

ANNUAL REPORT 2012 – 2013

Nesta...

Bringing great ideas to life

Our first year as a charity

The artwork images in this report are from a selection of promising new artists, showcased in the events space at Nesta.

We are delighted to present the first annual report from Nesta in its new status as a charity.

We were originally founded as the National Endowment for Science, Technology and the Arts (NESTA); in this report we refer to the previous public body as NESTA, and to the organisation in its current form as Nesta.

Our work spans many different kinds of innovation – from the arts to business, and from technology to public services. We are now in a phase of significant growth, both in our activities and in our impact.

We're very proud of what we're doing and the successes which are being achieved. But to guide us in the future we would very much welcome your feedback on what we're doing - and what we could do better. Let us know by emailing: information@nesta.org.uk.

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We work at convening
a collaboration of the
most knowledgeable
and influential partners.

Introduction

In April 2012 Nesta became a charity with a mission to stimulate the magic of innovation for the benefit of people in all walks of life.

To address that ambitious goal the new charity was born with some formidable advantages. First among these was the expertise and the staff that had been built up over 14 years in the National Endowment for Science, Technology and the Arts (NESTA) and also the endowment fund that Nesta took on responsibility for. Just as important were the networks and goodwill that Nesta inherited and together these enabled the new charity to get off to a flying start. While in this first Annual Report the Nesta Trustees will review the work our new charity has been engaged in during this year, we will also take the opportunity to point to the impact of programmes started under NESTA which are showing the kind of results that illustrate what we will be aiming for.

What is immediately apparent from looking at the stories from the NESTA community is that innovation is not a linear thing and many investments come to fruition many years later and in unexpected ways. We have tried to capture a flavour of some of that in this report. Clearly we have good reason to be grateful for the excellent guidance of NESTA from Lord Puttnam and Sir Christopher Powell as Chairs and Jeremy Newton and Lord Kestenbaum as CEOs.

One of my first tasks as Chair of Nesta has been to bring together a committed and insightful Board from a diverse set of backgrounds to oversee our work. Who they are and what they bring to our organisation can be read in the Governance section of this report. Getting the best out of the talents available in the Trustees and staff of Nesta is the role of the governance framework we have put in place in our first year.

The challenges we face in this country are large and complex, and Nesta aims to be skilled in making a difference by selecting points of maximum leverage. We work at converging a collaboration of the most knowledgeable and influential partners. Our executive team, led by Geoff Mulgan, has been chosen precisely because of its connectedness and achievements in driving innovative concepts forward. A key advantage of Nesta's new charitable status is our ability to work flexibly with partners using our own resources as a pump-primer for the much larger resources a broader collaboration can unlock.

Future Annual Reports will focus increasingly on the strategy Nesta has been adopting since its rebirth as a charity and on the impact that has arisen from our work. Despite the many painful consequences of the current economic crisis we are optimistic that the application of tools to stimulate innovation holds the key to future wealth and wellbeing. We believe that the people of the UK possess the creativity that readily generates innovative ideas. Our challenge is to support the best of those to deliver the national wellbeing we all want. Nesta is committed to playing our part in that and working together with partners to deliver the mission we were created for.

Sir John Chisholm
Chairman



We help people
turn great ideas
into organisations
that can grow and
public services
that really deliver.

Introduction

For anyone dedicated to innovation these are exhilarating and scary times.

Exhilarating because of the unprecedented flow of scientific knowledge and creativity from all parts of the world; scary because the economy is barely growing, public services are shrinking, and the world looks little better at understanding, let alone addressing, its biggest problems.

Nesta was set up 15 years ago to 'bring ideas to life'. We help people turn great ideas into organisations that can grow and public services that really deliver, and over the past year alone we've supported around 170 organisations, with inspiring projects in fields as diverse as giving and education, healthcare and the media.

But we also try to improve the conditions in which innovation can flourish – by influencing governments, businesses, banks and others, and pioneering new ways of supporting innovators – from opening up public procurement to championing tools like crowd-funding and prizes. Plan I was a flagship for us – making the case for innovation-led growth, and showing the harm likely to result from the current squeeze on investment in innovation.

In our first year as an independent charity there is an urgent need to amplify innovation across the economy and society. Many of our systems seem stuck. Public services are caught between declining revenues and growing demands. Businesses are struggling to adapt to changing technologies and public attitudes.

That's why we need radical innovation – and the courage to back ideas that the mainstream dismisses.

Since 2013 marks Nesta's 15th anniversary we'll be celebrating some of the amazing people and projects which have been supported in the past. We'll also be setting out our ambitions for the future.

We want to raise our game in achieving impact; to grow our reputation as a centre of expertise; and to become more useful to people nurturing new ideas, whether in business start-ups, charities or public organisations.

We also hope to better reflect our values in how we work, for example through greater transparency. In this report we publish all our grants over £50k and in future we will publish details of all the significant grants which we make.

There's a lot at stake. At a time when many have lost confidence in their ability to shape the future it's more important than ever that we provide practical support to innovators, and act as a catalyst for creative ideas that make a real difference. Times of stagnation breed fatalism. Our job is to foster hope and to show why it's justified.

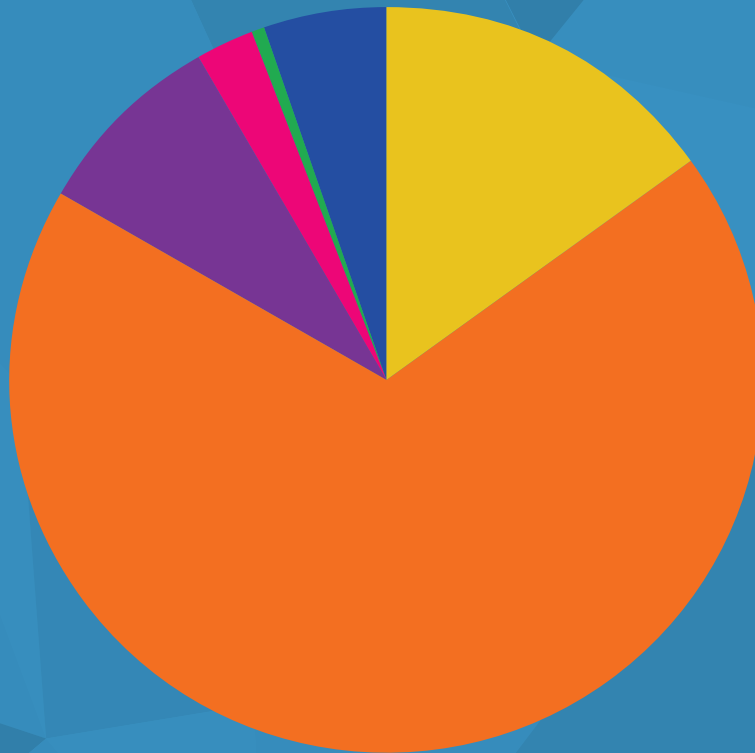
Geoff Mulgan
Chief Executive Officer

Our year at a glance

Total spend by area

£K

	Policy and Research	3,764
	Programmes	16,826
	Investment management (early-stage and social impact)	2,067
	Skills	580
	Governance	161
	Endowment management costs	1,261



Total spend

£24,659,000



Our impact at a glance

A watercolor illustration of an orchid stem and two flowers. The stem is a vibrant pink, curving from the bottom right towards the top left. Two delicate, light-colored orchid flowers are positioned above the stem. The background is a soft, light beige. A large, thick pink brushstroke is visible behind the stem, adding a sense of movement and color.

We want to grow the best ideas to scale to achieve public benefit, influence public policy and improve the overall support and finance for innovators. This is how we do it.

	Current Impact	Long-term aims
Investment	<ul style="list-style-type: none"> • Venture portfolio of 30 early-stage companies. • Funding of 35 start-ups through accelerator programmes that we support. • Launch of new £17.6 million FCA regulated impact investment fund. • Creation of a four-year, \$2 million accelerator programme with Bethnal Green Ventures that will support 80 early-stage social innovations. 	<ul style="list-style-type: none"> • Successful growth of venture portfolio with profitable exits enabling reinvestment into charitable activities. • Growth of impact investment funds supporting organisations delivering evidenced impact. • Increasing impact funds under our management. • Working with others to broaden the adoption of our impact investing framework.
Innovation Programmes	<ul style="list-style-type: none"> • Financial and non-financial support provided to 146 organisations across the UK in 2012/13, with an average grant of £67k. • Our People Powered Health programme worked with six teams of GPs, hospitals, community organisations and patients to test new approaches for managing long-term health conditions that we have shown could save \$4.4 billion annually. • Projects supported through the Innovation in Giving Fund have already engaged over four million people in giving their time, skills, assets, resources and money to causes they care about. • The Digital Arts R&D Funds in England and Scotland have funded more than 25 arts organisations to reach new audiences or find new ways of generating revenues. • The Centre for Challenge Prizes launched six open innovation competitions across Europe that generated over 1,000 solutions to problems from isolation in later life to affordable renewable energy. 	<ul style="list-style-type: none"> • To support the generation, testing and growth of innovations that create public value and solve social problems. • Programmes that have explicit impact objectives, ranging from numbers of people reached and effectiveness of solutions developed, to achieving systemic change. • To build innovation capabilities in public organisations like councils and charities. • In a time of reduced public funding for the arts we want to demonstrate the value of digital R&D by encouraging arts and cultural organisations to share their experiences of what works and what doesn't.
Policy and Research	<ul style="list-style-type: none"> • Increasing readership of publications and blog posts, and attendance at events such as our Hot Topics technology breakfasts. • Direct influence on government policy through our Plan I research programme, including the creation of a \$250 million Small Business Research Institute (SBRI) fund, and additional science funding following the 4Growth campaign. • Thought leadership in other fields of innovation, ranging from frugal innovation in India to crowdfunding and futurology. • Creation of the Alliance for Useful Evidence with over 1,000 members and persuading government to back network of 'What Works' centres. 	<ul style="list-style-type: none"> • Contributing to growth of UK investment in innovation and the effectiveness of innovation policies. • Becoming a globally respected centre of expertise on innovations in innovation. • Strengthening our reputation as methodologically innovative researchers, at the cutting edge of techniques including experimentation and big data analysis. • Communicating to wider audiences through blogging and direct digital publishing. • Ensuring the take-up of specific ideas and innovations with potential impact for whole population.
Skills	<ul style="list-style-type: none"> • New area of work providing direct benefit to participants in UK public sector and civil society. 	<ul style="list-style-type: none"> • To increase engagement and uptake of skills and tools for use globally, improving capacity of innovators in all sectors.
Communications	<ul style="list-style-type: none"> • 67 publications produced. • 146 events run with a total of 4,391 people attending. • 793,000 visitors to the Nesta website. 	<ul style="list-style-type: none"> • Successful creation and launch of FutureFest, our two-day festival dedicated to ideas about how the future can be shaped for the better. • Launch of new website to meet needs of innovators.

Our Aims

Nesta was set up in 1998 to stimulate innovation – addressing the UK’s longstanding weakness in making the most of creative ideas.

We work to bring great ideas to life, supporting individuals, charities, social enterprises, businesses and public organisations with financial and practical support.

We also work to improve the conditions in which great ideas can flourish – addressing the policy and structural conditions that can either energise or stifle creativity.

Our move to charitable status in 2012 made it possible to make these goals more explicit – and to focus more sharply on public benefit. Our charitable objects (set out on page 41) commit us to achieving public benefit in areas which include science and technology, the arts, public services, and social enterprise by encouraging and supporting innovation. They also commit us to expanding understanding of how innovation happens in society.

Our independence and ability to work across different sectors means that we are able to bring together ideas from a range of perspectives and to assume a greater burden of risk than others.

We work to stimulate and catalyse innovation in a number of ways. We provide funding – and for many our role in making grants or investments is vital. Our programmes and innovation skills make available practical methods and tools to help the process of innovation, and we encourage the sharing of skills and experience through coaching and mentoring. Our convening power means we bring people and organisations together in networks that can cut across boundaries and just as important, we give access to knowledge by way of research and advice. Our endowed funds, held in the Nesta Trust, enable us to take a longer-term view and to have a greater ability to take on more risk.

We had a number of aims as we set out in our first year as an independent charity:

01

A greater focus on impact

That meant longer-term programmes, with a sharper and more transparent attention on the changes we were trying to achieve and working harder to bring together our various capabilities, from money to research and skills. In investment it led us to set up the Impact Investment Fund, combining financial and social goals.

02

Increasing partnership working

We realised that we could achieve most impact through partnering with other organisations like Google and Pearson, and complementing the work of major funders like the Technology Strategy Board, Big Lottery Fund and the Arts Council England. We set an ambitious goal of leveraging as much money from external sources as we received from our own endowment, and we prioritised pioneering 'innovations in innovation' that could be adopted by bigger organisations.

03

Becoming a more knowledge-based organisation

Our partners, whether funders or recipients, value the experience and insights of our staff. We are increasing our expertise within Nesta, employing more associates and fellows, recruiting more research and programme specialists as well as running an extensive internship scheme.

Nesta's research team is one of the world's foremost centres of expertise on how innovation happens. We're increasingly integrating them into every aspect of our work, from creating statistical tools to measure investment or track adoption of new ideas, to investigations of developments like crowdfunding, and promoting big ideas for the future, like the Health Knowledge Commons. In Plan I we brought together much of this work to make the case for innovation-led growth.

04

Providing an innovation skills platform

A new departure for Nesta has been a more active promotion of innovation skills. We know that innovation isn't easy. There are huge barriers and many creative people are discouraged. That's why we've prioritised providing easy access to tools, lessons and case studies on how to fund innovation, how to use methods from fields like design, how to evaluate, and how to scale. Our aim has been to shift the odds in favour of innovations and innovators – help them to be smarter and sharper, and in this we've been working with some excellent partners, including the United Nations Development Programme and the Rockefeller Foundation.

Our Aims

05

Deepening our engagement with digital technologies

We've built on existing strengths in digital technology with a series of programmes, from digital R&D in the arts to hyperlocal media, digital making in schools and commercial investments, to experiments with open data and local web applications.

06

Broadening Nesta's involvement across the UK

We've run a series of roadshows in all the nations of the UK, extended programmes nationwide, and launched specific new programmes in Scotland and Wales, as well as building on the work of our team based in Dundee.

07

Growing our international presence

We are evolving from being a solely UK organisation to one with a global reach and reputation. Some of the most exciting innovations in innovation are coming from across the world. Where once we might have looked only to Silicon Valley or Germany for stimulus, today we also draw inspiration from innovations that are happening in hotspots such as India, Brazil, Korea and Finland. This more global orientation is reflected in major projects on India and China, and a growing number of collaborations across Europe.

08

Reducing costs and embedding a more frugal culture

Like many organisations we've had to respond to more austere times, working harder to ensure that every pound we spend contributes to our objectives.

Plans for the Future

We want to become more useful to innovators from all walks of life.

In our first year as a charity we've tried to become better focused on achieving impact and better at achieving public benefit. The chart on page 11 shows both what that means for our current work and how this links to longer-term ambitions. The type of work we do is by its nature complex and often unpredictable. But we're constantly striving to do better, helped by feedback from the many people and organisations we work with. So, for example, we're working to better link up our research, programmes and investment areas to fields such as digital education and ageing. We're trying to become more accessible by holding a number of regional events and open forums, and by redesigning our website to make it more useful to innovators. We're also running programmes over longer timeframes to increase the prospects of achieving lasting impact.

