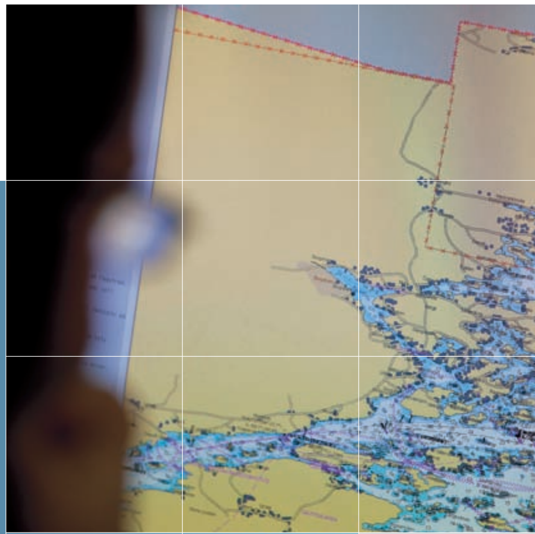
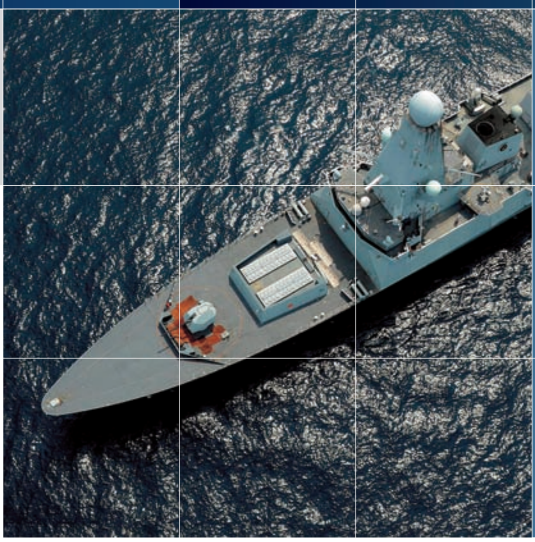
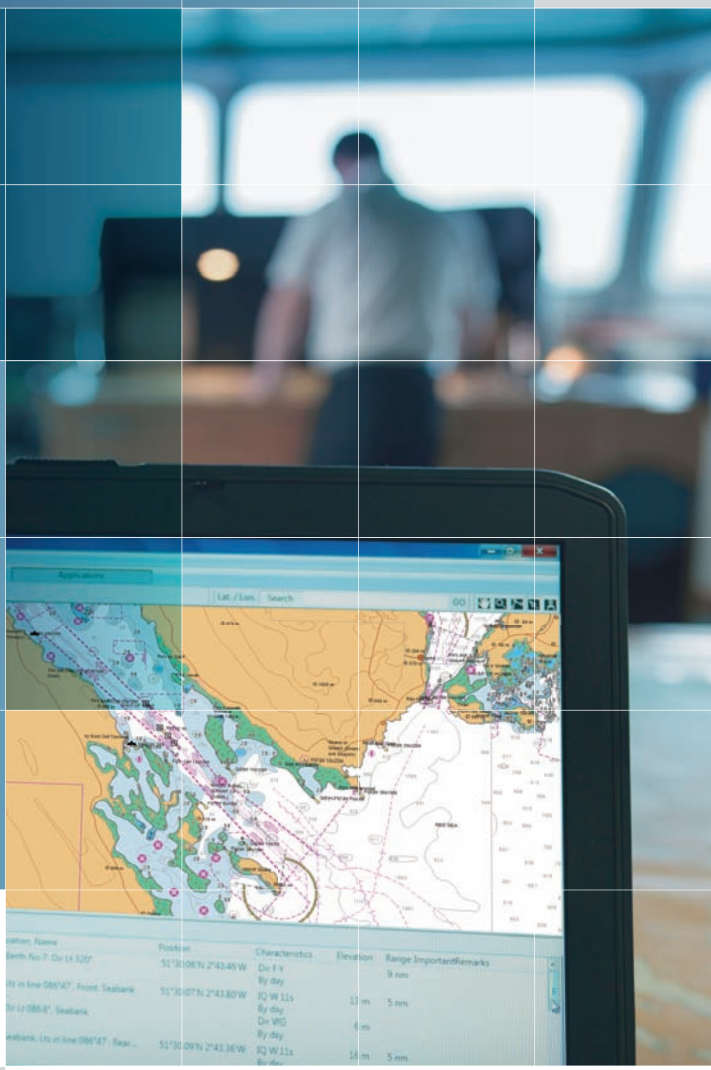
United Kingdom
Hydrographic Office



Charting the way ahead

UKHO
Report and Accounts 2014/15





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United Kingdom
Hydrographic Office

Annual Report and Accounts 2014/15

Presented to Parliament pursuant to section 4 (6) of the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990

Ordered by the House of Commons to be printed on 16th July 2015

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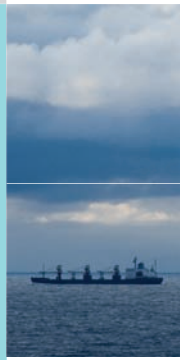
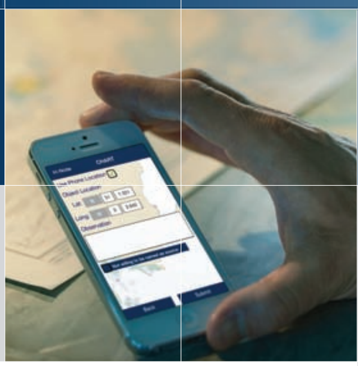


Our vision

To be the world's leading hydrographic office and marine geospatial information agency.

Our mission

To meet our public task on a sustainable basis by providing value-added data, products and services that support global maritime decision-making.



This publication is available at **www.gov.uk/government/publications**

Any enquiries regarding this publication should be sent to us at The United Kingdom Hydrographic Office, Admiralty Way, Taunton, Somerset, TA1 2DN. Telephone: (0)1823 337900. Email: **customerservices@ukho.gov.uk**

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Our highlights

Total income

£134m

(2013-14: £130.5m)

Profit on ordinary activities before exceptional costs

£32m

(2013-14: £21.8m)

Defence customers income

£12.7m

(2013-14: £11.9m)

- Provided support to the Royal Navy's humanitarian operations in response to the Ebola crisis
- Flag-state approval received for our digital publications allowing them to be used by 75% of the world's merchant fleet
- Increased standard nautical chart (SNC) production and reduced time taken to process and issue safety-critical Notices to Mariners
- Completed the digitisation of our paper publication suite, enhanced our digital delivery platforms and introduced a H-note app
- Improved the quality of performance management across the organisation
- Enhanced our service to our end users, with 100% of our Chart Agents achieving ISO9001:2008 accreditation
- Further improved our IT infrastructure and resilience

Chair's message

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"

Our express aim is to create an advanced geospatial information agency and a unique national asset that reflects our 220-year heritage"

The UKHO is a remarkable organisation that supplies the Royal Navy, supports world trade and makes a profit while doing so. During 2014/15, our operations continued to be based around two core responsibilities: supplying the Royal Navy with the charts, electronic navigation and the specialist services it needs to perform its duties around the globe; and supporting the UK's obligations under the International Convention for the Safety of Life at Sea (SOLAS) that governs safety on merchant ships.

During the last financial year, we delivered a strong performance that was ahead of expectations. Our revenues totalled £134m – £12.7m from UK defence sales and £121.3m from commercial SOLAS customers – from which we generated a profit of £32m (full details are on page 32 of this document) and made money for our owner, the MoD.

New digital forces are at play, however. For 220 years, the UKHO has been a business based on paper charts and books. While these are still selling well, we can see the demand for paper products diminishing as the world moves to screen-based delivery, but we plan to be as significant to the world's shipping in this digital age of navigation as we were in the age of paper.

Adam Singer
Chair

Foreword by the Chief Executive

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"It is an exciting time to be at the UKHO. We have a real opportunity to build on our heritage, to deliver our public task better than ever before and to create a new UKHO that is relevant for the 21st century."

2014/15 was a very exciting period for the UKHO. We delivered all our key performance measures (KPMs) and a significant number of major projects, including important investments in IT infrastructure, data storage and process workflow technology. These investments and innovations allowed us to increase our paper chart output by 12% while reducing our controllable costs by £4.9m.

Sales were also strong, with the decline in sales of standard nautical charts (SNC) more than offset by the strong performance of our new value-added paper products, such as Port Approach Guides, and our expanded range of digital products and services.

Some key achievements of note included the following.

Supporting Defence and humanitarian causes

- Delivering an unprecedented number of tasks for our Defence customer
- Supporting the Royal Navy's major exercises with bespoke products
- Providing support to the Royal Navy's humanitarian operations in response to the Ebola crisis in West Africa and helping to evacuate non-combatants from Libya
- Supporting the island of Vanuatu following the impact of Cyclone Pam

Completing our digital portfolio

- Digitising all our paper publications suite, Admiralty Digital Publications (ADP), the suite of nautical publications as e-books (e-NPs) and our H-note smartphone app for crowdsourced data

Improving operational efficiency

- Removing legacy applications, improving processes and reducing waste throughout the business
- Producing 12% more new paper chart editions than in 2013/14
- Reducing the time taken to process and issue safety-critical Notices to Mariners
- Issuing new charts to reflect the changing patterns of world trade

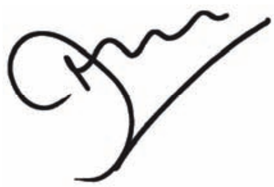
Further developing business excellence

- Enhancing our service to end users, with 100% of our chart agents achieving ISO9001:2008 accreditation
- Introducing a new self-help portal for our chart agents and expanding our print-on-demand services to ensure high levels of product availability worldwide
- Implementing high-speed digital printing in our UK facility, with faster turnaround times and greatly reduced scrap levels

Despite a strong year of digital sales in 2014/15, paper charts still account for the majority of our sales. As these decline, we are challenged in many areas, including:

- how to keep our skills up-to-date and to think 'digitally'
- understanding the potential for new technology to alter our customers' needs and expectations
- mapping out a new future where we continue to deliver our public task to the Royal Navy and in support of SOLAS on a financially sustainable basis

This is an immensely challenging but exciting time to be at the UKHO, and I am very proud of what our team has achieved and continues to achieve.



