Fund competition on UK-China agri-tech innovation, co-funded with the Biotechnology and Biological Sciences Research Council.

Our aim to transform agriculture in the UK into a truly high-tech sector has been supported over the last year by securing Industrial Strategy challenge funds and by developing overseas partnerships, including between the UK and Canada agricultural sectors through a series of workshops and events.

## Connecting

We connected businesses by holding investor showcase events focused on therapeutics and encouraged UK businesses to compete for €1 billion of funding in health, aiding demographic change and wellbeing, food security, sustainable agriculture, blue growth and bioeconomy through the European Horizon 2020 programme.

# Autifony Therapeutics

After spinning out from GlaxoSmithKline in 2011, Autifony's initial work revolved around malfunctions in proteins and impacts on hearing loss and tinnitus. However, co-founders Charles Large and Guiseppe Alvaro were convinced these malfunctions might also be responsible for other disorders and began to explore a new treatment for schizophrenia.

In 2014, the company received £2.42 million from the Biomedical Catalyst. The collaborative project will run through 2018 and has seen Autifony work with academic institutions to begin clinical trials of its drug AUT00206. The drug is intended to treat schizophrenia, but with fewer side effects than current medicine.

In December 2017, Autifony signed an agreement with German pharmaceutical company Boehringer Ingelheim for an exclusive option to purchase its modular platform, which includes AUT00206. The deal could be worth up to €627.5 million if AUT00206 reaches development and pre-commercialisation milestones.

> **"We are also grateful for the support from Innovate UK's Biomedical Catalyst, which has enabled a highly successful collaboration."**

**Dr. Charles Large**
CEO

# Infrastructure systems

## Infrastructure systems includes integrated transport systems, sustainable energy and the connected societies of the future.

Our work in this sector is vital because a transport network or connected city is by nature huge. Being able to prove, scale and commercialise new ideas that meet regulations and maintain reliability is increasingly challenging.

Our support enables industry to move forward by connecting innovative UK SMEs with regulators and other businesses to help their ideas reach consumer acceptance, create new value, and show a return for investors.

**In 2017/18, our work was in 5 priority areas:**

- **connected transport** – improving infrastructure through system design and connecting individuals and organisations
- **energy systems** – powering our society through clean, affordable and integrated systems
- **energy supply** – improving the current and future UK and global civil-nuclear and offshore wind markets
- **urban living** – smart city innovations allowing cities to be managed more efficiently
- **smart, resilient and integrated infrastructure** – cross-sector and collaborative digital design, manufacturing and operation

## Funding

In 2017/18, we ran competitions totalling £24.5 million across our priority areas. We also provided funding across a breadth of collaborative partnerships. This included significant work in East Asia, including £10 million on funding programmes with China focused on cities, and £6 million in Newton Fund competitions on sustainable cities in Malaysia and urban living challenges in China.

We also ran a competition as part of a Department for Transport scheme to improve the passenger experience on rail. This involved funding of £10 million across 10 digital design and systems projects.

We provided £42.5 million from our core funding for the Offshore Renewable Energy, Future Cities, Energy Systems and Transport Systems Catapults and £25 million for the Energy Research Accelerator, which focuses on speeding up the commercialisation of new infrastructure systems technologies.

We also provided £3 million to the Energy Technologies Institute, a public-private partnership focused on developing low-carbon technologies, and £1.5 million to the Cambridge Centre for Smart Infrastructure and Construction and the SPECIFIC (developing buildings as power stations) innovation and knowledge centres.

## Connecting

In January 2018 we took 14 businesses to Singapore and put them in direct contact with investors. We also helped UK businesses to compete for €1 billion available in our priority areas through the European Horizon 2020 programme.

We began running the Digital Built Britain programme on behalf of the government, using intelligent building information models (BIM) to reduce whole-life costs and carbon emissions of buildings and improve productivity and infrastructure capacity.

# Future City Glasgow

Glasgow was awarded £24 million in funding from Innovate UK In 2013 to become a future city demonstrator site and develop digital infrastructure and data initiatives to make it an interconnected smart city.

A 2017 report showed that the programme had a significant impact on the local economy and residents, indicating a return on investment of £144 million.

Energy savings have been a significant part of progress. Intelligent street lighting adjusts brightness according to activity, saving 68% of energy compared with conventional street lighting.

**Return on investment**

£144m

# Manufacturing and materials

## Our manufacturing and materials programme offers important support to businesses in the development and application of innovative technological processes and materials.

Manufacturing and materials technologies can provide benefits across all sectors. Data-driven and automated manufacturing will be at the heart of the fourth industrial revolution.

Manufacturing is worth £162 billion to the UK economy, and the sector represents 69% of total UK expenditure on research and development.

**Our work in 2017/18 was in 4 priority areas:**

- increasing resource efficiency and flexibility of manufacturing and materials processes for greater resilience to changing supply and demand conditions
- undertaking high-risk, potentially high-impact manufacturing and materials innovation to enable products of the future
- exploiting digital approaches and technologies in manufacturing and materials in new ways
- exploring new ways for manufacturing and materials businesses to offer more value to their customers and open new revenue streams

## Funding

In 2017/18, we invested £24.5 million across competitions in our priority areas. We also invested £88 million in the High Value Manufacturing Catapult and £8 million in 2 new centres opening in 2018, the National Formulation Centre and the Graphene Engineering Innovation Centre.

We invested £40 million in 27 projects to support design, development and manufacture of batteries for the electrification of vehicles as part of the ISCF Faraday Battery Challenge. This challenge also includes an £80 million battery manufacturing scale-up facility and the £65 million Faraday Institution for battery research funded by the Engineering and Physical Sciences Research Council.

## Connecting

In 2017/18 we worked with the UK government on its investment in automotive and aerospace research and continued our work with the Advanced Propulsion Centre and the Aerospace Technology Institute.

We continued our partnership with the Office for Low Emission Vehicles, which is investing £900 million in development of ultra-low emission vehicles, with a focus on electrification and a new vehicle-to-grid programme. Finally, we worked with the Centre for Connected and Autonomous Vehicles (C-CAV) on collaborative research and development programmes, and on plans to put in place a comprehensive test bed environment for autonomous vehicles.

We also showcased 10 projects that we funded in the last 10 years at the LCV 2017 (low carbon vehicle) event, which included exhibits from Jaguar Land Rover, Oxis Energy, Dearman Engines and others.

# Lontra

Midlands-based Lontra developed its Lontra Blade Compressor – a revolutionary new design for air compression – with support from Innovate UK.

The compressor signifies a new approach to compression and will save millions of pounds for the water industry. Compressors are used to pump air into sewage. In a trial at Severn Water, use of the Blade Compressor led to energy savings of 21.2%. It is estimated that the global market for low and medium-pressure compressors is worth £50 billion a year.

Compressed air is used across industry for making things and can be found in fridges, vehicle engines and air conditioning systems.

Lontra is building a new manufacturing facility in Warwickshire for its compressor – a £65 million investment that is expected to more than double the company's workforce by 2020.

**Annual sales projection**

**£45m**

# Open programme

## Our open programme ensures a great idea with high-growth potential, no matter where it came from, has the opportunity to receive funding from Innovate UK.

In 2017/18, we focused on helping smaller businesses find the resources needed to overcome barriers to innovation. We helped these companies to build and embed new capabilities and take new technologies out of the research base and put them on the road to commercialisation.

## Funding

We ran 3 open competitions in the 2017/18 financial year, totalling £53 million. These were open to any business with an innovative idea working in any area of technology and any area of the economy.

We also provided £31 million in funding for Knowledge Transfer Partnerships through 9 competitions, which included £5 million in co-funding from partner organisations.

We invested £5 million in 2 Eureka Eurostars competitions to help UK SMEs work with similar-sized businesses in Europe, and another £250,000 on targeted missions in high-potential areas, which included taking 20 manufacturing companies to Canada.

# Run3D

Run3D, a biomechanical engineering company specialising in 3D motion, has developed a real-time analysis and retraining system that identifies patterns in running style.

More than 4 million amateur sports people are injured every year in the UK, usually through poor running style or posture or by over-ambitious training. It also costs the economy an estimated £61 million in lost productivity. However, the Oxford University spin-out's 3D gait analysis system is tailored to specific sports and has real-time reporting, which helps to avoid injuries and improve performance.

"Because the technology works in real time we can check to see if the changes are working," said Dr Jessica Bruce, founder and managing director of Run3D. "One example might be a triathlete transitioning from the bike to running and their pelvis is tilted forward. This is going to affect their running. Run3D can be used for gait retraining to correct this problem."

Run3D is now creating a franchised network around its technology with Run3D sport clinics based in Oxford, London, Surrey, Essex, Hampshire and Dublin.

> **"Our aim was to bring the latest advances in running injury research and performance to clinicians, coaches and runners everywhere."**

**Dr Jessica Bruce**
Founder and Managing Director

# Connecting and collaborating

## Moving towards UK Research and Innovation

We developed our partnership further with the research councils as we worked towards the launch of UK Research and Innovation and began jointly funding projects through the ISCF.
Our shared mission is to be a trusted partner and to ensure research and innovation continues to flourish in the UK.

Innovate UK, the 7 research councils, and Research England, formerly the research funding element of the Higher Education Funding Council for England (HEFCE) became the single voice of UK Research and Innovation in April 2018.

Innovate UK retains its identity and is the business-facing element of the organisation, which has a unified voice and will strengthen research and innovation in the UK.

## Regional work

We continued to develop our regional strategy by working with local enterprise partnerships across England, and partners in Scotland, Wales and Northern Ireland. Our regional managers connected with the organisations we support and with our partner organisations. They worked on or supported new and continuing initiatives such as the Midlands Engine and the Northern Powerhouse and events such as North West Innovation 2018 and workshops for SMEs.

## Small Business Research Initiative (SBRI)

SBRI is an important funding mechanism for the public sector. It brings together public organisations such as the Ministry of Defence or the NHS with innovative businesses to address the challenges faced by government. It offers these companies a development contract and the possibility of their first customer for the product. In 2017/18 £107 million was committed across 263 contracts.

## European partnerships

Although the UK is now on the road to leaving the European Union, the government has guaranteed to honour all EU funding commitments to UK enterprises, and we have continued to encourage business participation in European Commission programmes. This includes Horizon 2020 through the European Enterprise Network. The Knowledge Transfer Network also helps SMEs to grow and scale by building collaborative partnerships and supply chains across the EU and globally.

## Going global

We have continued as 1 of 15 partners of the Newton Fund, which has a total investment of £735 million from the UK government between 2016 and 2021. The programme builds research and innovation partnerships with 18 partner countries, supporting economic development and social welfare and providing them with the capacity for long-term sustainable growth. In 2017/18, UK businesses were invited to apply for a share of £3 million to work with Chinese partners on innovative urban solutions in Guangdong province.

## Venturefests

Innovate UK also supported a series of regional Venturefest events in 2017/18 and sponsored the Knowledge Transfer Network's Venturefest Network. Venturefests were a series of events that took place in various regions. They typically offered delegates the opportunity to attend workshops, pitch their ideas and network.

## Entrepreneur missions

We led more entrepreneur missions in 2017/18, taking fledgling companies overseas to meet with investors and other partners to explore opportunities in overseas markets. Attendees can start to build a network, improve their profile and refine their pitch. In October 2017, we helped female entrepreneurs attend EMERGE Boston 2017, before taking another group of UK innovators to Australia for a future cities mission in March 2018.

## Managed programmes

We are also involved in a number of managed programmes and have run competitions in collaboration with partners including the Aerospace Technology Institute, Centre for Connected and Autonomous Vehicles, Office for Low Emission Vehicles, and Advanced Propulsion Centre. This included the launch of APC 9 in January 2018. This £30 million competition for accelerating low carbon propulsion technologies to market was run in association with the Advanced Propulsion Centre.

# The Catapults

## The 10 Catapult centres receive funding from Innovate UK's core budget, but they exist as independent organisations.

Each centre offers access to expertise, facilities, equipment and other resources for businesses working on innovative ideas.

An independent review by Ernst & Young for the Department for Business, Energy and Industrial Strategy (BEIS) published in November 2017 found that the concept of Catapults was sound and, when effectively implemented, had the potential to drive innovation and economic benefit to the UK. Innovate UK is putting in place more robust governance and performance management for the network.

Visit www.catapult.org.uk for more information.

### Cell and Gene Therapy Catapult

The Cell and Gene Therapy Catapult helps cell and gene therapy organisations translate early-stage research into commercially viable and investable therapies. It is based in London and has built a £55 million manufacturing centre in Stevenage, which received an additional £12 million via the ISCF this year to double the centre's production.

### Compound Semiconductor Applications Catapult

The Compound Semiconductor Applications Catapult was in start-up mode in 2017/18. It is now part of the world's first compound semiconductor cluster in south Wales and will help UK companies explore opportunities in semiconductor technologies – from smart grids to a future 5G network.

### Digital Catapult

The Digital Catapult continued to support companies and collaborations in solving technological challenges in the digital manufacturing and creative industries. This past year saw a focus on immersive technologies, while the London-based centre also continued its Researchers in Residence programme.

### Energy Systems Catapult

Much of the Energy Systems Catapult's work helps innovative companies to take advantage of opportunities from the transition to a cleaner, more intelligent energy system. The Catapult's importance was recognised last summer when the Department for Business, Energy and Industrial Strategy awarded a £9.8 million grant for work on phase 2 of the Smart Systems and Heat (SSH) project.

### Future Cities Catapult

The Future Cities Catapult in London focuses on 3 key themes: integrated urban infrastructure, healthy cities and urban mobility. Over the last year it launched 'OrganiCity', a €1 million open call to solve city challenges in London, Aarhus and Santander.

