

Nesta...

# ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED  
31 MARCH 2014

# Nesta...

**Nesta is the UK's innovation foundation.**

An independent charity, we help people and organisations bring great ideas to life. We do this by providing investments and grants and mobilising research, networks and skills.

Nesta is a registered charity in England and Wales with company number 07706036 and charity number 1144091. Registered as a charity in Scotland number SC042833. Registered office: 1 Plough Place, London, EC4A 1DE.

[www.nesta.org.uk](http://www.nesta.org.uk)

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## Trustees



L-R - Piers Linney, Ed Wray, David Pitt-Watson, Kersten England, Sir John Chisholm, Sir John Gieve, Madeleine Atkins, Rob Woodward, Dame Julie Mellor.

### **Sir John Chisholm**

Nesta's Chair.  
Executive Chair of Genomics England, and  
Non-Executive Director of Health and Social Care  
Information Centre.

### **Madeleine Atkins**

Chief Executive, Higher Education Funding  
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### **Kersten England**

Chief Executive of City of York Council.

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### **Rob Woodward**

CEO of STV Group plc.

### **Dr Michelle Harrison**

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### **John Sheldrick**

Non-Executive Director of Fenner PLC  
and Low & Bonar PLC, and board member  
of Catalyst Housing Group

### **Kim Shillinglaw**

Controller BBC 2 and BBC 4.

### **Dame Julie Mellor, DBE**

Parliamentary & Health  
Service Ombudsman.

### **Ed Wray**

Directorships at Funding Circle  
and LMAX Limited and Chair of the  
Development Board at YouthNet.



## Chairman's statement

Nesta's second year as a charity has been marked by the vibrancy of our activities set against the backdrop of a slow and painful climb out of the longest and deepest recession in most western leaders' experience. Our floors in Plough Place are bursting at the seams with eager busy people – both ours and those from our many partners – and our pipeline of upcoming projects has never been stronger.

Is the world recognising that innovation is no longer just the icing on a fiscally taut economic cake? Or is innovation now recognised to be a must-have ingredient to ensure fair and sustainable societies for all? We are probably not quite there yet but there is some evidence for encouraging progress which readers of this Annual Report will be able to discover from the projects Nesta has been doing.

I would like to thank all our staff and our Trustees for their dedication and hard work; our funders for their continuing support; and our partners and awardees for their ideas that help bring innovation to life.

**Sir John Chisholm**

**Chairman**



## Chief Executive's Statement

During 2013–14 Nesta moved up a few gears. We made our first investments from our impact investment fund. Through our big innovation programmes we backed an amazing array of creative projects – from the digital arts to social action.

The work we have been doing over several years, promoting computer science, coding and digital making for young people, moved into the mainstream with the Make Things Do Stuff campaign, leading to thousands of new apps and code clubs in schools. Our global work moved up a gear too. In Europe we are now leading, or part of, over a dozen ambitious programmes. And we published our landmark report on China's innovation system.

Some of our practical experiments showcased new ways of organising things. Our People Powered Health programme showed that empowering patients and linking them up can achieve better health results at lower cost. Its ideas have been enthusiastically taken up by government and politicians. We also tried to improve the conditions for innovation with new tools. Some of the steps we took were very practical – like working with business and social venture accelerators, and examples of collaborative consumption. Others drew on research – as with new ways of analysing creativity in the economy, which have now been taken up by the UK government.

All of our work is inspired by a conviction that the world needs both more innovation and better innovation. We need creativity and an appetite to take risks – and that often means fighting against the inertia and complacency that are so common in big organisations, whether in the public sector or in business. But we also need brainpower to be better directed towards achieving useful results. A high proportion of the world's innovation brainpower continues to be directed to questionable ends, from better ways of killing people to fairly trivial new methods for marketing.

If we can redirect a fraction of that intelligence to better health, or better ageing, the world will be a better place.

**Geoff Mulgan**

**Chief Executive**

## Objectives

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Nesta was established and registered as a charity in 2011 to act as successor body to the National Endowment for Science, Technology and the Arts (“NESTA”). NESTA was a non-departmental public body established in 1998 with a statutory remit to promote talent, creativity and innovation in science, technology and the arts and with an endowment from the National Lottery.

All NESTA activities, staff, assets and liabilities were transferred on 1 April 2012 to Nesta and to the Nesta Trust (“the Trust”). The Trust holds the expendable endowment and Nesta, its sole trustee, uses returns from the Trust to pursue the charitable objects of the Trust.

The Nesta Group (“the Group”) comprises Nesta, the Trust, four companies and two limited liability partnerships. For more information on the group structure and subsidiaries please see page 47.

Nesta continues with a mix of activities that advance its new charitable objects while also remaining true to NESTA’s founding mission of helping the UK better capitalise on invention and creativity. This is done through providing investments and grants and mobilising research, networks and skills.

### 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 development

through 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 and the Nesta Trust, they have had due regard to the Charity Commission's statutory guidance on public benefit.

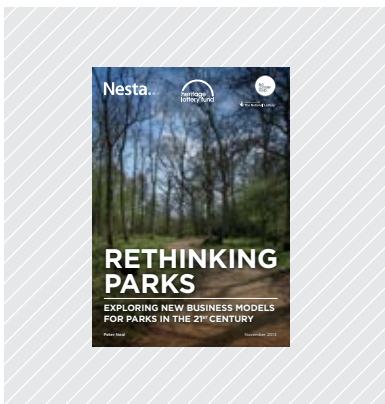
A copy of the Charity Commission's guidance on public benefit is provided to each Trustee. The updated guidance issued by the Commission in September 2013 was provided to all Trustees and discussed by the Board. Every proposal brought to the Board for approval outlines how it will advance Nesta's charitable objects for public benefit.

This report sets out some of the significant activities undertaken by Nesta to carry out its charitable purposes, and the purposes of the Nesta Trust, for the public benefit over the year. These range from carrying out and promoting research to increase public understanding in areas such as innovation policy and inclusive models of economic growth, to funding innovative projects which encourage use of public parks, citizen engagement, the arts, ageing, health and education. Nesta also advances its charitable objects for public benefit in other innovative ways as described in the report, including through challenge prizes, social impact investment and groundbreaking events.

Support is provided to private and for-profit companies only where this will further Nesta's charitable purposes for public benefit and where personal benefit is incidental to the furtherance of those purposes. The potential for personal benefit is assessed on a case by case basis, through due diligence on potential investments, for example, and appropriate conditions are imposed to ensure this is incidental to the furtherance of Nesta's charitable purposes. Grants and investments are closely monitored to ensure they continue to further Nesta's charitable purposes throughout the project.

The report also provides in pages 10 to 19 details of Nesta's purposes and objectives and its strategies and achievements in pursuing these purposes and objectives.

### Case Study: Rethinking Parks



Public parks are an enduring and defining feature of towns and cities across the UK. At their best, public parks don't just provide space for leisure and relaxation, they are also a hub of the local community and a 'green lung' in the urban environment.

Yet our public parks are at risk. With funding cuts of 60 per cent and more projected over the next decade for non-statutory services provided by local authorities, parks are at risk of becoming no-go zones or being sold off.

Rethinking Parks is a programme which aims to find, support and test new business models for public parks. We want people to develop new ways to operate, fund and use public parks so that they continue to thrive, despite traditional sources of revenue and support being eroded. Our strategic partners, the Big Lottery Fund and the Heritage Lottery Fund, have strong

track records of supporting parks, having invested upwards of £700 million in them over the last two decades.

The programme was launched in November 2013, with a £1 million fund, a package of support and mentoring, and up to £100,000 per project being made available for the best innovative ideas. Successful applicants will be funded from July 2014, but we are already making an impact.

In the first phase of our programme, ahead of awarding funds, our objectives are to raise awareness of the parks challenge, encourage communities to respond, and provide them with the tools to do so. Eight open-invite workshops, a dedicated web page, the parks innovations living map (a searchable database of case studies that people can add their own examples to) and a *Rethinking Parks* landscape review are among the outputs from this first phase. Demand for our Rethinking Parks workshops was especially high, with 365 people attending. A quarter of all local authorities across the UK were represented, and the social enterprise, charity, academic and community sectors had a strong presence. The workshops shared examples of new business models and encouraged participants to develop innovation skills.



## Objectives

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The Parks Trust

The workshops also raised awareness of the fund, and as a result we have received 209 expressions of interest, with 28 project groups being invited back to a second workshop to test their ideas further, and invited to apply in full.

It's been a great start to the programme, and one that we hope will be a springboard for us to make a real impact in 2014. And not just amongst the ten or so grant recipients as they work on new models for their local parks, but more importantly amongst the park managers, local councillors and community groups who can replicate these business models, to ensure that our parks aren't just maintained, but go on to thrive in the next 50 years.



Plug N Play Park, Denmark

## 1. Achievements in 2013–2014

Over the last year Nesta has moved up a few gears. We've:

- Grown our impact through combining financial and non-financial support to 140 organisations, and a series of partnerships.
- Expanded our audience, through a new website and new events.
- Grown our international presence.
- Started to become a network of linked organisations.
- Developed new tools to help innovators make the most of their ideas.

### Growing our impact through combining financial and non-financial support to innovators

During 2013–14 we've started, and also continued to run a series of significant funds, backing promising ideas, and helping innovators to refine them and take them to scale. These included:

- The Centre for Social Action – which has been identifying, funding and helping to scale a range of organisations bringing the public into public services.
- The Digital R&D Fund for the Arts – backing imaginative collaborations of arts organisations, technologists and researchers to find new uses for digital technology.
- Nesta's Impact Investment Fund – making investments in ventures combining social and financial returns.

**90%**

We secured 90 per cent of our £14 million external funding target for 2014–15 by the beginning of the financial year.

**£78,000**

Average charitable grant made to organisations by Nesta in 2013–14

**140**

Number of organisations we've supported

### Increasing our work through partnerships

We've gained a reputation for excellent management of external funds, selecting and delivering high quality innovative projects. This has helped us forge many significant partnerships over the past year, including Rockefeller Foundation, Bloomberg Philanthropies, Mozilla, Nominet Trust, Technology Strategy Board and the Cabinet Office. Our reputation as a strong delivery partner meant that we secured over 90 per cent of our £14 million funding target for 2014–15 by the beginning of the financial year.

### Shaping agendas

We've also helped to set policy agendas – from people powered health (many of whose recommendations have been adopted by government), to our advocacy of extending opportunities for computer science and coding to children. We're continuing to campaign for the ideas set out in Plan I, and have seen some welcome steps including adoption of proposals around the Small Business Research Initiative (SBRI) by the government.

### Growing our audience

A refreshed website was launched in November 2013 and helped Nesta reach one million visits and regular levels of engagement 2.5 times the level of a year previously. In September 2013 we launched FutureFest – our first large-scale paid-for event, focused on better ways of shaping the future. Around 2,000 people attended and we reached an online audience of over 10,000 website visitors and two million social media accounts over one weekend. We achieved over 70 pieces of national and international coverage, putting the FutureFest and Nesta names into new publications that reached totally new audiences.

### Growing our international presence

We have developed research programmes in China and India, and have started a new research programme in Malaysia. We have over a dozen practical collaborations across Europe, from new apps to digital social innovation, and our *Creative Enterprise Toolkit* has been translated into five languages.

### Becoming a hub for a wider network

We're starting to grow Nesta as a network of connected organisations, and in early 2014 were successful in our bid, against stiff competition from established management consultancies, to set up a joint venture with government and the management team of the Behavioural Insights team to form Behavioural Insights Ltd. We have used our incubator space to support Behavioural Insights Ltd and Bethnal Green Ventures, who in turn supported a new wave of recruits on their social incubator programme, and are also hosting other new initiatives including the Centre for Ageing Better.