John Humphrey
Interim Accounting Officer
and Acting Chief Executive

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“Our performance has been delivered by maximising commercial opportunities and reducing cost. It is this improved operational effectiveness that will provide us with the basis for a long-term sustainable future.”

Our revenue of £134m was 2.7% up on last year, a modest top-line growth that masks a significant change in product mix as our core market continues to move from traditional paper products towards digital navigation.

Despite increasing the number of new editions produced from 590 in 2013/14 to 654, paper product sales were £2.3m down on last year, continuing the decline that started in earnest in 2012/13. On the other hand, digital product sales grew by £5.6m. This switch is being driven primarily by the move of SOLAS merchant vessels to electronic nautical charts (ENCs), as mandated by the International Maritime Organization (IMO).

In addition to this IMO-driven growth in ENC sales, our sales of digital publications have also been propelled by increased flag-state approval, allowing them to be used by some 75% of the world's merchant fleet. These vital approvals are showing through in the rapid uptake of the ADMIRALTY range of digital publications, including the new e-NP e-books launched late in 2013/14.

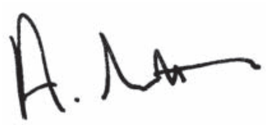
Despite the general move to digital charts and publications, we have continued to invest in new paper products where we believe they may continue to have a role even on a digital bridge. A good example is our new range of Port Approach Guides.

However, the long-term challenges of the shift from paper to digital products and services are significant, including:

- a short to medium-term inflationary impact on sales as customers buy both paper and digital products during the period of transition. This means our current levels of revenue may be artificially inflated
- the fact that gross margins achieved on digital products and services, especially digital charts, are significantly less than we have historically enjoyed

The combination of short-term inflated sales, combined with the five-year programme launched in 2012/13 to reduce our controllable costs by 25% in readiness for lower long-term digital margins, has contributed to our increased operating profit of £32m (up by £10.2m or 46.7% on last year).

During the year we paid £70m to the MoD in dividends and repaid £6.8m being the loan capital used to establish the Trading Fund.



Andrew Millard
Chief Financial Officer

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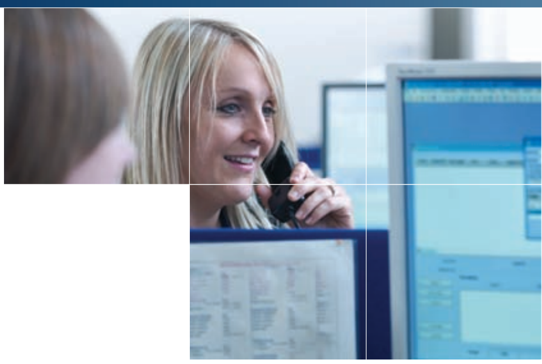
Our strength lies in our assured and trusted portfolio of charts and publications which offer the unrivalled global coverage through a worldwide network of chart agents.



History

The UKHO, established in 1795, is a world authority and provider of official, accurate and reliable information for maritime decision-making, including safe marine navigation.

Ownership and financial structure

The UKHO is 100% owned by the Secretary of State for Defence by way of public dividend capital. We were established as a Trading Fund in 1996, operating in accordance with statutory instrument SI 1996/773.

Our accounts, which are drawn up to 31 March each year, have been prepared in accordance with the HM Treasury direction of 18th December 2014 as per section 4(6) (a) of the Government Trading Funds Act 1973.

We do not enter into derivative transactions such as interest rate swaps or forward currency exchange contracts. The majority of our sales are made in sterling, minimising any risk from currency fluctuations.

Description of the business

The UKHO has been charting the world's oceans for 220 years with the primary aim of saving and protecting lives at sea.

We provide the most comprehensive portfolio of world-leading, SOLAS-compliant charts and publications under the ADMIRALTY Nautical Products & Services brand.

Our portfolio contains quality assured information to help maritime decision-makers act correctly and with confidence, and helps to keep crews, cargo, ships and the environment safe.

The combined total of 40,000 ships in the UK Defence and global commercial maritime fleets represent our core market. We also operate in a number of related market segments, namely: leisure; law of the sea; nautical almanac; and hydrographic and cartographic training.

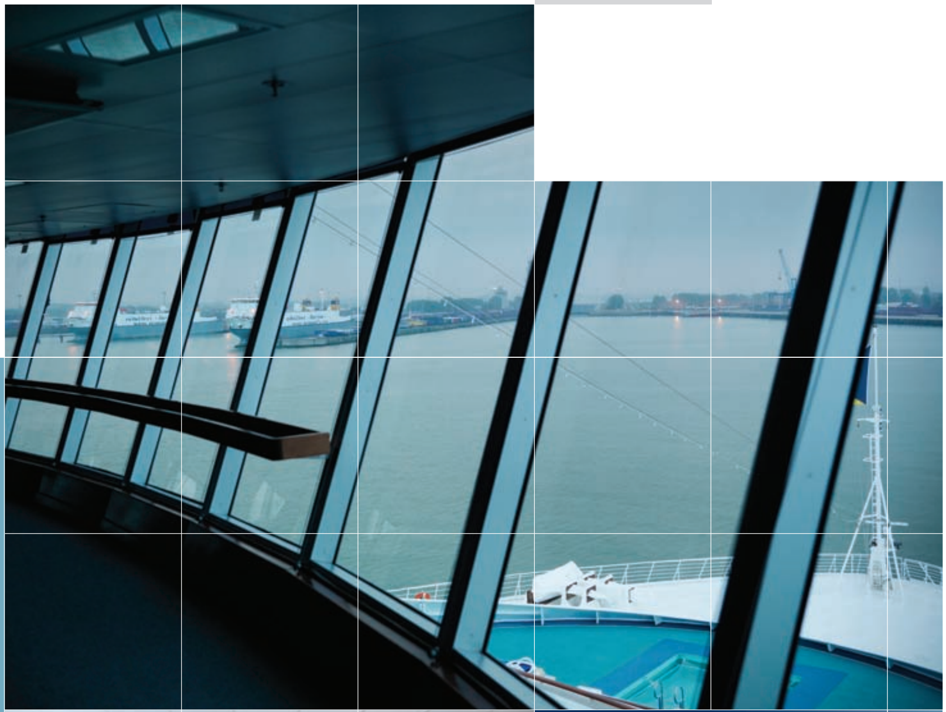
We also play a significant role in discharging the UK Government's responsibilities in terms of safety of navigation as required by the United Nations under the Safety of Life at Sea Regulations (SOLAS) Chapter V, issued by the International Maritime Organization (IMO). These extend beyond charting matters to include provision of a 24/7 radio navigational warnings service in our region.

As the Government's centre of expertise in hydrography, we advise on policy formulation and represent the UK at international hydrographic forums, including the International Hydrographic Organization (IHO). Law of the Sea and HM Nautical Almanac Office support all areas of government.

Other than sales to the Royal Navy and data-licensing arrangements, the sales and distribution of our ADMIRALTY Nautical Products & Services are made through a worldwide network of over 120 ADMIRALTY Chart Agents.

The regulatory environment

Most large merchant ships trading internationally are inspected for official and compliant nautical charts and publications, which are mandated to be carried under Chapter V of the IMO's SOLAS convention. We refer to this fleet of ships that are bound by the SOLAS convention as the 'SOLAS fleet', which makes up our core market for the commercial ADMIRALTY Nautical Products & Services portfolio.



Our portfolio includes:

13,800+
Electronic Navigational Charts

200+
Nautical publications

147
Digital publications

Navigational Charts:

3,500+
SNCs

The IMO approved the progressive introduction of mandatory digital navigation for ships to use ECDIS, which commenced in 2008 with high-speed ships.

By 2018, most ships trading internationally will have adopted the new regulations and transitioned to navigation using ECDIS. This is a major shift in the planning and conduct of marine navigation, and has had a major impact on our organisation, infrastructure, products and services.

The market environment

The shipping market has seen limited signs of recovery after an extended period of difficult conditions driven by global economic factors. As a result, capacity continues to far exceed demand.

Ship operators have responded by cutting costs, and many ships are continuing to slow steam to reduce the fuel consumption, not withstanding the rapid decline of fuel costs seen throughout 2014/15.

Against this background, we continue both to provide high-quality solutions that are supported through our global distribution network, and to grow our digital business ahead of expectations.

Portfolio branding and traction

We have developed a strong brand identity, which is now consistent, coherent and clear. Marketing communications activities have been integrated and aligned, further strengthening our brand position in the market. As a result of our marketing campaigns, ADMIRALTY brand awareness in our target audience has increased by over 30% in the past two years.

Research on how likely shipping decision-makers and end users are to recommend ADMIRALTY Nautical Products & Services indicates a Net Promoter Score (NPS – a widely understood gauge of customer loyalty) of between +43% and +65% (good to excellent).

Our channel

We sell our commercial products through a worldwide network of over 120 Chart Agents.

All chart agents are ISO9001 accredited and must complete regular product training and are subject to regular audit.

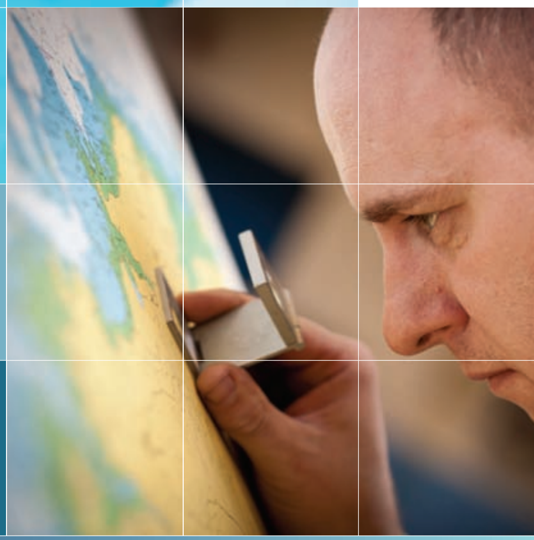
We have commenced a programme of continuous improvement to streamline our business relationships with our chart agents in order to speed up order processing, reduce transaction errors and cut overall ordering costs.

