EXPLANATORY MEMORANDUM TO

THE NATIONAL ENDOWMENT FOR SCIENCE, TECHNOLOGY AND THE ARTS (INCREASE OF ENDOWMENT) ORDER 2006

2006 No. 396

1. This explanatory memorandum has been prepared by the Department for Culture, Media and Sport and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 This Order enables the Secretary of State to pay to the National Endowment for Science, Technology and the Arts ("NESTA") £75 million out of the money held in the National Lottery Distribution Fund and allocated for expenditure on health, education or the environment.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Background

4.1 NESTA was established by section 16 of the National Lottery Act 1998 ("the 1998 Act") with the objects of supporting and promoting talent, innovation and creativity in the fields of science, technology and the arts. Under section 19(1) of the 1998 Act the Secretary of State paid to NESTA £200 million for the purposes of an endowment to enable them to achieve their objects. This came from the money held in the National Lottery Distribution Fund and allocated for expenditure on or connected with health, education or the environment, i.e. the money held for distribution by the New Opportunities Fund. NESTA achieves its objects through the distribution of the income received from the investment of this endowment.

4.2 In order to increase the endowment section 19(2) of the 1998 Act provides that the Secretary of State must make an order permitting her to pay to NESTA further sums. Such future sums must come from the National Lottery Distribution Fund and allocated for one of the descriptions mentioned in section 22(3) of the National Lottery etc. Act 1993, i.e. the National Lottery good causes. The order is subject to the affirmative resolution procedure.

4.3 In February 2003 the Secretary of State made such an order[1] to permit herself to pay to NESTA £95 million from the National Lottery Distribution Fund and allocated for expenditure on or connected with health, education or the environment. £50 million of this sum was added to the initial endowment which was increased to £250 million. In relation to the remaining £45 million the Secretary of State approved under section 19(5) of the 1998 Act the spending of this part of the endowment at the rate of £15 million per year over three years.

4.4 Section 19(5) of the 1998 Act provides that NESTA may not spend any part of the endowment without the approval of the Secretary of State. The Secretary of State also intends to give such an approval in relation to the £75 million in this Order to allow NESTA to spend £15 million per year until 2011.

[1] S.I. 2003/235.

5. Extent

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Minister for Creative Industries and Tourism, James Purnell, has made the following statement regarding Human Rights:

In my view the provisions of the draft National Endowment for Science, Technology and the Arts (Increase in Endowment) Order 2005 are compatible with the Convention rights.

7. Policy background

7.1 NESTA helps talented individuals in the fields of science, technology and the arts to achieve their potential and helps people turn inventions and ideas into products and services that can be effectively exploited. Since its inception NESTA has made 751 awards. The Fellowship Programme has made more than 244 awards to creative individuals who have a record of achievement at a high level in their field and the Creative Pioneer Programme, although only in existence for two years, has already helped to establish 59 new businesses for creative graduates. As the largest supplier of early seed capital in the UK, NESTA has invested £14.5 million in small innovative enterprises through its pre-seed fund, leveraging in excess of £30million of external investment.

7.2 NESTA are on track to spend the £45 million mentioned in paragraph 4.4 above as planned. But this means that without further lottery funding, NESTA's activities will begin to wind down from summer 2005 and be reduced by half after 2006. Therefore the Secretary of State decided to make this Order to allow her to increase NESTA's endowment by £75 million and approve its expenditure at the rate of £15 million per year, thereby maintaining NESTA's expenditure between now and 2011 at around £30 million per annum, a level consistent with expenditure plans for 2005-06.

7.3 This will be achieved by transferring money held in the National Lottery Distribution Fund for the New Opportunities Fund. The Secretary of State will make five separate payments, as permitted by this Order, of £15 million each year to NESTA. This approach has been adopted to lessen the impact on the New Opportunities Fund and allow them to maximise on the interest available on the earmarked funds over the 5 year period.

7.4 The £75 million transfer will not affect the flow of funds to any initiatives currently operated by the New Opportunities Fund. There will be an impact on the Fund's future programmes – we expect there to be in the region of £1.35 billion in total for the Fund's programmes between 2005-2009, of which around £1 billion would be available for the priorities between the Department and the Fund. It is from this sum that the £75 million will be transferred.

7.5 Before laying this Order the Secretary of State, as required by section 19(3) of the National Lottery Act 1998, has consulted all the Lottery distributors. No objections were raised during this consultation.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

9. Contact

Kirsty Leith at the Department for Culture, Media and Sport. Tel: 020 7211 6379 or e-mail: kirsty.leith@culture.gsi.gov.uk can answer any queries regarding the instrument.