### New tools for impact

We've been continuing to develop tools for innovation, making these available on our website and through training programmes. In collaboration with the Rockefeller Foundation we launched the DIY Toolkit – a set of simply designed tools for innovators in development. The site has been accessed in over 100 countries across the world by over 30,000 users.



## 2. Performance and Impact

The main areas of activities within Nesta are reflected in functional teams. Our work is delivered by all our teams working together across our core themes, supported by our Communications and Corporate Services functions.

- **Policy and Research:** carry out research in the UK and abroad and use their findings to encourage debate and develop policy. By influencing policymakers who set the framework conditions for innovation, Nesta hopes to make the UK the best place to innovate.
- **Programmes:** Nesta supports people and organisations who are developing ideas to solve big social challenges. Our programme work is undertaken by our Innovation Lab team, who provide practical and financial support to some of the most cutting-edge ideas across a range of sectors, including health, education, volunteering, civil society and creative industries.

- **Investment management:** This team is a catalyst in the new field of social impact investment. Nesta invests primarily for a positive social impact, but also for a financial return. Through Nesta’s research work and direct interventions and support, we have helped to create what is fast becoming a vibrant sector in the UK investments market.
- **Innovation Skills:** This team develop toolkits and deliver on-the-ground training for innovators around the world. The team draws on Nesta’s knowledge about how innovation works and their aim is to share this knowledge with others.
- **Communications:** This team works to develop and deliver coherent and impactful communications to a wide variety of audiences. They are responsible for Nesta’s events programme, and its multi-channel media and stakeholder relations activities.

The following shows our current performance and planned future impact across our teams:

Nesta Team	Current Impact	Future Impact
<b>Policy and Research</b>	<ul style="list-style-type: none"> <li>• <i>China’s Absorptive State</i> influenced the launch of the Foreign and Commonwealth Office’s Emerging Powers Fund, and has been translated into Chinese by the Chinese government.</li> <li>• Nesta’s Standards of Evidence have been adopted by Pearson, Nesta Impact Investment and used extensively in government.</li> <li>• The <i>Manifesto for the Creative Economy</i> influenced the implementation of new Creative Industry definitions by the Department for Culture, Media and Sport.</li> <li>• The test-bed for self-driving cars we proposed was implemented in HM Treasury Autumn Statement.</li> <li>• Over 82,000 people have read our reports this year.</li> <li>• Our research team’s blogs have been read over 8,000 times since we transformed the website in November.</li> </ul>	<ul style="list-style-type: none"> <li>• Influence governments to adopt new innovation tools – from accelerators and prizes to social and public labs.</li> <li>• Shape the way innovation is measured – with wider adoption of our tools for measuring the creative economy and innovation investment.</li> </ul>

## Case Study: Plan I for Europe



Innovation policy is a major theme of work for Nesta’s Policy and Research team. By informing policymakers who set the framework conditions for businesses, we hope to make the UK the best place to innovate.

Policymakers can be in central government, but they can also be in other public institutions and local government. Another significant influence on business conditions and markets for UK companies is the European Commission.

This year we extended our work on innovation policy under the ‘Plan I’ label, making the case for an innovation-led approach to growth in Europe. Working with Brussels-based think tank the Lisbon Council, we co-authored a policy report, *Plan I for Europe*. This report highlights some of our ongoing policy themes: equipping the economy for a digital age, the need for better

innovation infrastructure and leadership, experimentalism in public spending, and social innovation to tackle social challenges and improve public services.

The report was launched at the 2013 Innovation Summit in Brussels in the presence of European Council President, Herman Van Rompuy.

This report indicates our growing presence in Europe, and engagement with the policy debate beyond the UK. It has led to further opportunities to work on European policy issues, and interest has been shown by the Commission in developing specific recommendations.

Nesta Team	Current Impact	Future Impact
<p><b>Programmes (run by the Innovation Lab)</b></p>	<ul style="list-style-type: none"> <li>Over the course of 2013-14 the Innovation Lab ran 30 practical programmes, funds and challenges supporting innovators working on issues like ageing and health, citizen engagement in public services, opportunities for young people, and digital arts and media.</li> <li>We reviewed 3,341 proposals from which we have awarded 69 grants at an average value of £149,000.</li> <li>We provided practical support to 139 innovators, including 70 grantees from previous years that we continued to work with.</li> <li>We held 102 events, reaching over 4,500 delegates, primarily focused on building innovation skills.</li> <li>The Innovation Lab web pages received over 450,000 views and innovations we supported were featured in over 400 media articles.</li> <li>Through the Digital Makers Fund we enabled more than 30,000 young people to access opportunities to get practical experience of coding and other forms of digital creation.</li> <li>In its first year, the Centre for Social Action Innovation Fund made 20 grants totalling over £5 million, helping projects spread to over 500 new locations, reach an additional 128,000 beneficiaries and engage more than 30,000 new volunteers.</li> </ul>	<ul style="list-style-type: none"> <li>Mobilise innovators to create new solutions to big social challenges, including through the launch of Longitude Prize 2014, our Open Data Challenge Series and the Rethinking Parks programme.</li> <li>Support promising innovations to reach and benefit many more people, including through the Centre for Social Action Innovation Fund.</li> <li>Bring about wider policy and systems change, including through our ongoing work to make our vision of ‘people powered public services’ mainstream.</li> <li>Increase capacities to innovate, particularly in the public sector, including through developing a global network of innovation labs and government innovation teams.</li> </ul>

Nesta Team	Current Impact	Future Impact
<p><b>Programmes (run by the Innovation Lab)</b></p>	<ul style="list-style-type: none"> <li>• Our work on People Powered Health has continued to gain traction and is now being adopted by national health organisations and patients' groups across the UK.</li> <li>• Through the Digital Arts R&amp;D Funds we have supported dozens of projects in England, Scotland and Wales that utilise digital technologies to enable arts organisations to reach wider audiences.</li> <li>• Projects supported by the Innovation in Giving Fund have engaged hundreds of thousands of volunteers and helped raise over £7 million for good causes.</li> </ul>	

## Case Study: Digital Makers



Our aim is to help as many young people as possible learn about digital technologies through making their own digital products.

The digital environment is ubiquitous. Understanding the way that digital technologies are made and controlled is important to understanding the world in which we live. Increasingly, the ability to make digital technologies is key to creative expression, social inclusion and business creation, and it is a skill that is increasingly in demand in the job market.

### Key activities: campaign and content

The Make Things Do Stuff website and campaign launched on 31 May 2013 at a youth-led event attended by the Chancellor of the Exchequer George Osborne and by Mitchell Baker, founder of Mozilla. Over the summer Make Things Do Stuff partners provided over 100,000 digital making experiences for young people, including at several Maker events, culminating in the Campus Party UK.

Working with the social enterprise Latimer Group, we have since recruited 20 young digital makers as Make Things Do Stuff Ambassadors, to create content for the site. Monthly traffic has doubled since the team came on board, and we have had over 48,000 unique visitors to the site since launch.

### Digital Makers Fund

In the past year we have worked closely with the first cohort of winners of awards from the Digital Makers Fund. Notable successes include Code Club and Technology Will Save Us. Code Club has increased the number of schools it works with from 470 to 1,971 in the last year, and it has leveraged significant additional funding. Technology Will Save Us has developed its most successful maker kit (the DIY Gamer Console) and forged partnerships with Code Club and the Prince's Trust.

The second round of Digital Makers funding is currently being provided. Award-winning projects include building a FabLab in Exeter Library, providing 3D printing in shopping malls, and scaling-up a successful youth programme in Sheffield.

### Building Partnerships

The Digital Makers programme has been built on partnerships. The Digital Makers Fund and Make Things Do Stuff are co-funded with Nominet Trust, and we have worked closely with Mozilla on the branding, events and summer campaign.

Nesta Team	Current Impact	Future Impact
<p><b>Investment Management (early-stage and social impact)</b></p>	<ul style="list-style-type: none"> <li>• New £17.6 million FCA-regulated impact investment fund now actively investing - five new investments made.</li> <li>• Implementation of a four-year, £2 million accelerator programme with Bethnal Green Ventures that will support 80 early-stage social innovations.</li> <li>• Demonstration of evidence-based impact using our Standards of Evidence.</li> <li>• Venture portfolio of over 20 early-stage companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of a portfolio of high impact early-stage innovations addressing major areas of social need, operating as sustainable enterprises, and providing returns to investors.</li> <li>• Growth of further impact investment funds supporting organisations delivering evidenced impact.</li> <li>• Working with others to broaden the adoption of our impact investing framework.</li> <li>• Successful growth of venture portfolio with profitable exits enabling reinvestment into charitable activities, and demonstrable social impact.</li> </ul>

## Case Study: Social startup incubation



We have funded a major programme focused on social incubation and acceleration, in particular with backing from startup Bethnal Green Ventures (BGV), one of the world’s leading social-tech accelerator programmes.

Following on from this work to help create and stimulate overall growth in the field, we have, over the last 12 months, consciously focused our efforts on building our own direct impact investment capability, and have worked with BGV to help entrepreneurs develop ideas that can be scaled-up to meet significant social challenges.

Bethnal Green Ventures (BGV) runs accelerator programmes for early-stage social entrepreneurs and their organisations. We have provided funding, alongside the Cabinet Office and Nominet Trust, to help create 80 new ventures over four years. We believe that creating this early support for ventures is vital if we want to help build a vibrant, innovative, impact-focused entrepreneurial community.

Nesta Team	Current Impact	Future Impact
<p><b>Innovation Skills</b></p>	<ul style="list-style-type: none"> <li>• Launch of the Development Impact and You toolkit, in partnership with Rockefeller Foundation. The DIY toolkit was user tested with 30 organisations across four continents. We have a network of 16 global dissemination partners who have adopted the toolkit in their innovation practice, including UNDP, Oxfam, Ashoka and Ushahidi. In its first month, the toolkit received over 60,000 page views.</li> <li>• Launch of Nesta’s innovation skills practice guide series. The first guide, on challenge prizes is designed to help people decide whether a challenge prize is right for them and gives practical guidance in prize design and planning.</li> <li>• The Innovation Skills team also ran workshops in innovation methods across the UK and abroad. A particular highlight was running a series of workshops for the UNDP across Eastern Europe and Asia and at their Global Management Meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• We will enhance the impact of the DIY Toolkit by increasing usage, developing further strategic partnerships, enhancing functionality, developing facilitation guidance and supporting a growing global community of practice.</li> <li>• Further practice guides on accelerators, impact investment, data-driven innovation, and futures and foresight will be published in 2014-15.</li> <li>• We will increasingly build partnerships with organisations who are looking to embed innovation practice in their organisations and networks.</li> </ul>

## Case Study: **DIY Tool Kit**



The highlight of the Innovation Skills programme was the launch of the *Development Impact and You* toolkit, in partnership with and funded by the Rockefeller Foundation. The DIY toolkit is a collection of 30 tried-and-tested tools to give practical support to busy people around the world, in developing, testing and adapting their ideas. It responds to user need, and was user-tested with 30 organisations across four continents. We have a growing network of supporters who have adopted the toolkit in their innovation practice, including the UNDP, Oxfam and Ushahidi. In its first month, the online toolkit received over 60,000 page views.

We also saw the launch of our innovation skills practice guide series. The first guide, on challenge prizes, was jointly developed with our Centre for Challenge Prizes, and was designed to help people decide whether a challenge prize is right for them: it gives practical guidance in prize design and planning. Further guides on accelerators, impact investment and futures and foresight will be published in 2014-15.

The Innovation Skills team also ran workshops in innovation methods, across the UK and abroad. A particular highlight was running a series of workshops for the UNDP across Eastern Europe and Asia, and at their Global Management Meeting.