We have continued to roll out our Print-on-Demand service to our chart agents, which ensures product availability. We are further supporting this with the implementation of high-speed wide-format digital printing in the UK that will allow faster turnaround times.

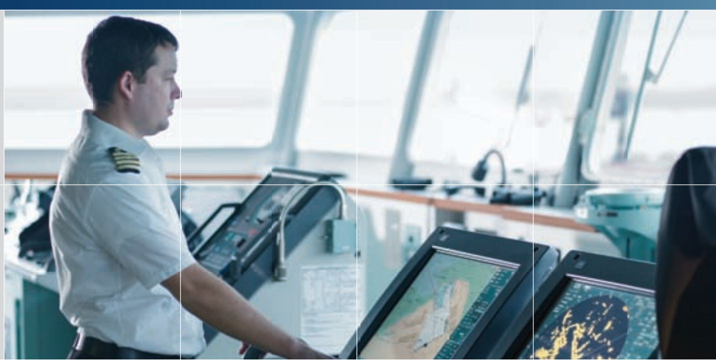
In these and other ways we are creating, with our chart agents, a high-quality network where we are widely distributed, that finds us easy and consistent to do business with, ensures the highest level of customer service and supports our position with consumers as the market-leading supplier of trusted navigational data products.

Our highlights

- Reduced the time taken to issue safety-critical Notices to Mariners
- Embedded our continuous improvement approach, providing a clear focus on reducing waste and cost
- Made significant improvements to our products and services supplied to UK Defence and global commercial maritime fleets
- Launched new paper products and completed the digitisation of our products



A solid foundation on which to build a sustainable future.



Improvement and innovation

We have incrementally improved our digital services and systems, and developed and successfully launched a number of new, innovative products based on research.

Such initiatives include the completion of the full suite of ADMIRALTY digital publications and the launch of our remaining publications as e-books (e-NPs). This means almost all our 200 nautical publications are now in the digital format, which improves the efficiency, accuracy and access to information bridge crews need.

Ocean Routeing Charts have been launched as digital raster charts, as have an ENC Maintenance Log and Port Approach Guides. This initiative aims to bring together key information from a range of existing publications on to a single, port-specific chart.

An H-note App has also been launched for mariners who want to relay any navigationally significant information via a mobile device.

We have introduced a new training portal for our chart agents, and over 40% of them have implemented our print-on-demand service.

Our support for Defence

As well as our standard products, the MoD also receives specialist tailored maritime geospatial services that support the UK's military capability and operational effectiveness. Due to our specialist staff and unique data holdings, we can react swiftly to emerging crises as well as deliver on planned tasks. As a result, we provided support for 108 short-notice and contingent tasks during the year.

Our future plans

Our broad strategy is to remain a leading supplier of nautical charts and publications for the Defence and commercial segments.

As in previous years, our key performance measures (KPMs) are aligned with our top-level objectives and approved by the Owner's Council. The first four measures for 2015/16 will remain the same as those for 2014/15 (see table below).

However, the strategic plan target has been expanded to better reflect a balanced scorecard of measures that include achievement against our transformation activities as well as our corporate objectives. As a result, this year's fifth KPM is to achieve 70% of 18 measures from the first year of our five-year corporate plan.

In addition, we will manage our transition from the current predominantly paper-centric market to a fully digital product offering.

Our expectation is that we will continue to operate under our current business model as a MoD Trading Fund and sell our products through a world-wide network of chart agents.

Our KPMs reflect this strategy.

Key performance measures – Results 2014/15

In assessing our performance against our objectives, the MoD (advised by the Owner's Council) uses a number of key measures which are reviewed annually and amended as required. The results against these key measures are as follows:

	Key performance measure	Achievement
1. Defence	Achieve a score of 95 for a composite index measuring the quality and timeliness of deliveries of the Defence programme	Exceeded
2. Safety	Achieve a score of 98 for a composite index measuring timeliness and quality in issuing NMs and Electronic Chart updates	Exceeded
3. Financial return	Achieve an average 9% Return on Capital over the last five years	Exceeded
4. Cost reduction	Achieve a 4% reduction in costs excluding Defence	Exceeded
5. Strategic plan	Deliver at least 75% of the nine key targets that together support the delivery of the seven strategic objectives of the 2014/15 Corporate Plan	Exceeded

Key performance measures 2015/16

As in previous years, our key performance measures are aligned with our top-level objectives and approved by the Owner's Council.

	Key performance measure	Change from prior year
1. Defence	To deliver the Defence programme achieving an index rating of 95 or higher	Unchanged
2. Safety	Whilst aiming for 100, to achieve a safety index exceeding 98	Unchanged
3. Financial return	To achieve a return on capital employed of 9% on a five-year rolling basis	Unchanged
4. Cost reduction	To achieve a further 5% reduction in average resource	Increased by 1%
5. Strategic plan	To achieve at least 70% of 18 measures of achievement which together provide a balance score card reflecting our overall programme delivery	+9 measures

Strategic report (continued)

Key Business Risks

	Risk	Impact	Mitigation of risk
1	An error in our products contributes to an incident at sea	Loss of life, material or environmental damage	Production and charting processes designed to minimise risk. Continuous improvement of these processes
2	Cyber attack	Business disruption, reputational damage and financial loss	Investment in skills and new systems designed to be resilient to attack. Enhanced monitoring and awareness.
3	Inability to attract and retain skills will frustrate our plans to transform into a digital business	Financial loss and inability to remain a sustainable business.	Seek freedoms to offer competitive rates. Improve our marketing of the range of leading-edge technical work we offer.

Global, economic, social and environmental impact

UK Defence and national security

Our service to Defence helps to protect not just British interests abroad, but also those of allied nations. We encourage Reservists at the UKHO and currently have ten Royal Navy and one Army Reservist within our staff.

Our people

Our highly skilled, much-valued set of people work to ensure that the business continues to provide the services we need, and to create new services in a time of rapid change.

To meet our future operating model, we will continue to invest in training, leadership skills, individual performance management and continuous professional development.

We support the principle of equal opportunities in employment and oppose all forms of unlawful or unfair discrimination on the grounds of race, age, nationality, religion, ethnic or national origin, sexual orientation, gender or gender reassignment, marital status or disability. It is also our policy, where possible, to give sympathetic consideration to disabled persons in their application for employment with us and to protect the interests of existing members of our staff who are disabled.

We also have a rolling programme of office refurbishment to improve our working environment.

In addition, we support our staff through a range of discretionary benefits such as free health screening, the provision of crèche facilities, a subsidised gym and free bike servicing for those who regularly cycle to work.

	Male	Female
Gender of each director of the UKHO at year end *	6	2
Gender of each senior manager of the UKHO at year end **	53	21
Total number of persons who were employed at the year end	685	301

* Includes Hydrographic Office Board (HOB) members only

** Senior managers have been defined as anyone holding a UKHO band C or above

The local community

UKHO staff chose Taunton Sea Cadets as our charity of the year for 2014, raising money towards buying a minibus for the group.

The 2015 charity chosen is the local cancer charity, Somerset Unit for Radiotherapy Equipment. The money raised will go towards new equipment in the Taunton area, so patients will not have to travel to Bristol hospitals.

On an ongoing basis, our people also help local schoolchildren to develop their reading skills through the Right to Read Scheme.

The working environment

Ours remains a safe, well maintained and compliant site. We are committed to reducing our environmental impact where practicable. This includes recycling most of our waste, utilising energy-efficient measures and investing in more energy-efficient appliances. Further details are included in the sustainability report on page 57.

Low-energy PCs, lighting and new digital printing equipment in our chart production area has made a difference. However, the Admiralty Way site, which dates back to the outbreak of WW2, remains an efficiency challenge with most buildings ranging between 40 and 75 years old.

The national and international community

The UKHO supports and participates in the international community, supporting a wide range of international organisations. Our main interest is safety of navigation, but we also support other marine activities such as security, Defence and environmental protection.

We contribute to the IHO in their collective endeavours to promote SOLAS, by encouraging all coastal states to implement their treaty obligations by providing adequate and timely hydrographic information.

We also hold a leading position in the development of international technical standards and the provision of capacity-building assistance under the auspices of the IHO. To date we have trained over 855 students from over 100 countries and we are committed to the continued provision of hydrographic data-processing, marine cartography and ENC production training.

In addition, our international hydrographic projects team provides coastal states with advice and management of hydrographic surveys to support SOLAS and the blue economy.

Following extensive liaison with various bodies, including the UK Location Programme and Defra's INSPIRE team, we meet our obligations under the UK INSPIRE Regulations 2009.

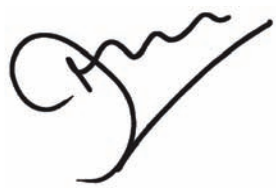
Metadata allows people easy access to our relevant datasets through both the UK national portal (http://www.data.gov.uk) and the European geoportal (http://inspiregeoportal.ec.europa.eu). These datasets, bathymetric surveys, limits around the UK and ships' routeing measures can then be downloaded directly from our website (www.ukho.gov.uk/inspire).

This facility also provides access to our Bathymetric Data Archive Centre, as accredited by the Marine Environmental Data and Information Network (MEDIN).

Our suppliers and payment policy

The Government has made a commitment to speed up the payments process of public sector organisations with the aim to pay at least an average 80% of suppliers within five days.

This financial year, we improved our payment of undisputed invoices in this timescale to 95.5%, up from 93.9% in 2013/14. The principles of the *Better Payment Procedure Code* have been observed. A summary of these is contained in *Managing Public Money*.