### High Value Manufacturing Catapult

The High Value Manufacturing Catapult runs 7 technology and innovation centres across the country from Bristol all the way up to Scotland. The centres aim to accelerate commercialisation of advanced manufacturing processes by offering leading-edge equipment, expertise and space.

## Medicines Discovery Catapult

In summer 2017, the Precision Medicines Catapult closed and transferred some of its work to the Medicines Discovery Catapult as a reflection of precision medicines' move towards the mainstream and integration within modern drug discovery. The Medicines Discovery Catapult now focuses on medicines, diagnostics, biomarkers and early-stage clinical trial support.

## Offshore Renewable Energy Catapult

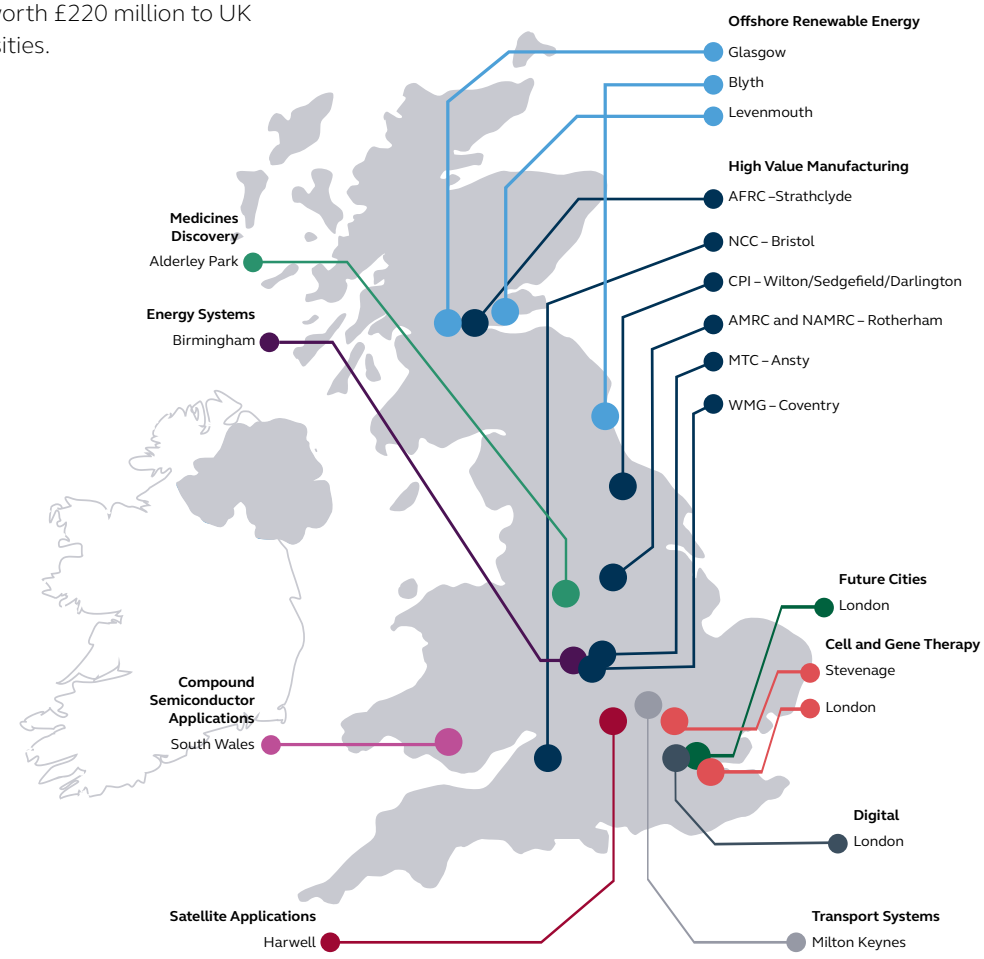
The Catapult retains 3 sites in Glasgow, Blyth and Levenmouth, focusing on the creation and growth of UK companies working in clean energy. The Offshore Renewable Energy Catapult recently established a partnership with China that will place UK SME technology in Chinese offshore wind markets. The partnership could be worth £220 million to UK companies and universities.

## Satellite Applications Catapult

The Satellite Applications Catapult runs facilities in Harwell to help support the work and scale-up of companies in the space and satellite sectors. The Catapult marked the end of its 3-year TechDemoSat programme in 2017/18. The project was a UK-owned satellite that acted as a demonstrator to test and prove the next generation of space hardware.

## Transport Systems Catapult

The Catapult in Milton Keynes focuses on the development of cleaner, safer, connected and more convenient systems for the future of travel. Over the last financial year it has been involved in numerous projects including a 30-month autonomous vehicle project that will involve the most complex journey attempted across the UK without a driver.



# Other centres

## Agri-tech centres

The government has committed over £80 million to establish centres for agriculture innovations as part of its agricultural technologies strategy.

**We continue to co-fund 4 innovation centres:**

- **Agrimetrics** – handling complex agricultural data interactions, synthesis and analysis
- **Centre for Crop Health and Protection** – managing crop threats including pests and disease
- **Agricultural Engineering Precision Innovation Centre** – helping to develop advanced technologies to increase productivity and sustainability in UK agriculture
- **Centre for Innovation Excellence in Livestock** – creating new livestock technology to increase productivity of livestock farming

We worked with the centres and their network of agri-food companies to identify funding opportunities and to connect businesses with investors and support.

## Innovation and knowledge centres

Innovation and knowledge centres are based in universities and help research and commercialise early-stage emerging technologies.

**We partner with the research councils to invest in 4:**

- **Centre for Secure Information Technologies** – Queen's University Belfast
- **Centre for Smart infrastructure and Construction** – University of Cambridge
- **Sustainable Product Engineering Centre for Innovative Functional Industrial Coatings** – Swansea University
- **Synthetic Biology Innovation and Commercialisation Industrial Translation Engine** – Imperial College London

# 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 assess our collaborative R&D competitions to ensure that sustainability considerations are central to the overall 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

In 2017/18, Innovate UK spent its first full year in Polaris House in Swindon alongside the research councils. The figures below have been calculated from total figures using the percentage of floor space occupied by Innovate UK.

Polaris House has been awarded, and implements, an Environmental Management System (EMS) via ISO 14001. The responsibility of the EMS and environmental aspects of the campus is the Joint Building Operations Services (JBOS). The following can be reported for utilities usage and recycling during 2017/18:

- **Waste:** Total recyclable waste including energy recovery = 14.5 tonnes
  - percentage of waste recycled = 71.87%
  - percentage of waste recycled including energy recovery = 100.00%
  - cardboard = 0.71 tonnes
  - confidential paper = 3.25 tonnes
  - food waste = 2.97 tonnes
  - glass = 0.13 tonnes
  - mixed metal = 0.72 tonnes
  - mixed recyclables = 0.73 tonnes
  - wood = 1.57 tonnes
  - batteries = >0.01 tonnes
  - waste electrical and electronic equipment = 0.34 tonnes
  - general waste (recycled through energy recovery) = 4.08 tonnes

It's worth noting that none of the waste listed in the figures above went to landfill.

- **Water:** use was 833.42 $m^3$.
- **Gas:** consumption was 68185.74 kWh.
- **Electricity:** consumption was 215290.04 kWh.

We also seek to be a socially responsible employer. We have an effective policy and programme that works 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

Innovate UK has a full suite of governance policies in place covering areas such as counter fraud arrangements, bribery and corruption, Modern Slavery Act and whistleblowing. Appropriate training is carried out to ensure that Innovate UK's staff are aware of the requirements of the policies.

**Dr Ian Campbell**
**Interim Executive Chair**
**29 June 2018**

# 3.2 Performance summary

## 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).

## Performance tracking and KPIs

We use our monitoring data to track our core funding and activities throughout the year.

We saw over 1,327 projects completed during the year, with a further 2,012 live at the end of the year. We supported nearly 2,500 unique organisations this year, of which nearly three-quarters were SMEs.

We awarded 1,178 new grants this year across our core sectors, worth £177 million. We paid out £235 million against live projects, and in total there is a further £314 million committed to pay out against approved grants.

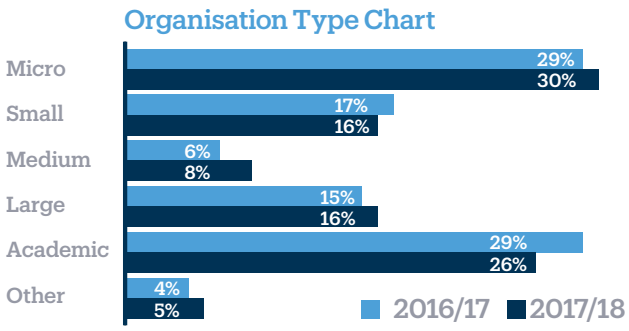
In February 2018, we rolled out a new project completion form, which is now capturing more detailed data on the activities, outputs, and expected outcomes of all Innovate UK-funded projects in a consistent, comprehensive manner. The data collected through this process will feed into our performance reporting in 2018/19 and will be reported in full next year. It will provide information on our impact on collaborations, skills, technological development, commercial opportunities, and innovations coming to market.

We published our first evaluation framework this year, setting out how we design and implement longer-term, robust evaluation to complement these performance reports. We published evaluations of SBRI and Innovation to Commercialisation of University Research (ICURe) – a programme of commercialisation support for teams of academic researchers wishing to explore the commercial potential of their research – in 2017/18, and initiated evaluations of our core grant funding through 2016/17-2017/18. Further evaluation reports will be published in the year ahead as we continue to examine the value we add to the UK economy.

## Organisations supported

**Organisations supported 2017/18**

**2,465**




**Unique SMEs supported 2017/18**

**1,806**

**Number of Grants Awarded**

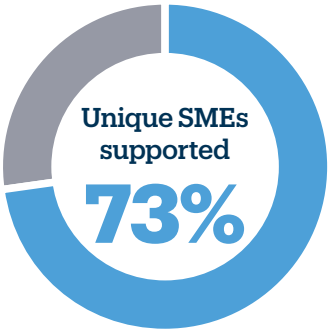
**1,178**

**Average project size 2017/18**

**£138,000**

**Average project size 2016/17**

**£95,000**




To note:
Innovate UK core grant funding programmes come under Innovate UK's remit. They are programmes in which we have influence over the design and excludes managed programmes.

These numbers do not include projects funded directly by other agencies (for example, the Department for International Development and the Department of Business, Energy, and Industrial Strategy) which are managed by Innovate UK. ISCF funding is also removed, as well as core funding for Catapults, KTN funding, Innovation Vouchers, regional development agency CR&D, and regional development agency GRD.

These figures do include projects with some co-funding.

## Financial: allocation and outturn

Innovate UK's total budget allocation for 2017/18 was £1,024.8 million (2016/17: £838.4 million), an increase of £186.4 million on the prior year. Total expenditure against this was £969.8 million (2016/17: £800.3 million).

The budget allocation can be split as follows:

**Breakdown of Budget Allocation**

| Budget Area | Total Allocation £m | Total Outturn £m |
|---|---|---|
| Core Responsive | 584.2 | 562.1 |
| Business and Science Group | 288.4 | 299.3 |
| Newton | 15.6 | 10.4 |
| Autumn Statement 2016 (including Industrial Strategy Challenge Fund) | 132.6 | 87.2 |
| Non-Cash | 4.0 | 2.6 |
| Total Comprehensive Net Expenditure | 1024.8 | 962.2 |
| Capital Expenditure (budget included within Core Responsive Allocation) | - | 7.6 |
| **Total Allocation and Outturn** | **1024.8** | **969.8** |

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.

Business and Science Group refers to all other programmes delivered on behalf of government departments or other BEIS policy (including programmes with Advanced Propulsion Centre and the Aerospace Technologies Institute) areas, which do not form part of Innovate UK's baseline and fiscal event funding defined as core.

Newton funding is specifically allocated from BEIS and uses science and innovation partnerships to promote economic development and social welfare of partner countries.

National Productivity Investment Fund includes announcements made at the Autumn Statement 2016 and funding from the Industrial Strategy Challenge Fund. The government is targeting spending at areas that are critical for productivity: housing; research and development (R&D); and economic infrastructure over the years 2017/18 to 2021/22.

## Technology grants expenditure and accruals

There was an increase of £156.7 million (2016/17 £91.9 million) in technology grants expenditure to £969.5 million (2016/17 £812.8 million) driven by the additional allocations of budget awarded relating to the Industrial Strategy Challenge Fund. A breakdown of grant expenditure by grant stream has been provided in Note 6.5 to the financial statements. The majority of 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 6.1h and 6.1n to the financial statements.

## Operating expenditure

Programme-related operating expenditure has increased by £9.1 million to £25.5 million from £16.4 million in 2016/17. The majority of this was driven by a £5 million increase in our programme delivery costs expenditure (comprising of costs such as competition briefing events, workshops and strategic reviews) and an additional £2.6 million on our communications and events programmes.

## Non-current assets

Property, plant and equipment additions of £0.526 million (2016/17: £0.810 million) during the year related

to investment in upgrading our information technology equipment for our staff. These improvements are to facilitate communications and mobile working.

Intangible non-current assets relate to information technology that is developed internally at Innovate UK. Additions this year totaled £7.058 mllion (2016/17 £7.599 million), increasing the net book value to £15.412 million (2016/17 £10.271 million). This is driven by the continued investment in the development of our external facing funding application system, the internal grants system and the integrated HR and finance systems.

## Pension liabilities

The accounting treatment of pension liabilities and details of the funding arrangements are set out in the note 6.1i 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 2018 was £14.5 million (31 March 2017: £17.2 million), and assets less liabilities had a deficit of £309.5 million (31 March 2017: £219.2 million deficit). Grant-in-aid financing received during the year from BEIS totaled £872.0 million, which was an increase of £111.0 million on the previous year's £761.0 million.