Looking ahead, the Innovation Skills team will continue to focus on supporting the development of innovation skills in the public sector and civil society, by generating content, providing learning experiences, building organisational capacity and spreading innovation methods.



Nesta Team	Current Impact	Future Impact
<p><b>Communications</b></p>	<ul style="list-style-type: none"> <li>• The FutureFest event was our first paid event aimed at a mass audience. We achieved a capacity audience – 2,000 attendees – across the weekend, generated over 80 pieces of national and international media coverage and reached an online audience in excess of 2.1 million.</li> <li>• We transformed our digital strategy in November 2013, giving our staff the ability to publish content themselves to our newly designed website. As a result we saw a 40 per cent year-on-year monthly uplift in traffic and achieved over one million visitors for the year.</li> <li>• We ran 147 events for over 10,000 people, achieved 1,567 pieces of media coverage, and increased our online audience significantly with 40 per cent uplift in visits to our main site and 39 per cent more following our work on social media.</li> </ul>	<ul style="list-style-type: none"> <li>• Work with our media partner BBC to successfully launch our biggest campaign yet – Longitude Prize 2014.</li> <li>• Bigger and better FutureFest event in March 2015.</li> <li>• Increased international coverage across all our communications.</li> <li>• Enabling many more Nesta staff to communicate through blogs and other means.</li> </ul>

## Case Study: FutureFest



FutureFest was a major event held at Shoreditch Town Hall over the weekend of 28–29 September 2013. It was staged to help complement our practical work as a research body, investor and programme funder, by looking towards a much more distant horizon – exploring the possible worlds in which we might live a generation from now, and focusing particularly on the way that new ideas might impact our lives in the future.

FutureFest was the first mass–audience, paid–ticket event that we had staged in our 15–year history, and it was developed in response to a growing trend – the effect that the lengthening economic crisis has had in shrinking horizons, as well as engendering fatalism. FutureFest aimed to

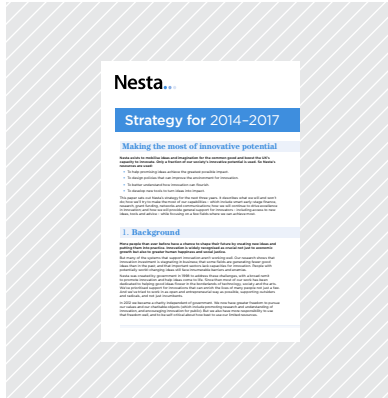
encourage a more positive and nuanced approach to the future, looking not just at potential scientific and technological developments, but also how these may interact with changing values, institutions and power structures.

Above all, we wanted to help people think about how they could shape the future, rather than solely being shaped by it, in relation to everything from the human body to ecosystems, data to politics.

Although FutureFest was experimental in nature, we judge it to have been a success for a number of reasons. The event was covered by a wide range of print, digital and broadcast media, and generated more than 75 pieces of positive print and broadcast coverage.

Over the weekend of FutureFest we saw nearly 4,000 tweets about the event, reaching an audience of 2.19 million people. Since the event, our online video packages have been viewed by tens of thousands of people, with significant pick–up in the United States, Australia and Canada, as well as in the UK.

Even though the event was being staged for the first time, we had 1,800 attendees, filling the venue, whilst feedback from delegates and event contributors was excellent. Contributors reported that they were genuinely excited to be involved in such an innovative event, and most have already asked when the next FutureFest is planned for, so they can be involved. Of the delegates that we polled, an impressive 85 per cent told us that they’d consider attending FutureFest again, whilst more than 67 per cent said they’d want to attend an entire weekend–long festival.



## 3. Plans for the Future

We have achieved much in the last year, and we have ambitious plans to grow our impact in the future. Our work will fall into a series of main areas. We'll continue to:

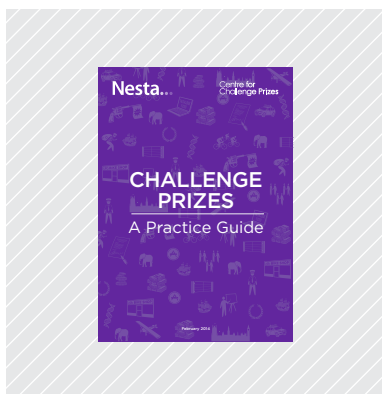
- Influence policy by generating original research that shows how the conditions for innovators everywhere can be improved.
  - Provide early-stage finance and practical assistance to organisations that innovate in the fields in which we work, achieving financial returns as well as social impact. We're also looking to create new funds combining financial and other objectives.
- Use funding from the Nesta Trust to achieve wider impact by raising additional partnership funding from national and international funders.
  - Deepen our relationships with innovators across all sectors, by launching an online magazine to attract more corporate and international interest, and running more events aimed at convening business audiences, including another FutureFest.
  - Develop more practical tools and learning programmes for innovators as part of our core skills output, with ambitious targets for numbers to be reached. We're looking to deepen several major partnerships reaching public sector audiences internationally.
  - Link into, and influence, the very best innovation thinking and practice across the world with more of our people presenting at international events, and more of our work being distributed, and used, on a global scale.

Some of the key fields we'll be focusing on include:

- The sharing economy – with major research underway as well as our continued funding of key networks and projects.
- Accelerators, incubators and startups – with more work across Europe to understand what's happening, and what works.
- Data – linking experimental research to support for new tools and apps, and a distinctive approach to smart cities.
- Public involvement in public services – building on the work of the Centre for Social Action by deepening understanding of how public time and energy can contribute to better outcomes in education, health and other fields.
- New methods of financing the arts and the creative economy extending the work of the Digital R&D Fund and developing new ways of accelerating new ventures.

More detail is set out in our Nesta Strategy for 2014–2017, which also describes the many things we won't do.

## Case Study: Challenge Prizes



The Centre for Challenge Prizes has positioned itself as the leading UK and European centre for expertise in the development of inducement prizes. This year we produced a challenge prize practice guide in which we have translated our learning into an easy-to-follow manual.

The Giving Challenge Prizes, funded by the Cabinet Office, received 289 applications. Eleven finalists were given £10,000 to test their ideas, and they recruited over 6,000 'givers' of time, skills and resources. Waste reduction savings of 117.59 tonnes of CO2 were achieved, and over 1,000 older people benefited from projects that helped them to feel less isolated. NANA's Café won the Ageing Well Challenge, and the Gleaning Network UK won the Waste Reduction Challenge – each received £50,000.

The Dynamic Demand Challenge was launched, to find innovations that improve the ability of households to shift energy usage to off-peak times, or towards renewable energy generation. Five finalists have been selected.

The Hands Off My Bike Challenge, funded by the Department for Business, Innovation and skills (BIS), called on innovators to come up with breakthrough ideas to make it more difficult to steal bikes. There were 130 entries, and following a period of live testing, two innovations shared a total cash prize of \$50,000.

We supported the United Nations Development Programme (UNDP) in Bosnia and Herzegovina, which issued a challenge to design and develop a more sustainable and affordable off-grid renewable energy supply for refugees. After two months of field testing, the system, installed on Zoran Rodi's housing unit in Veliko Ocijevo, Drvar, won the \$20,000 prize.

The Centre launched the new Open Data Challenge Series with the Open Data Institute, funded by BIS and the Technology Strategy Board (TSB)– a series of seven challenge prizes to generate innovative open data solutions to social challenges. The first prize of \$40,000 in the Crime and Justice series was won by Check That Bike, who use open data from police forces in an application designed to disrupt the market in stolen bikes.

The Centre led on the design of two major prize programmes. We are designing five challenge prizes for the Horizon 2020 programme, to launch in 2015 as part of an initiative of the European Commission. There will be prizes in health, transport, bioeconomy, creative materials and energy.

This year we have been working on the design of Longitude Prize 2014 with our launch funding partner the Technology Strategy Board and media partner the BBC.

Three-hundred years on from the launch of the original Longitude prize in 1714, we are launching a new prize for a new century, to help solve one of the greatest issues of our time. We have reformed the Longitude Committee, chaired by Astronomer Royal, Lord Martin Rees, to help determine what these greatest scientific challenges are. Together they have shortlisted six major issues facing humanity today – water, food, dementia, paralysis, flight and antibiotics.

Stop press: After a month of publicity and campaigning the British public voted for antibiotics as the subject of Longitude Prize 2014. The results of the vote were announced by Horizon's Professor Alice Roberts on BBC One's *The One Show* and the prize will be open for the next five years, or until the prize is won.



### 4. Financial Review

This is the second year of operations for the Group since its formation as a charity and the financial statements on pages 29 to 53 show the financial activities for the year to 31 March 2014.

Two years ago, on 1 April 2012, the Group received a transfer of all the activities, staff, assets and liabilities of the now abolished National Endowment for Science, Technology and the Arts (“NESTA”). 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 provided the opening position on 1 April 2012. This one-off gift of assets from NESTA of £342.4 million (of which £338 million was received by Nesta Trust) is shown in the 2013 column in the Statement of Financial Activities as well as being included in the opening Consolidated Balance Sheet as at 1 April 2012. Further background on the transfer to the various Group entities can be found in Note 5 to the Accounts.

The Group currently comprises Nesta (the main operating charity through which all charitable activity is undertaken), the Nesta Trust (a charitable trust which holds all the investment assets invested to fund the charitable activities of Nesta in advancing the objects of the Trust), four companies and two limited liability partnerships.

The subsidiary structure was set up in previous years to manage investing and fund management activities undertaken by NESTA’s Investment team and expanded to manage Nesta’s new social impact investment activity. It enables Nesta to manage and invest funds on behalf of its investment partners in compliance with the Financial Conduct Authority’s (FCA) requirements. This structure is made up of Nesta GP Limited, Nesta PRI Limited, Nesta Partners Limited, Nesta Kinetique LLP and Nesta Investment Management LLP, an FCA authorised manager.

During the year, Nesta Enterprises Limited was incorporated as a trading subsidiary for future non-primary purpose trading. This entity was dormant for the year to 31 March 2014. The Group accounts also show Nesta as a 30 per cent joint venture partner in Behavioural Insights Limited from February 2014, based on management accounts to 31 March 2014. The results of the Group consolidate all subsidiary undertakings as well as the Trust and the joint venture in Behavioural Insights Ltd.

The Nesta Trust provides funding to Nesta to carry out the Trust’s charitable objectives and this year provided £16.8 million (2013: £13.3 million) of which £14.8 million was applied to charitable operating activity and £2.0

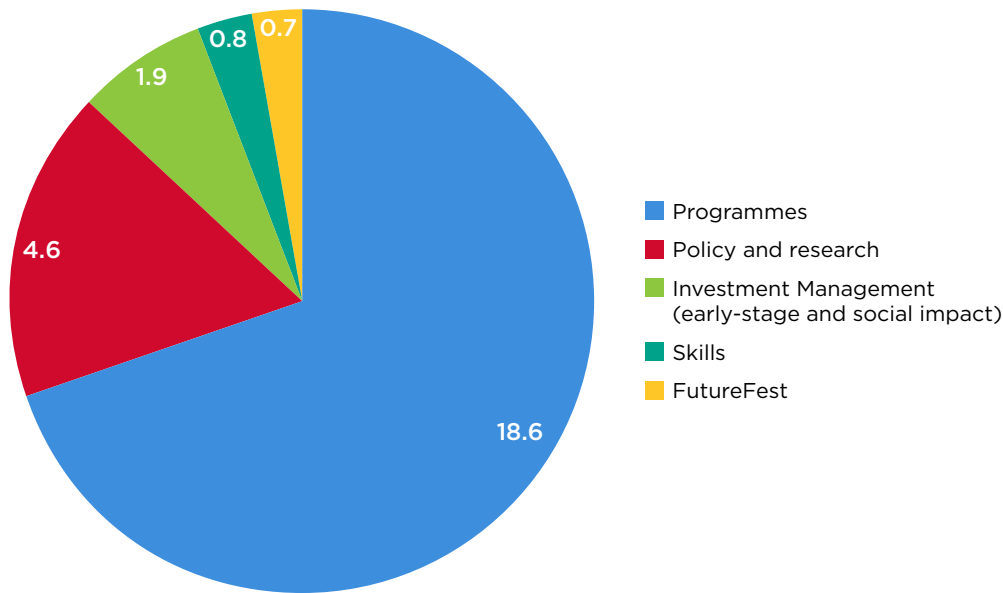
million applied against Nesta’s commitment to the Impact Investment Fund and other programme-related investments which are held on Nesta’s Balance Sheet. The assets of the Trust are held as an expendable endowment, and the Trust is therefore able to fund charitable activity beyond the income it received of £3.4 million during the year.