John Humphrey
Interim Accounting Officer
and Acting Chief Executive
01 July 2015

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Board of Directors

Executive Directors

John Humphrey
Acting Chief Executive and Interim Accounting Officer

RAdm Tom Karsten
National Hydrographer and Deputy Chief Executive (Hydrography)

Andrew Millard
Chief Financial Officer

Non-Executive Directors

Adam Singer
Chairman

Gareth Lewis

Capt David Robertson RN
Hydrographer of the Navy

Marion Leslie

Barry Wootton

Heather Tayler

UKHO Owner's Council	UKHO Board	Audit and Assurance Committee	Remuneration and nominations Committee	Membership
●	●			Adam Singer (Chairman) from May 2014
●	●			Sandra Rogers (Chairman) to May 2014
●	●	*		John Humphrey (Acting Chief Executive) from February 2015
	●	*		John Humphrey (Chief Commercial Officer and Deputy Chief Executive-Commercial) to February 2015
●	●	*		Ian Moncrieff CBE (Chief Executive) to January 2015
*	●	*		Rear Admiral Tom Karsten (UKHO National Hydrographer & Deputy Chief Executive-Hydrography)
	*	*		Andrew Millard (Chief Financial Officer)
	●	●	●	Barry Wootton (Non-Executive Director)
	●	●	●	Gareth Lewis (Non-Executive Director)
	●			Marion Leslie (Non-Executive Director) from January 2015
●	●	●	●	Heather Tayler (Head of Head Office & Corporate Service Finance, Non-Executive Director, Owner's representative)
	●	●		Captain David Robertson RN (Captain HM & Hydrographer of the Navy, Non-Executive Director)
	*			Helen Stevens (Trade Union Representative)
●				Rt Hon Julian Brazier MP (Chairman) Parliamentary Under Secretary of State & Minister for Reserves from July 2014
●				Rt Hon Anna Soubry MP Parliamentary Under Secretary of State & Minister for Defence Personnel, Welfare & Veterans to June 2014
●				David Williams (MoD Director General Finance) to March 2015
●				Louise Tulett (MoD Director General Finance) from March 2015
●				Rear Admiral Duncan Potts (Fleet Deputy Commander) to September 2014
●				Rear Admiral James Morse (ACNS capability and COS HQ) from September 2014
●				Air Vice Marshal Jonathan Rigby (Director Cyber Intelligence & Information Integration)
●				Sir Alan Massey (Chief Executive, Maritime & Coastguard Agency)
●				Michael Everard CBE (External Adviser Commercial Shipping)

* Invited attendees

Directors' report

We are focussed on quality communication with employees and encouraging their commitment to our continued success."

Pension

Pension benefits are provided through the Civil Service pension provider, MyCSP and are covered in the Remuneration Report, accounting policy, Note K and Note 2 to the accounts.

Conflicts of interest

Hydrographic Office Board (HOB) members, members of my Executive Committee and their direct reports must declare any personal interests that they have with current or potential customers or suppliers.

There were no reported conflicts of interest or related party transactions between HOB members and their activities.

We maintain a register of interests which is available for inspection at our offices in Taunton upon request of the Chief Financial Officer.

Auditor

Our accounts are audited by the Comptroller and Auditor General of the National Audit Office (NAO) in accordance with section 4(6) of the Government Trading Funds Act 1973.

The cost was £67,000 for performance of the statutory audit. No other audit services were provided by the Comptroller and Auditor General during the financial year. All audit findings are reviewed by the Audit and Risk Assurance Committee (ARAC).

Sickness absence

The average number of days lost through sickness in 2014/15 was 7.75 (2013/14: 8.15).

Report of protected personal data-related incidents

The Government has made a commitment to enhance transparency to Parliament and the public about action to safeguard personal information. As part of this commitment, departments and their agencies are required to publish details of incidents that have resulted in the unauthorised disclosure of personal data in their annual reports.

During the year, a memory stick with the UKHO backup audit files was stolen. The stick was encrypted and therefore the risk of loss was minimal. Processes have been reviewed to reduce the risk of re-occurrence.

Employee involvement

We are focussed on quality communication with employees and encouraging their commitment to our continued success. Line management provides the key focus for employee involvement supplemented by dissemination of information by monthly summaries of issues including financial performance, the publication of a bi-monthly internal newspaper and presentations by the Chief Executive to all employees and other ad hoc bulletins. Our intranet includes a regular blog by the Chief Executive or other members of the senior management team and an employees' forum in which employees are free to raise any issues of general concern or of topical interest. We annually ask staff to complete the Civil Service People Survey, results of which are reported to the board (HOB). Formal consultations over a wide range of issues are conducted through the Whitley committee, chaired by the Chief Executive, which meet several times a year. Trade Unions are actively encouraged to contribute to studies and other reviews and are represented at the HOB.

It is our policy to encourage and develop all members of staff to realise their maximum potential. Wherever possible, vacancies are filled from within. The HOB is committed to a systematic training policy and we have an annual performance appraisal process that focuses on the opportunity for employees to maintain and improve their performance and to develop their potential to a maximum level of attainment. Some of our staff take the opportunity of a secondment to another organisation and then return to us in the UKHO with an external experience, new learning and a new perspective they can share and apply when they come back to us. In this way, staff will make their best possible contribution to the organisation's success.

Financial instruments

The accounting treatment of financial instruments, policies and associated risks are reported in accounting policy W and Note 20.

Events after the reporting period

There have been no events after the reporting period requiring adjustments to the financial statements.

Directors' declaration

The Directors declare that at the time the report was approved:

(a) There is no relevant audit information of which the auditor is unaware and

(b) they have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information

John Humphrey
Interim Accounting Officer
and Acting Chief Executive
01 July 2015

Remuneration report

In accordance with the Financial Reporting Manual (FReM) we are required to prepare a remuneration report containing certain information about directors' remuneration. 'Directors' is interpreted to mean persons in senior positions having authority or responsibility for directing or controlling the major activities of the UKHO. The Chief Executive supported by the HOB is responsible for directing and controlling the major activities of the organisation. As additional disclosure, the details of the emoluments and pension of the Chief Financial Officer are also disclosed. While he is not formally a member he participates in meetings and exercises influence on the decisions made.

Remuneration policy

The following remuneration policy refers to the employment of its directors. Two directors employed during the year are Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy. Their bonus arrangements fall under SCS rules rather than the UKHO performance-award system. The third director is on secondment from the Royal Navy (RN) and is paid by the RN. He continues to have his remuneration set and paid by the RN. The other executive director is a UKHO employee and subject to the same performance-related remuneration policy as all other UKHO staff The non-executive directors are not UKHO employees but, apart from two who are employed by the MoD, they are paid a fee for their services.

Ian Moncrieff was appointed Chief Executive on a three-year Senior Civil Service (SCS) contract from 1 April 2013. Ian Moncrieff retired as Chief Executive on 31 January 2015.

John Humphrey was appointed Chief Commercial Officer and Deputy Chief Executive (Corporate) on a permanent SCS contract from 1 April 2014. John was appointed Acting Chief Executive for 12 months from 1 February 2015.

Rear Admiral Tom Karsten was appointed National Hydrographer and Deputy Chief Executive (Hydrography) on 17 December 2012.

All other employees have their remuneration determined by a process consistent with MoD and HM Treasury regulations. The Chief Executive has delegated powers for the setting of terms and conditions of employment, including pay, for all employees other than SCS appointments. However, this delegation is not unfettered and requires him to consult with the MoD and HM Treasury before agreeing any changes to pay and grading systems and arrangements. This is achieved through the pay remit process whereby our pay strategy is submitted for MoD and HM Treasury approval before negotiation with employee representatives.

The outcome of negotiations is reported back to HM Treasury through the annual outturn statement. Our pay strategy is approved by the Chief Executive to achieve the corporate business strategy having due regard to our financial success, current Government and MoD policies and targets and public sector pay guidance.

Performance pay is dependent firstly on our meeting agreed key performance measures at a corporate level and then on individuals meeting agreed measures in their personal objectives cascaded from the corporate plan. Achievement is determined by individual performance assessment within the line management chain audited by a moderation panel, which reviews application of reporting standards and approves bonus awards across the business.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

The Chief Executive holds a delegation from the MoD for recruitment within the UKHO up to, but not including, SCS grade. The duration of contracts and notice periods are in accordance with the Civil Service Management Code. The duration of contracts are determined by business needs and include some fixed-term appointments.

Compensation on termination of all appointments is in accordance with the Civil Service Compensation Scheme.

The appointments of non-executive directors are in accordance with MoD guidelines and the Office of the Commissioner for Public Appointments Code of Practice.

Salary and pension entitlements

(This section has been subject to audit)

The tables on pages 21 and 22 provide details of the remuneration and pension interests of the executive members of the HOB.

Salary

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Remuneration report (continued)

Benefits in kind (BIK)

The monetary value of benefits in kind covers any benefits provided by the UKHO and treated by HM Revenue and Customs as a taxable emolument.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2014/15 relate to performance in 2013/14 and the comparative bonuses reported for 2013/14 relate to the performance in 2012/13.

Compensation

This relates to payments made to Ian Moncrieff CBE, on page 21.

Remuneration of the highest-paid director and the median remuneration of the organisation's workforce

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

The banded remuneration of the highest-paid director in 2014/15 was £185 – 190k (2013/14: £140 – 145k). This was 6.6 times (2013/14: 4.9) the median remuneration of the workforce which was £28.5k (2013/14: £28.4k).

Total remuneration includes salary, non-consolidated performance-related pay, BiK as well as severance payments. Total remuneration does not include employer pension contributions and the cash equivalent transfer value (CETV) of pensions (CETV is defined on page 23).