## Rationale for the preparation of the financial statements on the basis of a going concern

The Higher Education and Research Bill received Royal Assent on 27 April 2017 confirming the creation of a single executive non-departmental public body, UK Research and Innovation (UKRI). Under the Higher Education and Research Act 2017, UKRI incorporated the assets, liabilities and functions of the 7 research councils, Innovate UK and government's funding of research in higher education from 1 April 2018.

Confirmation of UKRI's budget allocation for 2018-19 to 2020-21 was received from BEIS in March 2018, which shows continued funding for the functions exercised by Innovate UK for this period.

As the functions previously provided by Innovate UK will continue to be provided by UKRI with the same assets and liabilities, it remains appropriate for the financial statements of Innovate UK for the financial year ended 31 March 2018 to be prepared on a going concern basis in accordance with the Government Financial Reporting Manual issued by HM Treasury.

## 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 the later.

During 2017/18, Innovate UK paid 82% (2016/17: 85%) of its undisputed invoices within the 30-day period.

A prompt payment target of five days has been introduced for the public sector. In 2017/18, Innovate UK paid 5% (2016/17: 2%) of its operating expenditure invoices within the 5-day period.

Innovate UK is currently working to implement a new integrated HR and finance system during 2018/19 that will facilitate more regular payment runs and remote receipting of purchases in order to make payments.

# 3.3 Performance analysis

## Portfolio trends

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

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

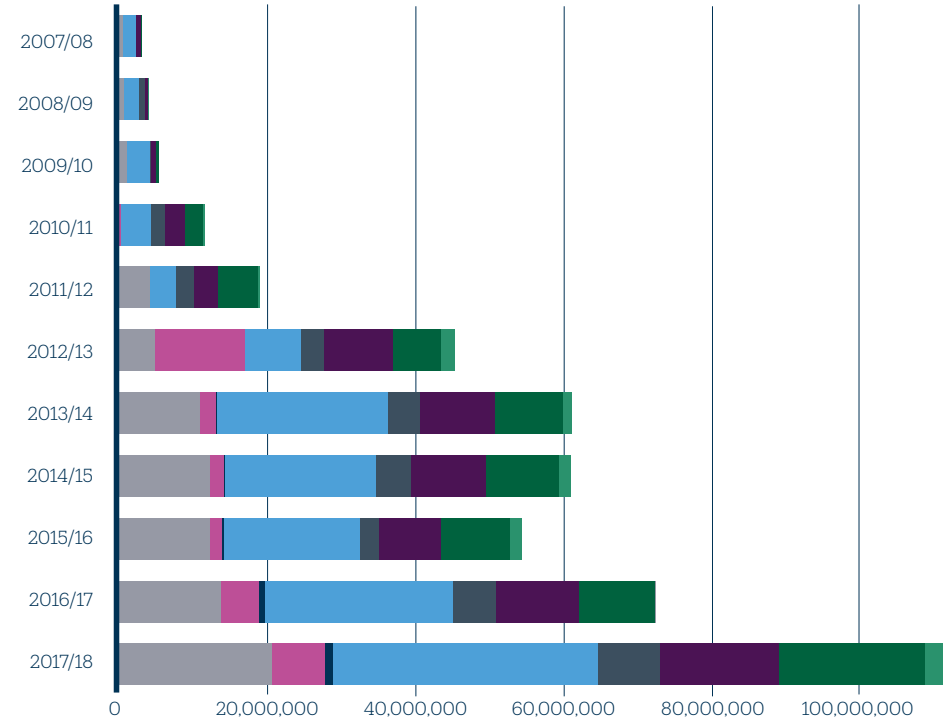
| Company category | Staff headcount | Turnover (or) | Balance sheet total |
|---|---|---|---|
| Large | > 250 | > € 50 m | > € 43 m |
| Medium | < 250 | ≤ € 50 m | ≤ € 43 m |
| Small | < 50 | ≤ € 10 m | ≤ € 10 m |
| Micro | < 10 | ≤ € 2 m | ≤ € 2 m |

Note: Academic, Catapult, charities and those that don't meet the above parameters are shown separately.

Key:

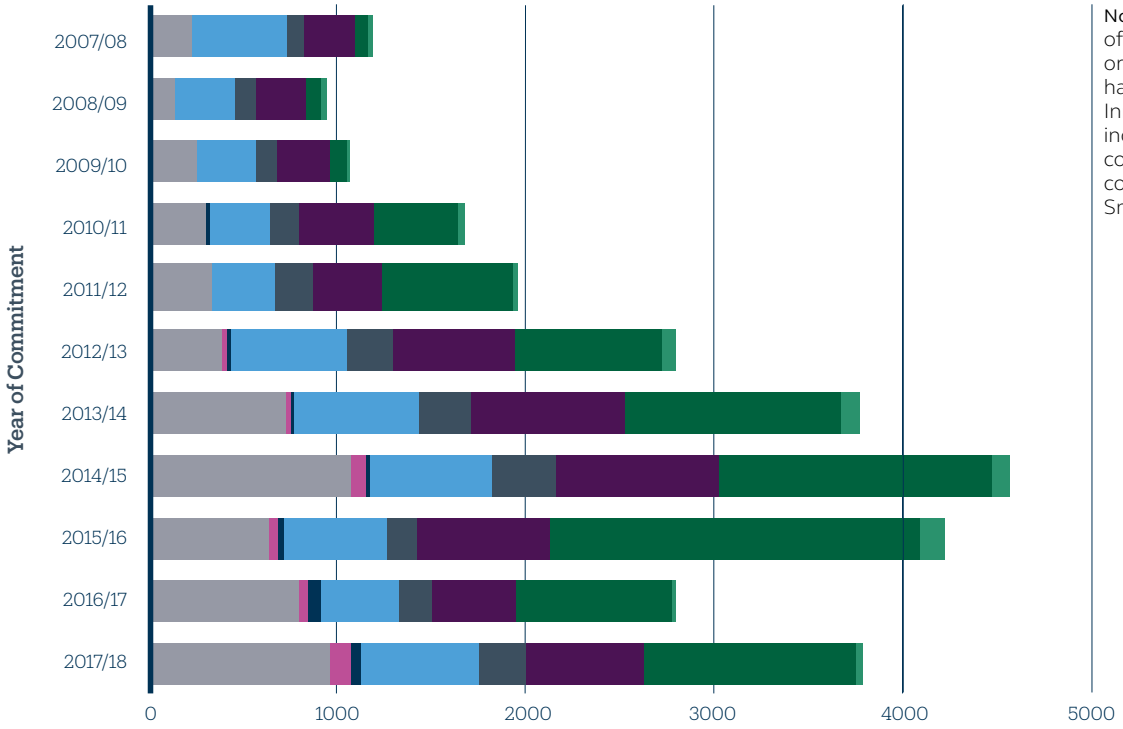
- Academic
- Catapult
- Charity/Social Enterprise
- Large
- Medium
- Small
- Micro
- Other

## Commitment by organisation size



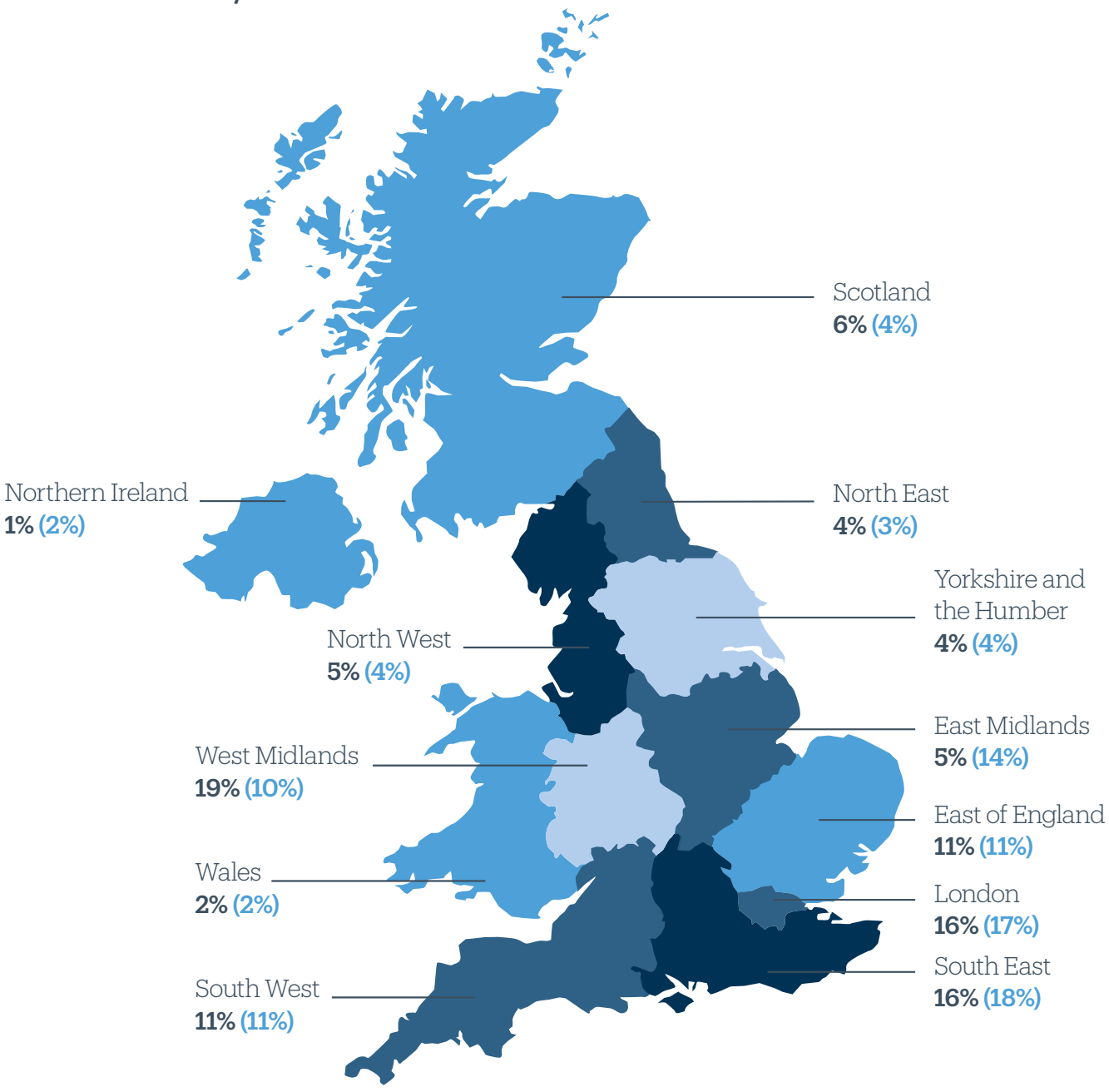

**Note:** Commitment is funding awarded in the year, which may be spent over several years. The value of the grant awarded to micro, small and medium enterprises has increased since the inception of Innovate UK, with a peak in 2014/15 with the Smart portfolio initiative. 2012/13 saw the launch of the 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



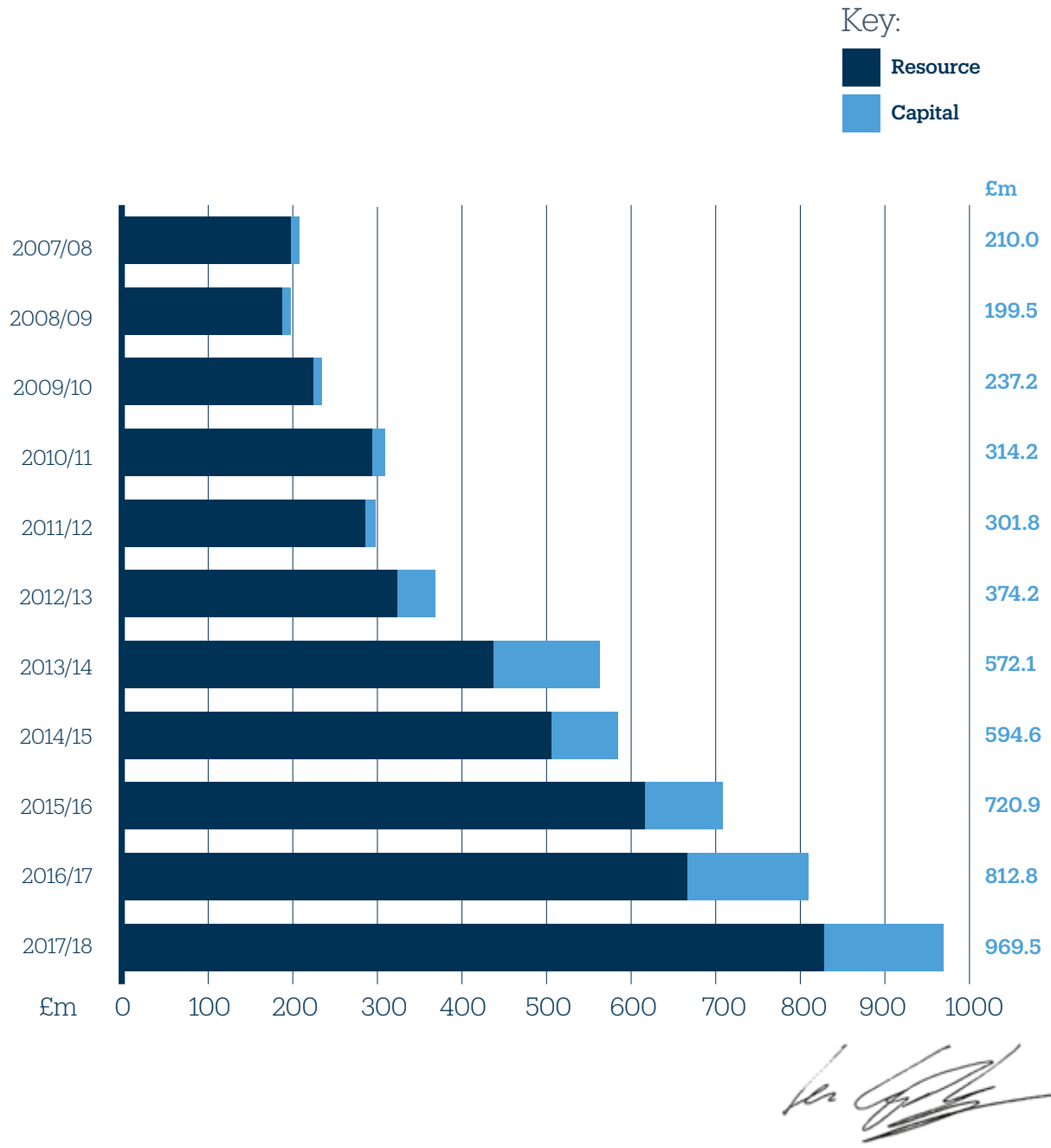

**Note:** The number of micro and small organisations funded has increased since Innovate UK's inception due to collaborative R&D competitions and the Smart programme.