The Trustees have agreed a spending rule for the next three years to 31 March 2017. To enable longer-term planning, Trustees have agreed, in principle, for Nesta to draw down up to £45 million for operating expenditure over the three years, drawn down on an as-required basis, in addition to any unspent drawdown agreed for prior years (£4.6 million). A further £13 million may be drawn down for Nesta programme-related investments over the three year period, of which £6.5 million has already been committed to the Nesta Impact Investments Fund, as yet undrawn, and a further £0.8 million for other programme-related investment commitments – as disclosed in Note 20 to the Accounts.

In addition to funding from the Nesta Trust, the Nesta Board of Trustees continued to set income targets for Nesta’s Executive team, at levels higher than previously achieved. Income of £12.5 million was recognised in addition to £3.4 million income from Nesta Trust investment income. This 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. Examples of this activity in the year are the Centre for Social Action Innovation Fund and Digital Research and Development for the Arts programmes. Smaller amounts of income are also received which support our research work such as our report on China’s innovation landscape, as well as fund management fees received from external partners in the Nesta Impact Investment Fund. Nesta is also the lead partner or partner in a number of European-funded grant programmes or service contracts which, in total, contributed nearly £0.2 million of funding in the year, income from which is set to increase in 2014–15 as work on projects intensifies.

Group expenditure totalled £28.5 million, of which £26.5 million was spent on charitable activities, £0.1 million spent on governance costs, and £1.9 million on managing the endowment assets held in the Trust and impact investment funds held by Nesta. Of the group expenditure of £28.5 million, £10.6 million was committed to grant distributions. Recipients of grants of over £50,000 during the year are listed in Note 7b to the accounts and a list of all 167 grant recipients can be found on our website at [www.nesta.org.uk](http://www.nesta.org.uk). A wider programme of non-financial support such as advice, mentoring and coaching is provided to grant recipients alongside grant funding.

## Expenditure on Charitable Activities (£ million)



Spend on practical programmes totalled £18.6 million for the year (2013: £16.8 million). A large proportion of this spend is funded by external income.

Spend on investment (early-stage and social impact) management of £1.9 million (2013: £2.1 million) includes the investment team who look after the early-stage venture portfolio held by the Trust, and the programme-related investments held by Nesta. Costs for the year also include a £0.6 million charge for impairment in the value of Nesta’s portfolio of programme-related investments.

Nesta has continued to build capability in policy and research and spend in this area was £4.6 million (2013: £3.8 million). Nesta also spent £0.8 million in relation to its Skills offer (2013: £0.6 million). There has been an increase in external funding this year in both these areas of Nesta’s core activity.

Nesta spent £0.7 million delivering FutureFest, Nesta’s first ever ticketed public event, showcasing some of the work we do with the aim of engaging a larger and more diverse audience.

Support costs comprising Communications and Corporate Service costs are allocated to programme areas as shown in Note 7a to the Accounts. At £5.7 million for the year, costs have increased compared to the previous year (£5.1 million) but were anticipated due to growing headcount across Nesta, a whole year of our new intern programme, increased project activity and increased support needed to comply with funding relationships and programmes such as those funded by the European Commission.

Nesta also continued to increase the use of its Balance Sheet to support projects, with loans and equity provided as a way to help fund other organisations that advance its charitable aims and objectives, in addition to grant funding. During the year, Nesta was selected through a thorough government procurement process, to be a 30 per cent joint venture partner alongside the Cabinet Office and staff and management, of Behavioural Insights Ltd. Nesta’s equity holding and provision of a loan are represented in the Balance Sheet as programme-related investments, and its share of estimated turnover and profit is reflected in the Statement of Financial Activities and Balance Sheet as a programme-related investment in joint ventures. The results reflected are based on the management accounts of Behavioural Insights Ltd for the two months to 31 March 2014.

At 31 March 2014, the Group had net unrestricted incoming resources of £1.5 million (2013: £0.2 million) as shown in the Statement of Financial Activities and reserves (restricted and unrestricted) of £3.9 million (2013: £1.6 million). At 31 March 2014 the reserves of the expendable endowment stood at £359.8 million (2013: £359.8 million).

The Trustees consider the expendable endowment reserves level to be appropriate to sustain the future underlying value of the assets and funding plans for the Group 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.

As Nesta is able to draw down cash from Nesta Trust as required within the approved spending rule, 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.

### Investment Review

Nesta received, as trustee, into the Nesta Trust (“the Trust”) £338 million of investment assets from the National Endowment for Science, Technology and the Arts (“NESTA”) on 1 April 2012. These are the sole assets of the Trust and provide income and capital to be applied by Nesta as sole Trustee to further the objects of the Nesta Trust. On receiving these assets, the Board of Nesta instigated a strategic investment review.

The investment strategy takes into account the allocation of assets transferred on 1 April 2012 and the constraint on holding gilts which are detailed within the

Trust Deed, and balances this with the desire to maintain the real value of the endowment, and more particularly its ability to generate the income which Nesta will require, while at the same time maximising total return to fund activities to advance the charitable objectives of the Nesta Trust. The strategy aims to balance risk, return and capital preservation.

With the assistance of Mercer, investment advisor to Nesta, a strategic asset allocation was designed and agreed which proposed broader asset categories introducing new asset classes. This strategy was implemented in stages throughout the 2012–13 financial year.

At 31 March 2014 the value of Trust assets has increased to £360 million since 1 April 2012, after annual transfers to Nesta to carry out the objectives of the Trust in line with the Trust Deed. The asset values and relative allocation at 31 March 2014 compared with the previous year are as follows:

Asset class	Market value of investment assets 31 March 2014 £'000	Proportion of total endowment assets 31 March 2013 %	Market value of investment assets 31 March 2013 £'000	Proportion of total endowment assets 31 March 2013 %
<b>Current assets:</b>				
Cash	15,047	4	17,595	5
<b>Fixed asset investments:</b>				
Gilts	108,628	30	128,441	36
Property trust funds	4,152	1	3,900	1
Private equity funds	11,760	3	10,728	3
Global equities	166,668	47	148,893	41
High yield bonds (fixed income)	32,822	9	30,327	8
Early-stage venture portfolio	20,456	6	19,825	6
Deferred investment and loans in early-stage companies	-	-	331	-
<b>Total fixed asset investments</b>	<b>344,486</b>	<b>96</b>	<b>342,445</b>	<b>95</b>
<b>Total</b>	<b>359,533</b>	<b>100</b>	<b>360,040</b>	<b>100</b>

At the end of March 2014 assets are within the Board-approved tactical asset allocation bands. Subject to any short-term calls on cash on hand, cash will be re-invested in higher return assets during 2014–15.

Actions taken during the year included the following:

*Managing the gilt position.* In 2012–13, the Trustees felt it prudent to reduce exposure to its longest maturing gilt, the 2030 security, by halving its £98 million holding.

Working within the constraints of the Trust Deed, the proceeds of this sale were used to repurchase shorter term gilts, which mature on a timetable to match the operating cash requirements of Nesta. During 2013–14 £12.2 million of these shorter term gilts matured providing appropriate levels of cash to fund Nesta’s agreed spending rate. There will continue to be a maturity of short-term gilts over the next four years to contribute to the majority of the cash required by Nesta

as well as to fund outstanding Nesta Trust investment commitments to private equities and ventures.

*Increasing the strategic allocation to global equities and move to passive management.* Over the last two years, this asset class has driven the majority of the Trust's positive returns. At the start of the year £148.9 million (41 per cent of total endowment assets) was managed by three 'active' investment managers. During the year, to recognise the increase in value of equities relative to total Trust assets and the relative decline in value of Gilts, the Trustees approved an increase in the tactical allocation range for global equities from 30–50 per cent of endowment assets, to 30–60 per cent. By 31 March 2014, £166.7 million (47 per cent of total endowment assets) were held in the global equities asset class.

Individual global fund manager returns performance has been mixed compared to their relative benchmarks although together, they produced 11.3 per cent of total return for the 2013–14 year. In order to reduce the fee burden from 'active' management, the Trust Investment Committee of Nesta implemented a strategy to move a proportion of this asset class to a 'passive' management strategy. A new passive fund manager was selected and by 31 March 2014, £36 million had been top-sliced from the three active managers and reinvested in two separate funds with the passive manager. The sale of £36 million of investments from our 'active' managers crystallised a realised gain of £11 million. A further £18 million was moved to passive management in April 2014. The move to passive management is not expected to have a negative impact on returns.

*Continuing to manage holdings of alternative asset classes.* Drawdowns against the Trust's commitment to two private equity secondary funds continued during the year, with drawdowns of £2.2 million and capital returns received of £2.1 million. It is expected that these two funds will continue to draw down over the next two to three years. The £9.4 million financial commitment outstanding for this asset class is disclosed in Note 20 to the Accounts.

*Continuing to maximise value from our self-managed venture portfolio.* The early-stage venture portfolio includes equity and loan investments in over 20 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. No investments in early-stage companies were sold during the year. Follow-on funding invested in 2013–14 in accordance with this strategy totalled £2.7 million with proceeds of £0.7 million received during the year

which were in part repayment of loans to early-stage companies, and in part proceeds from sales of holdings in various companies held by two early-stage fund of funds. The valuation methodology applied to the early-stage venture portfolio remains unchanged from previous years. A net realised loss of £2.0 million was recognised, the result of an investment in an early-stage company with a cost of £2.2 million going into administration during the year. A net unrealised gain of £0.6 million was also recognised, applying the valuation methodology explained further in Note 1h to the Accounts.

Direct costs of managing the Trust's investment assets by external fund managers totalled £1.4 million across the Group and include external fund manager 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, along with those fund manager fees that are invoiced and paid for in cash. During the year, for each of our managed asset classes, we have requested increased transparency on all fees charged against funds.

Average cash holdings fell during the year, and along with lower deposit interest rates, interest income received from cash held reduced from £0.8 million (2013) to £0.2 million (2014).

Overall, the total return achieved in 2013–14 was 4.85 per cent (2012–13: 10.3 per cent). While the global equities investments provided a 11.3 per cent total return, this was largely offset by the negative return created by our gilt holdings decreasing in value, which reduced total return for the year by over 4 per cent. The Trustees will continue to review its asset allocation to be sure that it best matches the needs of the charity, while being mindful of the constraint placed on them by the Nesta Trust Deed.

### 5. Principal Risks and Uncertainties

The Trustees are responsible for the management of risks within the Nesta 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.

One of the Group's main financial risks is the investment activity of Nesta Trust, especially given the requirement for it to hold certain UK government gilts as specified in the Trust Deed. Investment risk overall is managed, with the support of investment advisers, through regular review of the Nesta Trust investment policy, management of the strategic asset allocation, regular performance reporting, diversification across a broad range of asset classes, investment managers and investment strategies, and ongoing manager reviews.

The majority of Nesta Trust's investments are externally managed by investment managers in pooled fund vehicles.

#### 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.

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.