For this last reason much of our current work will continue in the year ahead – from digital R&D in the arts, to digital making in education, and from hyperlocal media to healthcare. But there will also be important new initiatives too. One is an exciting new partnership with the Cabinet Office. Launched in the Spring of 2013, the Centre for Social Action Innovation Fund will find, develop and grow innovations that can mobilise people's time and energy to help each other, working alongside public services, to achieve outcomes like better health and education. This will be led by Philip Colligan who has been appointed as government adviser on social innovation alongside his Nesta role. There will also be new work on ageing, innovation in jobs and crowdfunding.

In September 2013 we are hosting FutureFest, bringing together a compelling mix of speakers, games, theatre and installations to promote intelligent, engaging discussions on how we can shape the future for the better. Our aim is to inspire people and counter the often shrunken horizons of a time of slow growth and austerity.

Within research, we're continuing the work of Plan I, including the design of detailed policy options for cities, regions, nations and for the European Union. A good deal of new work is also underway, including experiments using big data; studies of topics ranging from China's innovation system to how innovation teams operate in public organisations worldwide; and the creation of a new team extending experimental methods into the economy and economic policy.

We are also now involved in a dozen major partnerships across Europe, on topics ranging from accelerators and incubators, to next generation web platforms, prizes and digital social innovation. And we are growing our work supporting innovation skills with the UN and partners around the world, as well as within the UK.

Our aim over the next year is to become more useful. We want to be the partner of choice for organisations who are looking for unparalleled expertise on the practice and theory of innovation in all sectors. We want to be a better collaborator with people and organisations of all kinds to help them grow their ideas. And we want to help innovators from all walks of life by providing them with the right skills and tools to help them break through the many barriers that stand in their way.

Policy and Research



Nesta continues to be at the cutting edge of research into how innovation happens in the UK.

Policy and Research

Nesta produces and funds groundbreaking research on innovation and how to make it flourish. We work hard to communicate our research to innovators and to government policymakers to make sure it has real world impact.

With the UK's economy still in turmoil, an important theme of our research in 2012-13 has been how innovation can lead to growth and recovery.

In summer 2012 we drew attention to the decline of investment in innovation by British businesses. In the autumn, we published *Plan I*, an evidence-based set of proposals for an innovation-led economic policy, which was widely endorsed by economists and business leaders; and backed this up with a series of successful policy campaigns.

Our creative economy research has also been keenly focused on policy issues. Much of the year was spent preparing our landmark *Creative Economy Manifesto*, launched in May 2013 to great acclaim. This included detailed mapping of the UK's creative economy, which we showed now represents a tenth of the UK's national output.

Our research has also applied innovation to tough social issues. *Making It Work* offered a vision of how innovation can fight unemployment by better matching workers to jobs. We looked at how innovation can transform healthcare and how to encourage more and better experimentation in public policy, playing an important role in the Government's establishment of 'What Works' centres. And we highlighted the importance of new technologies and social innovation to healthcare and ageing. These insights are all now feeding into Nesta's practical programmes and investments.

We looked at how innovation itself is changing and what opportunities this brings to innovators. We published a series of authoritative reports on crowdfunding, showing how this new source of finance is helping innovators around the UK. We undertook a major review of innovation in India and what the UK can learn from it, focusing in particular on frugal innovation, and began a similarly ambitious project on China.

In the coming year, we plan to deepen our relationships with innovation experts and innovators alike, extend our research into 'innovations in innovation', and continue to change practice and improve the climate for innovation in the UK.

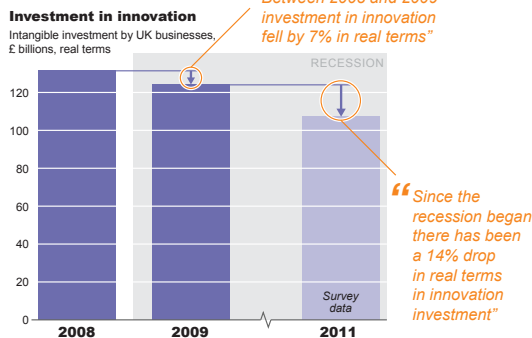
Making Innovation Flourish in the UK

At a time of economic stagnation, Nesta has been a tireless, evidence-based advocate for the importance of innovation and creativity for economic growth.

This year we researched a series of landmark reports setting out how the UK could use innovation to drive recovery.

In July, our *Innovation Index* drew the public's attention to an innovation stagnation among UK businesses: since 2008, innovation investment had fallen by £24 billion. It was widely covered in national media.

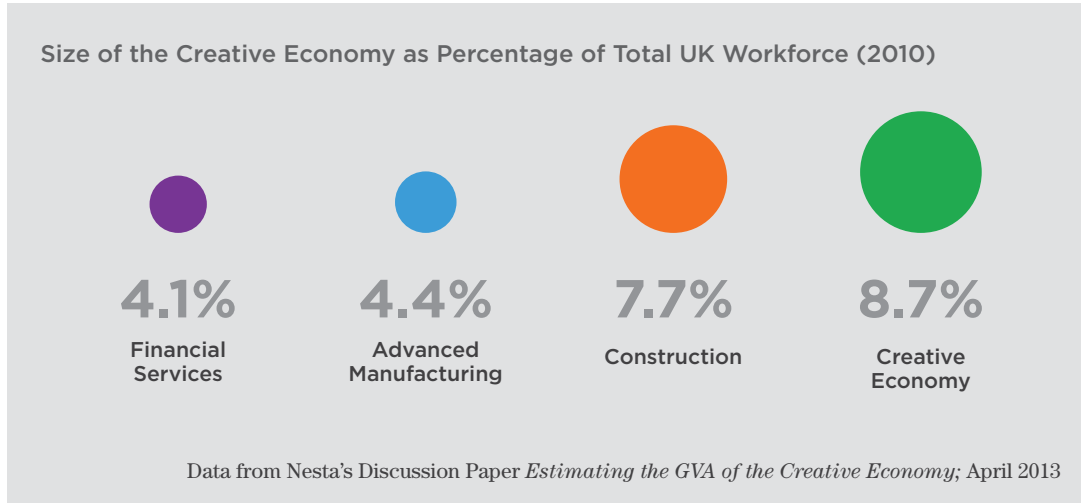
We're in the middle of an Innovation Strike



In September, we published *Plan I*, a detailed, research-based manifesto for how policymakers and businesses can get beyond the false dichotomy of Plan A and Plan B, of austerity and stimulus, and help innovation flourish in the UK. The plan set out how our financial system, support for science and technology, infrastructure and education system all need to be transformed to create a truly innovative economy. We were delighted to see the research endorsed by leading economists and policymakers.



Plan I also formed the basis for several high-impact campaigns. Nesta joined forces with the Campaign for Science and Engineering on the 4Growth campaign, calling on the Government to invest the proceeds of the 4G spectrum auction into technology and innovation. This paid off in the form of a £600 million commitment from the Government to science and technology funding. We also worked hard to promote the Small Business Research Institute (SBRI), the Government's main innovation procurement programme, resulting in an eightfold increase in the size of the programme in the 2013 Budget.



Nesta's research took a detailed look at the creative economy. For most of the year, we were working on the groundbreaking *Creative Economy Manifesto* (launched in May 2013, after the year-end, to widespread acclaim), which set out a ten-point plan for ensuring the continued competitive success of the UK's creative economy, covering topics including education, research and development, copyright, competition policy, access to finance, arts funding and official statistics.

One early output of this work was an unprecedentedly detailed analysis of the UK's creative sector, *A Dynamic Mapping of the UK's Creative Industries*. This made a number of important contributions to our understanding of the UK's creative sector. It showed that there are more creative jobs outside the creative industries than inside them. It showed that the UK's creative economy employs 2.5 million people, making it bigger than the financial services, advanced manufacturing and construction sectors.

IT'S 4GROWTH

We have made real progress in improving attitudes in government towards innovation, gathering support for this through our 4Growth campaign and through pushing the work of innovative approaches such as SBRI. However, there is still more to be done. We are calling for a massive increase to the SBRI's budget – something that could provide £1 billion of funding at a crucial stage in the life of small firms.

Innovations in Innovation

Nesta continues to be at the cutting edge of research into how innovation happens in the UK and beyond. Our research on innovations in innovation over the course of 2012-13 provided insights into some of the most exciting trends in business and social innovation.

Rise of the Datavores took the first rigorous look at innovation in data analytics by UK businesses, focusing on online businesses. It identified that one in five of these businesses are both rich in data and use it effectively: the so-called Datavores.

Data increasingly sits at the heart of these businesses' innovation process. What's more, the Datavores are deepening their investment in analytics, and pulling further ahead of the crowd. This is the first part of an in-depth programme of research to understand how better use of data can benefit businesses, not-for-profits and public service organisations.

Nesta's research also covered changing international trends in innovation. *Our Frugal Future: Lessons from India's Innovation System* focused in particular on Frugal Innovation, a concept exemplified by the Indian idea of 'jugaad'. Multinational companies in India from Tata to GE are using frugal innovation principles to redesign and produce goods, from cars to heart monitors, for a fraction of the cost and, by doing so, are tapping into huge new markets.



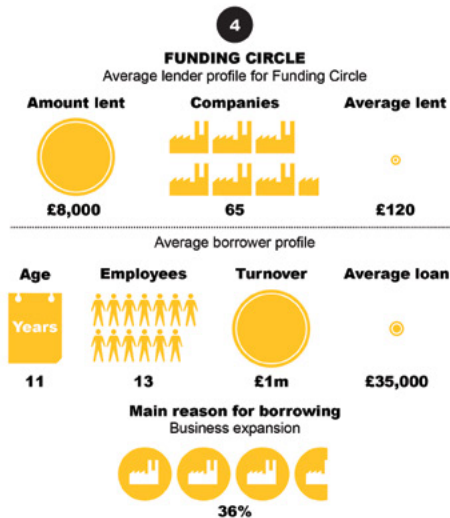
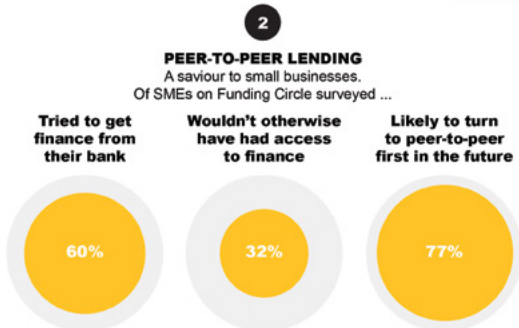
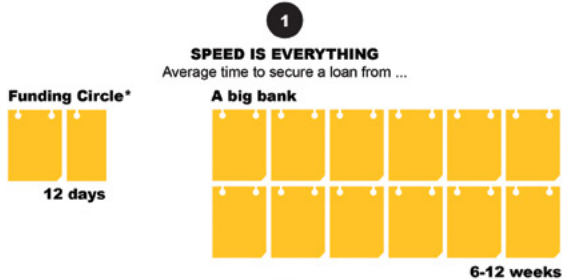
The research drew on new quantitative analysis and over 100 interviews with Indian policymakers, entrepreneurs and academics and collaboration with the Foreign Office Science and Innovation Network, Research Councils UK and the UK-India Education and Research Initiative. As well as its focus on frugal innovation, it provides new insights into the geography of world-class science and innovation in the country, as well as uncovering emerging specialisms.

At a time when many businesses and social enterprises struggle to raise finance, we looked at a new development bucking the trend: crowdfunding. Nesta's research represents the first serious attempt to understand crowdfunding in the UK, and has garnered widespread attention from entrepreneurs and the media.

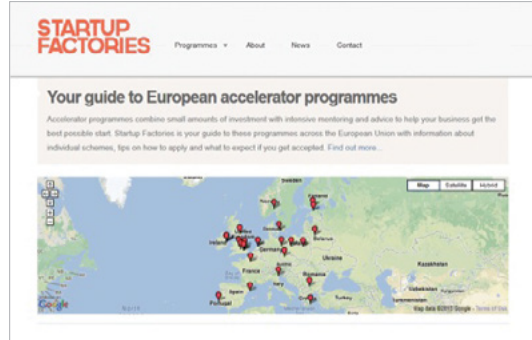
Our reports *Crowding In*, *The Venture Crowd* and *Banking on Each Other* look at the impact of crowdfunding, as well as examining the challenges it faces. At a time when banks are refusing to lend money to many small businesses, crowdfunding offers a way for large groups of people to give, lend and invest small amounts of money to fund growing businesses and projects.

BANKING ON EACH OTHER

How peer-to-peer business lending is disrupting the big bank model



*Funding Circle is specialist site that facilitates peer-to-peer business lending. Data from Nesta/Funding Circle survey of Funding Circle lenders and borrowers conducted 2013 and Funding Circle data. See "Banking on each other" report for full figures



Nesta's research also got under the skin of the business of accelerators.

A typical accelerator programme offers teams of entrepreneurs finance, work space, rigorous mentoring and business support over an intense time period, generally around three months. The aim is to help teams start up their businesses fast, grow them, and quickly become investment-ready.

Following up on our groundbreaking 2011 report *The Start-Up Factories* and our early investment in Seedcamp, Europe's most successful tech accelerator, we've deepened our engagement with this sector, with the aim of both helping and sharing lessons.

In 2012, Nesta partnered with four accelerator programmes to study their impact in greater depth: Springboard, Bethnal Green Ventures, InnovationRCA and HealthXL.

Our Investments team is also developing an incubation space at Nesta, which currently hosts Bethnal Green Ventures, accelerating over 80 social impact ventures.

Experiments and Evidence

In public services, innovation doesn't happen unless you try new things out and see whether they work. But experimentation is difficult.

In some cases, it's too hard to get new projects off the ground. In others, new projects happen, but they aren't robustly tested, with the result that luck or political good fortune determines what succeeds, rather than effectiveness.

All of this serves to preserve the status quo, either directly because new ideas don't get tried, or indirectly by making it impossible to show that they really work.

Nesta's research on public and social innovation has targeted both these issues.



Trying things out

Our research has identified important areas of public service performance where innovation could help tackle serious issues. *Making It Work* focused on the difficulty of getting people into jobs, and the relative lack of innovation in welfare-to-work services, and highlighted examples of good practice to be emulated, while *Doctor Know* identified the opportunities presented by better use of information in the healthcare sector. Meanwhile, *The Art of Exit* highlighted how public service organisations need to know how to stop doing things as well as how to start them.

Seeing what works

As well as being able to experiment, public organisations need to know whether their innovations are working.

Many promising innovations were eventually shown to be ineffective. For example, the 'Scared Straight' programmes in the US aimed to stop young people offending by having them talk to prison inmates, but rigorous evaluation showed it actually increased offending rates. Using evidence from the start could have avoided this.

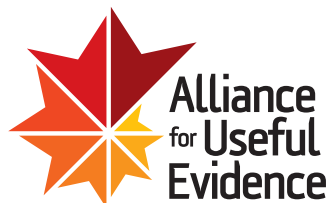
But just saying "gather better evidence" isn't enough. Evidence can be robust but useless, for example it arrives years after it is needed, or is written in impenetrable prose in the pages of paywalled journals. And evidence only gets you so far without a broader culture of experimentation.