## Geographical % split of grants committed 2017/18




Note: The map above shows the geographical % split of grants committed in the 2017/18 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 £210.0 million to £969.5 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 10 Catapults across the UK.

**Dr Ian Campbell**
**Interim Accounting Officer**
**29 June 2018**

# 4 Accountability report

Saturn Bioponics' CEO Alex Fisher and Head of Research, Development and Technical Support Arnoud Witteveen with their 3D crop production systems.

# 4.1 Corporate governance report

## 4.1.1 Governance Statement

This Governance Statement sets out the governance structures, risk management and internal control procedures that have operated within Innovate UK during 2017/18. 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 has been 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 first published in 2015 including:

- working with the research community and across government to turn scientific excellence into economic impact
- accelerating UK economic growth, nurturing small, high-growth companies, with strong productivity and export success
- building on innovation excellence throughout the UK, investing locally in areas of strength
- developing Catapults within a national innovation network
- evolving our funding models; helping public funding go further

The government announced plans in April 2017 to establish an Industrial Strategy Challenge Fund to help the UK capitalise on its strengths in science and innovation. This will significantly enhance the scale and scope of innovation funding in the UK. Since the announcement, Innovate UK has set up a new team structure to deliver the increased budget and responsibilities.

Innovate UK has also set up a special purpose vehicle, Innovate UK Loans Limited, to facilitate a £50 million pilot programme of innovation loans aimed at UK-based micro, small or medium-sized enterprises with innovation projects that want to scale up and grow through innovation, developing new or improved products, processes or services. The first competitions are in infrastructure systems, first-of-a-kind (FOAK) projects and manufacturing and materials readiness. Innovate UK has recruited senior staff from the banking industry to manage this development. A number of internal audits have concluded that robust preparations have been made.

The Higher Education and Research Bill, which included the proposal for the creation of UK Research and Innovation (UKRI) on 1 April 2018, received Royal Assent on 27 April 2017. UKRI will operate across the whole of the UK with a combined budget of more than £6 billion and is bringing together the 7 research councils, Innovate UK and a new organisation, Research England. UKRI intends to be an outstanding organisation that ensures the UK maintains its world-leading position in research and innovation.

Our present system is a success and key elements of it will remain including controls existing in 2017/18 which will continue in 2018/19. UK and international asset transfers are well under way

and are scheduled to be completed before October 2018, during which time the existing legacy bodies will remain legal entities. The structures and committees for the internal governance of UKRI are all agreed and terms of reference exist for the main committees (the Strategy Committee, the Investment Committee, the Finance and Operations Committee and the Audit, Risk, Assurance and Performance Committee.

Innovate UK has also communicated any significant areas of concern or risk to the new Audit, Risk, Assurance and Performance Committee of UKRI. A number of senior Innovate UK staff have been closely involved in the development of UKRI either through secondments or permanent appointments.

Following the referendum on 23 June 2016, the UK is now scheduled to leave the EU on 29 March 2019. This means that future access to EU research funding and the nature of future immigration arrangements with the EU for researchers is subject to the negotiations between the UK and EU which at the time of the laying of this report are still underway. To address the uncertainty in relation to future EU funding, in August 2016 the UK Government announced that it would guarantee certain EU funded projects after the UK has left the EU. The Research Councils and Innovate UK continue to monitor developments and we are addressing this risk by working closely with colleagues in government and the wider sector to ensure an effective and joined up approach to the implications of leaving the EU.

## 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 6 times in 2017/18. The table below shows Governing Board membership and attendance in 2017/18:

| Name | Role | Maximum number of meetings | Number of meetings attended |
|---|---|---|---|
| Mr Harry Swan | Member | 6 | 5 |
| Ms Hazel Moore | Member | 6 | 6 |
| Prof John Latham | Member | 6 | 4 |
| Mr Gerard Grech | Member | 6 | 6 |
| Mr Phil Smith | Chair | 6 | 6 |
| Dr Ruth McKernan | Chief Exec. | 6 | 6 |
| Ms Priya Guha | Member | 6 | 6 |
| Mr Simon Devonshire | Member | 6 | 5 |
| Ms Tera Allas | Member | 1 | 1 |
| Mr Tim Edwards | Member | 6 | 6 |

**Note:** Tera Allas' role ended on 31 July 2017.

Appointments are made in accordance with the Code of the Commissioner for Public Appointments. A recruitment exercise was conducted during 2017 to

increase the number of Governing Board members. Three new members joined the Board in summer 2017. Members are required to declare their personal interests. Details of members' declared interests are available on the Innovate UK website. New members received a formal introduction to the Board, which involves meeting with the Executive Directors, introductory meetings with other Governing Board members and the Board Secretary along with information on the current Strategy and Delivery Plan, as well as previous Board papers, Management Statement (including royal charter) and Financial Memorandum.

During 2017/18 the Governing Board's key activities have included:

- reviewing Innovate UK's organisational and financial performance
- implementing new arrangements for the management of the Catapults programme
- 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
- monitoring the development of the new Innovation Loans programme

## Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee includes 3 members of the Governing Board and one independent member. The terms of reference were amended in 2017 to allow the independent member to count towards the quorum of the committee. A new independent member was appointed to the committee from December 2017. He brings a wide range of business and financial skills and experience to the committee.

The terms of reference for the committee 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. It met 4 times in the financial year 2017/18.

### Audit and Risk Assurance Committee

| Name | Role | Maximum number of meetings | Number of meetings attended |
|---|---|---|---|
| Prof John Latham | Chair and Member | 4 | 3 |
| Mr Tim Edwards | Member | 4 | 4 |
| Ms Tera Allas (left July 2017) | Member | 1 | 1 |
| Mr Michael Sheehan | Ind. Member | 2 | 2 |

During 2017/18, the committee's principal activities have included:

- reviewing the organisation's financial performance
- reviewing and discussing corporate and directorate risk registers
- reviewing outcomes from internal and external audit
- monitoring the implementation of new finance and grant systems
- monitoring the progress of new developments such as innovation loans
- reviewing counter fraud arrangements

## Remuneration Committee

The Governing Board has also maintained a Remuneration Committee. The committee met occasionally in 2017/18 to review the performance of the Chief Executive and Executive Directors as well as the overall performance of the organisation.

**Pilot programme of innovation loans**

£50m

## Loans Committee

Innovate UK has set up a special purpose vehicle, Innovate UK Loans Limited, to facilitate a £50 million pilot programme of innovation loans aimed at UK-based micro, small or medium-sized enterprises with innovation projects that want to scale up and grow through innovation, developing new or improved products, processes or services. Robust governance arrangements have been established to monitor the activities of the company. These have principally included the recent establishment of a separate Loans Committee. The committee's membership includes a number of key executive directors from Innovate UK and UKRI and a representative of the British Business Bank.

The Committee's main functions include:

- providing advisory oversight, challenge and assurance to BEIS and to ministers around New Innovation Finance (NIF) activities led by Innovate UK, initially focused on the £50 million innovation loans pilot programme
- reviewing and commenting on key risks and issues
- advising on recommendations in respect of key policies, frameworks and material contracts

### Loans Committee

| Name | Role | Maximum no. of meetings | No. of meetings attended |
|---|---|---|---|
| Ms Hazel Moore | Chair | 7 | 7 |
| Dr Ruth McKernan | Member | 7 | 6 |
| Mr Keith Morgan | Member | 7 | 6 |
| Mr James Gardiner | Member | 7 | 6 |
| Ms Jenny Dibden | Member | 7 | 1 |
| Mr Tim Sawyer | Member | 7 | 7 |
| Ms Ruth Elliot | Member | 2 | 1 |

**Note:** An agreed representative from BEIS attended in place of Ms Jenny Dibden in remaining 6 meetings.

## Executive Management Team

The Executive Management Team includes the Chief Executive and Directors. It met 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 2017/18 declarations confirmed that satisfactory arrangements existed across the organisation.

During 2017/18 a number of new appointments have been made to the Executive Management Team including a new Chief Investment Officer post to oversee the Innovation Loans Company. Two Directors were seconded to support the establishment of UK Research and Innovation.

A further reorganisation took place at the end of 2017/18 reflecting the creation of UKRI and the establishment of ISCF. Innovate UK's five-point plan referred to above already aligned well with the Grand Challenges set out in ISCF. Some further revisions were made to strategy and structures to allow 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.

## Executive Management Team

| Name | Directorate |
|---|---|
| Dr Ruth McKernan | Chief Executive |
| Mr Kevin Baughan | Deputy Chief Executive |
| Ms Anne Dixon | Chief Operating Officer<br>On secondment to BEIS from April 2017 |
| Dr Ian Campbell | Director of Health and Life Sciences |
| Mr Ian Meikle | Director of Infrastructure Systems |
| Mr Paul Mason | Director of Emerging and Enabling |
| Mr Simon Edmonds | Director of Materials and Manufacturing |
| Ms Linda Wallace | Director of Communications<br>In post from June 2017 |
| Mr Nigel Townley | Director of IT |
| Ms Ruth Elliot | Interim Chief Financial Officer<br>On secondment from BEIS October 2016 |
| Ms Sarah Vodden | Director of Operations<br>In post from February 2018 |
| Mr Mike Biddle | ISCF Programme Director<br>In post from June 2017 |
| Mr Tim Sawyer | Chief Investment Officer<br>On secondment from British Business Bank from June 2017 |

# 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.

Corporate and directorate level risk registers are regularly presented to the Executive Management Team, Audit and Risk Committee and Governing Board. Innovate UK also maintains an assurance map showing the internal controls relevant to individual risks and activities. The top risks are shown in the table:

## Risk Register – top risks at year end

| Risk | Action |
|---|---|
| Innovate UK may not have sufficient capacity and capability to deliver the requirements of the Industrial Strategy Challenge Fund and to prepare for the transition to UKRI | A number of new senior staff are being appointed to manage the requirements of the Industrial Strategy Challenge Fund.<br><br>New project management staff are also being recruited to develop policies and processes to support transition activities |
| Failure or poor governance of the Catapult programme may lead to ineffective or inefficient outcomes and impacts | A new Director of Major Programmes Governance has been appointed to oversee the Catapults and ISCF programmes.<br><br>A new performance management system including key performance indicators is being implemented |
| Senior staff changes and inability to recruit and retain staff | Critical roles and vacancies have been identified and a recruitment plan is in place.<br><br>UKRI recruitment terms and conditions are being clarified |

# Audit

Internal audit was provided by RSM Risk Assurance Services LLP in 2017/18. 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. Their overall opinion was that Innovate UK had an adequate and effective framework for risk management, governance and internal control. However, the opinion also drew attention to audits of cyber security, IT disaster recovery and IT business continuity planning in which the auditors were able to provide only partial assurance. The opinion also emphasised the need for Innovate UK to better formalise and document procedures and processes as the organisation develops.

During 2017/18, Innovate UK received a number of audit reports from the above work. In one of these, cyber security, the auditors were able to provide only limited assurance. In addition, the Government Internal Audit Agency carried out a review of our due diligence processes in awarding grants. This also resulted in a limited assurance opinion. In both these areas Innovate UK is introducing new arrangements to mitigate the risks.

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 2017/18 Internal Audit followed up the implementation of a sample of recommendations made in earlier audits and found that most of these had been implemented. Innovate UK has also established its own process for tracking the implementation of audit recommendations. The recommendation tracker has been regularly reported to the Audit and Risk Committee. External Audit is provided by the Comptroller & Auditor General (representatives of whom have also attended Innovate UK's Audit Committee). The C&AG is giving an unqualified audit report on Innovate UK's 2017/18 financial statements. As part of their work the C&AG 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 2017/18 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. Innovate UK has been developing new arrangements that are fit for purpose and provide the information for more effective management of the business. A new grants application portal was launched in 2017 and a new grants management system is under development. A new finance and HR system will be in place during the summer of 2018.

### Counter fraud activities

Innovate UK is continuing to step up its counter fraud arrangements in response to increasing fraud cases perpetrated against us by external parties. The total value of cases is up to £2 million spread over the last 4 years. This is less than a quarter of 1% of our total grants portfolio. Wherever appropriate we report cases to the appropriate law enforcement agencies and work with them to achieve criminal convictions. Our largest fraud case is currently being investigated by the National Crime Agency.