Nesta has identified the following major organisational risks and uncertainties:

- Failure to achieve demonstrable impact in our projects (while recognising that some failure is inevitable in innovation) leading to an adverse impact on Nesta's reputation as a catalyst for innovation.
- Inability to attract or retain staff with the skills we need to carry out the range of work we do, leading to lower quality management of projects and diminishing outputs.
- Failure to attract sufficient match-funding to enable us to grow our activities and leverage our own resources, in line with our three year strategy.
- Risk that poor investment returns over an extended period put pressure on income available to fund our activities and achieve our objectives.



## Governance and Management

Nesta is governed by a Board of Trustees led by the Chair, Sir John Chisholm. Trustees are both directors and members of the company and charity and under company and charity law retain overall responsibility for Nesta's affairs, including its role as Trustee of the Nesta Trust, charity no. 1144091 ("the Trust"). Trustees receive no remuneration for acting as trustees of Nesta. Trustees at the date of this Annual Report are listed on page 54.

The Trust also has a Protector appointed by Government with a fiduciary duty to ensure the integrity of administration of the Trust.

The Board met six times in the year with the Executive Team also present. The Board has appointed a Chief Executive to lead and manage Nesta by implementing the policy and strategy adopted by the Trustees within the plan and budget approved by the Board. The Board approved a new strategy in November 2013 and a new three year plan in January 2014.

The Board has delegated approval for decisions up to certain financial thresholds to the Chief Executive 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 Chief Executive and approval of the long-term objectives and strategy.

The Chief Executive may delegate his responsibilities to other members of the Executive Team, but remains responsible to the Board. Nesta's Executive Team comprises the Chief Executive, Deputy Chief Executive (appointed in January 2014), Finance Director and the Executive Director of each of its main areas of activity, each of whom report to the Chief Executive. A full list is given on page 55.

The Nominations Committee of the Board recruited two new Trustees during the year following an open recruitment process to replace two Trustees who stepped down during the year. Both Trustees who stepped down had previously served as Trustees of the National Endowment for Science, Technology and the Arts and then became Trustees of the new charity, Nesta, to provide continuity and stability for its first year. In January 2014, the Board decided to reduce the initial term for new Trustees from five to three years.

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 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.

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.

A list of Trustees and members of main Board Committees is provided on page 54.

The main Board 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, 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 and certain programme-related and mixed-motive investments. The Committee met 14 times during the year.

**Nominations Committee** which manages the recruitment of new Trustees. The Committee met five 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 and Civil Society Advisory Committee

### Governance review

In April 2014, the Board commissioned an independent review of Nesta's governance against the six principles set out in *Good Governance – A Code for the Voluntary and Community Sector*, the leading governance code developed by the charity sector and endorsed by the Charity Commission. The review concluded that Nesta was well governed by a skilled Board. All six principles of the Good Governance Code were observed and the Board provided appropriate control, challenge and support to the Executive team. Recommendations from the review to further enhance effective governance will be considered and implemented during 2014, including the role of its Advisory Committees.

### Investment Policy

The Nesta Trust was established by a Trust Deed dated 22 September 2011. As the sole Trustee of the Nesta Trust ("the Trust"), Nesta is responsible for the Trust's investment policy. The investment strategy is delegated to the Trust Investment Committee of the Board which is responsible for strategic and tactical asset allocation, rebalancing, styles and weighting within asset classes, as well as monitoring, manager, consultancy and custodial arrangements.

Nesta 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 places two specific conditions on Nesta's power to invest:

- a. UK Government Gilts may only be sold to fund the activities of Nesta in advancing the charitable objects of the Trust, to purchase other UK Government Gilts, or with the consent of the Secretary of State for the Department of Business, Innovation and Skills;
- b. Nesta must set investment and spending policy for the Trust with a view to preventing the value of the Trust assets and any returns generated by the Trust assets falling below £260 million.

Nesta's investment objective for the Trust is to balance the current and future needs of the Group 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 Trust 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; and
- Delivering these objectives within acceptable levels of risk.

To meet these objectives Nesta 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 cash policy is to hold no more than £10 million in any one banking institution in order to manage counterparty risk, and in order to further manage risk there is an express preference for banking institutions with significant United Kingdom government ownership.

### Programme-Related Investments and Grantmaking Policy

Nesta achieves its charitable objects, and the objects of the Nesta Trust, 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 primarily to further the objects of the charity for public benefit but are also expected 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.

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. 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. (A list of grants over £50,000 can be

found on pages 39 to 40, and a comprehensive list of all grants made during the year can be found on the Nesta website).

### Free Reserves Policy

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

At 31 March 2014 the reserves of the Group stood at £363.7 million (2013: £361.4 million). Nesta Trust provided funding to fulfil its charitable objectives, through activities carried out by Nesta, totalling £16.8 million (£13.3 million).

Nesta, as the parent charity, has no requirement to maintain its own reserves provided that expenditure remains within the approved amount of drawdown from the Trust. The policy for drawdown was established in line with the Trust Deed and subject to the powers of the Protector of the Trust, and allows drawdowns at any time during the year as long as the approved drawdown total is not exceeded.

This Reserves Policy would only be reviewed on a change in the funding relationship between the Trust and Nesta; a change currently not foreseeable.

### Statement of Trustees' Responsibilities

The Trustees are responsible for preparing the Strategic Report, the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and charity and of the incoming resources and application of resources, including the income and expenditure, 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 and charity's transactions, and disclose with reasonable accuracy at any time the financial position of the Group and charity, 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.

Approved by the board of Trustees' and authorised for issue on 28 July 2014, and signed on its behalf by Sir John Chisholm, Chair of the Board of Nesta.

John Chisholm

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

We have audited the financial statements of Nesta for the year ended 31 March 2014 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 Financial Reporting Council'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](http://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 2014 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, including the strategic 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: 5 August 2014

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 2014

	Notes to the accounts	Unrestricted funds 2014 £'000	Restricted funds 2014 £'000	Expendable endowment 2014 £'000	Total funds 2014 £'000	Total funds 2013 £'000
<b>Incoming resources</b>						
Incoming resources from generated funds	2	67	-	3,369	3,436	5,185
Incoming resources from charitable activities	3	795	11,188	-	11,983	7,198
Other incoming resources	4	679	-	-	679	298
Gifted assets from NESTA	5	-	-	-	-	342,446
Less: share of joint venture turnover		(124)	-	-	(124)	-
<b>Total incoming resources</b>		<b>1,417</b>	<b>11,188</b>	<b>3,369</b>	<b>15,974</b>	<b>355,127</b>
<b>Resources expended</b>						
<b>Cost of generating funds</b>	6	<b>467</b>	<b>-</b>	<b>1,389</b>	<b>1,856</b>	<b>1,261</b>
<i>Charitable activities:</i>						
Policy and Research		3,911	675	-	4,586	3,764
Programmes		5,195	13,380	-	18,575	16,826
Investment (early-stage and social impact) management		1,861	-	-	1,861	2,067
Skills		500	286	-	786	580
FutureFest		721	-	-	721	-
<b>Total charitable activities</b>	7	<b>12,188</b>	<b>14,341</b>	<b>-</b>	<b>26,529</b>	<b>23,237</b>
<b>Governance costs</b>	8	<b>132</b>	<b>-</b>	<b>11</b>	<b>143</b>	<b>161</b>
<b>Total resources expended</b>		<b>12,787</b>	<b>14,341</b>	<b>1,400</b>	<b>28,528</b>	<b>24,659</b>
<b>Net incoming/(outgoing) resources before transfers</b>		<b>(11,370)</b>	<b>(3,153)</b>	<b>1,969</b>	<b>(12,554)</b>	<b>330,468</b>
Share of operating profit in joint venture		53	-	-	53	-
Net transfers between funds	16	12,602	4,164	(16,766)	-	-
<b>Net incoming/(outgoing) resources before other recognised gains and losses</b>		<b>1,285</b>	<b>1,011</b>	<b>(14,797)</b>	<b>(12,501)</b>	<b>330,468</b>
<b>Other recognised gains/(losses)</b>						
Foreign exchange gains/(losses)		-	-	(137)	(137)	163
Gains on investment assets	11	-	-	14,906	14,906	30,815
<b>Net incoming/(outgoing) resources</b>		<b>1,285</b>	<b>1,011</b>	<b>(28)</b>	<b>2,268</b>	<b>361,446</b>
<b>Reconciliation of funds</b>						
<b>Total funds brought forward</b>		<b>108</b>	<b>1,530</b>	<b>359,808</b>	<b>361,446</b>	<b>-</b>
<b>Total funds carried forward</b>		<b>1,393</b>	<b>2,541</b>	<b>359,780</b>	<b>363,714</b>	<b>361,446</b>

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 £28,891k (2013: £25,120k); total resources expended were £26,636k (2013: £23,368k); and total net incoming resources were £2,255k (2013: £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 32 to 53 form part of these accounts.

## Balance Sheet as at 31 March 2014

Company Number: 07706036

	Notes to the accounts	Group 2014 £'000	Parent Charity 2014 £'000	Group 2013 £'000	Parent Charity 2013 £'000
<b>Fixed assets</b>					
Tangible assets	10	866	866	1,009	1,009
Investments:					
Investments – quoted and unquoted	11	344,486	-	342,445	-
Programme-related investments	12a	2,718	2,718	1,888	1,888
Programme-related investment in joint venture – share of gross assets/costs	12b	445	392	-	-
<b>Total Fixed assets</b>		<b>348,515</b>	<b>3,976</b>	<b>345,342</b>	<b>2,897</b>
<b>Current assets</b>					
Debtors	13	3,648	3,900	1,613	1,511
<b>Bank and cash</b>		<b>24,423</b>	<b>8,903</b>	<b>25,273</b>	<b>7,571</b>
<b>Total current assets</b>		<b>28,071</b>	<b>12,803</b>	<b>26,886</b>	<b>9,082</b>
<b>Current liabilities</b>					
Creditors: amounts due within one year	14	(11,276)	(11,176)	(10,422)	(9,867)
<b>Net current assets/(liabilities)</b>		<b>16,795</b>	<b>1,627</b>	<b>16,464</b>	<b>(785)</b>
<b>Total assets less current liabilities</b>		<b>365,310</b>	<b>5,603</b>	<b>361,806</b>	<b>2,112</b>
Creditors: amounts due after one year	14	(1,596)	(1,596)	(360)	(360)
<b>Net Assets</b>		<b>363,714</b>	<b>4,007</b>	<b>361,446</b>	<b>1,752</b>
<b>Charitable funds</b>					
Expendable endowment funds	16a	359,780	-	359,808	-
General funds	16a	1,466	1,466	222	222
<b>Total charitable unrestricted funds</b>		<b>361,246</b>	<b>1,466</b>	<b>360,030</b>	<b>222</b>
Restricted funds	16b	2,541	2,541	1,530	1,530
<b>Total charitable funds</b>		<b>363,787</b>	<b>4,007</b>	<b>361,560</b>	<b>1,752</b>
Funds retained within non-charitable subsidiaries	16a	(73)	-	(114)	-
<b>Total funds</b>		<b>363,714</b>	<b>4,007</b>	<b>361,446</b>	<b>1,752</b>

The notes on pages 32 to 53 form part of these accounts.