Nesta has created an alliance to champion the creation of useful evidence and its take-up by policymakers in central and local government, as well as by practitioners in the police, teaching and healthcare.

The Alliance for Useful Evidence was set up with the Economic and Social Research Council and the Big Lottery Fund, and has attracted a community of over 1,000 experimenters and evidence champions since it launched.

This work has also informed the way Nesta uses evidence in our Impact Investment Fund and practical programmes.

As part of this work, we argued that government needed to set up new institutions to understand what works. We were delighted when this spring the Government announced that it would establish and fund a series of What Works Centres, drawing on Nesta's ideas.



Hot Topics

THE DIY PROGRAMMABLE COPTER

1. Quadcopters are the DIY unmanned aircraft of choice. This model can be programmed to fly using GPS and has a mounted camera

Four Propellers

Battery Control unit

Camera

All parts can be bought separately online or in kit form

Radio control	Flight control hardware	Flight control software	Weight	Cost
			1.3kg	Camera £200 Total £490

2. POTENTIAL APPLICATIONS

- A. AID DELIVERY: Dropping packages in difficult environments
- B. LAND SURVEYING: Optical remote sensing of an environment or asset
- C. MEDIA: Aerial photo journalism or inexpensive filming on locations

3. CURRENT REQUIREMENTS TO FLY OVER THE THAMES

Quadcopters cannot yet be flown over a congested area or in national air space without special permission. From Embankment, you will need

1. Permission From Councils, Thames River Authority, National Air Traffic Services and the Civil Aviation Authority	2. Close off Areas on the embankment and a section of river, which you may have to pay for	3. Police Must be informed to allow them to make clear any objections and you will need an operator license	4. Vehicle Can't be more than 500m away from operator and no higher than 400ft
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WESTMINSTER SOUTHWARK LONDON

Hot Topics is a series of events, each one focusing on an emerging technology – from 3D printing to flying robots. These events offer attendees the chance to engage with new innovations that promise to change the way we live, work and play.

A catalyst for innovation

Through panel debates and interactive workshops, we brought together industry experts, academics, start-ups and policymakers to discuss the latest cutting-edge ideas.

This year we held Hot Topics events covering a variety of subjects:

We learnt about *Quantified Self* – a grassroots movement of people measuring, logging and sharing data about their activity. Access to these digital tools enabled a bipolar sufferer to track his mood, and led to the creation of the Moodscope app.

In our *Biomimicry* event we found out how cuttlefish have inspired new ways to camouflage army trucks, and in our *Prosthetics and Bionics* event how paralysed patients could soon benefit from brain-controlled prosthetic limbs.

In *Local Bioeconomies*, we conducted a live biology experiment with an audience in Manchester's MadLab, showing that anyone can be a biohacker.

For our *Garden Drones* event we explored a near future where the use of personal flying drones by civilians could be commonplace.

A strong online presence allows the discussion to extend beyond the immediate event and involve a much wider range of people. It also means that resources are available for reference, as the technology in question develops.

Innovation Programmes



We support innovators who are developing ideas to solve big social challenges.

Supporting innovation in practice

Through our programmes and grant funds we provide financial and practical support to hundreds of innovators each year. In 2012–13 we provided support of over £13 million to 146 organisations.

We support innovators who are developing ideas to solve big social challenges, from social entrepreneurs and creative digital start-ups, to councils and charities with national reach. We work across the UK and have staff working in England, Scotland and Wales.

The funding we provide is usually modest and the average size of our grants last year was £67k. One of our priorities is to increase the flow of finance to innovators and we work in partnership with other funders to make that happen. Last year we leveraged Nesta's resources with 56 per cent of funding from other sources, including from government and other public organisations, foundations and businesses.

We know that the money we provide is useful, but we are told that the practical support we provide is just as valuable, including advice and expertise from our highly experienced programme teams and networks.

Particular highlights which we feature on the following pages include:

Innovation in Giving Fund

Now into its second year, this £10 million Fund is a partnership with the Cabinet Office and has provided financial and non-financial support to 75 innovators with ideas to help more people give money and time to causes that they care about.

Digital Arts R&D

This is a collaboration between Nesta, the Arts Council England and the Arts and Humanities Research Council to support innovations that use digital technology to enhance audience reach and explore new business models for arts organisations. Now into its second year in England, we have expanded it into Scotland with the support of Creative Scotland and recently launched a new fund with the Arts Council of Wales.

People Powered Health

A programme that supported teams of GPs, hospitals, community organisations and patients in six areas of England to develop new ways of supporting people to live better lives with long-term health conditions like diabetes and lung disease. The programme showed the impact that new approaches could achieve – both in people's lives and on NHS budgets – and is being followed up with a comprehensive strategy to embed these ideas in the NHS and beyond.

Centre for Challenge Prizes

In partnership with the Department for Business, Innovation and Skills and with support from the Cabinet Office, Nesta launched this new centre of expertise which has already launched a series of high-profile challenge prizes, including tackling isolation in old age, reducing waste, renewable energy solutions and an EU wide, European Commission competition for innovations that get more people into work.

Innovation in Giving

This programme has directly affected over four million people. There have been almost 1,000 applicants over two years and 75 innovative ideas supported.

Embedding giving in day-to-day life

Millions of people in the UK give significant amounts of time and resources to the people and causes that they care about.

Unfortunately, the number of these people is declining. Over the past 12 months, household giving has plummeted by 30 per cent. Charities and volunteer groups are working with scarce resources and are finding it increasingly hard to attract support and funding.

Despite this, there is a huge amount of creativity and innovation being focused on how to increase giving, driven in part by the imaginative use of digital technologies and the reinvention of ideas of sharing and reciprocity.

Through a £10 million fund from the Cabinet Office, Nesta is working on ways to increase the numbers of people who give.

Inspiring people to give more

Giving helps to build communities and lessens the impact of some of society's biggest problems. People who give also tend to live longer, happier, healthier lives.

Over the past 12 months, we reviewed 808 ideas from a wide variety of innovators and entrepreneurs working across the voluntary, commercial, social enterprise and charitable sectors. We have supported 75 of these to date including:

Age UK

Ecomodo is a digital service that enables the loaning and lending of anything that someone is willing to share or hire out to a neighbour. Age UK is partnering with Ecomodo to enable older people to connect and share skills and things to provide better support for each other.



WILL BUTLER-ADAMS, MD OF BROMPTON, SPEAKING AT AN INSPIRING THE FUTURE EVENT



JOANNA LUMLEY TALKS AT AN INSPIRING THE FUTURE EVENT

The Good Gym

The Good Gym makes it easier for people to combine exercise with 'doing good' in their local community.

Care4Care

Care4Care enables members to spend a few hours a week helping an older person, which in turn builds up their own 'care pension'.



WWF-UK

WWF-UK, one of the world's largest conservation organisations, is teaming up with Scope, to trial how to increase the likelihood of people giving, regardless of the cause.

Inspiring the Future

Inspiring the Future is a free service that matches state schools with volunteers from all sectors and professions who want to talk about their education and careers.

Peoplefundit

Peoplefundit is a new crowdfunding platform that enables people with socially conscious business ideas to raise funds and support from the public.

Casserole

Casserole is a neighbourhood food-sharing scheme that connects people cooking at home with others in their community who could benefit from a meal.



Giving is about more than just money

As these examples prove, giving is about more than just money.

Some of the most successful recent social innovations have mixed elements of commercial business with free services. We believe that these novel combinations involving exchange, barter, giving, mutual aid and co-operation could be used to create innovative new models of giving.

Supporting early-stage ideas has been an important part of the first phase of the Innovation in Giving Fund. In 2013, we will be focusing on scaling up the most successful ones so that they can achieve their full potential.

People Powered Health

People Powered Health could save the NHS £4.4 billion a year.

A new and more effective way of managing our health

As we age, over half of us will get a long-term health condition, such as diabetes. Yet, on average we each spend only five minutes a year with a doctor. If people are to live well with health conditions, we need innovative ways to combine excellent clinical care with practical, ongoing support for people to live healthier lives and to manage their condition effectively.

People Powered Health is a programme from Nesta and our strategic partner the Innovation Unit, which aims to help people take control of their health. We worked with six teams of front-line health practitioners, community organisations and patient groups across England to develop and test new approaches to supporting people to live well with long-term health conditions, like chronic lung disease and diabetes.

A health service about more than just drugs

We want to create a health service that isn't just about curing you when you're sick, but helping you to stay well and tackling the causes of ill health.

"Clinical medicine needs to be complemented by services that support behavior change and connect people into social networks, that give them confidence and help them to live healthier lives."

– Halima Khan, Director, Nesta Public Services Lab

Currently, doctors have more and more patients with long-term conditions to see and are often constrained by short consultations focused on prescriptions. At the same time, patients are often left without the ongoing support they need to manage their symptoms confidently and to make sometimes difficult changes such as improving their diet and exercise levels.

Through the programme, we've been trialling ways for healthcare professionals and patients to work collaboratively. This has included clinicians and patients jointly creating a care plan, rather than the doctor issuing a medical treatment plan. We have also been looking at group consultations in which a number of patients are supported to discuss their condition together, learning collaboratively and supporting one another in the process.

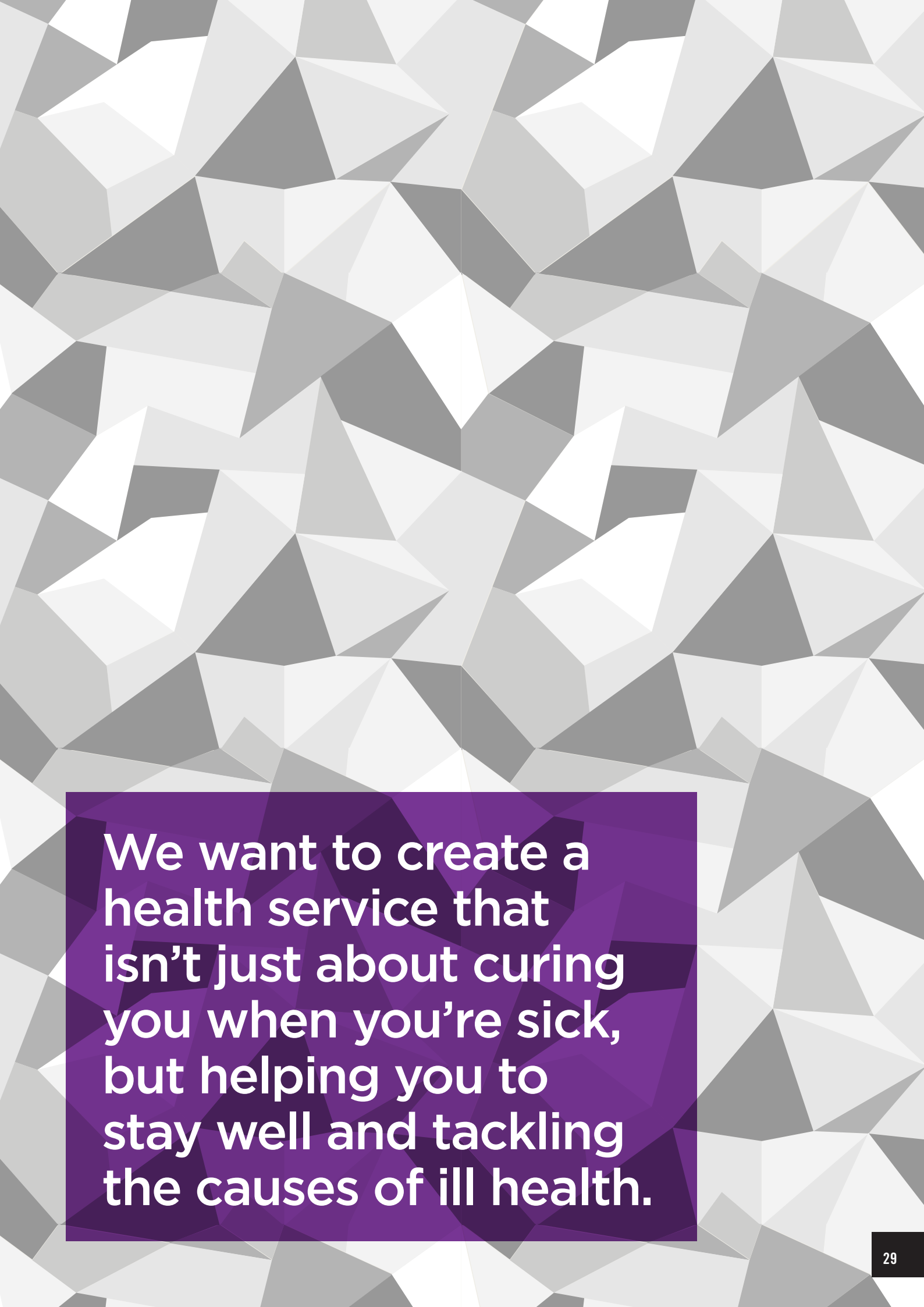
Here are some examples:

- In Stockport, mental health services are putting service users in touch with peer groups who have been through similar experiences and understand their situation. Service users are supported by a wellbeing pathway planner who focuses on the person's goals and ambitions, not their diagnosis, helping them to access personalised support from a variety of organisations. This support is improving their health and wellbeing.
- In Newcastle, doctors are connecting patients to a wide range of people and services beyond the surgery. The GPs can prescribe a fitness class or support group alongside, or even instead of, a drug. Patients are connected with link workers, people from the local community with a good knowledge of community services, who help link the patient to the best services and activities for them.
- In Lambeth, patients can choose which services they use. Working with the Community Options Team, service users decide how they use this help and are supported to access services that meet their particular needs. This helps them to recover and maintain their independence.

Bringing the social into the medical

Public services work better when they are designed with the people who use them.

Our next priority is making sure new methods and approaches are properly trialled and taken up by the NHS. We are working with our partner organisations to achieve this.



We want to create a health service that isn't just about curing you when you're sick, but helping you to stay well and tackling the causes of ill health.

Digital R&D Fund for the Arts

This £8 million fund has attracted 495 ideas. We have taken eight of the best and tested them.

Supporting the arts world with technology to find new markets and enhance engagement

A lot of arts organisations use digital technology, but many aren't benefiting from it as much as they could be. In the arts world, there is little of the systematic research and development (R&D) that is carried out in some other sectors.

In partnership with the Arts Council England and the Arts and Humanities Research Council (AHRC), Nesta has created a unique £8 million fund in order to support collaborations between arts organisations, technology providers and researchers.

We are learning from projects that use digital technology to enhance audience reach and looking at ways different business models can be applied across the arts sector.

The 495 applications for the pilot demonstrated a huge demand from the arts sector. As a result, we scaled-up our work in England in order to carry out more of this alongside our ongoing projects in Scotland.



PUNCHDRUNK THEATRE'S INTERACTIVE MASK

Sharing knowledge and embracing the digital age

A key aspect of the Fund is the public sharing of knowledge that is generated from each R&D project. We support ideas that can generate products, insights and evidence that we hope will benefit the arts sector as a whole.