A review of due diligence processes in grant applications by the Government Internal Audit Service also identified a number of opportunities for improving controls. Current actions to address these issues and improve our counter fraud arrangements include:

- the appointment of an investigations/ assurance manager. We are placing increasing emphasis on visiting companies to investigate issues brought to our attention
- dedicated report fraud email address for staff and members of the public
- the introduction of better checks on company directors as part of the grant application process and the evaluation of know-your-client software
- fraud awareness training for all staff including as part of the induction programme
- strengthening of controls in the award and monitoring of grants
- the development of a machine learning project within our new grants system. This is already allowing us to spot unusual patterns or trends in the grant applications we receive

## Cyber security

This area was recently the subject of an internal audit review that provided only partial assurance. The report contained a number of valuable recommendations principally relating to strengthening controls over access to systems and similar. An action plan is in place to address these issues. The main action has already been implemented and includes the installation of specialist security software onto staff laptop computers. In November 2017, we also rolled out a training package designed to improve employee knowledge on cyber security by instilling best online practice across the organisation.

## Review of Catapult network

The government and Innovate UK commissioned an independent review of the Catapult network. It concluded that Catapults are an important part of the UK's innovation ecosystem but highlighted:

- the need for Innovate UK and BEIS to improve their governance and performance management of the network
- the need for Catapults to develop clearer strategies for delivering impact to their sector
- the need for Catapults, BEIS and Innovate UK to implement an evaluation framework for the network

Since the review, Innovate UK has been working intensively with BEIS and UKRI to implement its recommendations, in particular, by:

- rigorous scrutiny of the Catapults' future strategies and delivery plans, and consultation with key stakeholders and customers
- taking measures to ensure that all Catapults have strong leadership
- setting out a minimum performance indicator for use by all members of the Catapults network to enable improved performance management, consistent data collection and a common economic evaluation framework
- appointing a new Director of Major Programme Governance to provide better oversight and performance management of the network

## 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.

In addition, Innovate UK has confirmed its compliance with the requirements of the new IR 35 regulations introduced in 2017. Innovate UK has also carried out random checks on other contractors working on a self-employed basis to confirm that their tax affairs were compliant with the relevant legislation. No issues were identified.

## MacPherson Review

The review of quality assurance of government analytical models undertaken by Sir Nicholas Macpherson and published by HM Treasury in March 2013 made a number of recommendations for government departments and their arm's length bodies. To comply with this review, Innovate UK has reviewed its use of analytical modelling in 2017/18 and has not identified any that were considered business critical.

## Data breaches

There have been no significant data breaches during 2017/18 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 | 2017/18 | 2016/17 |
|---|---|---|
| Phone | 4 | 2 |
| Laptop | - | 1 |
| Tablet | - | - |

## General Data Protection Regulation (GDPR)

The introduction of GDPR, on 25 May 2018, brings about substantial changes to the existing Data Protection Act 1998. Failure to comply could result in fines up to 20 million euros or 4% of turnover and significant reputational damage to Innovate UK. A cross-council and Innovate UK project has been established to take forward the changes. A 'health check' undertaken by internal audit identified the project as a 'medium risk' bordering on a 'low risk'. Work within Innovate UK has focused on:

- reviewing data-sharing arrangements with third parties
- mapping and recording data flows
- training staff about new responsibilities

## Review of effectiveness

As Interim 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.

My personal role as Interim Executive Chair of Innovate UK only commenced in May 2018 and I was not in this post during 2017/18. However there has been a formal handover process from the former Chief Executive and she has provided me with a written assurance that she supports the content and conclusion of this governance statement.

My review is based on:

- the previous Chief Executive's assurance to me. She has confirmed that the Governance Statement accurately reflects the standard of internal control and risk management in Innovate UK during 2017/18
- my experience as an executive director of Innovate UK in 2017/18
- 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 2017/18
- regular reports by the internal auditors, including the Head of Internal Audit's independent opinion on the adequacy and effectiveness of Innovate UK's systems of internal control
- the Comptroller & Auditor General's report on the financial statements
- feedback from 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
- Innovate UK's good progress in implementing audit recommendations.

I am satisfied that Innovate UK has maintained a reasonable level of governance, risk management and internal control during 2017/18. Appropriate measures are in place to address identified opportunities for improving internal control.

# 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.

## 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 Interim Executive Chair, as Interim 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 he 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 he ought to have taken to make himself 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 he takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

**Dr Ian Campbell**
**Interim Executive Chair**
**29 June 2018**

# 4.2 Remuneration report (audited)

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 2018 our Executive Management Team consisted of the Chief Executive and 9 Executive Directors.

Of the 9 Executive Directors, 8 are permanent employees with a notice period of 6 months 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.

## Details of 2017/18 remuneration for Innovate UK Chief Executive and Executive Directors

### 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

| Name | Role | Number of meetings attended |
|---|---|---|
| Mr Harry Swan | Board Member | 1 |
| Ms Hazel Moore | Board Member | 1 |
| Prof John Latham | Board Member | 1 |
| Mr Phil Smith | Chair of Committee | 1 |

The Remuneration Committee met once in 2017/18 and advised on executive salaries and other benefits.

**Notes**

| | |
|---|---|
| Ms Ruth Elliot | On secondment from BEIS from October 2016 |
| Ms Anne Dixon | On secondment to BEIS from April 2017 |
| Mr Mike Biddle | In post from June 2017 |
| Ms Linda Wallace | In post until June 2017 |
| Mr Tim Sawyer | On secondment from British Business Bank from May 2017. Performance Pay is payable 50% yr 1, 25% yr 2, 25% yr 3. |
| Ms Sarah Vodden | In post from February 2018 |
| *Where applicable | Allowances relate to car allowance |
| **Performance Pay | 2017/18 figures are subject to BEIS approval. Ruth McKernan 2016/17 figure restated to the actual payment received after BEIS confirmation |

# Salary and benefits in kind

| | 2017/18 £'000 | | | | | 2016/17 £'000 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Salary and allowances* banded for the period in post | Performance pay** | Benefits in kind (cash equivalent) | Pension benefits | Total | Salary and allowances* banded for the period in post | Performance pay** | Benefits in kind (cash equivalent) | Pension benefits | Total |
| Dr Ruth McKernan<br>Chief Executive | 200-205 | 45-50 | - | - | 245-250 | 200-205 | 25-30 | - | - | 225-230 |
| Mr Kevin Baughan<br>Deputy Chief Executive | 160-165 | 25-30 | - | 71 | 260-265 | 160-165 | 25-30 | - | 55 | 240-245 |
| Ms Anne Dixon<br>Chief Operating Officer | 5-10 (115-120) | 0-5 (15-20) | - | 1 | 10-15 (135-140) | 115-120 | 15-20 | - | 44 | 180-185 |
| Dr Ian Campbell<br>Director of Health & Life Sciences | 100-105 | 15-20 | - | 39 | 160-165 | 50-55 (100-105) | 5-10 (15-20) | - | 19 | 75-80 (135-140) |
| Mr Ian Meikle<br>Director of Infrastructure Systems | 100 - 105 | 15-20 | - | 47 | 160-165 | 95-100 | 10-15 | - | 34 | 145-150 |
| Mr Paul Mason<br>Director of Emerging & Enabling | 100 - 105 | 15-20 | - | 44 | 155-160 | 100-105 | 10-15 | - | 35 | 145-150 |
| Mr Simon Edmonds<br>Director of Materials and Manufacturing | 140-145 | 20-25 | - | 18 | 185-190 | 140-145 | 20-30 | - | 29 | 195-200 |
| Ms Linda Wallace<br>Director of Communications | 25-30 (115-120) | 0-5 (15-20) | - | 9 | 40-45 (140-145) | 115-120 | 15-20 | - | 43 | 175-180 |
| Mr Nigel Townley<br>Director of IT | 115-120 | 20-25 | - | 26 | 165-170 | 115-120 | 15-20 | - | 44 | 180-185 |
| Ms Lynne Patmore<br>Interim Chief Financial Officer | - | - | - | - | - | 110-115 (145-150) | - | - | - | 110-115 (145-150) |
| Ms Ruth Elliot<br>Interim Chief Financial Officer | 95-100 | - | - | | 95-100 | 55-60 (95-100) | - | - | - | 55-60 (95-100) |
| Ms Sarah Vodden<br>Director of Operations | 10-15 (105-110) | 0-5 (10-15) | | 9 | 25-30 (105-110) | - | - | - | - | - |
| Mr Mike Biddle<br>ISCF Programme Director | 80-85 (95-100) | 10-15 (15-20) | - | 29 | 125-130 (140-145) | - | - | - | - | - |
| Mr Tim Sawyer<br>Chief Investment Officer | 125-130 (160-165) | 50-55 (60-65) | - | - | 175-180 (220-225) | - | - | - | - | - |
| Banded Remuneration of highest paid Director £'000 | 245 - 250 | | | | | 225 - 230 | | | | |
| Median Remuneration of Innovate UK workforce | 49,500 | | | | | 49,995 | | | | |
| Range of Staff Remuneration | £19,350 - £189,770 | | | | | £24,166 - £117,243 | | | | |
| Ratio | 5.1 | | | | | 5.0 | | | | |

# Audited information

## Salary and allowances, including performance pay

Salary and allowances, including performance pay, covers both pensionable and non-pensionable amounts and includes gross salaries, performance pay or bonuses, overtime, allowances and any ex-gratia payments. It does not include amounts that 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 2017/18 was £245,000-£250,000 (2016/17 £225,000-£230,000). This was 5.1 times (2016/17: 5.0) the median remuneration of the workforce, which was £49,500 (2016/17: £49,995).

In 2017/18, there were no (2016/17: nil) employees that received remuneration in excess of the highest-paid director. Remuneration ranged from £19,350 - £189,770 (2016/17: £24,166 to £117,243).

## 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.

## Cash Equivalent Transfer Value

| | Total of accrued pension at pension age as at 31 March 2018 and related lump sum | Real increase/ (decrease) of pension and related lump sum at pension age | Real CETV at 31 March 2018 | Cash equivalent transfer value (CETV) at 31 March 2017 | Increase/ (decrease) in CETV |
|---|---|---|---|---|---|
| Mr Kevin Baughan<br>Deputy Chief Executive | 10 - 15 | 2.5 - 5 | 222 | 151 | 53 |
| Ms Anne Dixon<br>Chief Operating Officer | 5 - 10 | 0 - 2.5 | 100 | 98 | 1 |
| Dr Ian Campbell<br>Director of Health & Life Sciences | 0 - 5 | 0 - 2.5 | 37 | 12 | 18 |
| Mr Ian Meikle<br>Director of Infrastructure Systems | 15 - 20 | 2.5 - 5 | 193 | 149 | 24 |
| Ms Linda Wallace<br>Director of Communications | 5 - 10 | 0 - 2.5 | 118 | 109 | 7 |
| Mr Nigel Townley<br>Director of IT | 5 - 10 | 0 - 2.5 | 80 | 56 | 18 |
| Mr Paul Mason<br>Director of Emerging & Enabling | 20 - 25 | 2.5 - 5 | 295 | 249 | 30 |
| Mr Simon Edmonds<br>Director Materials & Manufacturing | 25 - 30<br>plus lump sum<br>80 - 85 | 0 - 2.5<br>plus lump sum<br>2.5 - 5 | 646 | 584 | 18 |
| Mr Mike Biddle<br>ISCF Programme Director | 15 - 20 | 0 - 2.5 | 211 | 180 | 17 |
| Ms Sarah Vodden<br>Director of Operations | 5 - 10 | 0 - 2.5 | 102 | 95 | 6 |

**Notes:** 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 £23,333 for the year. No CETV informtion is available for Tim Sawyer who is on secondment from the British Business Bank and is not a member of the Research Councils' Pension Scheme. Innovate UK made no pension contributions on his behalf.

## 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 2017 represents the value at their start date and the CETV at 31 March 2018 represents the value at their end date.

## Remuneration of Governing Board members

The standard honorarium paid to Governing Board members amounted to £9,180 per annum (2016/17: £9,180). The emoluments of the present Chairman, Phil Smith, were £15,720 (2016/17: £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.

## External auditor's 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 auditor's remuneration totalled £97,000 (2016/17: £97,000) for the statutory audit fee. No additional non-audit work or other services were performed by the auditors during the year.

## Remuneration of Governing Board members

| Governing Board members' annual honoraria | Appointment date | 2017/18 £0 | 2016/17 £0 |
|---|---|---|---|
| Ms Hazel Moore | 01/08/2012 - 30/06/2018 | 5-10 | 5-10 |
| Prof John Latham | 30/07/2015 - 31/10/2018 | 5-10 | 5-10 |
| Mr Phil Smith* | 01/12/2011 - 30/06/2018 | 15-20 | 15-20 |
| Mr Harry Swan | 12/01/2015 - 31/10/2018 | 0 | 0 |
| Ms Tera Allas | 09/02/2015 - 31/07/2017 | 0-5 | 5-10 |
| Mr Tim Edwards | 30/07/2015 - 30/06/2018 | 5-10 | 5-10 |
| Mr Simon Devonshire | 21/04/2017 - 31/10/2018 | 5-10 | 0 |
| Ms Priya Guha | 21/04/2017 - 31/10/2018 | 5-10 | 0 |
| Mr Gerard Grech | 21/04/2017 - 31/10/2018 | 5-10 | 0 |
| Mr Michael Carr | 01/08/2011 - 30/06/2016 | 0 | 0-5 |
| Mr Ian Shott | 01/08/2011 - 30/06/2016 | 0 | 0-5 |
| Dr Robert Sorrell | 01/08/2011 - 30/06/2016 | 0 | 0-5 |

# 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, age, gender reassignment, marriage or civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation.

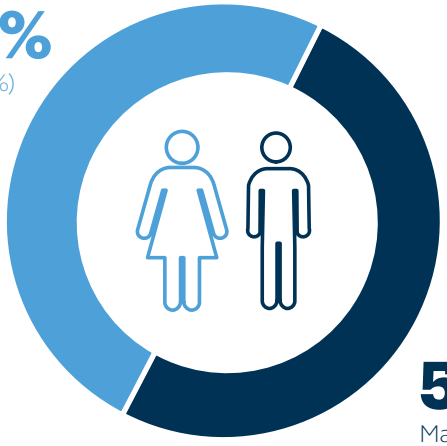
Full and fair consideration is given to applications for employment from individuals with disabilities where they have the appropriate skills to perform the job. Innovate UK works closely with its medical adviser and a health and safety advisory service and ensures reasonable adjustments are made to facilitate access to work and further opportunities. 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 opportunities.