	2014/15 £k	2013/14 £k
Band of highest paid director's remuneration	185 – 190	140 – 145
Median of all UKHO employees	28.5	28.4
Ratio	6.6	4.9

However, the director above retired from the UKHO on 31 January 2015 which now makes the banded remuneration of the current highest paid director £145 – 150k showing the median and ratio below in the table:

	2014/15 £k	2013/14 £k
Band of highest paid director's remuneration	145 – 150	140 – 145
Median of all UKHO employees	28.5	28.4
Ratio	5.3	4.9

These tables above refer to our permanent staff and do not include agency staff costs.

Remuneration details

	Notes	2014/15 Salary Band £k	2014/15 Performance Awards £k	2014/15 BIK £	2014/15 Compensation (Note 2) £k	2014/15 Total £k	2014/15 Pension Benefit (Note 5) £k
Ian Moncrieff CBE (up to 31 Jan 15)	1	95 – 100 (115 – 120*)	35 – 40	0	50 – 55	185 – 190	30 – 35
Rear Admiral Tom Karsten	3	110 – 115	0	0	0	110 – 115	0
John Humphrey	1	110 – 115	35 – 40	0	0	145 – 150	40 – 45
Andrew Millard	1	75 – 80	0	0	0	75 – 80	20 – 25

	Notes	2013/14 Salary Band £k	2013/14 Performance Awards	2013/14 BIK	2013/14 Compensation (Note 2) £k	2013/14 Total £k	2013/14 Pension Benefit (Note 5) £k
Ian Moncrieff CBE	1	115 – 120	20 – 25	0	0	140 – 145	40 – 45 (Note 6)
Rear Admiral Tom Karsten	3	105 – 110	0	0	0	105 – 110	0
John Humphrey	4	155 – 160	30 – 35	0	0	190 – 195	0
Andrew Millard	1	75 – 80	0	0	0	75 – 80	15 – 20

* denotes full year equivalent

BIK is rounded to the nearest £100

Notes

1. Salaries are reviewed annually on 1 April in line with provisions applying to special appointments outside the standard Civil Service performance-related pay scheme. The Office of Public Service centrally determines the annual increases for these special appointments.
2. Ian Moncrieff CBE left under VERS (Voluntary early release scheme) terms on 31 January 2015. He received a compensation payment of £40,825 and a CILON (Compensation in lieu of notice) payment of £12,442. This payment is in accordance with the Civil Service compensation scheme and reflects his total service with the Civil Service.
3. Rear Admiral Tom Karsten is a serving RN Officer on loan to the UKHO. Whilst RN charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service Pension and CETV figures are not disclosed.
4. During 2013/14, John Humphrey's salary band represented his pay whilst on an interim contract pending a competition to fill the post permanently. John won this competition and was appointed 1 April 2014 as a permanent SCS. Total amount paid to Capita including their fees in 2013/14 was £218k. In addition the UKHO paid his receipted travel and accommodation expenses associated with working away from home totalling £17,200.
5. John Humphrey, Ian Moncrieff and Andrew Millard are all members of, and contribute to, a Civil Service pension scheme. John joined the scheme 1 April 2014. The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. This is an estimate of the assumed value of the increase in pension that will be payable on retirement to the individual and has not been paid in the year.
6. This figure has been restated as there was an error in the information provided from My CSP in 2013/14. The inflation adjustments should not have been included.

Performance-award payments paid in 2014/15 relate to awards earned in 2013/14.

Remuneration report (continued)

Pension benefits

(This section has been subject to audit)

	Accrued benefits*		Real increase in benefits		CETV	CETV	CETV
	Pension (Note a) £k	Lump sum (Note a) £k	Pension (Note a) £k	Lump sum £k	31/03/2015 £k	31/03/2014 (Note c) £k	Real increase £k
John Humphrey (Note d)	20 – 22.5	(Note b)	20 – 22.5	(Note b)	272	0	33
Ian Moncrieff CBE	10 – 12.5	(Note b)	2 – 2.5	(Note b)	171	137	23
Andrew Millard	10 – 12.5	(Note b)	0 – 2.5	(Note b)	179	148	17

* As at 31 March 2015

Notes

a. Pension and lump sums are as at pension age.

b. No automatic lump sum payable as member is in the premium/nuvos scheme.

c. This figure has been restated as there was an error in the information provided from My CSP in 2013/14 for Ian Moncrieff's CETV figures. The inflation adjustments should not have been included.

d. During the year John Humphrey transferred into his scheme funds from a personal pension fund.

None of the above are members of partnership pension schemes.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes, either a final salary scheme (classic, premium or classic plus), or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic, and 3.5% and 8.85% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pension Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website: www.civilservicepensionscheme.org.uk

New Career Average pension arrangements will be introduced from 1st April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme.

Further details of this new scheme are available at: http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration report (continued)

Reporting of high-paid off-payroll appointments

All off-payroll engagements as of 31 March 2015 for more than £220 per day and that last for longer than 6 months.

Number of existing engagements as of 31 March 2015	42
Of which...	
Number that have existed for less than one year	15
Number that have existed for between one and two years	17
Number that have existed for between two and three years	3
Number that have existed for between three and four years	2
Number that have existed for four or more years	5

We have received assurance that the individuals outlined above, are paying the correct amount of tax.

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than 6 months.

Number of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015	**34**
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	34
Number from whom assurance has been requested	25
Of which...	
Number from whom assurance has been received	19
Number from whom assurance has not been received	6
Number that have been terminated as a result of assurance not being received	0

This is an ongoing process and those from whom assurance has not yet been received are currently under review.

Board members and/ or senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015.

Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	1*
Number of individuals that have been deemed 'board members, and/or senior officials with significant financial responsibility', during the financial year. This figure should include both off-payroll and on-payroll engagements	4

* Our chairman is now on the UKHO payroll with effect from 1 March 2015

Fees paid to Non-Executive Directors (NEDs)

(This section has been subject to audit)

NEDs are not appointed as civil servants and contracts may be terminated at one month's notice by either party or on dissolution of the HOB, except in the case of gross misconduct when termination is immediate. Their initial term is three years and may be extended by mutual agreement at the end of the initial period normally for one or at most two further terms. NED contracts are not pensionable and there is no compensation for early termination. Current NEDs and their fees as at 31 March 2015 were:

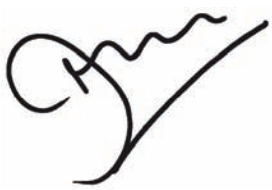
	Notes	2014/15 £K	2013/14 £K
Adam Singer (from 3 May 14)	1	15 – 20 (25 – 30*)	0
Barry Wootton	2	15 – 20	15 – 20
Gareth Lewis	3	15 – 20	15 – 20
Marion Leslie (from 1 Jan 15)	4	0 – 5 (15 – 20*)	0
Captain David Robertson	5	0	0
Heather Tayler	5	0	0
Sandra Rogers (to 2 May 14)	6	0	0

* denotes full year equivalent

Notes

1. Adam Singer, Chairman, was appointed on a three-year contract that started 3 May 2014 and will end 25 June 2017.
2. Barry Wootton was appointed on a three-year contract that started 3 July 2006. This has been extended for two three-year periods and further extended exceptionally by one year which ends 3 July 2016.
3. Gareth Lewis was appointed on a three-year contract commencing 20 October 2011. This has been further extended by one year which ends 19 October 2015.
4. Marion Leslie was appointed on a three-year contract commencing 1 January 2015 and will end 31 December 2017.
5. Captain David Robertson is a serving RN Officer. His appointment began in September 2013 as part of his responsibilities as Hydrographer of the Navy. Heather Tayler is a MoD SCS representing our owner. Neither receive separate remuneration for their roles.
6. Following her permanent appointment to BIS in July 2012, Sandra Rogers role as the Chair has been unremunerated. She continued to receive expenses incurred. Sandra resigned as Chair on time-served grounds on 2 May 2014.

No non-executive directors are in receipt of partnership pension benefits



John Humphrey
Interim Accounting Officer
and Acting Chief Executive
01 July 2015

Contents

Statement of United Kingdom Hydrographic Office and Chief Executive's responsibilities

Under section 4(6)(a) of the Government Trading Funds Act 1973 HM Treasury has directed the UKHO to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued on 18th December 2014. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the financial statements and
- prepare the accounts on a going concern basis.

The Treasury has appointed the Acting Chief Executive of the UKHO as Interim Accounting Officer for the Hydrographic Office Trading Fund. The responsibilities of an Accounting Officer are set out in Managing Public Money published by HM Treasury. These include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding the Hydrographic Office's assets.

Governance statement

Governance
Scope of responsibility

As Interim Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of our policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I was appointed the role of acting Accounting Officer for 12 months from 1 Feb 2015, replacing Ian Moncrieff CBE.

In order to provide this opinion, for the period 1 April 2014 to 31 March 2015, I have received advice and assurances from various sources including:

- Ian Moncrieff CBE, as outgoing Accounting Officer
- Internal and external audit
- Management Board sub-committees
- Seven Directors through their annual assurance statements.

I was also a full member of the Management Board during the year under review and have used my involvement/knowledge from this to assist in forming my overall opinion.

Corporate governance
Our governance framework

We are a MoD trading fund agency. We evolved from the Office of the Hydrographer to the Admiralty, which was founded in 1795. Established as an Executive Agency of the MoD in 1990, we have operated as a Trading Fund since 1 April 1996. We are entirely owned by the Secretary of State for Defence.

The Parliamentary Under Secretary of State for Defence Personnel, Welfare & Veterans assists the Secretary of State for Defence in the discharge of his responsibilities with regard to our top-level strategy and plans. Each year I obtain approval from the Minister for my five-year corporate plan and financial projections covering a rolling five-year period. Considerable effort continues to be engaged in the business planning process to address the challenges faced by the business as the market it serves moves from largely paper based products to digital products.

During the year our Framework Document was updated. This review included a refresh of all the terms of reference for the HOB and its subcommittees. The new Framework Document can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/392992/20150106_UKHO_Framework_Document.pdf

The UKHO owner's council

Our Minister chairs an Owner's Council. Through the Owner's Council the Minister reviews performance against the first year of the plan and reviews and gives approval for specific major investments. There were no Ministerial directions given to the UKHO during the year.