In the last 18 months we ran a pilot with eight organisations:

London Symphony Orchestra and Kodime

The London Symphony Orchestra worked with technology company Kodime to run a text-based service allowing students to buy reduced price concert tickets. The Digital R&D Fund offered the opportunity to introduce and test a new mobile and web-based ticketing system combined with a range of possible enhancements.

Imperial War Museum, Knowledge Integration and Gooii

The Imperial War Museum used touch screens to enable audiences to comment on exhibits using technology created by Knowledge Integration and web design company Gooii. This opened up new possibilities for the public to engage with exhibits and directly contribute to their understanding.

Punchdrunk and MIT Media Lab

Immersive theatre company Punchdrunk teamed up with MIT Media Lab to enable audiences from across the Atlantic to become a part of a live show in their New York performances of *Sleep No More*. Audiences were keen to experience their sell-out shows, and the growing opportunities around live digital distribution makes this possible via the web.

**LONDON SYMPHONY ORCHESTRA**

Digital R&D in Scotland

In partnership with Creative Scotland and AHRC, Nesta is working with ten innovative organisations on £500,000 worth of projects across Scotland, from the Isle of Tiree to the cities of Dundee, Edinburgh and Glasgow.

Glasgow Film Theatre and Edinburgh Filmhouse are enabling audiences to download films on the same day they're being shown at the cinema through a revenue sharing system with other website owners. Using a technology platform created by local company Distriify, arthouse films are able to reach a wider audience.

The National Galleries of Scotland have worked with UK mobile app developers, Kotikan, to create an art hunter app for gallery visitors. It's free and enables users to 'collect artworks' and unlock extra content to enhance their visit.

The National Piping centre is working with Yellow Brick House to deliver high-quality online bagpipe tuition and piping lessons to an international audience, using webinar technology.

Centre for Challenge Prizes

The Centre has so far generated 1,025 proposed solutions from around the EU.

Inspiring innovation through prize giving

The best ideas can come from anywhere. Challenge prizes are a great way of inspiring a broad range of people to create innovative solutions to some of our most pressing problems. Through competitions open to everyone, they reward only the best ideas and products. This makes them low cost and highly effective.

From our experience and research we know that challenge prizes are a strong tool for innovation, which could be used much more widely. Along with our partner the Department for Business, Innovation and Skills, we have set up the Centre for Challenge Prizes in order to find, test and reward innovations that impact on the issues affecting our lives.

Prizes in exchange for solutions to society's problems

From the Longitude Prize in 1714 that revolutionised sea navigation, the 20th century Schneider Trophy for aviation that inspired the Spitfire, to the Ansari X-Prize for privately-funded spaceflight, challenge prizes have helped to shape history and create the world we live in.

The Centre for Challenge Prizes, launched in 2012, uses prize-giving initiatives to help solve problems that the business world, social and public sectors have so far either failed to tackle or tackle effectively. As well as designing and managing new challenge prizes, the Centre shares information on the prize-giving process with others.

Examples of recent prizes include:

- A product to solve bike theft.
- Social innovations that stop older people from being isolated.
- A renewable energy solution providing off-grid power for UNDP refugees in Bosnia and Herzegovina.

A funding method that creates success

We believe that challenge prizes have the potential to become a much larger part of the funding landscape.

Through collaborating with other organisations internationally and at home, including the European Commission, the Cabinet Office and the United Nations Development Programme, we are working to grow the number of challenge prizes around the world in order to increase their valuable impact.



Destination Local

By undertaking research and backing innovative new services, Destination Local aims to develop the UK's emerging online local media sector.



Our Destination Local programme aims to provide a greater understanding of this budding new market and to stimulate a 21st century ecosystem that encourages a range of high-quality hyperlocal media services around the UK.

Working with the Technology Strategy Board, the Welsh Government, Creative Scotland and other industry partners, we have funded 22 innovative new projects that are looking at what the next generation of hyperlocal media services could be.

Creative Councils

Nesta is helping a small group of councils to transform their ways of working, enabling them to be more innovative and cost-effective.

Currently, local councils face a big squeeze on their money, but they also need to meet rising demands while at the same time tackling increasingly complex local needs.

This programme is helping local government innovators across England and Wales to develop and implement radical solutions to long-term challenges. The learning generated through the programme will be shared across the local government sector and beyond.

Nesta is working with a small group of councils to develop cheaper and better ways of working:

- In Derby, we are helping children who are looked after by the local authorities to get the kind of education we'd all want for our kids.
- In Stoke-on-Trent, we are making sure businesses and residents have sustainable, affordable and reliable energy.
- In Monmouthshire and Cornwall, we are making it easier for any member of the public to shape what the council does through an online platform.
- In Wigan, we are matching the needs and costs of services for elderly people to deliver what they want in a more targeted way through personalised budgets.

SECTION THREE

Impact Investment

Our aim is to be a catalyst for a wider new ecology of investment – one that has a real impact on the world we live in.

Impact investment

Developing the field of impact investment for social impact.

The field of impact investment is growing in activity, interest and potential in the UK and internationally.

Nesta has been involved in this field for five years, making significant investments in investment funds such as Bridges and Big Issue Invest as well as supporting 12 other social venture intermediaries. In the last 12 months we have taken significant steps to build on this work.

Developing the field of social impact investment

Social innovations, like any other innovation, need finance to create and prototype ideas, to gather evidence on the effectiveness of these ideas and to scale up those with the greatest potential for impact.

Our work focuses on innovative early-stage social ventures. In the last year we have progressed a number of initiatives, including:

- Establishing the Nesta Impact Investment Fund in partnership with Big Society Capital and Omidyar Network. We completed a first close of this fund in November 2012. The fund provides risk capital to early-stage ventures making an impact for older people, younger people and on the sustainability of communities.
- Supporting very early-stage social ventures through accelerator programmes. We believe that we have to support the early stage/seed market in impact investment to help create and build ventures. We have partnered with Bethnal Green Ventures who run acceleration programmes for early-stage social entrepreneurs and their organisations and over the next four years will help create 80 new ventures.
- Supporting other key players in the impact investment market. We have a portfolio of 14 impact investment funds, financial products, and advisory businesses. Highlights in 2012–13 include investing in the pioneering Scope charity bond issue and in Abundance, which has become the UK's fastest growing crowdfunding site for renewable energy projects.
- Researching major issues in the development of the market, including publishing the influential *Financial Planners as Catalysts for Social Investment*. Our research work has also played a significant role in creating the evidence base for the UK Government's commitment to a tax relief for social investment.
- Working with practitioners to develop and test evidence standards for impact investment. In 2012–13 we published *Standards of Evidence for Impact Investing*, which describes our experimental approach to the use of evidence in impact investment decision making.

Innovation Skills

We are now developing toolkits and training materials that will be available to support innovators across the globe.

Innovation Skills

We know from our work supporting innovators that one of the most important ways in which Nesta adds value is through our practical knowledge of how innovation happens.

Our experience is that innovation skills can be codified and turned into practical tools that organisations and individuals can use to develop, test and implement innovations. Through initiatives like the Creative Entrepreneurs Toolkit, the guide to designing Social Challenge Prizes and the Creative Business Mentor Network, we have already used our knowledge of innovation skills to support hundreds of innovators.

Drawing on our own experience and the best insights and practice from around the world, we have created the Open Workshop, a free online resource for innovators across different sectors to help them bring their ideas to life, including for example:

- How design methods can be used to generate better ideas.
- How to manage finance and risk for different stages of an innovation.
- Strategies for ensuring that effective innovations have impact at scale.

We have also worked in partnership with organisations in the UK and internationally, like the UNDP, to develop and deliver hands-on training and development sessions for social innovators. With the support of the Rockefeller Foundation, we are now developing toolkits and training materials that will be available to support innovators across the globe.

Our longer-term goal is to create a set of useful tools that draw on knowledge about what works best, for example in making the most of new tools like crowdsourcing platforms or business accelerators. We will develop these tools with sister organisations around the world and make them as widely available as possible – partly to demystify innovation, and partly to improve the chances that good ideas become a reality.



SECTION FIVE

Financials

Trustees



01 **Sir John Chisholm**
Nesta's Chair.

02 **Madeleine Atkins**
Vice-Chancellor of Coventry University.

03 **Dame Julie Mellor, DBE**
Parliamentary & Health
Service Ombudsman.

04 **Sir John Gieve**
Chairman of VocaLink.

05 **Dr Michelle Harrison**
CEO of TNS BMRB.

06 **Jitesh Gadhia**
Senior Managing Director at
The Blackstone Group.

07 **David Pitt-Watson**
Executive Fellow at London Business
School, and Chair of the UN Environment
Programme's Finance Initiative.

08 **Kersten England**
Chief Executive of City of York Council.

09 **John Sheldrick**
Non-executive director of GKN plc and
board member for the Catalyst Housing
Group and The Abbeyfield Society.

10 **Kim Shillinglaw**
Commissioning Editor for Science and
Natural History, and Head of 3D at the BBC.

11 **Rob Woodward**
CEO of STV Group plc.

12 **Nick Starr**
Executive Director of
the National Theatre.

Governance

Nesta Operating Company ('Nesta') is governed by a Board of Trustees. Board members are both directors and members of the company and charity trustees, and under company and charity law retain overall responsibility for Nesta's affairs, including its role as Trustee of the Nesta Trust ('the Trust'). The Trust also has a Protector appointed by Government with a fiduciary duty to ensure the integrity of administration of the Trust. Trustees receive no remuneration for acting as trustees of Nesta.

The Board met six times in the year with the Executive Team also present. The Board has appointed a Chief Executive Officer ('CEO') to lead and manage Nesta by implementing the policy and strategy adopted by the Trustees within a budget approved by them annually. The CEO may delegate his responsibilities to other members of the Executive Team, but remains responsible to the Board.

Nesta's Executive Team comprises the CEO and the Executive Director of each of its main areas of activity, each of whom report to the CEO. A full list is given on page 73.

The Board has delegated approval for decisions up to certain financial thresholds to the CEO and other Executive Team members under a Scheme of Delegation. All decisions above this threshold must be approved by the Board. The Board has also reserved to itself certain important decisions, such as changes to the Articles, appointment of the CEO and approval of the long-term objectives and strategy.

The Board is chaired by Sir John Chisholm. New Board members are appointed for an initial term of five years. Members at the date of this Annual Report are listed on page 72.

In December 2011, in preparation for the transfer of the staff and activities of the National Endowment for Science, Technology and the Arts ('NESTA'), the Board established a Nominations Committee to oversee the recruitment of new Trustees. Eight Trustees were appointed during the year, of which four were appointed from NESTA's former Trustees to provide continuity and stability and an additional four trustees were recruited through an open recruitment process.

All new Trustees receive an induction pack containing information about structure and governance and their responsibilities as charity trustees. A tailored induction is provided with key members of the Executive Team, as appropriate to the individual's background, experience and role.

The Board has established a number of Committees to oversee certain aspects of Nesta's activities. These include main Board Committees with delegated authority in respect of certain functions and activities, and Advisory Committees which advise and support the Executive Team but do not make decisions for Nesta.

Each Board Committee has written Terms of Reference approved by the Board and reports to the Board at each Board meeting.

The Board has adopted a conflicts of interest policy and processes for both staff and Trustees to ensure that any conflicts of interests are declared and managed appropriately.

A list of Trustees and members of Board Committees is provided on page 72.

The Committees are as follows:

Finance and Audit Committee which reviews management reporting and financial performance against budget and recommends to the Board the annual budget; as well as reviewing audit and financial reporting, internal financial controls, risk management and compliance. The Committee met four times during the year.

Remuneration Committee whose key responsibilities are staff terms and conditions, ensuring fair and appropriate remuneration and benefit policies. The Committee met twice during the year and set a new reward strategy, agreed to carry out an equal pay review, determined an annual pay review and agreed annual remuneration of the CEO and other Executives.

Trust Investment Committee whose key responsibilities are to draw up the policies and objectives governing the investment of the assets of the Trust, to approve the making of investments within ranges set by the Board, to oversee their implementation and to monitor financial performance of the Trust. The Committee met four times during the year.

Venture Investment Committee which manages the Trust's portfolio of interests in early-stage companies and funds transferred from NESTA. The Committee met 12 times during the year.

Nominations Committee which considered the appropriate structure, size and composition for the new Nesta Board prior to the transfer of the activities of NESTA on 1 April 2012, and manages the recruitment of new Trustees. The Committee met three times during the year.

Advisory Committees

The Board has established the following Advisory Committees to provide advice and scrutiny in particular areas:

- Policy and Research Advisory Committee
- Creative Economy Advisory Committee
- Public Services Advisory Committee
- Civil Society Advisory Committee

Our Charitable Objects

For the public benefit:

1. To advance education, and in particular the study of innovation, by the promotion of research and the publication of the useful results thereof, in:
 - Science and technology
 - The arts
 - The efficiency of public services
 - The voluntary sector and social enterprise
 - Industry and commerce
2. To advance:
 - Science and technology
 - The arts
 - The efficiency of public services
 - The voluntary sector
 - Industry and commerce and social enterprise which
 - Relieves poverty
 - Relieves unemployment
 - Advances health
 - Advances environmental protection or improvement and sustainable development
 - Advances citizenship or community developmentthrough or by encouraging and supporting innovation.

The voluntary sector means charities and voluntary organisations.

 - Charities are organisations, which are established for exclusively charitable purposes in accordance with the law of England and Wales.
 - Voluntary organisations are independent organisations, which are established for purposes that add value to the community as a whole, or a significant section of the community, and which are not permitted by their constitution to make a profit for private distribution. Voluntary organisations do not include local government or other statutory authorities.
 - Sustainable development means ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs.’
3. To advance any other purpose which is recognised as exclusively charitable under the laws of England and Wales and Scotland.

Public Benefit Statement

The Trustees confirm that, in exercising their powers and duties in relation to both Nesta Operating Company (‘Nesta’) and the Nesta Trust (‘the Trust’), they have had due regard to the Charity Commission’s statutory guidance on public benefit.

A copy of the guidance has been provided to each Trustee and every proposal brought to the Board for approval outlines how it will advance Nesta’s charitable objects for public benefit. The descriptions in pages 16 to 37 demonstrate how Nesta’s activities have delivered public benefit over the year. This ranges from carrying out and promoting Nesta’s research into innovation in a wide variety of fields, to supporting innovative projects in a range of areas such as giving, the arts, ageing, health, education, the environment and public services. Support is only provided to private and for profit companies where the Trustees see clear public benefit in the project and where any private benefit is incidental, reasonable and necessary.

Statement of Trustees’ Responsibilities

The Trustees are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view. The Trustees are also responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Nesta Group (‘the Group’) and of the incoming resources and application of resources of the Group for that period. In preparing these financial statements, the Trustees are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Trustees are responsible for keeping adequate accounting records that show and explain the Group's transactions, disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on Nesta's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Trustees. The Trustees' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Risk Management Policy

The Trustees are responsible for the management of risks within the Nesta Group ('the Group') and consider risk in two areas – organisational risk and activity risk.

i. Organisational risk:

The monitoring and implementation of the risk management framework and consideration of organisational risk is delegated to the Finance and Audit Committee. The top-level organisational risk register is presented regularly to the Finance and Audit Committee and reviewed by the Board annually. Broader strategic risks including reputational risks are considered by the Executive Team collectively when they meet each quarter to review the top-level risk register for the organisation as a whole.