Approved by the Board of Trustees and authorised for issue on 28 July 2014, 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 2014

	Note	Group 2014 £'000	Group 2013 £'000
Net cash outflow from operating activities	(a)	(10,087)	(10,903)
Return on investment and servicing of finance	(b)	1,575	3,918
Capital expenditure and financial investments	(c)	7,662	(52,683)
Acquisitions and disposals	(d)	-	84,941
<b>(Decrease)/increase in cash in the year</b>		<b>(850)</b>	<b>25,273</b>
<b>Cash at 1 April</b>		<b>25,273</b>	<b>-</b>
<b>Cash at 31 March</b>		<b>24,423</b>	<b>25,273</b>
<b>Cash flow statement notes:</b>			
<b>a) Reconciliation of changes in resources to net cash outflow from operating activities</b>			
Net incoming/(outgoing) resources		(12,554)	330,468
NESTA assets gifted 1 April 2012		-	(342,446)
Depreciation		408	380
Impairments		577	335
Grossed up investment costs (non-cash)		3,002	2,435
Interest and dividends received		(3,436)	(5,185)
Interest paid and bank charges		5	6
Investment fees		1,856	1,261
Increase in debtors		(2,035)	(384)
Increase in creditors		2,090	2,227
		<b>(10,087)</b>	<b>(10,903)</b>
<b>b) Return on investment and servicing of finance</b>			
Interest and dividends received		3,436	5,185
Interest paid and bank charges		(5)	(6)
Investment fees		(1,856)	(1,261)
		<b>1,575</b>	<b>3,918</b>
<b>c) Capital expenditure and financial investments</b>			
Payments to acquire property, plant and equipment, and intangible assets		(265)	(164)
Payments to acquire quoted investments		(36,720)	(116,214)
Payments to acquire unquoted investments		(4,853)	(9,254)
Payments to acquire programme-related investments		(1,967)	(323)
Proceeds from sale or maturity of quoted investments		48,163	68,046
Proceeds from sale or maturity of unquoted investments		3,136	5,226
Proceeds from sale of programme-related investments		168	-
		<b>7,662</b>	<b>(52,683)</b>
<b>d) Acquisitions and disposals</b>			
Consideration given for NESTA assets gifted		-	-
NESTA cash transferred		-	84,941
		<b>-</b>	<b>84,941</b>

The notes on pages 32 to 53 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 financial assets. 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 and all its subsidiary undertakings including 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*.

Details of Nesta's subsidiary undertakings can be found in Note 15.

Joint ventures that are not held as part of an investment portfolio are consolidated using the Gross Equity method of accounting in accordance with *FRS 9 Associates and Joint Ventures*. Details of Nesta's joint ventures can be found in Note 12b.

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

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

#### 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 Nesta 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 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 Programmes; Investment (early-stage and social impact) management; Policy and Research; Skills, and FutureFest. 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. Where grants paid are selected to be converted to an equity holding in the grantee organisation by virtue of contract terms being met, on the date where there is a binding contract with investment terms agreed by



## Notes to the financial statements

both parties, grant expenditure is reversed and an investment asset is recognised and the asset valued in accordance with Nesta's investment valuation policies.

Commitments or approvals to fund specific projects not yet signed by Nesta are disclosed by way of note.

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.

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

Investment management costs include investment fund manager fees paid in cash as well as those that have been 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 include costs shared by all activities. Support costs including the office of the CEO, communications, front of house, 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. These include drivers 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

Investments 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. These assets are classed as an expendable endowment.

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 commitments which remain undrawn but draw down 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 fixed 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 investments is at market value and unrealised changes between accounting periods are charged or credited to 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 manager.

#### 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 and 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. Un-drawn commitments are disclosed by way of note.

Unrealised changes in value between accounting periods are reflected in the Statement of Financial Activities.

Financial assets are derecognised 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 receivable, provisions and contingent liabilities

Debtors receivable 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.

## Notes to the financial statements

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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.

Where there are significant obligations which do not meet the requirements for recognition as a provision set out in FRS12 – *Provisions, Contingent Liabilities and Contingent Assets* these are disclosed as a note to the accounts.

### **i. Pension costs**

For defined contribution schemes the amount charged to the Statement of Financial Activities in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

### **m. Taxation**

Nesta and the Nesta 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 period.

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.

### **p. 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, co-opted Committee members, 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.

## Notes to the Accounts

### 2. Investment income

	Group 2014 £'000	Group 2013 £'000
<i>Quoted investments:</i>		
Interest and dividends receivable	5,261	5,847
Amortisation of redemption premiums	(2,137)	(1,585)
<b>Total income from quoted investments</b>	<b>3,124</b>	<b>4,262</b>
<i>Unquoted investments:</i>		
Interest and dividends receivable	140	90
<b>Total income from unquoted investments</b>	<b>140</b>	<b>90</b>
Bank interest	172	833
<b>Total investment income</b>	<b>3,436</b>	<b>5,185</b>

### 3. Incoming resources from charitable activities

	Group 2014 £'000	Group 2013 £'000
Funding from government bodies	10,637	6,496
Funding from non-government bodies	910	288
Other charitable activity income	436	414
<b>Total incoming resources from charitable activities</b>	<b>11,983</b>	<b>7,198</b>

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

### 4. Other income

	Group 2014 £'000	Group 2013 £'000
Impact fund management fees	477	183
Events and workshops fees	56	5
Returns on legacy investments	4	75
Share of income from joint ventures	124	-
Other sundry income	18	35
<b>Total other income</b>	<b>679</b>	<b>298</b>

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.

## Notes to the Accounts

### 5. Gifted assets (relates to prior year only)

On 1 April 2012 NESTA was abolished and all its staff, activities, operating assets and liabilities were transferred to Nesta or its subsidiary, the Nesta 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 was treated in the Statement of Financial Activities as a gift of net assets on 1 April 2012.

Analysed as the following opening balances on transfer to Nesta and the Nesta 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)
<b>Total net assets</b>	<b>635</b>	<b>(111)</b>	<b>3,876</b>	<b>338,046</b>	<b>342,446</b>

### 6. Investment management costs

	Group 2014 £'000	Group 2013 £'000
Investment manager fees - Nesta Trust investments	1,351	1,053
Investment manager fees - Nesta Impact Investment Fund	466	163
Custodian fees	39	45
<b>Total investment management costs</b>	<b>1,856</b>	<b>1,261</b>

### 7. Charitable activities

	Grant making 2014 £'000	Non-grant direct cost 2014 £'000	Allocated support costs 2014 £'000	Group total 2014 £'000	Group total 2013 £'000
Policy and Research	746	2,453	1,387	4,586	3,764
Programmes	9,820	5,487	3,268	18,575	16,826
Investment (early-stage and social impact) management	-	1,219	642	1,861	2,067
Skills	-	537	249	786	580
FutureFest	-	566	155	721	-
<b>Total charitable activities</b>	<b>10,566</b>	<b>10,262</b>	<b>5,701</b>	<b>26,529</b>	<b>23,237</b>

#### 7a. Support costs

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

	Support staff costs 2014 £'000	Premises, technology and other costs 2014 £'000	Group total 2014 £'000	Group total 2013 £'000
Policy and Research	443	944	1,387	1,272
Programmes	1,385	1,883	3,268	2,931
Investment (early-stage and social impact) management	208	434	642	710
Skills	133	116	249	200
FutureFest	61	94	155	-
<b>Total allocated to charitable activities</b>	<b>2,230</b>	<b>3,471</b>	<b>5,701</b>	<b>5,113</b>
Allocated to Governance costs	7	3	10	12
<b>Total support costs</b>	<b>2,237</b>	<b>3,474</b>	<b>5,711</b>	<b>5,125</b>

The basis for allocation of support costs is as follows:

Office of the Chief Executive, Front of House	Allocated equally to each area
Finance, Legal, Publications, Events and Communications, FutureFest	Allocated on the ratio of direct costs of each area or project in the case of FutureFest
Facilities	Allocated on the basis of floorspace occupied
Information Technology, Human Resources	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 on Nesta's website.

Recipient	Grants to institutions 2014 £'000	Grants to individuals 2014 £'000	Charitable activity area	Programme
Shared Lives Plus Ltd	492		Programmes	Centre for Social Action Innovation Fund (CSA-IF)
The British Diabetics Association	465		Programmes	CSA-IF
City Year UK	456		Programmes	CSA-IF
User Voice	419		Programmes	CSA-IF
British Lung Foundation	397		Programmes	CSA-IF
Strength in Communities CIC (Parents 1st)	395		Programmes	CSA-IF
Spice Innovation Ltd	344		Programmes	CSA-IF
Code Club World Ltd	334		Programmes	CSA-IF
TLG The Education Charity	328		Programmes	CSA-IF
My Support Broker CIC	293		Programmes	CSA-IF
Social Finance Ltd	220		Programmes	CSA-IF
Kings College Hospital NHS Foundation Trust	186		Programmes	Innovation in Giving Fund (IIG)
Team Up for Social Mobility Limited	180		Programmes	CSA-IF
Portsmouth City Council	180		Programmes	Cities of Service - CSA-IF
Plymouth City Council	180		Programmes	Cities of Service - CSA-IF
Kirklees Council	180		Programmes	Cities of Service - CSA-IF
Bristol City Council	180		Programmes	Cities of Service - CSA-IF
Young Philanthropy	175		Programmes	IIG
Action Tutoring Ltd	168		Programmes	IIG
Street Doctors Ltd	153		Programmes	CSA-IF
The Shoreditch Trust	150		Programmes	IIG
I Am Possible Limited	150		Programmes	IIG
Women Like Us CIC	147		Programmes	IIG
The Yorkshire Dance Centre Trust	125		Programmes	Digital Arts R&D, England (R&D, England)
Sheffield Doct/Fest	125		Programmes	R&D, England
Nottingham City Museums and Arts Galleries	125		Programmes	R&D, England
Extant	125		Programmes	R&D, England
Culturelabel Ltd	125		Programmes	R&D, England
Coney Ltd	125		Programmes	R&D, England
Albow Ltd	125		Programmes	R&D, England
Star in the Community CIC Trading	125		Programmes	R&D, England
Junction CDC Ltd (t/a Cambridge Junction)	125		Programmes	R&D, England
Dance Digital Ltd	123		Programmes	R&D, England
Trading for Good Ltd	120		Programmes	IIG
Heart n Soul Ltd	120		Programmes	R&D, England
Scriptinc Ltd	119		Programmes	R&D, England
DOT DOT DOT Property Limited	119		Programmes	IIG

## Notes to the Accounts

Recipient	Grants to institutions 2014 £'000	Grants to individuals 2014 £'000	Charitable activity area	Programme
Arts Depot	118		Programmes	R&D, England
Tyne and Wear Museum	113		Programmes	R&D, England
Degree Art Ltd	108		Programmes	R&D, England
The Fitzwilliam Museum	104		Programmes	R&D, England
Sing London	103		Programmes	R&D, England
Bethnal Green Ventures LLP	100		Programmes	Accelerators
UK Active	100		Programmes	CSA-IF
The Access Project	86		Programmes	CSA-IF
Miracle Theatre Company	86		Programmes	R&D, England
The Silver Line Helpline	80		Programmes	CSA-IF
MeYouandUs Ltd	79		Programmes	R&D, England
NoFit State Circus	75		Programmes	Digital R&D, Wales (R&D, Wales)
Tyze CIC	74		Programmes	IIG £70k, CSA-IF £4k
Purpose Europe Ltd	65		Programmes	Local Media
UCAN Productions	62		Programmes	R&D, Wales
National Foundation for Education Research (NFER)	61		Programmes	Digital Education
Tanja Raman+Dbini Industries	52		Programmes	R&D, Wales
Theatre Genedlaethol Cymru	52		Programmes	R&D, Wales
The Princes Trust	50		Programmes	Digital Education
Sheffield City Council	50		Programmes	Digital Education
Nana Industries Ltd	50		Programmes	Prizes-Ageing Challenge
Global Feedback Ltd	50		Programmes	Prizes-Waste Reduction Challenge
Collaborative Lab PTY Limited	50		Programmes	IIG
Black Country Atelier Limited	50		Programmes	Digital Education
2D Ltd	50		Programmes	IIG
Grants below £50,000 (number of grants to institutions 78 to individuals 26)	1,130	160		
Grants rescinded in the year	(490)			
<b>Total grants</b>	<b>10,406</b>	<b>160</b>		



### 8. Governance costs

	Group 2014 £'000	Group 2013 £'000
External audit fees	46	43
Internal audit fees	33	31
Legal fees	28	48
Protector fees	9	5
Other	17	22
Allocation of support costs	10	12
<b>Total governance costs</b>	<b>143</b>	<b>161</b>

Expenses of £1,655 (2013: £1,341) were reimbursed to three (2013: five) Trustees during the year. The Trustees received no remuneration for their role as Trustee during the year.