Innovate UK has a thorough recruitment and candidate assessment process that enables appointment on evidenced merit and objectivity. We ask all applicants who have declared a disability if any reasonable adjustments are required 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, safety and wellbeing of staff, as well as that of others who may work in or visit our 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.

**As at 31 March 2018 the gender split for all staff employed at Innovate UK was as follows** (2016/17 figures in brackets)



**Total staff number**

349

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 and remote working. 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 has specific requirements in place for staff who cycle during their working day.

Innovate UK has also engaged with a charity to offer guidance and advice to staff regarding personal safety. Specific risk assessments are required for travel overseas.

## 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 Innovate UK continues to analyse and actively manage diversity across our activities. We review the data we currently collect, which focuses on the gender and ethnicity of our staff.

## Average persons employed (audited)

| Full time equivalent | 2017/18 Number | 2016/17 Number |
|---|---|---|
| Perm staff | 291 | 259 |
| Agency and interim staff | 58 | 44 |
| **Total staff** | **349** | 303 |

As at 31 March 2018 there were 6 male and 4 female directors who are of an equivalent grade to Senior Civil Servants (2016/17: 6 male and 4 female Executive Directors).

## Staff costs (audited)

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Permanent staff** | | |
| Salaries and wages | 16,981 | 16,080 |
| Social security costs | 1,988 | 1,783 |
| Superannuation costs | 3,837 | 3,439 |
| **Permanent staff total** | **22,806** | 21,302 |
| Agency and interim staff | 1,524 | 1,686 |
| Board members' fees | 79 | 56 |
| **Total staff costs** | **24,409** | 23,044 |

## 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. As of 1 April 2018, the RCPS transfers to UK Research and Innovation. In his capacity as Chief Executive of UK Research and Innovation, Sir Mark Walport has responsibility as Accounting Officer of the RCPS. Employees of Innovate UK are eligible either to join the defined benefit RCPS arrangements, which is the default scheme for auto-enrolment, or open a partnership pension account, which is a defined contribution pension with an employer contribution.

Employer contributions for the RCPS are 26.0% of pensionable (base) pay. For the partnership scheme employer contributions are age related ranging from 8.0 to 14.75% of pensionable (base) pay, with up to 3% further as matched employer contributions.

The RCPS is an unfunded scheme, relying on current and past employee and employer contributions and annual grant-in-aid to pay member and pension benefits.

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.

The RCPS has approval to continue and will not reform before April 2019.

## Compensation schemes and exit packages

There were no compensation schemes or exit packages in 2017/18.

### Compensation schemes and exit packages (audited)

| Exit packages cost per band | No. of voluntary redundancies agreed | |
|---|---|---|
| | 2017/18 | 2016/17 |
| <£10,000 | (-) | (6) |
| £10,000 to £25,000 | (-) | (14) |
| £25,000 to £50,000 | (-) | (12) |
| £50,000 to £100,000 | (-) | (9) |
| £100,000 to £150,000 | (-) | (-) |
| £150,000 to £175,000 | (-) | (-) |
| **Total** | (-) | (41) |

## Consultancy

There was no expenditure on consultancy in the year.

## 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. 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.

### Summary of off payroll engagements

| Table 1: For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that lasts for longer than 6 months | 2017/18 |
|---|---|
| No. of existing engagements as of 31 March 2018 | 0 |
| **Of which…** | |
| No. that have existed for less 1 one year at the time of reporting | 0 |
| No. that have existed for between 1 and 2 years at the time of reporting | 0 |
| No. that have existed for between 2 and 3 years at the time of reporting | 0 |
| No. that have existed for between 3 and 4 years at the time of reporting | 0 |
| No. that have existed for between 4 and more years at the time of reporting | 0 |

| Table 2: For all new off-payroll engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than 6 months | 2017/18 |
|---|---|
| No. of new engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018 | 0 |
| **Of which…** | |
| No. assessed as caught by IR35 | 0 |
| No. assessed as not caught by IR35 | 0 |
| No. engaged directly (via PSC contracted to BEIS) and are on the BEIS payroll | 0 |
| No. of engagements reassessed for consistency/assurance purposes during the year | 0 |
| No. of engagements that saw a change to IR35 status following the consistency review | 0 |

| Table 3: For any off-payroll engagments of Board Members and/or senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018 | 2017/18 |
|---|---|
| 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 should include both off-payroll and on-payroll engagements | 8 |

**Absence rate**
**% of total working days**

2.7%

## Sickness and absence

The calculation of Innovate UK's sickness/absence rates is as follows, with figures for 2016/17 shown in brackets.

Innovate UK continues to promote the good health and wellbeing of our staff and offers a basic annual health-check and courses related to mental health awareness and first aid, resilience training, dignity and wellbeing-at-work sessions.

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

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.

## Graduate scheme

In September 2017 Innovate UK welcomed its second graduate intake. The scheme runs for a 2-year period and includes structured training, mentoring and on-the-job training.

## Trade Union (Facility Time Publication Requirements) Regulations 2017

During 2017/18 no Innovate UK employees were trade union officials and therefore there was no associated facility time in the year.

## Sickness and absence

| 2017/18 | Absence rate as a % of total working days |
|---|---|
| All staff | 2.7% (2.0%) |
| Excluding long-term sick (2016/17: 1 staff) | 2.4% (1.8%) |

| 2017/18 | Average working days lost to sickness (per member of staff) |
|---|---|
| All staff | 6.8 (5.1) |
| Excluding long-term sick (2016/17: 1 staff) | 6.0 (4.6) |

# 4.4 Parliamentary Accountability and Audit Report

## Regularity of expenditure

I can confirm that for the financial year ended 31 March 2018, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money, and that Treasury approval has been obtained for all novel, contentious or repercussive transactions during the year.

## 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 (2016/17: nil). Administrative write-offs relating to bad debts, totalling £286,000 were made during the year. Foreign exchange losses for the year were £278,000.

## Remote contingent liabilities

As at 31 March 2018 Innovate UK does not have any remote contingent liabilities. Contingent liabilities that meet the criteria set out in IAS 37 are stated in Note 6.15 to the Financial Statements.

The above statements have been audited.

**Dr Ian Campbell**
**Interim Executive Chair**
**29 June 2018**

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Technology Strategy Board for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:
- the financial statements give a true and fair view of the state of Technology Strategy Board's affairs as at 31 March 2018 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with Science and Technology Act 1965 and Secretary of State directions issued thereunder.

## Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Technology Strategy Board in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Technology Strategy Board and Interim Accounting Officer for the financial statements

As explained more fully in the Statement of Interim Accounting Officer's Responsibilities, the Technology Strategy Board and the Interim Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Science and Technology Act 1965.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Technology Strategy Board's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Technology Strategy Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

## Other Information

The Technology Strategy Board and the Interim Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Science and Technology Act 1965
- in the light of the knowledge and understanding of the Technology Strategy Board and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in 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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**
**10 July 2018**
**Comptroller and Auditor General**

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

# 5 Financial statements

Professor Kym Jarvis, director at Viridian at their facilities in Corwen, North Wales. Viridian provides the nuclear sector with sensor solutions.

## Statement of Comprehensive Net Expenditure for the period ended 31 March 2018

| | Notes | 2017/18 £000 | 2016/17 £000 |
|---|---|---|---|
| **Expenditure** | | | |
| Staff costs | 6.2 | **24,409** | 23,044 |
| Programme support costs | 6.3 | **18,241** | 18,174 |
| Other operating costs | 6.4 | **25,523** | 16,423 |
| Technology and grants | 6.5 | **969,508** | 812,765 |
| Depreciation and amortisation | 6.9, 6.10 | **2,263** | 178 |
| Loss on disposal of assets | 6.9 | **5** | 103 |
| Total operating expenditure | | **1,039,949** | 870,687 |
| Operating income | 6.7 | **(3,573)** | (5,277) |
| Co-funding income | 6.8 | **(74,488)** | (72,831) |
| **Total expenditure for the year** | | **961,888** | 792,579 |
| Net loss/(gain) on investment property | **6.11** | **358** | (105) |
| **Total comprehensive net expenditure for the year** | | **962,246** | 792,474 |

The notes on pages 76-99 form part of these accounts.

**Total expenditure 2017/18**

**£962m**

# Statement of Financial Position as at 31 March 2018

| Assets | Notes | 2017/18 £000 | 2016/17 £000 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Property, plant and equipment | 6.9 | **1,158** | 994 |
| Intangible non-current assets | 6.10 | **15,412** | 10,271 |
| Investment properties | 6.11 | **4,717** | 5,075 |
| **Total non-current assets** | | **21,287** | 16,340 |
| **Current assets** | | | |
| Trade and other receivables | 6.12 | **84,459** | 83,340 |
| Cash and cash equivalents | 6.13 | **14,492** | 17,163 |
| **Total current assets** | | **98,951** | 100,503 |
| **Total assets** | | **120,238** | 116,843 |
| **Current liabilities** | | | |
| Trade and other payables | 6.14 | **(120,518)** | (113,693) |
| Accruals | 6.14 | **(309,212)** | (222,396) |
| **Total current liabilities** | | **(429,730)** | (336,089) |
| **Non-current assets less net current liabilities** | | **(309,492)** | (219,246) |
| Assets less liabilities | | **(309,492)** | (219,246) |
| **Taxpayers' equity** | | | |
| General reserve | | **(309,492)** | (219,246) |

The notes on pages 76-99 form part of these accounts.

**Dr Ian Campbell**
**Interim Accounting Officer**
**29 June 2018**

# Statement of Cash Flows for the year ended 31 March 2018

| | Notes | 2017/18 £000 | 2016/17 £000 |
|---|---|---|---|
| Total expenditure for the year | | (961,888) | (792,579) |
| **Adjusted for:** | | | |
| Depreciation & amortisation | 6.9, 6.10 | 2,263 | 178 |
| Loss on disposal of fixed assets | 6.9 | 5 | 103 |
| Increase in receivables | 6.12 | (1,119) | (23,051) |
| Increase in payables | 6.14 | 93,641 | 71,857 |
| Net foreign exchange (gain)/loss | | 278 | (353) |
| **Net cash outflows from operating activities** | | (866,820) | (743,845) |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 6.10 | (7,058) | (7,599) |
| Purchase of property, plant and equipment | 6.9 | (526) | (810) |
| Proceeds on disposal of fixed assets | | 11 | 19 |
| **Net cash outflows from investing activities** | | (7,573) | (8,390) |
| **Cash flows from financing activities** | | | |
| Grant-in-aid received | | 872,000 | 761,000 |
| **Net cash inflows from financing activities** | | 872,000 | 761,000 |
| Net (decrease) / increase in cash and cash equivalents | | (2,393) | 8,765 |
| **Cash and cash equivalents at 1 April 2017** | | 17,163 | 8,045 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (278) | 353 |
| **Cash and cash equivalents at 31 March 2018** | | 14,492 | 17,163 |

The notes on pages 76-99 form part of these accounts.

# Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

| | Notes | Government Funds £000 | Total Reserves £000 |
|---|---|---|---|
| Balance as at 31 March 2016 | | (187,772) | (187,772) |
| Retained deficit | | (792,579) | (792,579) |
| Gain on investment property | 6.11 | 105 | 105 |
| **Comprehensive net expenditure for 2016/17** | | (792,474) | (792,474) |
| Grant-in-aid | | 761,000 | 761,000 |
| **Balance at 31 March 2017** | | **(219,246)** | **(219,246)** |
| Retained deficit | | (961,888) | (961,888) |
| Loss on investment property | 6.11 | (358) | (358) |
| **Comprehensive net expenditure for 2017/18** | | **(962,246)** | **(962,246)** |
| Grant-in-aid | | 872,000 | 872,000 |
| **Balance at 31 March 2018** | | **(309,492)** | **(309,492)** |

The notes on pages 76-99 form part of these accounts.

# 6 Notes to the accounts


Oxford Space Systems CEO Mike Lawton is working on the development of deployable antennas and structures for space.

# 6.1 Statement of accounting policies

## a. Basis of accounting and accounting convention

These financial statements have been prepared in accordance with the 2017/18 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 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 2017/18 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 1,000, 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 43, the functions previously provided by Innovate UK will continue to be provided using the same assets by UK Research and Innovation. It remains appropriate for the financial statements of Innovate UK for the year to 31 March 2018 to be prepared on a going concern basis in accordance with the Government Financial Reporting Manual issued by HM Treasury.

### Adoption of standards and changes in policy 2017/18

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2018, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FReM.

### Adoption of standards and changes in policy effective for future financial years

The International Accounting Standards Board (IASB) and IFRIC issued certain standards and interpretations with an effective date after these financial statements. Where these changes are relevant to Innovate UK circumstances they are listed below and will be adopted at the effective date. They have not been adopted early.

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, 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 on 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 IAS 16. These assets are carried at modified historical cost less accumulated depreciation and any accumulated impairment losses.

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

### Depreciation

Depreciation is calculated on a straight-line basis to write off assets over their useful economic 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.

### Intangible assets

Intangible assets are accounted for in accordance with IAS 38 and are carried at historical cost less accumulated amortisation. Acquired software is amortised over 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. Information technology expenditure and software purchased is amortised over 5 years.

### Impairment

The recoverable amount of property, plant and equipment and intangible assets is measured regularly 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 IFRS 13. The fair value of investment properties reflects the market conditions at the end of the reporting period based on the rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions.

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

## c. 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 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 amortised cost amount.