The key controls in place include:

- An established organisational and governance structure and lines of reporting.
- Detailed terms of reference for the Board and all Board Committees.
- Comprehensive financial planning, budgeting, management reporting and monitoring.
- Formal written policies and hierarchical authorisation and approval levels.
- Internal audit services engagement with programmes selected for review which are informed by the risk register.

ii. Activity risk:

Nesta's mission to help people and organisations bring great ideas to life requires it to have an element of risk-taking in its activities if it is to succeed, as the mission requires experimentation. Accordingly the risk appetite is for 'managed risk-taking' rather than simple 'risk aversion'. This includes the recognition that some activities or projects may fail to a greater or lesser extent, and that such failure can be an important source of learning.

The risk management of individual programmes is the responsibility of the relevant Executive Director. Risks identified in the normal course of business and performance dashboards for each programme with relevant risk ratings are discussed by the Executive Team in their monthly meetings.

A formal review of the Group's risk management processes was undertaken by the internal audit service during the year and it was reported that the framework established was operating effectively with adequate and timely information provided on the organisation's key risks.

Trustees are satisfied that the major risks identified through the risk management processes are being adequately managed where necessary while recognising that any framework can provide reasonable but not absolute assurance. There were no material control weaknesses identified by Trustees or management during the year.

Programme Related Investments and Grantmaking Policy

Nesta Operating Company ('Nesta') achieves its charitable objects in a number of ways which include providing investment, grantmaking, providing non-financial support, and carrying out research. There is no set framework for grantmaking and investing but support is designed depending on the nature and objectives of each programme.

In line with Charity Commission guidelines, programme related investments are made to further the objects of the charity rather than to make a financial return and are managed in line with programme objectives. Consequently they are, as permitted by *Accounting and Reporting by Charities: Statement of Recommended Practice 2005* issued by the Charity Commission, included in the balance sheet at cost less any provision for impairment.

How we are governed

There is no set allocation of the annual budget for overall grant expenditure, rather Nesta sets programme deliverables and the appropriate method of delivery will be determined within that programme's budget. Where grants are appropriate as a funding mechanism, Nesta sets out specific entitlement criteria for each programme at its launch. These criteria vary from programme to programme and are made available on Nesta's website where open calls are invited. A list of grants over £50,000 can be found on pages 58 to 60. Applications are then assessed against these criteria and awards made taking into account funds available, ability to deliver the objectives of the programme, and the quality of applications. The period for which grants are awarded depends upon the programme but typically lasts between one and three years. Grants are monitored regularly and appropriate progress reports are required from recipients.

Investment Policy

As the sole Trustee of the Nesta Trust ('the Trust'), Nesta Operating Company ('Nesta') is responsible for the Trust's investment policy. The investment strategy is delegated to the Trust Investment Committee which is responsible for strategic and tactical asset allocation, rebalancing, styles and weighting within asset classes, plus monitoring, manager, consultancy and custodial arrangements.

The Trustee holds the investment assets of the Trust without distinction between capital and income, applying them in furtherance of the Trust's objects. These investment assets are held as an expendable endowment.

Trust assets are invested in accordance with the wide investment powers set out in the Trust Deed, which also specifies two requirements:

- a. United Kingdom ('UK') Government Gilts may only be sold to fund the activities of Nesta, to purchase other UK Government Gilts, or be sold with the consent of the Secretary of State for the Department of Business, Innovation and Skills.
- b. The Trustee must set investment and spending policy with a view to preventing the value of the Trust assets and any returns generated by the Trust assets falling below a market value of £260 million.

Further details on the spending policy ('spending rule') can be found in the Reserves Policy.

The Trustee's investment policy is to balance current and future needs by:

- Producing a consistent and sustainable level of income to support the work of Nesta in advancing the charitable objects of the Trust.
- Ensuring sufficient liquidity to avoid the forced sale of assets at distressed prices, while ensuring that the majority of the assets are invested in higher returning investment instruments.
- Maintaining if possible the value of investments in real terms.
- Delivering these objectives within acceptable levels of risk.

To meet these objectives the Trustee manages the Trust assets on a total return basis, invests globally and maintains diversification across a range of asset classes in order to produce an appropriate balance between risk and return, believing that diversification limits the impact of any single risk.

The expected return objective for the investment assets, in the medium term, is to provide an annualised return (net of fees) in excess of the rate of inflation (as measured by the Retail Price Index ('RPI')). There is recognition that the Trust's investment allocation is constrained by an overarching requirement within the Trust Deed to hold certain gilt assets. In the medium term it is likely these constraints will be significantly reduced as gilt holdings mature or are used to fund the operations of Nesta. In this transitional phase the investment allocation strategy is expected to produce a total return closer to inflation at an assumed rate of 3 per cent per annum (as measured by the RPI).

The cash policy is to hold no more than £10 million in any one banking institution in order to manage counter-party risk, and in order to further manage risk there is an express preference for banking institutions with significant UK government ownership.

In order to monitor the performance of global equities managers, formal reviews of performance against benchmarks are undertaken and the Trust Investment Committee seeks to meet each significant manager at least once in each 12 month period. The Committee looks to intervene where they feel that there are potential investment performance issues with any manager.

Investment Review

The Trustees received £338 million of investments and cash from the National Endowment for Science, Technology and the Arts ('NESTA') on 1 April 2012 into the Nesta Trust ('the Trust'). On receiving these assets, the Trustees instigated a strategic investment review.

With the assistance of Mercer, investment advisor to the Trustees, a strategic asset allocation was designed and agreed which proposed broader asset categories introducing new asset classes, invested on a total return basis. This strategy was implemented in stages throughout the 2012-13 financial year.

The investment strategy takes into account the allocation of assets transferred on 1 April 2012 and the constraints on holding gilts which are detailed within the Trust Deed, and balances this with the desire to maintain the real value of the endowment while at the same time maximising total return to fund the charitable objectives. The strategy aims to balance risk, return and capital preservation.

The asset values and relative allocation at 31 March 2013 compared with the opening transfer position on 1 April 2012 are as shown below.

Asset class	Market value of gifted assets 1 April 2012 £'000	Proportion of total endowment assets 1 April 2012 %	Market value 31 March 2013 £'000	Proportion of total endowment assets 31 March 2013 %
Current assets:				
Cash	76,318	23	17,595	5
Fixed asset investments:				
Gilts	124,822	37	128,441	36
Property trust funds	4,254	1	3,900	1
Private equity funds	4,692	1	10,728	3
Global equities	107,914	32	148,893	41
High yield bonds (fixed income)	-	-	30,327	8
Early-stage venture portfolio	19,876	6	19,825	6
Deferred investment and loans in early-stage companies	149	-	331	-
Total fixed asset investments	261,707	77	342,445	95
Total	338,025	100	360,040	100

The year-end allocation to global equities is slightly above the strategic allocation as a result of both a strong equity market rally in the six months to 31 March 2013 and a tactical allocation of a further £20 million to global equities in November 2012. This position will be reviewed to consider rebalancing during 2013-14 as the Trustees potentially look to broaden the asset classes held.

A priority for the 2012-13 year was to divest surplus cash that the Trust received on its creation and invest in asset classes that provide a higher return, but leaving sufficient cash to fund outstanding investment commitments to private equity and ventures and to fund charitable activity spending commitments during the year.

Actions taken during the year included the following:

- i. Managing the gilt position. The Trustees believe that holding gilts is likely to harm the value and funding

streams of the Trust in the medium to long term, considering that the further they look into the future, the greater the likelihood of a fall in gilt values from their recent historic high which could lead to a significant capital loss on the value of the Trust's gilt holdings. Working within the constraints of the Trust Deed, the Trustees felt it prudent to reduce exposure to the 2030 maturity gilt security by halving the £98 million holding. Proceeds from this sale were used to repurchase shorter-term gilts, which mature on a timetable to match the operating cash requirements of Nesta Operating Company ('Nesta') over the next five years in accordance with the agreed spending rule. Sale proceeds were £65 million, of which £12.5 million was recognised as a capital gain. The proceeds were used to purchase shorter-term gilts which have a nominal value of £60 million, and a premium of £5 million which will be amortised over the life of the shorter-term gilts.

- ii. Making a new commitment to high yield bonds. This asset class was selected during 2012-13 as part of the Trust's strategic allocation in relation to fixed income investments. An initial investment of £30 million was made in December 2012.
- iii. Continuing to manage holdings of alternative assets. Drawdowns against the Trust's commitment to two private equity secondary funds continued during the year, with drawdowns of \$5.4 million and capital returns received of £1.3 million. It is expected that these two funds will continue to draw down over the next two to three years. The £12.7 million financial commitment outstanding for this asset class is disclosed in Note 20 to the Accounts.

The early-stage venture portfolio includes equity and loan investments in 30 early-stage companies, and commitments to five early-stage investment funds. The Trust's investment strategy is to maximise the returns from the current portfolio transferred from NESTA but not to invest in any new early-stage companies or funds in the near future. The valuation methodology applied to the early-stage venture portfolio remains unchanged from prior years. A net return of £0.2 million has been recognised which comprised a net unrealised loss of £2.2 million and realised gains of £2.4 million arising from the sale of two assets.

Costs of managing the investment assets total £1.3 million across the Nesta Group and include fund manager fees, investment consulting fees and custodian fees. Where fund manager fees are offset against the relevant fund's value, in accordance with normal practice, these fees are grossed up and shown as fund manager fee expenditure in the Statement of Financial Activities.

Overall, the investment assets have provided a strong absolute return for the 2012-13 financial year of 10.2 per cent due to contributions from gains from the sale of half the original 2030 gilt holdings and the equities market rally in the months preceding the balance sheet date. Trustees are mindful that past returns are not a predictor of future returns, and they believe that the Trust continues to require careful management particularly given its unusual gilt holding position.

Reserves Policy

In accordance with the Trust Deed of the Nesta Trust ('the Trust'), the Trustee's reserves policy is to provide sustainable funding to deliver the charitable aims of the Trust and Nesta Operating Company ('Nesta') whilst holding reserves at sufficient levels with a view to maintaining the underlying assets above a market value of £260 million.

The Trustees have agreed a spending policy (the 'spending rule') where the annual transfer to Nesta from the Trust is calculated as a percentage of the average value of trust assets over the preceding three years, reported as at 31 March. In addition, an annual allocation of net gains from the sale of early-stage investments is made. These sums provide the maximum annual drawdown allowable by Nesta from the Trust.

Nesta has no requirement to maintain free reserves provided that expenditure remains within the annual agreed amount of the drawdown from the Trust. The policy allows drawdowns at any time during the year within the set annual limit. This policy would only be reviewed on a change in the funding relationship between the Trust and Nesta; a change currently not foreseeable.

Financial Review

This is the first year of operations for the Nesta Group ('the Group') since its formation as a charity and the financial statements on pages 48 to 71 show the financial activities for the year to 31 March 2013.

The Group received a transfer of all the activities, staff, assets and liabilities from the former National Endowment for Science, Technology and the Arts ('NESTA') on 1 April 2012. This, along with some minor adjustments in accounting treatment to align accounting policies to *Accounting and Reporting by Charities: Statement of Recommended Practice 2005* ('SORP') issued by the Charity Commission has provided the opening position for 1 April 2012. A reconciliation of the closing balances of NESTA as at 31 March 2012 and how they were transferred to the Group entities can be found in Note 5 to the Accounts.

Whereas NESTA was one public body and three minor subsidiaries, the Group now comprises Nesta Operating Company ('Nesta' – the main operating charity from which all charitable activity is undertaken), the Nesta Trust ('the Trust' – a charitable trust which holds all the investment assets invested to fund the charitable activities of Nesta), three companies and two limited liability partnerships.

The subsidiary company structure has been designed and implemented to manage investing and fund management activities and to ensure compliance with Financial Conduct Authority ('FCA') requirements and Charity Commission guidelines. During the year two new trading subsidiaries were incorporated: Nesta GP Limited and Nesta PRI Limited. The results of the Group consolidate all subsidiary undertakings including the Trust.

Our Financial Year

The Trust provides funding for Nesta's charitable activities and this year provided £13.3 million. The Trust is an expendable endowment, and is therefore able to fund charitable activity beyond the income it received of £5.1 million during the year. For the 2012-13 year the Trustees approved a drawdown from the Trust of up to £17.4 million which was calculated by using a combination of an agreed spending rule of 5 per cent of the average value of Trust assets over the previous three years (£15.9 million) and a further allocation of £1.5 million as a development fund to enable new initiatives to be started by Nesta in its first year as a charity. Due to timing differences in programme spend, only £13.3 million of the £17.4 million was drawn down by Nesta during the year; the Board approved the balance of £4.1 million to be carried forward for drawdown in future years.

The Board also set external income targets for Nesta which were a significant increase on any previous year of NESTA's operations. External income of £7.5 million was recognised in the year along with £4.4 million transferred in from NESTA on 1 April 2012. This external income is predominantly in the form of partnership funding, where Nesta's expertise in programme design and project management is combined with the funding capacity of other, typically larger, organisations. Two examples of this activity in the year are the Innovation in Giving and Digital Research and Development for the Arts programmes, both of which are described in Section Two of this report.

Group expenditure totalled £24.7 million, of which £23.2 million was spent on charitable activities, £0.2 million spent on governance costs, and £1.3 million on managing the endowment assets held in the Trust. Of the group expenditure of £24.7 million, £10.2 million was committed to grant distributions. Recipients of grants during the year, for amounts over £50,000, are listed in Note 7b to the Accounts. Increasingly, grant funding is provided in addition to a wider programme of non-financial support such as advice, mentoring and coaching.

Spend on practical programmes totalled £16.8 million for the year. A large proportion of this spend is funded by external income.

Spend on investment (early-stage and social impact) management includes the investment team who look after the early-stage venture portfolio held by the Trust, and the programme related investments held by Nesta; it also includes grant expenditure on accelerator programmes. Total spend was £2.1 million.

Nesta has continued to build capability in policy and research and spend in this area was £3.8 million. Nesta also spent £0.6 million in relation to the new Skills offering which seeks to provide tools, methods and

support to innovators through a new online platform.

Support costs comprising Communications and Corporate Service costs are allocated to programme areas as shown in Note 7 to the Accounts. At £5.1 million for the year, costs are slightly less than the level incurred by NESTA prior to transition.

Investment activity has been broadened during the last 12 months as Nesta recognises that providing loans and equity can be a valuable way to help fund other organisations that progress its charitable aims and objectives. £1.9 million of programme related investments transferred from NESTA on 1 April 2012 were brought back onto Nesta's balance sheet. These had previously been treated as expenditure by NESTA but as a charity the classification of programme related investment is considered more appropriate.

In October 2012, the Nesta Impact Investment 1 LP Fund was launched, of which Nesta is one of several partners. Its share of this fund to date is also included on the Group's balance sheet under programme related investments. At 31 March 2013, £7.8 million of Nesta's commitment is yet to be drawn down and is included in Note 20 to the accounts as an outstanding commitment. You can read more about the aims and objectives of this fund in Section Three.