External audit fees incurred for Nesta, the parent charity, were £19,500 (2013: £19,500) excluding VAT.

### 9. Employees

#### 9a. Staff costs

	Group 2014 £'000	Group 2013 £'000
Salaries and emoluments of directly employed staff	5,832	4,833
Social security costs	682	594
Pension costs	575	478
Agency/temporary staff costs	356	318
Other staff costs	51	76
<b>Total</b>	<b>7,496</b>	<b>6,299</b>

For the year ended March 2014, no bonuses (2013 : nil) were due except in relation to certain staff who were eligible for contractual payments as part of Nesta's Carried Interest Plan. This plan was introduced in 2008 by NESTA as a non-departmental public body, and provides participants with a share of any cash returns made by Nesta from its portfolio of early-stage venture investments.

### 9b. Staff numbers

	Group 2014	Group 2013
Policy and Research	23	16
Programmes	44	36
Investment (early-stage and social impact) management	7	8
Skills	5	3
Publications, Events and Communications	13	13
Governance and Corporate Services	22	19
<b>Total</b>	<b>114</b>	<b>95</b>

### 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 2014	Group 2013
£60,000 - £70,000	10	7
£70,001 - £80,000	2	2
£80,001 - £90,000	5	3
£90,001 - £100,000	1	-
£100,001 - £110,000	1	1
£110,001 - £120,000	-	3
£120,001 - £130,000	4	1
£140,001 - £150,000	-	1
£150,001 - £160,000	1	-
£200,001 - £210,000	1	-
£210,001 - £220,000	-	1

Of staff with remuneration over £60,000, 25 (2013: 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 £219k (2013: £181k).

Remuneration for the Chief Executive Officer totalled £151k (2013: £143k).

## Notes to the Accounts

### 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 £575k (2013: £478k) including outstanding contributions of £55k (2013: £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 31 March 2014
<b>Cost</b>						
At 1 April 2013	2,415	599	16	16	463	3,509
Additions	-	196	-	1	68	265
Disposals	-	(176)	-	-	(2)	(178)
<b>At 31 March 2014</b>	<b>2,415</b>	<b>619</b>	<b>16</b>	<b>17</b>	<b>529</b>	<b>3,596</b>
<b>Less depreciation</b>						
At 1 April 2013	1,639	474	12	14	361	2,500
Charge for the year	271	97	4	1	35	408
Disposals in the year	-	(176)	-	-	(2)	(178)
<b>At 31 March 2014</b>	<b>1,910</b>	<b>395</b>	<b>16</b>	<b>15</b>	<b>394</b>	<b>2,730</b>
<b>Net book value at 1 April 2013</b>	<b>776</b>	<b>125</b>	<b>4</b>	<b>2</b>	<b>102</b>	<b>1,009</b>
<b>Net book value at 31 March 2014</b>	<b>505</b>	<b>224</b>	<b>-</b>	<b>2</b>	<b>135</b>	<b>866</b>

## 11. Investments

Category	Group total market value 1 April 2013 £'000	Additions £'000	Maturities, proceeds and disposals at market value £'000	Amortisation and charges £'000	Realised gain/(loss) £'000	Unrealised gain/(loss) £'000	Group total market value 31 March 2014 £'000
<i>Quoted investments:</i>							
Gilts – UK Government	128,441	-	(12,163)	(2,137)	-	(5,513)	108,628
Global equities	148,893	36,720	(36,000)	(904)	11,932	6,027	166,668
Property trust funds	3,900	-	-	(35)	35	252	4,152
Fixed income	30,327	-	-	(63)	63	2,495	32,822
<b>Total quoted investments</b>	<b>311,561</b>	<b>36,720</b>	<b>(48,163)</b>	<b>(3,139)</b>	<b>12,030</b>	<b>3,261</b>	<b>312,270</b>
<i>Unquoted investments:</i>							
Private equity funds	10,728	2,174	(2,114)	-	917	55	11,760
Investment in early-stage companies	14,570	1,279	(95)	-	(1,711)	654	14,697
Loans to early-stage companies	624	682	(120)	-	(533)	358	1,011
Investment in early-stage funds	4,631	718	(476)	-	264	(389)	4,748
Deferred investment in early-stage companies	22	-	(22)	-	-	-	-
Deferred loans to early-stage companies	309	-	(309)	-	-	-	-
<b>Total unquoted investments</b>	<b>30,884</b>	<b>4,853</b>	<b>(3,136)</b>	<b>-</b>	<b>(1,063)</b>	<b>678</b>	<b>32,216</b>
<b>Total investments</b>	<b>342,445</b>	<b>41,573</b>	<b>(51,299)</b>	<b>(3,139)</b>	<b>10,967</b>	<b>3,939</b>	<b>344,486</b>

As at 31 March 2014, total cash and investment assets held by Nesta Trust totalled £359,533k (2013: £360,040k). Refer also to the Investment Review on pages 22 to 23 of this report.

Amortisation relates to any gilt premiums paid, calculated on a straight-line basis over the remaining duration of the gilt.

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 at 31 March 2014 £'000	Market value at 31 March 2013 £'000	Percentage of 2014 portfolio %	Percentage of 2013 portfolio %
UK quoted investments	112,780	132,341	33	39
Overseas quoted investments	199,490	179,220	58	52
UK unquoted investments	19,847	19,451	6	6
Overseas unquoted investments	12,369	11,433	3	3
	<b>344,486</b>	<b>342,445</b>	<b>100</b>	<b>100</b>

## 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) March 2014 £'000	Unrealised gain/(loss) March 2014 £'000	Group total gain/(loss) 2014 £'000	Group total gain/(loss) 2013 £'000
Quoted investments	12,030	3,261	15,291	28,676
Unquoted investments	(1,063)	678	(385)	2,139
	<b>10,967</b>	<b>3,939</b>	<b>14,906</b>	<b>30,815</b>

### 12a. Programme-related investments

	Parent Charity and Group total fair value 1 April 2013 £'000	Additions £'000	Disposals £'000	Impairments £'000	Parent Charity and Group total value 31 March 2014 £'000
<i>Investment type:</i>					
Equity	1,754	1,474	(168)	(577)	2,483
Unsecured loan	134	101	-	-	235
<b>Total</b>	<b>1,888</b>	<b>1,575</b>	<b>(168)</b>	<b>(577)</b>	<b>2,718</b>

### 12b. Programme-related investments in joint venture – share of gross assets/cost

Organisation name	Country of registration	Class of ownership	Joint venture interest	Year end date	Nature of business	Group share of gross assets 2014 £'000
Behavioural Insights Ltd	UK	Ordinary	30%	31 March (2015)	A consultancy company	445

Trading commenced on 4 February 2014.

	Parent Charity total fair value 1 April 2013 £'000	Additions £'000	Disposals £'000	Impairments £'000	Parent Charity total value 31 March 2014 £'000
<i>Investment type:</i>					
Equity	-	30	-	-	30
Unsecured loan	-	362	-	-	362
<b>Total</b>	<b>-</b>	<b>392</b>	<b>-</b>	<b>-</b>	<b>392</b>

### 13. Debtors

	Group 2014 £'000	Parent Charity 2014 £'000	Group 2013 £'000	Parent Charity 2013 £'000
<i>Amounts falling due within one year:</i>				
Trade receivables	256	593	312	129
Amounts due from subsidiaries	-	220	-	380
Accrued income	2,961	2,935	628	596
Prepayments	113	111	138	137
Tax receivable	4	-	7	-
Other debtors	314	41	278	19
<b>Total amounts falling due within one year</b>	<b>3,648</b>	<b>3,900</b>	<b>1,363</b>	<b>1,261</b>
<i>Amounts falling due after more than one year</i>				
Accrued income	-	-	250	250
<b>Total amounts falling due after more than one year</b>	<b>-</b>	<b>-</b>	<b>250</b>	<b>250</b>
<b>Total debtors</b>	<b>3,648</b>	<b>3,900</b>	<b>1,613</b>	<b>1,511</b>

### 14. Creditors

	Group 2014 £'000	Parent Charity 2014 £'000	Group 2013 £'000	Parent Charity 2013 £'000
<i>Amounts falling due within one year:</i>				
Amounts due to subsidiaries	-	25	-	-
Trade creditors	584	576	372	366
Accruals	1,155	1,036	1,232	1,039
Deferred income	246	246	75	75
Grants payable	8,514	8,514	8,144	8,144
Deferred investments	-	-	332	-
Other tax and social security	223	225	190	190
Other payables	554	554	77	53
<b>Total creditors falling due within one year</b>	<b>11,276</b>	<b>11,176</b>	<b>10,422</b>	<b>9,867</b>
<i>Amounts falling due after more than one year:</i>				
Grants payable	1,596	1,596	360	360
<b>Total creditors falling due after more than one year</b>	<b>1,596</b>	<b>1,596</b>	<b>360</b>	<b>360</b>

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 Enterprises Limited	United Kingdom	Ordinary	100%	£1	31 March	A charitable trading company (dormant)
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 manager of funds

The results of the subsidiary entities consolidated are as follows:

	Nesta Trust 2014 £'000	Nesta Trust 2013 £'000	Nesta GP Limited 2014 £'000	Nesta GP Limited 2013 £'000	Nesta PRI Limited 2014 £'000	Nesta PRI Limited 2013 £'000	Nesta Investment Management LLP 2014 £'000	Nesta Investment Management LLP 2013 £'000
Income	3,369	343,191	440	183	-	-	479	321
Expenditure	(18,166)	(14,361)	(440)	(183)	(421)	(150)	(491)	(322)
Other gains/(losses)	14,769	30,978	-	-	-	-	-	-
<b>Partner share/ Profit/(loss) for the period</b>	<b>(28)</b>	<b>359,808</b>	<b>-</b>	<b>-</b>	<b>(421)</b>	<b>(150)</b>	<b>(12)</b>	<b>(1)</b>
Assets	359,859	360,310	-	183	915	7	478	320
Liabilities	(79)	(502)	-	(183)	(1,486)	(157)	(47)	(53)
<b>Net assets</b>	<b>359,780</b>	<b>359,808</b>	<b>-</b>	<b>-</b>	<b>(571)</b>	<b>(150)</b>	<b>431</b>	<b>(267)</b>
Opening reserves	359,808	-	-	-	(150)	-	443	268

### 16. Funds

#### 16a. Unrestricted funds

	Group 2014 £'000	Group 2013 £'000
<i>General funds:</i>		
Balance at 1 April	222	-
Net outgoing resources	(11,358)	(10,283)
Transfers to restricted funds	(4,164)	(2,752)
Transfers from endowment funds	16,766	13,257
<b>Balance at 31 March</b>	<b>1,466</b>	<b>222</b>
<i>Endowment funds:</i>		
Balance at 1 April	359,808	-
Net incoming resources	1,969	342,087
Gains	14,769	30,978
Transfers to unrestricted funds	(16,766)	(13,257)
<b>Balance at 31 March</b>	<b>359,780</b>	<b>359,808</b>
<i>Funds retained within non-charitable subsidiaries or joint ventures:</i>		
Balance at 1 April	(114)	-
Net outgoing resources	(12)	(114)
Share of operating profit in joint venture	53	-
<b>Balance at 31 March</b>	<b>(73)</b>	<b>(114)</b>
<b>Total unrestricted funds at 31 March</b>	<b>361,173</b>	<b>359,916</b>