Hydrographic Office Board (HOB)

Plans are formulated by a board of executives and non-executives. This HOB also routinely monitors progress and endorses investment business cases.

We were due to have our bi-annual independent review of the HOB effectiveness during 2014/15. However, due to changes in both our Chairman and CEO, combined with the review of the Framework Document, this review has been delayed until 2015/16.

The quality of management information provided to the HOB to support decisions is reviewed regularly. The HOB are satisfied that the quality of the information is fit for purpose.

During 2014/15 the board met six times and the average attendance was 92%. The attendance of individual members (during their tenure in office) was:

	Attendance
John Humphrey	6/6
David Robertson	6/6
Barry Wootton	6/6
Adam Singer	5/5
Ian Moncrieff	4/4
Marion Leslie	2/2
Sandra Rogers	1/1
Andrew Millard	5/6
Tom Karsten	5/6
Heather Tayler	5/6
Gareth Lewis	4/6

Audit and Risk Assurance Committee (ARAC)

The ARAC is a sub committee of the HOB. It provides me with guidance and independent assurance on the effectiveness of the system of internal control. Meeting four times a year, its membership consists of three non-executive directors, one of whom chairs the committee.

It is charged with monitoring and overseeing the effectiveness of our internal controls and risk management procedures and managing the internal audit programme. The chairman has a finance background and its quarterly meetings are attended by invited members of the executive committee, National Audit Office (NAO) and our appointed internal auditors Defence Internal Audit (DIA).

We have well-established processes for identifying and managing our risks. However, an increased rate of transformational change increases underlying risk and this is being mitigated by the creation of a separate corporate governance function and a high frequency of internal audits. These are reported to the ARAC.

The Chair of the ARAC reports to the HOB on its proceedings.

Governance statement (continued)

Remuneration and Nomination Committee (REMNCO)

The REMNCO works within MoD and other Government guidelines to advise me and the HOB on remuneration and reward for the executive directors and heads of divisions.

The committee comprises of three non-executive directors (quorum of two) who meet frequently during the year.

The REMNCO:

- recommends the regular review of performance schemes
- reviews objectives and bonus drivers including stretch targets
- considers individual performance and related bonus payments
- agrees the reward parameters applicable to, or any significant revision of, existing senior posts
- considers and advise on any other remuneration and conditions of employment issues.

The chairman of the committee reports to the accounting officer and chair of the HOB on its proceedings.

Safety of Navigation Advisory Committee (SONAC)

SONAC monitors the safety of our products, is chaired by one of the HOB's non-executive directors, Captain David Robertson RN, Hydrographer to the Navy and draws from a wide range of independent experts including the RN, The Maritime and Coastguard Agency, The Royal National Lifeboat Institute, Trinity House, Associated British Ports, The Marine Accident Investigation Branch, The Chamber of Shipping and The Royal Yachting Association.

The Chair of SONAC reports to the ARAC and HOB on its proceedings.

Compliance with the corporate governance code

The HOB has carried out a self-assessment using the NAO code of good practice compliance checklist and considers that it has complied with all aspects of the corporate governance code to the extent that it is deemed relevant and practical.

The HOB periodically uses external consultants to conduct board effectiveness reviews. As stated above, this bi-annual review has been delayed until 2015/16.

Admiralty Holdings Limited (AHL)

AHL is a private limited company. It was established in 2002/03 to exploit commercial opportunities through greater private sector involvement. The Secretary of State for Defence, who owns 100% of AHL, has delegated its management to me.

Governance of AHL accords with MoD policy and has a separate Board with a non-executive chairman.

AHL is currently dormant and has no active trading subsidiaries.

The UKHO internal control

The governance structures outlined above support a system of internal control which is designed to manage risk to a reasonable, practical level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives. We evaluate the likelihood of those risks being realised and the impact should they be realised, and manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts and they accord with Treasury guidance.

Corporate governance and risk management

Members of the executive committee and their senior managers provide written assurance to me as the Accounting Officer. This covers the integrity and accuracy of performance reports, maintenance of effective controls in relation to the delivery of business objectives, security (physical and data), financial propriety and fraud prevention, conduct of business, management of internal audit recommendations, identification of contingent liabilities, and compliance with staff reporting requirements including the provision of appropriate business skill capabilities.

In addition, staff are mandated to complete a range of training courses both face-to-face and computer based covering, information assurance, business resilience, contracts awareness, equality, diversity and security. Staff are also required to read and sign the 'code of business conduct' annually.

Risk management is a fundamental business activity and an essential component of our planning process. To keep risk management at the heart of the executive agenda, it is embedded into everyday management and we ensure that we have the functional capacity to manage existing and emerging risks throughout our business. At a strategic level our risk management objectives are:

- to identify material risks and ensure that they are understood and managed effectively
- to help the business improve the control and co-ordination of risk taking across the business.

All employees have on-line access to the business risk management policy and guidance in the identification and mitigation of risk. This sets out clear accountabilities and a structured process for identifying, accessing, communicating and managing risks. Corporate risks are owned by divisional heads and are subject to robust review and challenge by the HOB and the ARAC.

Financial control

Financial performance is controlled by cascading detailed plans supporting delivery of objectives articulated in the first year of the corporate plan. These form the basis of the two-year business plan and the annual budget from which delegated authority is derived. They also demonstrate the linkage between detailed short-term financial plans and our long-term risk-based financial objectives.

The executive committee undertakes monthly reviews based on total financial performance against budgets and forecasts. The HOB reviews financial performance at each meeting. Budget holders carry out monthly variance reviews of revenues and spend in their areas of responsibility. Forecasts are, in turn, updated regularly and scrutinised by me.

In addition, the executive committee undertakes monthly reviews of a range of key performance measures, both financial and non-financial. These measures are selected to give the HOB confidence that all key aspects of the business are being scrutinised and provide a framework for early intervention when performance does not meet expectations. They also check that management have scrutinised the assumptions underlying all the major programmes and projects to ensure that they continue to remain valid. All major programmes are subject to programme and project management disciplines, investment appraisal, risk assessment and formal scrutiny by the executive committee. The portfolio further improves governance and oversight of the delivery of all programmes and projects across the business.

Our IT security procedures conform to Cabinet Office and MoD instructions and mandatory safeguards regarding personal and personnel data.

We are bound to operate our commercial function in accordance with relevant administrative policy, government procurement and regulatory requirements. Management regularly reviews its commercial strategy and ensures procurement accountabilities are clearly defined.

Improving quality

We passed two DNV ISO9001:2008 surveillance audits with only minor non-conformities. We are focused on applying the principles of ISO9001:2008 to our internal control framework, which includes rigorous monitoring and consequential feedback for action. We are also formulating a Learning and Development Framework to support quality and continuous improvement throughout the business.

Improving internal controls

Our last ISO9001:2008 report was very positive and acknowledged the cross divisional work that has been implemented. Following the success of our Operations continuous improvement hub (focussed on process improvement to drive out errors and improve timeliness) we are going to replicate this within Commercial and also Technology. We recognise that we want to continue to further improve our internal control framework and are planning a programme of activity for CP15.

Special payments

No special payments were made during the year. (2013/14:£0).

The role of internal audit

The ARAC considers and approves the coverage of the internal audit programme and this is flexed to address risks arising during the year. The HOB and the ARAC are aware of the major challenge of maintaining a consistent and improving internal control framework in a period of major change. The activities of the internal audit programme take into account challenges and ensure focus is given where there is the greatest perceived risk. Internal audit for 2014/15 was contracted out to DIA, who as part of their duties, carried out independent checks on the control process on my behalf. Operating to standards defined in the Public Sector Internal Audit Standards they have carried out a programme of risk-based audits. They submitted regular reports which include their independent opinion on the adequacy and effectiveness of our internal control together with recommendations for improvement which, when accepted by senior managers, form improvement actions. Outstanding improvement actions, which arise from both internal and external audit recommendations, are reported to, and monitored by, the executive committee and are reviewed quarterly by the ARAC.

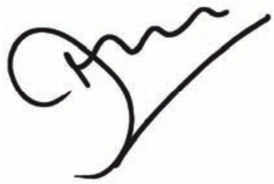
The opinion given by internal audit on the work they completed during 2014/15 was 'Limited Assurance'. They recognised that the system of internal controls across a range of audits was found to be operating effectively. These audits covered core financial systems, bonus payments, product development, data management, data costs and information assurance of third-party contracts. However, the need to improve controls around royalty offset payments, IS governance and business continuity brought into question how well established and embedded the management of risks, through control frameworks, is in the UKHO.

Business resilience

In terms of business continuity, we have conducted an in-depth business impact analysis (BIA) across the entire organisation. The BIA is fundamental to determining the critical business applications that are being incorporated into our IT disaster recovery capability. We have updated and reissued our divisional business continuity plans, delivered training to those staff who have a business continuity role and conducted desk-top exercising to test plan assumptions and team members' knowledge. This has been cemented in a classroom-based simulated exercise being attended by all Crisis Management Team members. Further work needs to be done to mature our IT disaster recovery capability.

Information Assurance (IA)

Our focus has been on accrediting business critical systems with support from DSAS/DAIS and improving performance against HMG's IA Maturity Model.