### Cash and cash equivalents

Cash and cash equivalents comprise of 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'.

## 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 seven Research Councils as part of a cost sharing group (CSG) and does not reclaim input VAT. Accordingly, all purchases are shown inclusive of VAT.

## 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 (refer to note 6.1n below) and are included in accruals in the statement of financial position. Note our grant recipients are responsible for the production of their own financial statements and Innovate UK does not consolidate any of their assets or liabilities.

## i. Pension costs

Employees of Innovate UK are entitled to be members of the Research Councils' Pension Schemes. The schemes are multi-employer unfunded defined benefit schemes and Innovate UK is unable to identify its share of underlying liabilities. Therefore, the amount charged in the statement of comprehensive 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 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 & Communications Charges within the expenditure heading Other operating expenditure which is shown in note 6.4, 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 6.7.

## l. Co-funding and other 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. Other income is recognised on an accruals basis, and where applicable matched to the expenditure incurred.

## 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 that 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 Knowledge Transfer Partnership 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 2018 was £292.5 million (2016/17: £209.2 million), of which the core accrual totalled £120.8 million (2016/17: £81.6 million).

The major sources of uncertainty in the estimate relate to the profiling of incurring and defraying 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, in terms of the project duration and activity costs ultimately incurred.

As of 30 April 2018, the remaining grant accrual that has yet to unwind amounted to £104.2m (2016/17: £66.1m). Within this amount there is an element of uncertainty as to the exact amount that will be claimed.

Of the participant risk share of this grant accrual, on a sample of 4,373 (2016/17: 3,702) claims received at 30 April 2018, we can give an indication of the likely claim profile and therefore substantiate the accrual. From the table it can be seen that the majority of claims submitted (4,200) were within +/- £5,000 of the amounts originally accrued (2016/17: 3,258).

**Technology Grant Accrual**

| Range | Count |
|---|---|
| -500,000 to Max | 1 |
| -500,000 to -250,001 | 0 |
| -250,000 to -100,001 | 1 |
| -100,000 to -50,001 | 3 |
| -50,000 to -20,001 | 18 |
| -20,000 to -10,001 | 27 |
| -10,000 to -5,001 | 34 |
| -5,000 to 5,000 | 4,200 |
| 5,001 to 10,000 | 37 |
| 10,001 to 20,000 | 25 |
| 20,001 to 50,000 | 18 |
| 50,001 to 100,000 | 7 |
| 100,001 to 250,000 | 0 |
| 250,001 to 500,000 | 1 |
| 500,001 to Max | 1 |
| Total Count | 4,373 |

## 6.2 Staff costs

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Permanent staff** | | |
| Salaries and wages | **16,981** | 16,080 |
| Social security costs | **1,988** | 1,783 |
| Superannuation costs | **3,837** | 3,439 |
| **Permanent staff total** | **22,806** | 21,302 |
| Agency and interim staff | **1,524** | 1,686 |
| Board members' fees | **79** | 56 |
| **Total staff costs** | **24,409** | 23,044 |

## 6.3 Programme support contracts

The charges for third party programme support contracts are for the management and delivery of Innovate UK programmes. The 2017/18 figure includes £347,000 (2016/17: £2.331 million) for Knowledge Transfer Partnerships 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.

### Programme support contracts

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Third party programme support contracts | **1,590** | 3,218 |
| IT platform | **2,103** | 1,741 |
| Monitoring officer and assessment fees and expenses | **14,548** | 13,215 |
| **Total** | **18,241** | 18,174 |

## 6.4 Other operating costs

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Travel and subsistence | **2,311** | 1,696 |
| Utilities, rent, rates and maintenance | **825** | 787 |
| Programme communications and events | **10,653** | 8,043 |
| Intervention management | **7,879** | 2,873 |
| General administration | **2,960** | 2,526 |
| Recruitment | **355** | 194 |
| Employee relocation costs | **3** | 8 |
| Office equipment | **2** | (21) |
| Information technology and communications charges | **120** | 536 |
| Auditor's remuneration | **97** | 97 |
| Interest paid | **40** | 37 |
| Exchange rate (gains)/losses | **278** | (353) |
| **Total** | **25,523** | 16,423 |

## 6.5 Technology grants

| | 2017-18 | | | 2016-17 | | |
|---|---|---|---|---|---|---|
| | 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 | 486 | 0 | 486 | 546 | 0 | 546 |
| Development | 14,139 | (449) | 13,690 | 5,854 | 8 | 5,862 |
| Digital services | 16,095 | (4,411) | 11,684 | 19,633 | (6,254) | 13,379 |
| Electronics, photonics & electrical systems | 8,976 | (1,801) | 7,175 | 7,138 | (1,106) | 6,032 |
| European Union | 5,332 | (1,957) | 3,375 | 4,460 | 150 | 4,610 |
| Open competitions | 22,705 | 0 | 22,705 | 343 | 0 | 343 |
| Smart competitions | 6,565 | 0 | 6,565 | 28,479 | 0 | 28,479 |
| ICURe | 4,645 | (239) | 4,406 | 4,264 | (500) | 3,764 |
| SME Growth | 0 | 0 | 0 | (8) | 0 | (8) |
| Knowledge Transfer Partnerships | 18,952 | (5,059) | 13,893 | 20,618 | (5,494) | 15,123 |
| Small Business Research Initiative | 327 | (14) | 313 | 425 | (223) | 202 |
| Space | 803 | (61) | 742 | 1,354 | (296) | 1,058 |
| Vouchers & launchpads | 0 | 0 | 0 | (224) | 0 | (224) |
| Robotics & autonomous systems | 6,696 | 0 | 6,696 | 0 | 0 | 0 |
| Emerging technologies | 13,572 | 0 | 13,572 | 0 | 0 | 0 |
| **Subtotal emerging and enabling technologies** | **119,293** | **(13,991)** | **105,302** | **92,882** | **(13,715)** | **79,167** |
| **Health and life sciences** | | | | | | |
| Biosciences | 827 | 6 | 833 | 2,432 | (146) | 2,286 |
| Food supply | 19,530 | (2,919) | 16,611 | 23,740 | (5,593) | 18,147 |
| Health and life sciences | 65,695 | (18,158) | 47,537 | 54,328 | (10,336) | 43,992 |
| Precision & discovery medicine | 12,979 | (2,505) | 10,474 | 0 | 0 | 0 |
| **Subtotal health and life sciences** | **99,031** | **(23,576)** | **75,455** | **80,500** | **(16,075)** | **64,425** |
| **Infrastructure systems** | | | | | | |
| Built environment | 1,921 | 0 | 1,921 | 5,833 | 206 | 6,039 |
| Development | 2,566 | 0 | 2,566 | (118) | 0 | (118) |
| Energy | 48,844 | (7,272) | 41,572 | 38,472 | (2,766) | 35,706 |
| Infrastructure systems | 25,619 | 0 | 25,619 | 2,212 | 0 | 2,212 |
| Transport | 12,338 | (4,654) | 7,684 | 15,539 | (4,089) | 11,450 |
| Urban living | 4,045 | 0 | 4,045 | 10,244 | (204) | 10,040 |
| First of a kind | 7,559 | 0 | 7,559 | 0 | 0 | 0 |
| **Subtotal infrastructure systems** | **102,892** | **(11,926)** | **90,966** | **72,182** | **(6,853)** | **65,329** |

| | 2017-18 | | | 2016-17 | | |
|---|---|---|---|---|---|---|
| | Gross grant expenditure £000 | Co-funding income £000 | Net grant expenditure £000 | Gross grant expenditure £000 | Co-funding income £000 | Net grant expenditure £000 |
| **Manufacturing and materials** | | | | | | |
| Materials & manufacturing | 27,106 | 0 | 27,106 | 2,341 | 0 | 2,341 |
| Advanced materials | 4,164 | 11 | 4,175 | 2,848 | (9) | 2,839 |
| High value manufacturing | 14,283 | (267) | 14,016 | 29,435 | (233) | 29,202 |
| Micro nano technology centres | 0 | 18 | 18 | 72 | 0 | 72 |
| Sustainability | 1,262 | 38 | 1,300 | 2,323 | 0 | 2,323 |
| Transport | 59,223 | (18,455) | 40,768 | 43,272 | (31,200) | 12,072 |
| **Subtotal manufacturing and materials** | **106,038** | **(18,655)** | **87,383** | **80,291** | **(31,442)** | **48,849** |
| **Development** | | | | | | |
| Development | 0 | 0 | 0 | 697 | 0 | 697 |
| Knowledge Transfer Networks | 14,438 | 2 | 14,440 | 12,242 | 5 | 12,247 |
| Newton | 9,448 | 0 | 9,448 | 2,014 | 0 | 2,014 |
| European Union | 6,710 | 0 | 6,710 | 3,177 | 0 | 3,177 |
| **Subtotal development** | **30,596** | **2** | **30,598** | **18,130** | **5** | **18,135** |
| **Catapults** | **208,719** | **(2,838)** | **205,881** | **214,649** | **(2,596)** | **212,053** |
| **Non-Core** | | | | | | |
| Advanced Propulsion Centre | 53,269 | 0 | 53,269 | 44,647 | 0 | 44,647 |
| Aerospace | 172,379 | 0 | 172,379 | 143,431 | 0 | 143,431 |
| Agri-tech | 27,551 | (3,504) | 24,047 | 34,336 | (2,155) | 32,181 |
| Energy research accellerator | 25,438 | 0 | 25,438 | 24,360 | 0 | 24,360 |
| MPSE | 0 | 0 | 0 | (371) | 0 | (371) |
| Connected autonomous vehicles | 6,690 | 0 | 6,690 | 6,792 | 0 | 6,792 |
| Building information modelling | 3,439 | 0 | 3,439 | 936 | 0 | 936 |
| Robotics | 4,173 | 0 | 4,173 | 0 | 0 | 0 |
| **Subtotal non-core** | **292,939** | **(3,504)** | **289,435** | **254,131** | **(2,155)** | **251,976** |
| **Investor partnerships** | **10,000** | **0** | **10,000** | **0** | **0** | **0** |
| **Total** | **969,508** | **(74,488)** | **895,020** | **812,765** | **(72,831)** | **739,934** |
| **Funding can be broken down as follows:** | | | | | | |
| Core funding | 391,620 | (67,245) | 324,375 | 343,985 | (68,080) | 275,905 |
| National productivity investment fund | 9,432 | (805) | 8,627 | 0 | 0 | 0 |
| National productivity investment fund – ISCF | 77,387 | (96) | 77,291 | 0 | 0 | 0 |
| Catapults | 208,719 | (2,838) | 205,881 | 214,649 | (2,596) | 212,053 |
| Business & science group | 282,350 | (3,504) | 278,846 | 254,131 | (2,155) | 251,976 |
| **Total** | **969,508** | **(74,488)** | **895,020** | **812,765** | **(72,831)** | **739,934** |

**Total grant expenditure**

**£969m**

## 6.6 Operating segments

| Core sector competitions: | 2017/18 Gross expenditure £000 | 2017/18 Income £000 | 2017/18 Net expenditure £000 | 2016/17 Gross expenditure £000 | 2016/17 Income £000 | 2016/17 Net expenditure £000 |
|---|---|---|---|---|---|---|
| Emerging and enabling technologies | 119,293 | (13,991) | 105,302 | 92,882 | (13,715) | 79,167 |
| Health and life sciences | 99,031 | (23,576) | 75,455 | 80,500 | (16,075) | 64,425 |
| Infrastructure systems | 102,892 | (11,926) | 90,966 | 72,182 | (6,853) | 65,329 |
| Manufacturing and materials | 106,038 | (18,655) | 87,383 | 80,291 | (31,442) | 48,849 |
| Development | 30,596 | 2 | 30,598 | 18,130 | 5 | 18,135 |
| Catapult centres | 208,719 | (2,838) | 205,881 | 214,649 | (2,596) | 212,053 |
| Non-core projects | 292,939 | (3,504) | 289,435 | 254,131 | (2,155) | 251,976 |
| Investor partnerships | 10,000 | - | 10,000 | - | - | - |
| **Total grant expenditure** | **969,508** | **(74,488)** | **895,020** | **812,765** | **(72,831)** | **739,934** |
| Programme delivery costs | 18,241 | - | 18,241 | 18,174 | - | 18,174 |
| Programme staff costs | 14,488 | - | 14,488 | 13,390 | - | 13,390 |
| Other programme related spend | 21,092 | - | 21,092 | 10,578 | - | 10,578 |
| Admin staff costs | 9,921 | - | 9,921 | 9,654 | - | 9,654 |
| Other admin costs | 6,698 | - | 6,689 | 6,126 | - | 6,126 |
| Other operating income | - | (3,572) | (3,572) | - | (5,277) | (5,277) |
| Net gain on revaluation of investment property | 358 | - | 358 | - | (105) | (105) |
| **Total expenditure** | **1,040,306** | **(78,060)** | **962,246** | **870,687** | **(78,213)** | **792,474** |

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 that will provide the greatest impact.

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

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

## 6.7 Operating income

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| KTP management fee recharge | (554) | (764) |
| Ticket sales | | (152) |
| Rental income | (470) | (483) |
| Newton income | (97) | (3,287) |
| Other income | (2,452) | (591) |
| **Total** | **(3,573)** | (5,277) |

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 £570,000 (2016/17: £2.509 million). Innovate UK's share of these costs was £16,000 (2016/17: £1.745 million).

There was no ticket sales income during 2017/18 (2016/17: £152,000) for the Innovate 2017 event.

The rental income relates to the Blyth property (detailed in Note 6.11. Investment properties) 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 £416,000 (2016/17: £433,000) per annum. The lease for Offshore House runs conterminously to the main lease with a passing rent of £50,000 (2016/17: £50,000) per annum.