### 16b. Restricted funds

Funder	Programme	Parent Charity and Group 1 April 2013 £'000	Income £'000	Expenditure £'000	Transfers from general fund £'000	Parent Charity and Group 31 March 2014 £'000
Rockefeller Foundation	Innovation Skills	145	-	(272)	127	-
European Commission	EU Design Innovation Platform	-	10	(12)	2	-
Department for Business Innovation and Skills	New Frontiers of Chinese Research and Innovation	19	-	(83)	64	-
Cabinet Office	Good Incubation Event : the Craft of Supporting New Social Ventures	-	3	(3)	-	-
Arts and Humanities Research Council	Crossing the River by Feeling For Stones (understanding Chinese demand)	-	44	(22)	-	22
Creative Skillset	Skills of the Datavores	-	25	(82)	57	-
Royal Statistical Society	Skills of the Datavores	-	5	(16)	11	-
Economic and Social Research Council	UK Alliance for Useful Evidence	-	50	(95)	45	-
Big Lottery Fund	UK Alliance for Useful Evidence	-	50	(95)	45	-
University of Cambridge	UK Alliance for Useful Evidence	-	5	(5)	-	-
European Commission	Decentralised Citizens Engagement Technologies	-	61	(77)	16	-
Bloomberg Philanthropies	iTeams	-	55	(83)	28	-
Rockefeller Foundation	Social Innovation Research Conference	-	46	(99)	80	27
Futurelab at NFER	Digital Education	250	-	(93)	13	170
Scottish Government	Digital Education	-	180	(108)	35	107
Nominet Trust	Digital Education	-	250	(660)	410	-
Cabinet Office	Innovation in Giving Fund	-	1,655	(1,380)	(218)	57
Department for Business Innovation and Skills	Centre for Challenge Prizes	642	-	(185)	-	457
Office for Disability Issues	Assisted Living Challenge Prize	-	67	(67)	-	-
Department for Business Innovation and Skills	Open Data Challenge Series	-	358	(149)	-	209
Cabinet Office	Supporting Older People to Live Well, and Community Solutions for Reducing Waste Challenge Prizes	-	219	(248)	29	-
Department for Business Innovation and Skills	Longitude Prize 2014	-	50	(267)	217	-
Cabinet Office	Centre for Social Action Innovation Fund	-	4,000	(5,871)	1,871	-
Cabinet Office	Cities of Service – Centre for Social Action Innovation Fund	-	500	(500)	-	-
Improvement and Development Agency for Local Government	Creative Councils	-	(56)	(468)	524	-
Bloomberg Philanthropies	Mayor's Challenge	-	32	(16)	-	16
European Commission	Apps 4 EU	-	26	(25)	(1)	-
European Commission	Commons 4 Europe	-	41	(91)	50	-
Creative England	Creative Business Mentoring Programme	-	31	(135)	104	-
Creative Scotland	Digital Research and Development Scotland	-	-	(130)	130	-
Arts and Humanities Research Council	Digital Research and Development Scotland	-	-	(56)	56	-

## Notes to the Accounts

Funder	Programme	Parent Charity and Group 1 April 2013 £'000	Income £'000	Expenditure £'000	Transfers from general fund £'000	Parent Charity and Group 31 March 2014 £'00
Arts Council England	Digital Arts R&D Fund, England	113	2,930	(2,209)	351	1,185
Arts and Humanities Research Council	Digital Arts R&D Fund, England	361	175	(398)	59	197
Arts Council of Wales	Digital Arts R&D Fund, Wales	-	241	(300)	59	-
Arts and Humanities Research Council	Digital Arts R&D Fund, Wales	-	120	(26)	-	94
European Commission	Transnational Network for Social Innovation Incubation	-	15	(15)	-	-
		<b>1,530</b>	<b>11,188</b>	<b>(14,341)</b>	<b>4,164</b>	<b>2,541</b>

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 2014 £'000	Restricted funds 2014 £'000	Expendable endowment funds 2014 £'000	Group Total funds 2014 £'000	Group Total funds 2013 £'000
<i>Fund balances are represented by:</i>					
Tangible fixed assets	866	-	-	866	1,009
Investment assets	3,163	-	344,486	347,649	344,333
Current assets	559	12,139	15,373	28,071	26,886
Current and long-term liabilities and provisions	(3,195)	(9,598)	(79)	(12,872)	(10,782)
<b>Total net assets</b>	<b>1,393</b>	<b>2,541</b>	<b>359,780</b>	<b>363,714</b>	<b>361,446</b>

## Notes to the Accounts

### 18. Summary consolidated income and expenditure account for the years ended 31 March

This summary 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	Group 2014 £'000	Group 2013 £'000
<i>Gross income:</i>			
Gross income of continuing operations		28,891	25,120
Income of non-charitable subsidiaries		603	73
		<b>29,494</b>	<b>25,193</b>
Less: share of joint venture turnover		(124)	-
		<b>29,370</b>	<b>25,193</b>
<i>Gross expenditure:</i>			
Total expenditure of continuing operations		26,636	23,368
Expenditure of non-charitable subsidiaries		491	187
		<b>27,127</b>	<b>23,555</b>
Share of profit in joint ventures	16a	53	-
<b>Net income for the year</b>		<b>2,296</b>	<b>1,638</b>
<i>Reconciliation to Consolidated Statement of Financial Activities:</i>			
Net income for the year		2,296	1,638
Movement on endowment funds	16a	(28)	359,808
<b>Net incoming resources</b>		<b>2,268</b>	<b>361,446</b>

### 19. Contingent liabilities

There were no contingent liabilities at the Balance Sheet date.

### 20. Commitments

Investments, loans or contributions to funds that have been contracted but not yet drawn down, and grant agreements not yet signed by Nesta by balance date, are shown as commitments below.

	Parent Charity and Group Total 1 April 2013 £'000	Additions £'000	De- committed £'000	Drawn down £'000	Contracted £'000	Parent Charity and Group Total 31 March 2014 £'000
<i>Investments, loans, contributions to funds:</i>						
Private equity secondaries	12,672	-	-	(3,265)	-	9,407
Programme-related investments	8,223	1,052	-	(1,966)	-	7,309
Investments in early-stage funds	1,690	-	-	(740)	-	950
Investments or loans in early-stage companies	405	1,936	(161)	(1,630)	-	550
<i>Grants:</i>						
Grant agreements not yet signed by Nesta	2,059	12,258	(608)	-	(11,178)	2,531
<b>Total</b>	<b>25,049</b>	<b>15,246</b>	<b>(769)</b>	<b>(7,601)</b>	<b>(11,178)</b>	<b>20,747</b>

### 21. Operating lease commitments

At 31 March 2014 the Group was committed to annual payments during the next year in respect of operating leases which expire within the following periods:

	Expire within one year £'000	Expire within two to five years £'000	Expire in more than five years £'000
Buildings - 1 Plough Place	-	-	709
Photocopiers	-	11	-
<b>Total</b>	<b>-</b>	<b>11</b>	<b>709</b>

### 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.

## Notes to the Accounts

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 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 2013 £'000	Expense £'000	Payments/ (Receipts) £'000	Outstanding balance 31 March 2014 £'000	Amount committed not drawn down 31 March 2014 £'000
Sir John Chisholm	Trustee	Chairman, Genomics England	Provision of services via seconded staff, venue hire	-	31	(31)	-	n/a
Sir John Gieve	Trustee	Chairman, Clore Social Leadership Programme	Grant to develop social leadership	5	35	40	-	n/a
Ernie Richardson	Committee Member	Limited partner in the UMIP Premier Fund	Investment in early-stage fund	-	-	350	-	350
Geoff Mulgan	Chief Executive	Board Member, Big Society Capital	Programme related investment - co-investor in fund	-	-	1,329	-	6,514
Geoff Mulgan	Chief Executive	Board Member, Social Innovation Exchange	Payment for organisational membership	-	10	10	-	n/a
Helen Goulden	Staff	Partner is Chief Operating Officer, National Funding Scheme	Grant for Innovation in Giving programme	150	-	150	-	n/a
Halima Khan	Staff	Trustee, Diabetes Uk	Grant to promote citizen engagement in health	-	465	50	415	n/a
Hasan Bakhshi	Staff	Research fellow Queensland University of Technology	Grant for research on dynamic mapping research	-	45	15	30	n/a

### Trustees and Main Board Committee Members

#### Trustees

**Sir John Chisholm (Chair)**

**Madeleine Atkins**

**Kersten England**

**Jitesh Gadhia** – resigned 31 December 2013

**Sir John Gieve**

**Michelle Harrison**

**Piers Linney** – appointed 1 January 2014

**Dame Julie Mellor**

**David Pitt-Watson**

**John Sheldrick**

**Kim Shillinglaw**

**Nick Starr** – resigned 31 December 2013

**Rob Woodward**

**Ed Wray** – appointed 1 January 2014

#### Finance and Audit Committee

**John Sheldrick (Chair)**

**Madeleine Atkins**

**Jitesh Gadhia** – resigned 31 December 2013

**Ed Wray** – appointed to Committee 23 January 2014

**Tony Thomas (Non-trustee member)** – re-appointed 16 April 2014

#### Remuneration Committee

**Dame Julie Mellor (Chair)**

**David Pitt-Watson** – appointed to Committee 23 January 2014

**John Sheldrick**

**Nick Starr** – resigned 31 December 2013

#### Trust Investment Committee

**Jitesh Gadhia (Chair)** – resigned 31 December 2013

**David Pitt-Watson (Chair)** – appointed as Chair 23 January 2014

**Sir John Chisholm** – appointed to Committee 23 January 2014

**Rob Woodward**

#### Venture Investment Committee

**Rob Woodward (Chair)**

**Sir John Chisholm** – resigned from Committee 23 January 2014

**Piers Linney** – appointed 23 January 2014

**Ernie Richardson (Non-trustee member)** – re-appointed 16 April 2014

#### Nominations Committee

**Sir John Gieve (Chair)**

**Sir John Chisholm**

**Dame Julie Mellor**

**Rob Woodward**

#### Protector of the Nesta Trust

**James Sinclair Taylor**

## Reference and Administrative Details

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### Executive Team

Name	Title	
<b>Geoff Mulgan</b>	<b>Chief Executive Officer</b>	
<b>Philip Colligan</b>	<b>Deputy Chief Executive</b> (previously Executive Director of the Innovation Lab)	Appointed 27 January 2014
<b>Grace Chan</b>	<b>Finance Director</b>	Appointed 1 April 2013
<b>Helen Goulden</b>	<b>Executive Director of the Innovation Lab</b>	Appointed 9 May 2013
<b>Matthew Mead</b>	<b>Chief Investment Officer</b>	
<b>Simon Morrison</b>	<b>Executive Director of Communications</b> (previously interim Exec Director of Communications)	Appointed 1 September 2013
<b>Stian Westlake</b>	<b>Executive Director of Policy and Research</b>	
<b>Catherine Bithell</b>	<b>Executive Director of Communications</b>	Resigned 6 August 2013

#### Company Secretary

Clare Goodman

### Administrative Details of the Charity

Registered name	Nesta (changed from “Nesta Operating Company” on 22 July 2013)
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 Bank plc 25 Gresham Street London EC2V 7HN

# Nesta...

## Nesta

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 [www.facebook.com/nesta.uk](https://www.facebook.com/nesta.uk)

[www.nesta.org.uk](http://www.nesta.org.uk)

**July 2014**

Nesta is a registered charity in England and Wales with company number 7706036 and charity number 1144091.  
Registered as a charity in Scotland number SCO42833. Registered office: 1 Plough Place, London, EC4A 1DE.