John Humphrey
Interim Accounting Officer
and Acting Chief Executive
01 July 2015

The certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the United Kingdom Hydrographic Office for the year ended 31 March 2015 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive of the United Kingdom Hydrographic Office as Accounting Officer and auditor

As explained more fully in the Statement of United Kingdom Hydrographic Office and Chief Executive's Responsibilities, the Acting Chief Executive as Interim Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the United Kingdom Hydrographic Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the United Kingdom Hydrographic Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Financial Review, Strategic Report, Directors' Report and Sustainability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the United Kingdom Hydrographic Office's affairs as at 31 March 2015 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
08 July 2015

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

The maintenance and integrity of the UKHO's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of comprehensive income
For the year ended 31 March 2015

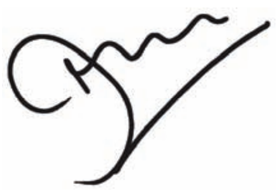
	Note	2014/15 £k	2013/14 £k
Income	4	134,002	130,542
Materials and other external charges		(6,956)	(7,374)
Staff costs	2	(47,507)	(49,698)
Depreciation and impairment	6a	(6,271)	(8,121)
Other operating charges	6b	(41,284)	(43,554)
Profit on ordinary activities before interest		31,984	21,795
Exceptional items	7	(1,971)	(3,888)
Profit on ordinary activities before interest and after exceptionals		30,013	17,907
Interest receivable and similar income	8	601	610
Interest payable and similar charges	9	(19)	(641)
Profit for the year		30,595	17,876
Dividend	10	(69,419)	(28,091)
Retained (loss) for the financial year		**(38,824)**	(10,215)
Other comprehensive income			
Revaluation of non-current assets	11A & C	1,444	1,160
Total comprehensive income		**(37,380)**	(9,055)

The notes on pages 36 to 57 form part of these accounts

Statement of financial position
As at 31 March 2015

	Note	2014/15 £k	2013/14 £k
Non-current assets:			
Intangible assets	11A	7,898	11,497
Property, plant and equipment	11C	33,967	33,362
Total non-current assets		41,865	44,859
Investment	12	13	188
Current assets:			
Inventories	13	2,417	2,490
Trade and other receivables	14	28,573	27,374
Cash and cash equivalents	15	67,948	113,889
Total current assets		98,938	143,753
Total assets		140,816	188,800
Current liabilities:			
Trade and other payables	16	(48,279)	(52,058)
Borrowings	18	0	(6,784)
Provisions	17	(4,365)	(4,246)
Total current liabilities		(52,644)	(63,088)
Non-current assets plus net current assets		88,172	125,712
Non-current liabilities:			
Provisions	17	(396)	(555)
Total non-current liabilities		(396)	(555)
Assets less liabilities		**87,777**	125,157
Taxpayers' equity:			
Public dividend capital		13,267	13,267
Revaluation reserve		21,727	21,448
Profit and loss account		52,783	90,442
Total taxpayers' equity		**87,777**	125,157

The notes on pages 36 to 57 form part of these accounts



John Humphrey
Interim Accounting Officer
and Acting Chief Executive
01 July 2015

Statement of changes in taxpayers' equity

For the year ended 31 March 2015

	Note	Profit and Loss Reserve £k	Revaluation Reserve £k	Public Dividend Capital £k	Total Reserves £k
Balance at 31/3/13		99,543	21,402	13,267	134,212
Changes in equity for 2013/14:					
Other comprehensive income					
Revaluation of non-current assets					
Property, plant and equipment (PPE)	11C		961		961
Intangible assets	11A		795		795
Depreciation-revaluation PPE	11C		(197)		(197)
Depreciation-revaluation intangibles	11A		(399)		(399)
Realisation of revaluation surplus					
Property, plant and equipment (PPE)		862	(862)		0
Intangible assets		252	(252)		0
Total other comprehensive income		1,114	46		1,160
Net income for the period		17,876			17,876
Total recognised income and expense for the period		18,990	46		19,036
Dividend	10	(28,091)			(28,091)
Balance at 1/4/14		90,442	21,448	13,267	125,157
Changes in equity for 2014/15:					
Other comprehensive income					
Revaluation of non-current assets					
Property, plant and equipment (PPE)	11C		1,777		1,777
Intangible assets	11A		797		797
Depreciation-revaluation PPE	11C		(620)		(620)
Depreciation-revaluation intangibles	11A		(510)		(510)
Realisation of revaluation surplus					
Property, plant and equipment (PPE)		863	(863)		0
Intangible assets		302	(302)		0
Total other comprehensive income		1,165	279		1,444
Net income for the period		30,595			30,595
Total recognised income and expense for the period		31,760	279		32,039
Dividend	10	(69,419)			(69,419)
Balance at 31/3/15		**52,783**	**21,727**	**13,267**	**87,777**

The notes on pages 36 to 57 form part of these accounts

Contents

Statement of cash flows
For the year ended 31 March 2014

	Note	2014/15 £k	2013/14 £k
Net cash flow from operating activities	23	32,006	32,445
Cash flows from investing activities			
Investments		160	0
Interest received	8	600	610
Purchase of property, plant and equipment	11C	(1,800)	(281)
Purchase of intangible assets	11A	(32)	(354)
Net cash outflow from investing activities		(1,072)	(25)
Cash flows from financing activities			
Repayment of long-term loan	18	(6,784)	(689)
Dividend paid	10	(70,091)	(27,274)
Interest paid	9	0	(612)
Net cash outflow from financing activities		(76,875)	(28,575)
Net financing			
Net (Decrease)/increase in cash and cash equivalents in the period		(45,941)	3,845
Cash and cash equivalents at beginning of year	15	113,889	110,044
Cash and cash equivalents at end of year	15	**67,948**	113,889

The notes on pages 36 to 57 form part of these accounts

Notes to the accounts

1. Accounting policies

A. Basis of accounting

The financial statements have been prepared in accordance with the 2014/15 FReM issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

AHL has not been consolidated; group transactions are immaterial to the accounts.

All figures within the primary statements and associated notes are rounded to the nearest thousand (£k).

We operate as a Trading Fund within the MoD in accordance with statutory instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 18th December 2014 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973.

B. Accounting convention

The accounts have been prepared on the current cost basis, modified for revaluation and fair value where appropriate.

C. International Centre for Electronic Navigational Charts (IC-ENC)

IC-ENC is an international collaboration to quality control and distribute ENCs.

The UKHO operates IC-ENC on behalf of the 33 member hydrographic offices and it is operated on a not-for-profit basis.

We recognise the total liability to IC-ENC members together with the cash held on their behalf.

D. Estimation techniques

To achieve consistency across MoD the index used to revalue buildings has been changed from the Tender Price Index to a MoD generated index based on the BiS Output Price Index for new construction work-public non-housing.

Our portfolios of assets are subject to a rolling five-year programme of revaluation by an independent, professional valuer. In addition to this, indexation is used on an annual basis as a proxy for valuing our assets in between these quinquennial valuations.

Useful economic lives are reviewed at least annually. The bases for estimating useful economic life include experience of previous similar assets, the condition and performance of the asset and knowledge of technological advances and obsolescence.

Where appropriate, a business-in-use valuation based on discounted projected cash flows has been adopted for development expenditure assets to test for impairment.

Measurement of voluntary release schemes are based on third-party estimates.

E. Exceptional items

Exceptional items are those significant items which individually, or if of a similar type in aggregate, are separately disclosed by virtue of their size or incidence to enable a full understanding of our financial performance. Business restructurings are considered exceptional in nature (as detailed in Note 7).

F. Income

Income represents the value of invoiced sales, net of VAT, at the point of physical delivery or, in the case of service agreements (e.g. sales of digital products), it is realised equally over the licence period. Exceptionally, they may be accrued but income is recognised where work is complete and there is certainty of future payment. Segmental reporting is provided in Note 5 of the Accounts in accordance with *IFRS 8 Operating Segments*.

G. Provision for sales credits

A provision is made for potential sales returns from ADMIRALTY Chart Agents in respect of superseded paper products. The provision is derived from a moving average of actual returns over the last three years, expressed as a percentage of income.

H. Non-current assets valuation

Ownership of our assets is vested in the Secretary of State for Defence.

Intangible assets

Software licences are retained at historic cost due to their short-term economic life. They are amortised over their useful economic lives of between two and five years.

Development expenditure

Internal development expenditure is capitalised only if it meets the recognition criteria of *IAS 38 Intangible Assets*. Where the criteria are not met the expenditure is recognised in the Statement of Comprehensive Income. Where the recognition criteria are met intangible assets are recorded at cost and capitalised and amortised on a straight-line basis over their useful economic lives from the date economic benefit starts to be derived.

All intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognised immediately in the Statement of Comprehensive Income.

The following factors are considered in estimating useful lives: Expected use of the asset; the effects of obsolescence,changes in demand, competing products and other economic factors, including the stability of the market and known technological advances.

Specifically, databases and other software that are established for the internal use of management within the reporting entity (such as payroll or HR systems) will not be recognised as intangibles.

For internally generated software (including databases and websites) to be recognised as assets, these intangibles must either generate economic benefits or deliver services direct to the customer such that use of the intangible by the customer replaces, reduces or otherwise negates the need for manual performance of that service.

All intangible assets in Note 11A are owned by the UKHO.

All development expenditure has been revalued as at 31 March 2015 through the application of appropriate indices:

- Intangible Assets – Development Costs IT COMMS. These are published annually by Defence Analytical Services and Advice

Property, plant and equipment

Land and buildings were professionally valued at 31 March 2013 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and buildings were valued at depreciated replacement cost of the estate with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a market value has been provided. Assets have been revalued as at 31 March 2015 during the year through the application of appropriate indices:

- land - the Gross Domestic Product Index
- building - MoD generated index based on the BiS Output Price Index for new construction work-public non-housing
- plant and machinery – the Office for National Statistics index 2924 (industrial and commercial machinery and services equipment)
- computers (excluding software licences and Furniture and Fittings) – are retained at historic cost due to their short-term economic life.

For plant and machinery, new acquisitions are capitalised where the cost exceeds £5,000 (excluding VAT). In respect of all other asset classes, new additions and improvements are capitalised at cost where the value of discrete items exceeds £1,000 (excluding VAT). Improvements need to show future economic benefit before they are capitalised. Software and associated licences are capitalised when they are stable (ie not subject to frequent upgrades) and related to processes vital to core business.

All property, plant and equipment assets in Note 11C are owned by the UKHO.