At 31 March 2013, the Group had an unrestricted surplus of £0.1 million as shown in the Statement of Financial Activities and reserves (restricted and unrestricted) of £1.6 million. At 31 March 2013 the reserves of the expendable endowment stood at £360 million. The Trustees considered the expendable endowment reserves level to be appropriate to sustain the future underlying value of the assets and funding plans for Nesta and as explained in the investment review, the investment assets include gilts which mature on a timetable to match the operating cash requirements over the next five years.

For the coming year, the Trustees have ensured sufficient liquidity in the form of cash in the Trust to fund planned charitable activity and contracted investment commitments. As a result the Trustees have concluded that there is a reasonable expectation that the Group has adequate resources to continue activities for the foreseeable future and have therefore adopted the going concern basis in preparing the financial statements.

Approved by the Board of Trustees and authorised for issue on 17 July 2013, and signed on its behalf by Sir John Chisholm, Chair of the Board of Trustees.

John Chisholm

Independent Auditor's Report to the Members and Trustees of Nesta Operating Company

We have audited the financial statements of Nesta Operating Company for the year ended 31 March 2013 which comprise the Consolidated Statement of Financial Activities, the Consolidated and Parent Charitable Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's Trustees and members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charity's Trustees and members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's Trustees and members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2013 and of the Group's incoming resources and application of resources, including its income and expenditure, for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- the parent charitable company has not kept proper and adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records or returns; or
- certain disclosures of Trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Stickland

Senior Statutory Auditor
for and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom

Date: 17 July 2013

BDO LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Financial Activities for the year ended 31 March 2013

	Notes to the accounts	Unrestricted funds 2013 £'000	Restricted funds 2013 £'000	Expendable endowment 2013 £'000	Total funds 2013 £'000
Incoming resources					
Incoming resources from generated funds	2	49	-	5,136	5,185
Incoming resources from charitable activities	3	239	6,959	-	7,198
Other incoming resources	4	289	-	9	298
Gifted assets from NESTA	5	524	3,876	338,046	342,446
Total incoming resources		1,101	10,835	343,191	355,127
Resources expended					
Cost of generating funds	6	163	-	1,098	1,261
<i>Charitable activities:</i>					
Policy and Research		3,515	249	-	3,764
Programmes		5,024	11,802	-	16,826
Investment (early-stage and social impact) management		2,067	-	-	2,067
Skills		574	6	-	580
Total charitable activities	7	11,180	12,057	-	23,237
Governance costs	8	155	-	6	161
Total resources expended		11,498	12,057	1,104	24,659
Net incoming/(outgoing) resources before transfers		(10,397)	(1,222)	342,087	330,468
Gross transfers between funds	16	10,505	2,752	(13,257)	-
Net incoming resources before other recognised gains and losses		108	1,530	328,830	330,468
Other recognised gains/(losses)					
Foreign exchange gains		-	-	163	163
Gains on investment assets	11	-	-	30,815	30,815
Net incoming resources		108	1,530	359,808	361,446
Reconciliation of funds					
Total funds brought forward		-	-	-	-
Total funds carried forward		108	1,530	359,808	361,446

A summary income and expenditure account is presented in Note 18 in compliance with the Companies Act 2006. Total incoming resources for the year of Nesta, the parent charity, were £25,120k; total resources expended were £23,368k; and total net incoming resources were £1,752k.

The Group has no recognised gains or losses other than those included in the Statement of Financial Activities. All activities are continuing.

The notes on pages 51 to 71 form part of these accounts.

Consolidated Balance Sheet as at 31 March 2013

Company Number: 07706036

	Notes to the accounts	Group 2013 £'000	Parent Charity 2013 £'000
Fixed assets			
Tangible assets	10	1,009	1,009
Investments:			
Investments – quoted and unquoted	11	342,445	-
Programme related investments	12	1,888	1,888
		345,342	2,897
Current assets			
Debtors	13	1,613	1,511
Bank and cash		25,273	7,571
Total current assets		26,886	9,082
Current liabilities			
Creditors: amounts due within one year	14	(10,422)	(9,867)
Net current assets/(liabilities)		16,464	(785)
Total assets less current liabilities		361,806	2,112
Creditors: amounts due after one year	14	(360)	(360)
Net assets		361,446	1,752
Charitable funds			
Expendable endowment funds	16	359,808	-
General funds	16	222	222
Total charitable unrestricted funds		360,030	222
Restricted funds	16	1,530	1,530
Total charitable funds		361,560	1,752
Funds retained within non-charitable subsidiaries	16	(114)	-
Total funds		361,446	1,752

The notes on pages 51 to 71 form part of these accounts

Approved by the Board of Trustees and authorised for issue on 17 July 2013, and signed on its behalf by Sir John Chisholm, Chair of the Board of Trustees.

John Chisholm

Consolidated Cash Flow for the year ended 31 March 2013

	Note	Group 2013 £'000
Net cash outflow from operating activities	(a)	(10,903)
Return on investment and servicing of finance	(b)	3,918
Capital expenditure and financial investments	(c)	(52,683)
Acquisitions and disposals	(d)	84,941
Increase in cash in the year		25,273
Cash at 1 April 2012		-
Cash at 31 March 2013		25,273
Cash flow statement notes:		
a) Reconciliation of changes in resources to net cash outflow from operating activities		
Net incoming resources		330,468
NESTA assets gifted 1 April 2012		(342,446)
Depreciation		380
Impairments		335
Grossed up investment costs (non-cash)		2,435
Interest and dividends received		(5,185)
Interest paid and bank charges		6
Investment fees		1,261
Increase in debtors		(384)
Increase in creditors		2,227
		(10,903)
b) Return on investment and servicing of finance		
Interest and dividends received		5,185
Interest paid and bank charges		(6)
Investment fees		(1,261)
		3,918
c) Capital expenditure and financial investments		
Payments to acquire property, plant and equipment		(164)
Payments to acquire quoted investments		(116,214)
Payments to acquire unquoted investments		(9,254)
Payments to acquire programme related investments		(323)
Proceeds from sale or maturity of quoted investments		68,046
Proceeds from sale or maturity of unquoted investments		5,226
		(52,683)
d) Acquisitions and disposals		
Consideration given for NESTA assets gifted		-
NESTA cash transferred		84,941
		84,941

The notes on pages 51 to 71 form part of these accounts

1. Accounting policies

a. Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the revaluation of quoted and unquoted investments. They have been prepared on a going concern basis and in compliance with *Accounting and Reporting by Charities: Statement of Recommended Practice 2005* ('SORP') issued by the Charity Commission, applicable UK accounting standards and with the Companies Act 2006.

b. Basis of consolidation

The consolidated financial statements incorporate the results of Nesta Operating Company ('Nesta') and all its subsidiary undertakings, including the Nesta Trust ('the Trust'), from the date that control commences to the date that it ceases. Subsidiary undertakings are consolidated on a line-by-line basis using the acquisition method of accounting in accordance with *FRS 2 Accounting for Subsidiary Undertakings* ('FRS 2').

Details of Nesta's subsidiary undertakings can be found in Note 15 to the Accounts. In line with *FRS 2* Nesta does not consolidate entities over which it is deemed not to have control. As such, the Impact Investment Fund, Nesta Impact Investments 1 LP, is not consolidated.

Nesta did not carry out any activities prior to 1 April 2012 and therefore there are no prior year comparatives stated in these accounts.

No separate Statement of Financial Activities has been presented for Nesta, the parent charity, as permitted by section 408 of the Companies Act 2006 and section 397 of the SORP.

The group applies the exemption contained in *FRS 9 Associates, Joint Ventures and Joint Undertakings* whereby joint ventures and associates that are held as part of an investment portfolio are included within investment assets.

c. Fund accounting

The general fund consists of unrestricted funds that are available for the furtherance of the objects of the charity at the discretion of the Trustees.

Restricted funds are subject to specific restrictions as applied by programme funders.

Where Nesta provides match-funding or programme support on projects, total expenditure is shown in the restricted fund and a transfer from the general fund to the restricted fund is made to account for Nesta's share of expenditure.

The expendable endowment fund relates to the funds of the Trust. These funds are held without distinction as to capital and income and can be applied in furtherance of the objects of the Trust. The Trust makes an annual transfer to Nesta to deliver its charitable aims as detailed in the Reserves Policy.

d. Incoming resources

Income is recognised in the Statement of Financial Activities in the period in which the Group is entitled to receipt and where the amount can be measured with reasonable accuracy.

Grant income is recognised in the Statement of Financial Activities when the SORP's criteria of entitlement, certainty and measurability have been met.

Investment income includes interest and dividends from investment assets and deposits, with any associated tax credits or recoverable taxation, and is included in the Statement of Financial Activities on an accruals basis.

Income from gilt investments is the gross interest receivable adjusted for the amortisation of any premium or discount to nominal (redemption) value. The amortised premium or discount is calculated on a straight-line basis over the remaining duration of the gilt. Where gilts are sold prior to maturity date, any unamortised discount or premium is recognised in the Statement of Financial Activities at the date of sale.

e. Resources expended

Expenditure is accounted for on an accruals basis.

Expenditure on charitable activities is incurred in pursuit of the Group's charitable objects and is reported as a functional analysis of the work undertaken. The categories defined by the Trustees for the purposes of organisational management are Policy and Research; Programmes; Investment (early-stage and social impact) management; and Skills. Expenditure includes direct expenditure and allocated support costs.

Grants payable are recognised as expenditure in the Statement of Financial Activities on the date when a binding contract is signed or equivalent obligation created, less any awards cancelled or refunded. Grants awarded but not yet paid are recorded as a liability in the Balance Sheet.

Non-grant direct costs include staffing, programme delivery partner costs, workshop event costs, commissioned research and evaluation, and any other direct costs attributable to a specific activity.

Notes to the Accounts

Governance costs include direct expenditure and support costs attributable to maintaining the public accountability of the Group and compliance with regulation and good practice. Costs include expenses incurred by Trustees, internal and external audit costs and legal fees.

Investment management costs include investment fund manager fees which are grossed up where they are offset against the fund's value rather than payable in cash, dilution levies, investment consultancy and custodian fees.

Irrecoverable VAT incurred is allocated to the expenditure category to which it relates.

f. Support costs, allocation and apportionment

Support costs including Communications, and Corporate Services such as Facilities, Finance, Legal, Information Technology, and Human Resources are allocated to each area of programme activity and governance on bases appropriate to the activity concerned such as percentage of total cost, headcount or floor space.

g. Tangible fixed assets and depreciation

Property, plant and equipment are capitalised at their historic cost and stated at cost less depreciation. Assets costing less than £500 are expensed in the year of purchase.

Depreciation is calculated on a straight line basis over the expected useful life of the assets as follows:

Leasehold improvements	over the remaining life of the lease
Office equipment, fixtures and fittings	three to five years
Computer hardware	three years
Computer software	three to five years or the life of the licence

h. Investment assets – quoted and unquoted

Investment assets include quoted and unquoted investments. The Trustee holds the investment assets of the Trust on trust without distinction between capital and income, applying them in furtherance of the Objects of the Trust.

Cash and short-term deposits are presented in the Balance Sheet as current assets. All other financial assets are presented as fixed assets. Deferred investments and loans represent the portion of unpaid commitments for which drawdown has been requested at the balance sheet date. The corresponding commitment is recognised under current liabilities.

Loans are recognised as financial assets when repayment of the loan or the option to convert to equity has not expired by the balance sheet date. The loans are included in non-current assets except where repayment is expected within 12 months of the balance sheet date, when they are included as current assets.

The carrying value of all quoted and unquoted investments is at market value and unrealised changes between accounting periods are charged or credited to other recognised gains/(losses) in the Statement of Financial Activities. For financial assets for which there is no quoted market, market value is established by using valuation guidelines as detailed below.

I. Valuation – quoted investments:

The market values of quoted investments are based on externally reported bid prices at the balance sheet date.

Equity investments, high yield bonds, and property trusts are held in pooled funds and are stated at market value, being the market value of the underlying investments held. These valuations are provided by the relevant fund managers.

II. Valuation – unquoted investments:

Private equity investments are held through funds managed by private equity managers. As there is no identifiable market price for private equity funds, these funds are included at the most recent valuations provided by the private equity managers.

Where a valuation is not available at the balance sheet date, the most recent valuation from the private equity manager is used, adjusted for cash flows between the most recent valuation and the balance sheet date. Where a private equity manager does not provide a market value that complies with the above, the group is unable to obtain a reliable market value and therefore these investments are held at cost.

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

- BVCA guidelines provide for investments to be carried at cost unless there is information indicating an impairment or sufficiently clear evidence to support an increase in valuation.
- Where the price of a recent funding round (within previous 12 months) is not available, investments are valued using standard valuation methodologies, as appropriate and in the following order:

- i. Earnings multiple
 - ii. Net asset value
 - iii. Discounted cash flow
 - iv. Applying BVCA valuation benchmarks
- At the balance sheet date, management assesses whether there is objective evidence that a financial asset or a group of financial assets should be revalued. The approach, which is within the principles of the BVCA guidelines, is to review and give a 'health' status:
 - Healthy: value held at cost unless sufficiently clear evidence to support an increase in valuation; company is performing to plan, unlikely to run out of cash within 12 months.
 - Sick: value down according to the seriousness of a number of events considered by management; company is performing off-plan, may or may not be recoverable.
 - Terminal: value down, company is performing off-plan, likely to run out of cash within six months, recovery not foreseen, no intervention planned.

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

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

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

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

III. Treatment – Unquoted investments

Investments, loans or contributions to funds to date are recognised in full in the Balance Sheet. Undrawn commitments are disclosed by way of note.

Unrealised changes in value between accounting periods are reflected in other recognised gains/(losses) in the Statement of Financial Activities.

Investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred with all risks and rewards of ownership.

i. Investment assets – programme related investments

Unquoted equity and similar programme related investments are held at cost, less any provision for diminution in value, as Nesta is unable to obtain a reliable estimate of fair value. Programme related investments that are loans are accounted for at the outstanding amount of the loan less any provision for unrecoverable amounts. Any diminution or impairment in value is charged to the Statement of Financial Activities under charitable activities.

j. Significant estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent liabilities at the balance sheet date. Actual outcomes could differ from those estimates. This is especially the case of the valuation of the Group's investment in early-stage companies which is an inherently volatile and uncertain process. However, the valuation guidelines applied are considered to be the best estimate of market value.

k. Debtors and provisions

Debtors are recognised at fair value less any provision for bad debt. A provision for bad debt is established when there is objective evidence that the debtor will not be collected according to the original terms.

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

l. Related party transactions

Material transactions with related parties are disclosed in the notes to these financial statements. The Group's policy is for all Trustees, Executive Directors and direct reports to Executive Directors, to declare interests and related party transactions on appointment and at least annually. Declared interests are recorded in the Register of Interests and these are reviewed by the Finance and Audit Committee.

m. Taxation

Nesta and the Trust are charities within the meaning of Para 1 Schedule 6 Finance Act 2010. Accordingly they are potentially exempt from taxation in respect of income or capital gains within categories covered by Chapter 3 of Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

No tax charge arose in the year.