Income was received from BEIS of £97,000 (2016/17: £3.287 million) for the Newton Fund. This is a scheme that focuses on research and innovation capacity building in areas relevant to social and economic development challenges. The funding for the majority of 2017/18 was provided through grant in aid rather than as income.

Other income of £2.45 million (2016/17: £591,000) relates to contributions received from organisations towards the expenditure incurred on running programmes.

## 6.8 Co-funding income

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Income from BEIS group** | | |
| Biotechnology and Biological Sciences Research Council | (123) | (326) |
| Engineering & Physical Sciences Research Council | (1,903 ) | (1,477) |
| Economic & Social Research Council | (226) | (478) |
| Department for Business Energy & Industrial Strategy | (2,688 ) | (305) |
| Department of Energy & Climate Change | - | (1,529) |
| Medical Research Council | (1,611 ) | (915) |
| Natural Environment Research Council | (408) | (79) |
| UK Space Agency | 17 | (261) |
| Other BEIS Bodies | (378) | (335) |
| **Subtotal** | (7,320) | (5,705) |
| **Income from Central Government Departments & Agencies** | | |
| Department for Environment, Food & Rural Affairs | (3,587) | (5,050) |
| Department for International Development | (6,440) | (2,935) |
| Department for Culture, Media & Sport | (4,917) | (6,754) |
| Department of Health | (17,765) | (10,709) |
| Department for Transport | (24,293) | (33,507) |
| Other government departments | (7,102) | (8,238) |
| **Subtotal** | (64,104) | (67,193) |
| **Income from other bodies** | | |
| European community | (2,091) | 1,569 |
| Other UK bodies | (974) | (1,502) |
| **Subtotal** | (3,065) | 67 |
| **Total Income** | (74,488) | (72,831) |

## 6.9 Property, plant and equipment

| | Furniture and fittings £000 | Computers £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2017 | **658** | **470** | **1,128** |
| Additions | **-** | **526** | **526** |
| Disposals | | **(66)** | **(66)** |
| **Cost at 31 March 2018** | **658** | **930** | **1,588** |
| **Depreciation** | | | |
| Depreciation at 1 April 2017 | **19** | **115** | **134** |
| Charge for the year | **132** | **214** | **346** |
| Disposals | **-** | **(50)** | **(50)** |
| **Depreciation at 31 March 2018** | **151** | **279** | **430** |
| **Net book value:** | | | |
| **At 31 March 2018** | **506** | **652** | **1,158** |
| | | | |
| **Cost** | 717 | 317 | 1,034 |
| At 1 April 2016 | | | |
| Additions | 605 | 205 | 810 |
| Reclassify | 11 | - | 11 |
| Disposals | (675) | (52) | (727) |
| **Cost at 31 March 2017** | 658 | 470 | 1,128 |
| **Depreciation** | 546 | 35 | 581 |
| Depreciation at 1 April 2016 | | | |
| 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** |

During the year, Innovate UK received proceeds of £11,000 (2016/17: £19,000) for the disposal of computer equipment.

## 6.10 Intangible non-current assets

| | Information technology £000 | Software purchased £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At April 2017 | 18,138 | 61 | **18,199** |
| Additions | 7,058 | - | **7,058** |
| Disposals | - | - | **-** |
| **Cost at 31 March 2018** | **25,196** | **61** | **25,257** |
| **Amortisation** | | | |
| At 1 April 2017 | 7,867 | 61 | **7,928** |
| Charge for the year | 1,917 | - | **1,917** |
| Disposals | - | - | **-** |
| **Amortisation at 31 March 2018** | **9,784** | **61** | **9,845** |
| **Net book value:** | | | |
| **At 31 March 2018** | **15,412** | **-** | **15,412** |
| **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** |
| As at 1 April 2016 | 2,703 | - | 2,703 |

Additions in the year of £7.058 million (2016/17: £7.599 million) relate to development costs of an IT platform for end-to-end application process for all Innovate UK grant funding, with a consistent and simple online customer journey. This has been developed in line with the Government Digital by Default directive and Government Digital Service Standards. In addition to this Innovate UK 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. Additional investment is being made for an integrated human resources and finance system, due to launch in the financial year 2018/19.

## 6.11 Investment properties

| | Investment property £000 | Held for sale £000 | Total |
|---|---|---|---|
| **Carrying value** | 4,598 | - | 4,598 |
| Held for sale | - | 477 | 477 |
| Revaluations | (358) | - | (358) |
| **Carrying value as at 31 March 2018** | **4,240** | **477** | **4,717** |
| | | | |
| **Carrying value** | | | |
| At 1 April 2016 | 4,970 | - | 4,970 |
| Revaluations | 105 | - | 105 |
| **Carrying value as at 31 March 2017** | **5,075** | **-** | **5,075** |

Investment properties are measured using the fair value model.

The investment properties are valued at £4.717 million (2016/17: £5.075 million) and the cumulative changes in fair value recognised for the period ending 31 March 2018 in the Statement of Comprehensive Net Expenditure (SoCNE) amounted to a net loss of £358,000 (2016/17: £105,000 gain). Of the total property value, £477,000 relates to a proportion that is held for sale as at 31 March 2018.

The properties were valued on 31 March 2018 by independent valuers Cushman & Wakefield, (based locally to the property in Newcastle), in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors (MRICS). This valuation has been adopted at the reporting date.

Cushman & Wakefield confirm in their valuation report that they have sufficient current knowledge of the relevant markets, and the skills and understanding to undertake the valuation competently. They confirm the individual with overall responsibility for the valuation is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation.

### Future Receipts from Operating Lease

| | Land and buildings | |
|---|---|---|
| | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
| Not later than one year | **416** | 483 |
| Later than one year and not later than five years | **1,248** | - |
| Later than five years | | - |
| **Total** | **1,664** | 483 |

The increase on prior year relates to the contract entering the next phase after a break clause in 2016/17.

## 6.12 Trade and other receivables

| | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade receivables | **10,538** | 15,835 |
| Other receivables | **5** | 5 |
| Bad debt provision | **(54)** | (436) |
| Prepayments | **31,834** | 32,886 |
| Accrued income | **42,136** | 35,050 |
| EU accrued income | **-** | - |
| **Total trade receivables** | **84,459** | 83,340 |

| | | |
|---|---|---|
| **Analysis of receivables balance** | | |
| Bodies external to government | **37,017** | 37,262 |
| Other Central Government Bodies | **47,442** | 46,069 |
| Local authorities | **-** | 9 |
| **Total** | **84,459** | 83,340 |

## 6.13 Cash and cash equivalents

| | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
|---|---|---|
| Sterling account | **13,185** | 15,771 |
| Euro account | **1,307** | 1,392 |
| **Total** | **14,492** | 17,163 |

The net funds at 31 March 2018 of £14,491,925 (2016/17: £17,163,337) comprise cash held within the Government Banking Service.

### Cash held on behalf of third parties

Innovate UK holds a third party Euro bank account that is excluded from the balance sheet; 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 2018 was £4,400,851 (2016/17: £4,850,244).

The corresponding third party asset held was £3,796,865, (2016/17: £4,836,589). The difference of £603,986 relates to the foreign exchange differential (2016/17: £13,655).

## 6.14 Trade and other payables

| (a) Analysis by type | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | 109,044 | 112,086 |
| Other payables | 10,770 | 16 |
| Other taxation and social security | 526 | 449 |
| Deferred income | 32 | 842 |
| VAT | 146 | 300 |
| Grant accruals | 292,452 | 209,248 |
| Other accruals | 16,760 | 13,148 |
| **Total** | 429,730 | 336,089 |

| (b) Analysis by source | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Other Central Government Bodies | 6,712 | 3,472 |
| Local authorities | 6,055 | 765 |
| NHS bodies | 1,332 | 1,173 |
| Public corporations and trading funds | 25,736 | 2,237 |
| Bodies external to government | 389,895 | 328,442 |
| **Total** | 429,730 | 336,089 |

## 6.15 Contingent liabilities

As at 31 March 2018 Innovate UK has a single contingent liability. The liability may arise if Innovate UK has to provide a grant to Narec (Natural Renewable Energy Centre) in order for 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 3 and 25 years from now dependent on the development of the site, at an estimated cost of £2.646 million.

## 6.16 Commitments

### a. Capital expenditure

Innovate UK has no capital commitments to disclose.

### b. Operating lease commitments

| | Land and Buildings | | Other | |
|---|---|---|---|---|
| | 31 Mar 2018 £000 | 31 Mar 2017 £000 | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
| Not later than one year | 87 | 74 | 230 | 230 |
| Later than one year and not later than five years | - | - | - | - |
| Later than five years | - | - | - | - |
| **Total** | 87 | 74 | 230 | 230 |

### c. Grant commitments

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

| | 31 Mar 2018 £000 | 31 Mar 2017 £000 |
|---|---|---|
| Payable within one year | 774,840 | 637,945 |
| Payable in two to five years | 1,289,114 | 391,637 |
| Payable beyond five years | - | - |
| **Total commitment** | 2,063,954 | 1,029,582 |

# 6.17 Related party transactions

## Innovate UK Governing Board and Executive Director Material Transactions

| | | 2017/18 | | | 2016/17 | | |
|---|---|---|---|---|---|---|---|
| Director | Organisation | Net Expenditure | Debtor £ | Creditor £ | Net Expenditure | Debtor £ | Creditor £ |
| Ms Anne Dixon | UKSBS (UK Shared Business Services) | | | | 83,709 | - | - |
| Mr Harry Swan | Thomas Swan & Co Ltd | 134,247 | | 19,346 | 34,952 | - | - |
| | Cella Energy Ltd | 459,746 | | 91,790 | 220,867 | - | - |
| Mr Ian Meikle | Energy Technology Institute | 7,756,100 | | | 6,133,400 | - | - |
| Prof John Latham | Coventry University | 898,573 | | 249,701 | 394,871 | - | - |
| | Coventry University Enterprises Ltd | 553,248 | | 313,149 | 409,084 | - | 113,878 |
| Mr Phil Smith * | CISCO Systems Ltd | | | | (6,094) | - | |
| | CISCO International Ltd | 1,491,320 | | 862,020 | 410,378 | - | |
| | IQE | 127,897 | | 65,907 | 1,862 | | |
| | IQE Europe | 347,634 | | 502,421 | 671,610 | | |
| | IQE Silicon Compounds Ltd | | | | 18,271 | - | - |
| | University College London | 2,295,740 | | 595,490 | 1,769,340 | - | 12,322 |
| Dr Ruth McKernan | Medical Research Council | | | | (40,441) | (343,847) | - |
| Mr Simon Devonshire | National Physical Laboratory Limited | 24,884 | | | | | |
| Mr Simon Edmonds | Advanced Propulsion Centre | 80,369 | | | 46,980 | - | - |
| Mr Tim Edwards | Atopix Therapeutics Ltd | | | | 262,942 | - | - |
| Mr Tim Sawyer | Knowledge Transfer Network | 14,446,583 | | 4,041,450 | | | |

* CISCO System Ltd and CISCO International Ltd in post to 31 December 2017

Innovate UK is an NDPB, sponsored by BEIS 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: Arts and Humanities Research Council; Biotechnology and Biological Sciences Research Council; Engineering and Physical Sciences Research Council; Economic and Social Research Council; Natural Environment Research Council; the Medical Research Council; and the Science & Technology Facilities Council.

In addition, Innovate UK had material transactions with other government departments and with other central government bodies, such as: Intellectual Property Office; Foreign and Commonwealth Office; Department for Environment, Food & Rural Affairs; Department of Health; Department for Transport; Department of Energy & Climate Change; and 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 and all follow the standard competition process. Terms and conditions of the transactions are based on our standard grant or procurement procedures. Amounts are not secured. The information includes transactions with any related party of these Directors. The disclosed transactions are receipted co-funding income, grant and administrative expenditure, and year-end receivables, payables and accrued income and grant expense balances where such analysis is available. None of the Directors were involved in the recommendation of grants awarded to the body to which they are connected.

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

## 6.18 Financial instruments

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

### Liquidity and credit risks

Innovate UK's net revenue resource requirements are financed by resources voted on annually by Parliament. In order to meet liabilities falling due in future years, Innovate UK is dependent on continuing funding from its sponsoring department, 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 loss of £278,000 (2016/17: gain of £353,000). 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.

## 6.19 Related undertakings

As at 31 March 2018 Innovate UK has a 100% interest in Innovate UK Loans Ltd, incorporated on 22 February 2018, with £100 of Ordinary Share Capital.

Innovate UK Loans Ltd is a special purpose vehicle (subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt) set up to deliver innovation loans on behalf of Innovate UK. It was 100% owned by Technology Strategy Board T/A Innovate UK which as of 1 April 2018 ownership transferred to UK Research and Innovation.

No contracts were signed prior to the 31 March, and the first agreement was signed on the 4 April with payment being made on the 6 of April 2018.

Due to the transactions not being material, no consolidation has taken place for the period to 31 March 2018.

## 6.20 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.

In accordance with the requirements of IAS 10 Events after the Reporting Period, events after the date of the Statement of Financial Position are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

As set out in Note 6.1a [‘Going concern’], under the Higher Education and Research Act 2017, UKRI incorporated the assets, liabilities and functions of the 7 research councils, Innovate UK and government’s funding of research in higher education from 1 April 2018.

On 1 June 2018 the investment property disclosed as held for sale in note 6.11 completed, with confirmed sales proceeds of £477,000.

The date the accounts were authorised for issue is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Innovate UK drives productivity and economic growth by supporting businesses to develop and realise the potential of new ideas.

We connect businesses to the partners, customers and investors that can help them turn ideas into commercially successful products and services and business growth.

We fund business and research collaborations to accelerate innovation and drive business investment into R&D. Our support is available to businesses across all economic sectors, value chains and UK regions.

Innovate UK is part of UK Research and Innovation.
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