The subsidiary companies make qualifying donations of all taxable profit to Nesta. No corporation tax liability on the subsidiaries arises in the accounts.

n. Exchange gains and losses

The consolidated financial statements are presented in pounds sterling, the functional and presentational currency. Foreign currency transactions are translated using the exchange rates prevailing at the date of settlement. Realised and unrealised exchange gains and losses are recognised in the Statement of Financial Activities.

o. Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Financial Activities on a straight-line basis over the period of the lease or until the first rent review.

p. Commitments

Where Nesta has obligations but these do not meet the requirements of *FRS 12 Provisions, Contingent Liabilities and Contingent Assets* to be recognised as a liability, they are disclosed as commitments in the notes to the accounts.

Notes to the Accounts

2. Investment income

	Group 2013 £'000
<i>Quoted investments:</i>	
Interest receivable	5,847
Amortisation of redemption premiums	(1,585)
Total income from quoted investments	4,262
<i>Unquoted investments:</i>	
Interest and dividends receivable	90
Total income from unquoted investments	90
Bank interest	833
Total investment income	5,185

3. Incoming resources from charitable activities

	Group 2013 £'000
Funding from government bodies	6,496
Funding from non-government bodies	288
Other charitable activity income	414
Total incoming resources from charitable activities	7,198

Other charitable activity income includes income from consultancy services, monitoring and product sales.

4. Other income

	Group 2013 £'000
Impact fund management fees	183
Returns on legacy investments	75
Other sundry income	40
Total other income	298

Returns on legacy investments relate to investments granted which were expensed to programme expenditure in NESTA and were not transferred as a financial asset on 1 April 2012.

5. Gifted assets

On 1 April 2012 NESTA was abolished and all its staff, activities, operating assets and liabilities were transferred to Nesta or its subsidiary the Trust. The transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. In line with Charity Commission guidance, the transfer which was at nil consideration is treated in the Statement of Financial Activities as a gift of net assets on 1 April 2012.

Changes in accounting policy:

As a charity, Nesta has recognised programme related investments of £1.9 million as a fixed asset investment, which were previously expensed as grants by NESTA. In addition, Nesta has recognised opening restricted fund balances of £1.1 million on two incoming grants to comply with charity accounting.

Nesta classifies undrawn commitments in private equity secondary funds and early-stage funds as commitments by way of a note to the accounts (£20.1 million at 1 April 2012). These were classified as liabilities and a deferred asset in NESTA.

	NESTA 31 March 2012 £'000	Changes in accounting policy £'000	Total transferred funds 1 April 2012 £'000
Tangible fixed assets	1,216	9	1,225
Intangible assets	9	(9)	-
Investment assets	281,907	(18,181)	263,726
Cash and short-term deposits	84,941	-	84,941
Current assets	479	750	1,229
Current and long-term liabilities and provisions	(29,273)	20,598	(8,675)
Total net assets	339,279	3,167	342,446

Analysed as the following opening balances on transfer to Nesta and the Trust:

	Unrestricted funds 1 April 2012 £'000	Unrestricted funds retained within non- charitable subsidiaries 1 April 2012 £'000	Restricted funds 1 April 2012 £'000	Expendable endowment funds 1 April 2012 £'000	Total funds 1 April 2012 £'000
Tangible fixed assets	1,225	-	-	-	1,225
Investment assets	2,019	-	-	261,707	263,726
Cash and short-term deposits	4,032	122	4,469	76,318	84,941
Current assets	253	2	750	224	1,229
Current and long-term liabilities and provisions	(6,894)	(235)	(1,343)	(203)	(8,675)
Total net assets	635	(111)	3,876	338,046	342,446

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total funds £'000
Reconciliation to the Statement of Financial Activities, gifted assets from NESTA	524	3,876	338,046	342,446

6. Investment management costs

	Group 2013 £'000
Investment manager fees	1,074
Investment consultancy fees	142
Custodian fees	45
Total investment management costs	1,261

7. Charitable activities

	Grant making 2013 £'000	Non-grant direct cost 2013 £'000	Allocated support costs 2013 £'000	Group total 2013 £'000
Policy and Research	354	2,138	1,272	3,764
Programmes	9,515	4,380	2,931	16,826
Investment (early-stage and social impact) management	336	1,021	710	2,067
Skills	-	380	200	580
Total charitable activities	10,205	7,919	5,113	23,237

7a. Support costs

Support costs have been allocated to charitable activity areas as follows:

	Support staff costs 2013 £'000	Premises, technology and other costs 2013 £'000	Group total 2013 £'000
Policy and Research	367	905	1,272
Programmes	1,319	1,612	2,931
Investment (early-stage and social impact) management	224	486	710
Skills	111	89	200
Total allocated to charitable activities	2,021	3,092	5,113
Allocated to Governance costs	9	3	12
Total support costs	2,030	3,095	5,125

The basis for allocation of support costs is as follows:

Office of the Chief Executive, Front of House
Finance, Legal, Publications, Events and Communications
Facilities
Information Technology, Human Resources

Allocated equally to each area
Allocated on the ratio of direct costs of each area
Allocated on the basis of floorspace occupied
Allocated on the basis of headcount

Notes to the Accounts

7b. Grants

Included in the cost of charitable activities are grants committed. Grants of £50,000 and above are detailed below. A full list of grants committed is available by writing to Nesta, 1 Plough Place, London EC4A 1DE.

Recipient	Grants to institutions 2013 £'000	Grants to individuals 2013 £'000	Charitable activity area	Programme
Social Innovation Camp Limited	320	-	Investment management	Accelerators
The Good Gym	256	-	Programmes	Innovation in Giving
Streetbank Limited	245	-	Programmes	Innovation in Giving
Care4Care CIC	202	-	Programmes	Innovation in Giving
Education and Employers Taskforce	200	-	Programmes	Innovation in Giving
The Pennies Foundation	200	-	Programmes	Innovation in Giving
Oneworld UK	175	-	Programmes	Innovation in Giving
10:10	165	-	Programmes	Innovation in Giving
WWF-UK	157	-	Programmes	Innovation in Giving
CDI Apps for Good	155	-	Programmes	Innovation in Giving
Stoke on Trent City Council	154	-	Programmes	Creative Councils
Monmouthshire County Council	151	-	Programmes	Creative Councils
Givey Ltd	150	-	Programmes	Innovation in Giving
The National Funding Scheme	150	-	Programmes	Innovation in Giving
Sellaventure LLP	150	-	Programmes	Innovation in Giving
Trading for Good Limited	150	-	Programmes	Innovation in Giving
Wigan Council	150	-	Programmes	Creative Councils
Keo PF.it Limited	150	-	Programmes	Innovation in Giving
Rotherham Metropolitan Borough Council	150	-	Programmes	Creative Councils
The Amazings Social Business Limited	148	-	Programmes	Innovation in Giving
Derbyshire County Council	142	-	Programmes	Creative Councils
Age UK	130	-	Programmes	Innovation in Giving £120k, Prizes £10k
Cheltenham Festivals	125	-	Programmes	Digital Research and Development Fund for the Arts
Guess2Give Holdings Limited	125	-	Programmes	Innovation in Giving
The Imperial War Museum	125	-	Programmes	Digital Research and Development Fund for the Arts
Knowle West Media Centre	125	-	Programmes	Digital Research and Development Fund for the Arts
The Royal Opera House	125	-	Programmes	Digital Research and Development Fund for the Arts
Pavilion Dance South West	124	-	Programmes	Digital Research and Development Fund for the Arts
Church of England Children's Society	120	-	Programmes	Innovation in Giving
Marie Curie Cancer Care	120	-	Programmes	Innovation in Giving
Mencap	120	-	Programmes	Innovation in Giving
The National Trust	120	-	Programmes	Innovation in Giving

Notes to the Accounts

Recipient	Grants to institutions 2013 £'000	Grants to individuals 2013 £'000	Charitable activity area	Programme
Arts University Bournemouth	119	-	Programmes	Digital Research and Development Fund for the Arts
FoodCycle	119	-	Programmes	Innovation in Giving
Keep Britain Tidy	119	-	Programmes	Innovation in Giving
Unlimited Theatre	107	-	Programmes	Digital Research and Development Fund for the Arts
CDI Europe Limited	101	-	Programmes	Innovation in Giving
Giving.com Limited	100	-	Programmes	Innovation in Giving
Mozilla Foundation	100	-	Programmes	Digital Education
Revolutionary Arts LLP	100	-	Programmes	Innovation in Giving
The Thomas & Thomas Network Limited	100	-	Programmes	Innovation in Giving
Live at LICA (Lancaster Institute for the Contemporary Arts)	97	-	Programmes	Digital Research and Development Fund for the Arts
The National Institute of Economic and Social Research	94	-	Policy and Research	Big Data £75k, Growth Grants £19k
United Response	90	-	Programmes	Innovation in Giving
Glasgow Film Theatre	90	-	Programmes	Digital Research and Development Scotland
Community Development Foundation	89	-	Programmes	Innovation in Giving
Scottish Documentary Institute	76	-	Programmes	Digital Research and Development Scotland
Shared Lives Plus Limited	75	-	Programmes	Innovation in Giving
Swarm Partnership LLP	75	-	Programmes	Innovation in Giving
I Am Possible Limited	71	-	Programmes	Innovation in Giving
Peterborough Environment City Trust	70	-	Programmes	Innovation in Giving
Scope	65	-	Programmes	Innovation in Giving
Charities Aid Foundation	65	-	Programmes	Innovation in Giving
The Royal Lyceum Theatre Company	62	-	Programmes	Digital Research and Development Scotland
National Theatre of Scotland	55	-	Programmes	Digital Research and Development Scotland
Publishing Scotland	54	-	Programmes	Digital Research and Development Scotland
Young Philanthropy	53	-	Programmes	Innovation in Giving
Digital Me Limited	52	-	Programmes	Innovation in Giving
The Good People Business Ltd	51	-	Programmes	Innovation in Giving
The Audience Business	50	-	Programmes	Digital Research and Development Scotland
2D (Support for the Voluntary and Community Sector of Teesdale and Wear Valley) Limited	50	-	Programmes	Innovation in Giving
Better Data Limited	50	-	Policy and Research	Randomise Me
BNL Productions	50	-	Programmes	Destination Local
C Social Limited	50	-	Programmes	Innovation in Giving
Collaborative Lab PTY Limited	50	-	Programmes	Innovation in Giving

Notes to the Accounts

Recipient	Grants to institutions 2013 £'000	Grants to individuals 2013 £'000	Charitable activity area	Programme
Dot Dot Dot Property Limited	50	-	Programmes	Innovation in Giving
Ecomodo Limited	50	-	Programmes	Innovation in Giving
Federation of City Farms and Community Gardens	50	-	Programmes	Innovation in Giving
FutureGov. Ltd	50	-	Programmes	Innovation in Giving
Gateshead Voluntary Organisations Council	50	-	Programmes	Innovation in Giving
Give What You're Good at Limited	50	-	Programmes	Innovation in Giving
Herald & Times Group	50	-	Programmes	Destination Local
Lincolnshire Community and Voluntary Service	50	-	Programmes	Innovation in Giving
Livity Limited	50	-	Programmes	Innovation in Giving
Locality (UK)	50	-	Programmes	Innovation in Giving
London Belongs To Me Ltd	50	-	Programmes	Destination Local
Madebybelieve Ltd	50	-	Programmes	Innovation in Giving
Miura Limited	50	-	Programmes	Innovation in Giving
MyTown Media Limited	50	-	Programmes	Destination Local
The National Donation Scheme	50	-	Programmes	Innovation in Giving
Our Lady's Catholic High School	50	-	Programmes	Digital Education
Positivebid Limited	50	-	Programmes	Innovation in Giving
Reach Volunteering	50	-	Programmes	Innovation in Giving
The Giving Lab (See the Difference)	50	-	Programmes	Innovation in Giving
South Mountain Economics LLC	50	-	Policy and Research	Big Data
Staffordshire Moorlands Community and Voluntary Services	50	-	Programmes	Innovation in Giving
TW Ad Services Limited	50	-	Programmes	Destination Local
Voluntary Action Kirklees	50	-	Programmes	Innovation in Giving
Volunteering England	50	-	Programmes	Innovation in Giving
Westco Trading Limited	50	-	Programmes	Destination Local
Year Here Ltd	50	-	Programmes	Innovation in Giving
Grants below £50,000 (number of grants to institutions 64, to individuals 2)	1,520	20		
Grants rescinded in the year	(263)	-		
Total grants	10,185	20		

8. Governance costs

	Group 2013 £'000
External audit fees	43
Internal audit fees	31
Legal fees	48
Protector fees	5
Other	22
Allocation of support costs	12
Total governance costs	161

Expenses of £1,341 were reimbursed to five Trustees during the year. The Trustees received no remuneration for their role as Trustees during the year.

External audit fees incurred for Nesta, the parent charity, were £19,500 excluding VAT.

9. Employees

9a. Staff costs

	Group 2013 £'000
Salaries and emoluments of directly employed staff	4,833
Social security costs	594
Pension costs	478
Agency/temporary staff costs	318
Other staff costs	76
Total	6,299

For the year ended 31 March 2013, certain staff were eligible for contractual payments as part of Nesta's Carried Interest Plan. This plan was introduced in 2008 and provides participants with a share of any cash returns made by Nesta from its portfolio of early-stage venture investments.

9b. Staff numbers

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

	Group 2013
Policy and Research	16
Programmes	36
Investment (early-stage and social impact) management	8
Skills	3
Publications, Events and Communications	13
Governance and Corporate Services	19
Total	95

9c. Higher earners

The number of employees who received remuneration (salaries, bonus and benefits in kind) of more than £60,000 in the year was as follows:

	Group 2013
£60,000 - £70,000	7
£70,001 - £80,000	2
£80,001 - £90,000	3
£100,001 - £110,000	1
£110,001 - £120,000	3
£120,001 - £130,000	1
£140,001 - £150,000	1
£210,001 - £220,000	1

Of staff with remuneration over £60,000, 18 are members of Nesta's defined contribution pension scheme. Employer contributions to the scheme relating to staff in these salary ranges during the year were £181k.

Remuneration for the Chief Executive Officer totalled £143k.

9d. Pensions

Nesta offers employees a 12 per cent contribution, on a defined contribution basis, to a personal pension scheme or group stakeholder scheme. Nesta's total contribution made in respect of the period, for all schemes, totalled £478k including outstanding contributions of £44k.

10. Tangible assets

	Leasehold improve- ments £'000	Computer hardware £'000	Computer software £'000	Office equipment £'000	Fixtures and fittings £'000	Parent Charity and Group Total £'000
Cost						
Gifted assets 1 April 2012	2,415	474	16	15	426	3,346
Additions	-	126	-	1	37	164
Disposals	-	(1)	-	-	-	(1)
At 31 March 2013	2,415	599	16	16	463	3,509
Less depreciation						
Gifted assets 1 April 2012	1,366	400	7	12	336	2,121
Charge for the year	273	75	5	2	25	380
Disposals in the year	-	(1)	-	-	-	(1)
At 31 March 2013	1,639	474	12	14	361	2,500
Net book value at 1 April 2012	1,049	74	9	3	90	1,225
Net book value at 31 March 2013	776	125	4	2	102	1,009

11. Investments

Category	Gifted assets 1 April 2012 £'000	Additions £'000	Maturities and disposals at market value £'000	Amortisation and charges £'000	Realised gain/(loss) £'000	Unrealised gain/(loss) £'000	Group total market value 31 March 2013 £'000
<i>Quoted investments:</i>							
Gilts – UK Government	124,822	65,574	(68,046)	(1,585)	12,981	(5,305)	128,441
Global equities	107,914	20,863	-	(630)	630	20,116	148,893
Property trust funds	4,254	-	-	(37)	37	(354)	3,900
Fixed income	-	29,777	-	(21)	21	550	30,327
Total quoted investments	236,990	116,214	(68,046)	(2,273)	13,669	15,007	311,561
<i>Unquoted investments:</i>							
Private equity funds	4,692	5,393	(1,300)	-	646	1,297	10,728
Investment in early-stage companies	15,598	2,021	(3,800)	-	2,508	(1,757)	14,570
Loans to early-stage companies	430	521	-	-	-	(327)	624
Investment in early-stage funds	3,848	1,137	(126)	-	(82)	(146)	4,631
Deferred investment in early-stage companies	149	(127)	-	-	-	-	22
Deferred loans to early-stage companies	-	309	-	-	-	-	309
Total unquoted investments	24,717	9,254	(5,226)	-	3,072	(933)	30,884
Total investments	261,707	125,468	(73,272)	(2,273)	16,741	14,074	342,445

In addition to the investments above, cash of £76,318k was transferred to the Trust on 1 April 2012. Total gifted cash and investment assets to the Trust on 1 April 2012 were £338,025k. As at 31 March 2013, total cash and investment assets held by Nesta Trust totalled £360,040k. Refer also to the Investment Review on pages 44 to 45 of this report.

Charges reflect investment management fees grossed up where offset against the value of a fund.

Deferred investments represent the portion of commitments which remain undrawn but for which draw down has been requested at the balance sheet date. The corresponding liability is recognised under current liabilities.

Investment assets consist of the following:

	Market value 31 March 2013 £'000	Percentage of total %
UK quoted investments	132,341	39
Overseas quoted investments	179,220	52
UK unquoted investments	19,451	6
Overseas unquoted investments	11,433	3
	342,445	100

Notes to the Accounts

Total gains and losses on investment assets above impacting the Statement of Financial Activities are summarised as follows:

	Realised gain/(loss) 2013 £'000	Unrealised gain/(loss) 2013 £'000	Group total gain/(loss) 2013 £'000
Quoted investments	13,669	15,007	28,676
Unquoted investments	3,072	(933)	2,139
	16,741	14,074	30,815

12. Programme related investments

	Gifted assets fair value 1 April 2012 £'000	Additions £'000	Impairments £'000	Parent Charity and Group total fair value 31 March 2013 £'000
<i>Investment type:</i>				
Equity	1,833	156	(235)	1,754
Unsecured loan	67	167	(100)	134
Total	1,900	323	(335)	1,888

13. Debtors

	Group 2013 £'000	Parent Charity 2013 £'000
<i>Amounts falling due within one year:</i>		
Trade receivables	312	129
Amounts due from subsidiaries	-	380
Accrued income	628	596
Prepayments	138	137
Tax receivable	7	-
Other debtors	278	19
Total amounts falling due within one year	1,363	1,261
<i>Amounts falling due after more than one year:</i>		
Accrued income	250	250
Total amounts falling due after more than one year	250	250
Total debtors	1,613	1,511

Notes to the Accounts

14. Creditors

	Group 2013 £'000	Parent Charity 2013 £'000
<i>Amounts falling due within one year:</i>		
Trade creditors	372	366
Accruals	1,232	1,039
Deferred income	75	75
Grants payable	8,144	8,144
Deferred investments	332	-
Other tax and social security	190	190
Other payables	77	53
Total creditors falling due within one year	10,422	9,867
<i>Amounts falling due after more than one year:</i>		
Grants payable	360	360
Total creditors falling due after more than one year	360	360

Deferred investments represent the portion of commitments which remain undrawn but for which draw down has been requested at the balance sheet date.

15. Subsidiaries

Organisation name	Country of registration	Class of ownership	Parent Interest	Share capital held	Year end date	Nature of business
The Nesta Trust	United Kingdom	Sole corporate Trustee			31 March	A charitable Trust that holds investment assets
Nesta GP Limited	United Kingdom	Ordinary	100%	£1	31 March	General Partner in the Nesta Impact Investments 1 Limited Partnership Fund
Nesta PRI Limited	United Kingdom	Ordinary	100%	£1	31 March	Limited Partner in the Nesta Impact Investments 1 Limited Partnership Fund
Nesta Partners Limited	United Kingdom	Ordinary	100%	£1	31 March	(Dormant) Partner in Nesta Investment Management LLP and Nesta Kinetique LLP
Nesta Kinetique LLP	United Kingdom	Limited Liability Partnership			31 March	(Dormant) General Partner in the Kinetique Biomedical Seed Fund
Nesta Investment Management LLP	United Kingdom	Limited Liability Partnership			31 March	Investment funds manager

Notes to the Accounts

The results of the subsidiary entities consolidated are as follows:

	The Nesta Trust 2013 £'000	Nesta GP Limited 2013 £'000	Nesta PRI Limited 2013 £'000	Nesta Investment Management LLP 2013 £'000
Income	343,191	183	-	321
Expenditure	(14,361)	(183)	(150)	(322)
Other gains	30,978	-	-	-
Trading profit/(loss)	359,808	-	(150)	(1)
Partner share of profit/(loss)	359,808	-	(150)	(1)
Profit/(loss) for the period	359,808	-	(150)	(1)
Assets	360,310	183	7	320
Liabilities	(502)	(183)	(157)	(321)
Net assets	359,808	-	(150)	(1)

16. Funds

16a. Unrestricted funds

	Group 2013 £'000
<i>General funds:</i>	
Net outgoing resources	(10,283)
Transfers to restricted funds	(2,752)
Transfers from endowment funds	13,257
Balance at 31 March 2013	222
<i>Endowment funds:</i>	
Net incoming resources	342,087
Gains	30,978
Transfers to unrestricted funds	(13,257)
Balance at 31 March 2013	359,808
<i>Funds retained within non-charitable subsidiaries:</i>	
Net outgoing resources	(114)
Balance at 31 March 2013	(114)
Total unrestricted funds at 31 March 2013	359,916

16b. Restricted funds

Funder	Programme	Gifted assets 1 April 2012 £'000	Income £'000	Expenditure £'000	Transfers from general fund £'000	Parent Charity and Group 31 March 2013 £'000
Cabinet Office	Innovation in Giving Fund	2,288	3,900	(7,029)	841	-
Foreign and Commonwealth Office	India Research and Innovation Ecosystem	-	5	(41)	36	-
European Commission	Commons4EU	-	32	(51)	19	-
Futurelab at NFER	Digital Education	250	-	(128)	128	250
Scottish Government	Digital Education	-	70	(151)	81	-
Nominet	Digital Education	-	250	(538)	288	-
Mozilla Foundation	Digital Education	-	50	(108)	58	-
Economic and Social Research Council	UK Alliance for Useful Evidence	-	50	(83)	33	-
Big Lottery Fund	UK Alliance for Useful Evidence	-	50	(83)	33	-
Improvement and Development Agency for Local Government	Creative Councils	488	-	(1,232)	744	-
Department for Business Innovation and Skills	Prizes	850	-	(208)	-	642
Cabinet Office	Prizes	-	277	(299)	22	-
Creative Scotland	Digital Research and Development Scotland	-	350	(407)	57	-
Arts and Humanities Research Council	Digital Research and Development Scotland	-	150	(207)	57	-
Welsh Government	Destination Local	-	50	(100)	50	-
Creative Scotland	Destination Local	-	72	(144)	72	-
Arts Council of England	Digital Research and Development Fund for the Arts	-	950	(1,027)	190	113
Arts and Humanities Research Council	Digital Research and Development Fund for the Arts	-	500	(171)	32	361
Rockefeller	Innovation Skills	-	151	(6)	-	145
Department for Business Innovation and Skills	New Frontiers of Chinese Research and Innovation	-	30	(22)	11	19
Foreign and Commonwealth Office	New Frontiers of Chinese Research and Innovation	-	20	(20)	-	-
European Commission	Apps4EU	-	2	(2)	-	-
		3,876	6,959	(12,057)	2,752	1,530

In many cases, restricted income is received for programmes for which there is part or match-funding by Nesta (either in cash or in kind). The expenditure shown as restricted is the total expenditure of the programme funded by both Nesta and the external donor. A transfer from the general fund represents the portion of the programme funded by Nesta.

17. Analysis of net assets between funds

	Unrestricted funds 2013 £'000	Restricted funds 2013 £'000	Expendable endowment funds 2013 £'000	Group total funds 2013 £'000
<i>Fund balances are represented by:</i>				
Tangible fixed assets	1,009	-	-	1,009
Investment assets	1,888	-	342,445	344,333
Current assets	382	8,639	17,865	26,886
Current and long-term liabilities and provisions	(3,171)	(7,109)	(502)	(10,782)
Total net assets	108	1,530	359,808	361,446

18. Summary consolidated income and expenditure account for the year ended 31 March 2013

This summary consolidated income and expenditure account is presented in order to ensure compliance with the Companies Act 2006.

The major difference in the figures presented from those in the Consolidated Statement of Financial Activities is that unrealised gains and losses on investment assets are not recognised.

	Notes to the accounts	2013 £'000
<i>Gross income:</i>		
Gross income of continuing operations		25,120
Income of non-charitable subsidiaries		73
		25,193
<i>Gross expenditure:</i>		
Total expenditure of continuing operations		23,368
Expenditure of non-charitable subsidiaries		187
		23,555
Net income for the year		1,638
<i>Reconciliation to Statement of Financial Activities:</i>		
Net income for the year		1,638
Movement on endowment funds	16	359,808
Net incoming resources		361,446

19. Contingent liabilities

The lease agreement for the rental property at 1 Plough Place expires in 2021. While a contingent liability for dilapidations exists, no estimate has been made due to uncertainty in timing and amount.

20. Commitments

Investments, loans or contributions to funds that have been contracted but not yet drawn down are shown as commitments below.

	Parent Charity and Group total 1 April 2012 £'000	Additions £'000	Drawn down £'000	Parent Charity and Group total 31 March 2013 £'000
Private equity secondaries	17,253	-	(4,581)	12,672
Programme related investments	-	8,223	-	8,223
Investments in early-stage funds	2,827	-	(1,137)	1,690
Total	20,080	8,223	(5,718)	22,585

21. Operating lease commitments

At 31 March 2013 the Group was committed to payments during the next year in respect of operating leases which expire:

	Due within one year £'000	Due within two to five years £'000	Due in more than five years £'000
Buildings - 1 Plough Place	-	-	709
Total	-	-	709

22. Related party transactions

Where transactions between Nesta and its wholly owned subsidiary undertakings have been eliminated on consolidation in these financial statements, advantage has been taken of exemptions under *FRS 8 Related Party Disclosures* not to disclose balances.

The Trust holds the investment assets previously held by NESTA which was abolished on 1 April 2012. The Trust is a registered charitable trust which is classified by the Office of National Statistics as within the public sector boundary. The Trust has transferred sums to its Trustee Nesta in furtherance of its charitable objects during the year. Nesta has had transactions with Government Departments and bodies during the year as part of its ordinary course of business. As the Trust is not involved in the operational decisions of Nesta, any transactions between Government Departments/bodies and Nesta are not considered to be related party transactions.

Nesta's Trustees are drawn from among its key stakeholders, and staff may at times have links to stakeholder organisations, and therefore it is in the nature of Nesta's business to have some transactions which are classified as related. All transactions are entered into as part of the ordinary course of business and on an arm's length basis, consistent with Nesta's policy on potential conflicts of interest. During the year Nesta entered into the following material transactions with related parties:

Name	Position at Nesta	Related party	Transaction	Outstanding balance 1 April 2012 £'000	Expense £'000	Payments £'000	Outstanding balance 31 March 2013 £'000	Amount committed not drawn down 31 March 2013 £'000
Sir John Gieve	Trustee	Chairman, Clore Social Leadership Programme	Grant to develop social leadership Programme	25	35	55	5	-
Ernie Richardson	Committee Member	Limited partner in the UMIP Premier Fund	Investment in early-stage fund	-	-	700	-	700
Geoff Mulgan	Chief Executive	Board Member, Big Society Capital	Programme related investment - co-investor in fund	-	-	157	-	7,843
Helen Goulden	Staff	Partner is Chief Operating Officer, National Funding Scheme	Grant for Innovation in Giving programme	-	200	50	150	-

Trustees and Main Board Committee Members

Trustees

Sir John Chisholm (Chair) – appointed 16 April 2012

Madeleine Atkins

Kersten England – appointed 26 September 2012

Jitesh Gadhia

Sir John Gieve

Michelle Harrison – appointed 26 September 2012

Dame Julie Mellor

David Pitt-Watson – appointed 21 March 2013

John Sheldrick – appointed 16 April 2012

Kim Shillinglaw – appointed 27 June 2012

Nick Starr – appointed 16 April 2012

Rob Woodward – appointed 16 April 2012

Finance and Audit Committee

John Sheldrick (Chair)

Madeleine Atkins

Jitesh Gadhia

Tony Thomas (Non-trustee member) – appointed 16 April 2012

Remuneration Committee

Dame Julie Mellor (Chair)

John Sheldrick

Nick Starr

Trust Investment Committee

Jitesh Gadhia (Chair)

Nick Cavalla (Non-trustee member) – appointed 16 April 2012 retired 31 March 2013

David Pitt-Watson – appointed 21 March 2013

Rob Woodward

Venture Investment Committee

Rob Woodward (Chair)

Sir John Chisholm

Ernie Richardson (Non-trustee member) – appointed 16 April 2012

Nominations Committee

Sir John Gieve (Chair)

Sir John Chisholm

Dame Julie Mellor

Rob Woodward

Protector of the Nesta Trust

James Sinclair Taylor

Executive Team

Name	Title	
Geoff Mulgan	Chief Executive Officer	
Catherine Bithell	Executive Director of Communications	Appointed 9 July 2012, currently on maternity leave
Grace Chan	Finance Director	Appointed 1 April 2013
Philip Colligan	Executive Director of the Innovation Lab	
Helen Goulden	Executive Director of the Innovation Lab	Appointed 9 May 2013
Matthew Mead	Chief Investment Officer	
Simon Morrison	Interim Executive Director of Communications	Appointed 14 January 2013
Stian Westlake	Executive Director of Policy and Research	

Company Secretary

Clare Goodman

Appointed 16 April 2012

Administrative Details

Companies House registered number	07706036 (registered 15 July 2011)
Charity Commission registered number	1144091 (registered 30 September 2011)
Office of the Scottish Charity Regulator registered number	SC042833 (registered 30 December 2011)
Registered Office	1 Plough Place London EC4A 1DE
Independent Auditor	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA
Internal Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Principal Bankers	Lloyds TSB Bank plc 25 Gresham Street London EC2V 7HN

Nesta...

Nesta

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July 2013

**Nesta Operating Company. English charity no. 7706036.
Scottish charity no. SC042833.**