H1. Depreciation and amortisation

Freehold land is not depreciated. Depreciation on other assets is calculated to write off the original cost or restated value evenly (except in large items of plant and machinery purchased since April 2007) over their estimated useful lives, taking account of any residual second-hand or scrap value. Large items of plant and machinery that are bespoke to us and purchased since April 2007 are depreciated on a reducing balance methodology. Estimated useful lives are as follows:

Buildings	Not exceeding 100 years
Plant and Equipment	Between 1 and 20 years
Computers (including capitalised software and licences)	Between 2 and 5 years

Asset lives and impairments are periodically reviewed for obsolescence in the light of technological development.

H2. Non-current assets held for sale

IFRS 5 Non-current Assets held for Sale and Discontinued Operations sets out the requirements for the classification, measurement and presentation of non-current assets held for sale.

These are measured at the lower of carrying amount and fair value less costs to sell. These are classified as held for sale when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets are reclassified only when management are committed to the sale and the sale is expected to be completed within a year. Assets identified as held for sale are reclassified as current assets and depreciation ceases from the date of reclassification.

I. Inventories and work in progress

Raw material inventory is valued at the lower of cost or net current replacement cost. Finished goods inventory and work in progress is valued at the lower of cost and realisable value. Provision is made, where necessary, for obsolete, slow-moving and defective inventories.

J. Hydrographic data

In carrying out its business, we utilise raw hydrographic data provided by the MoD, the MCA and foreign governments and private companies. The vast bulk of this data is owned by these third parties and we pay a royalty to use it.

Accordingly, we do not value the data on our Statement of Financial Position, but charge all costs of acquiring and maintaining the data to the Statement of Comprehensive Income as they are incurred.

K. Pensions

Our staff are covered by the provisions of the PCSPS, which is an unfunded multi-employer defined benefit scheme. However, since we are unable to identify its share of the underlying assets and liabilities, it is accounted for as a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. Contributions are paid at rates determined from time to time by the scheme's actuary.

Details of rates and amounts of contributions during the year are given in Note 2.

Our staff may be in one of four statutory based defined benefit schemes; classic, premium, classic plus and nuvos (classic, premium and classic plus are now closed to new members).

New entrants after 30 July 2007 may choose between membership of nuvos or joining a money purchase stakeholder pension agreement with a significant employer contribution (partnership pension account).

Notes to the accounts (continued)

L. Insurance

We carry commercial insurance for professional indemnity, motor insurance to cover third-party liability for our own and hire cars, and directors and officers liability in line with HM Treasury guidelines which allow for this if cost effective. We carry our own risks in respect of all other insurable risks. In the event of any loss occurring which exceeds the scope to be covered from insurance or retained profit, we will consult with the MoD about the action to be taken.

M. Development and transformation activities

All expenditure on development transformation activities of non-commercial products is charged to the Statement of Comprehensive Income. Development transformation of commercial products is similarly written off until such time as all the requirements of accounting standards are met. These are laid down in *IAS 38 Intangible Assets* as adapted by the FReM. Amortisation of these costs commences with the commercial production of the product. The costs are amortised on a straight-line basis over the product's commercial lives.

N. Foreign currencies

Assets and liabilities denominated in a foreign currency are translated into sterling at the rate of exchange ruling as at 31 March 2015. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Statement of Comprehensive Income. Assets and liabilities are translated at the rate ruling at 31 March 2015; exchange differences arising are recognised in reserves.

O. Going concern

The accounts have been prepared on the basis that the Trading Fund is a going concern.

P. Royalties

The conditions governing the payment and receipt of royalties are covered by appropriate formal agreements with third parties and accounted for on an accruals basis.

Q. Treatment of leases

All expenditure incurred in respect of operating leases is charged to operating expenses in the Statement of Comprehensive Income in the year in which they arise. We have no finance leases.

R. Provisions

Provisions for liabilities and charges have been established under the criteria of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the 31 March 2015.

The rate advised by HM Treasury is used to discount provisions to current prices – the short-term rate for financial year 2014/15 being -1.5% (2013/14:1.9%). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Income.

Early retirement costs

We provide in full for the cost of meeting pensions up to the normal retirement age in respect of early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 2014/15: 1.3% (2013/14:1.8%). Pensions payable after the normal retirement age are met by the Civil Service pension arrangement. However, any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by us. Redundancies are provided for in full.

R1. Provision for bad and doubtful debts

We provide for bad and doubtful debts as soon as they are deemed to be irrecoverable based on analysis and reviews of aged receivables.

S. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand together with short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

T. Reserves

The revaluation reserve reflects the unrealised and realised elements of the cumulative balance of revaluation and indexation adjustments on non-current assets.

The profit and loss reserve represents the balance of the taxpayer's equity.

U. Taxation

U1. Corporation tax

The Trading Fund is exempt from corporation tax under Section 829(2) of the Income and Corporation Taxes Act 1988 and consequently the requirements to account for current tax and deferred tax are not relevant.

U2. VAT

We are VAT registered and all business VAT is recoverable.

V. Treatment of finance leases as a lessor

We are participating in the cycle purchase scheme which is a salary sacrifice scheme through which employees are provided with equipment purchased by us and leased to employees over a one-year term with an option to purchase at the end, at the current market rate. The purchase cost is accounted for as 'Net Investments in Finance Leases' and included within the Statement of Financial Position, Current Assets – Trade and other receivables total. Recovery of the cost is made through fixed monthly deductions from salaries (on which the employee receives tax and national insurance contribution relief) and credited to the account. Monthly charges also include a financing element. This is included under interest receivable and similar income in the Statement of Comprehensive Income.

W. Financial instruments

We account for financial instruments in accordance with *IFRS 7 and IAS39*.

W1. Trade and other receivables

All receivables, including trade and VAT receivables, staff loans and advances are classified as loans and receivables and are initially recognised at fair value (plus transaction costs) and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry a nil or a subsidised rate of interest. However our receivables that are due within one year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

Loan investments to AHL are classed as financial assets and where appropriate are subject to annual impairment tests together with an impairment review if there are indicators of impairment. It tests if events or changes in circumstances indicate that the carrying values may not be recoverable.

W2. Trade and other payables

Liabilities covering trade payables, accruals, VAT, tax and loans are classified as other liabilities and are initially recognised at fair value (plus transaction costs) and subsequently at amortised cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, our liabilities falling due within one year are not discounted.

W3. Cash and cash equivalents

We administer our cash management process to provide value for money to us. Wherever possible, cash is held in interest-earning accounts and each deposit is at a fixed rate of interest until the deposit is returned. These are recognised initially at fair value net of transaction costs and subsequently at amortised cost under the effective interest rate.

X. Investments

Surplus cash is held in interest-bearing accounts and invested for specific periods to ensure cash availability meets demands of the business.

Y. IFRSs, amendments and interpretations in issue but not yet effective or adopted

IAS8 Accounting Policies, Changes in Accounting Estimates and Errors, require disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards board (IASB) that are effective for financial statements after this reporting period.

The following have not been adopted early by us;

IFRS 9 Financial instruments

A new standard intended to replace all the requirements of IAS39.

The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018

IAS 17 Leases

The objective of the project is to develop a new Leases standard that establishes the principles that entities would apply to report useful information to investors and analysts about the amount, timing and uncertainty of cash flows arising from a lease. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

The effective date has yet to be confirmed.

IAS 18 Revenue recognition

The objective of this project was to clarify the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. This is effective for annual periods beginning on or after 1 January 2017.

Financial Reporting Manual accounting policies have been adopted in full.

Amendments to the 2015-16 FReM

(Applicable for accounting periods beginning on 1 April 2015).

IFRS13 Fair value measurement

Requiring entities to apply prospectively from 1 April 2015.

2015-16 FReM updates

In 2013/14 the FReM adopted the Companies Act requirements for a Strategic Report and Directors' Report within the Annual Report. As part of the streamlining Project the 2015/16 FReM introduces changes to the structure of the Annual Report and Accounts. There is now a requirement for these to be split into three parts: the Performance Report, the Accountability Report and the Financial Statements.

- accounting policies and disclosure notes are only required in relation to material items (although where wider commentary would be helpful to the user this may be included)
- The Accountability report includes a redesigned 'Remuneration and staff report'. This combines the disclosures for average number of persons employed and related costs and exit packages (previously included to the notes to the financial statements) with the remuneration report disclosures.

The change to the FReM above is anticipated to have a future material impact on the financial statements of the UKHO.

Notes to the accounts (continued)

2. Staff numbers and costs

Staff numbers

The average number of full time equivalent (FTE) staff (including agency staff) during the year was made up as follows:

	2014/15	2013/14
Operations	395	412
Support	467	494
Print and supply	106	114
Commercial	76	94
Total staff numbers	**1,044**	1,114
Civil servants	946	1,023
Agency staff	92	85
Service personnel	6	6
Total staff numbers	**1,044**	1,114

Of these staff, there were no staff (permanent or agency) that were engaged on capital projects during the year (one and nil respectively for 2013/14).

During 2014/15, 44 staff left the UKHO employment through VERS and one through compulsory redundancy. (2013/14:112 and nil respectively). As at 1 April 2015, the actual number of civil servants was 920 (2013/14: 935) and agency staff of 78 (2013/14: 81), a total of 998 (2013/14: 1016)

Salary

Total staff costs (including agency staff) for the year were as follows:

	2014/15 £k	2013/14 £k
Salaries, wages etc.	31,949	33,699
Social security costs	2,523	2,632
Pension costs	5,741	6,128
Agency staff costs	6,517	6,458
Service personnel costs	777	781
Total staff costs	**47,507**	49,698

No costs were capitalised for staff that were engaged in capital projects during the year. (2013/14: £108k).

Members of the Owner's Council receive no remuneration for their services on that committee. The costs of full-time government officials are borne by their parent departments. The fees and expenses of the external advisers are paid by the MoD.

Service personnel occupy permanent posts within the UKHO and are included in employee numbers shown above. However, they are MoD employees on loan to us for which the MoD charges a capitation rate rather than actual salary costs. We carry no specific liability for the pension costs of service personnel.

Pension

For 2014/15, the applicable employer contribution pension rates were:

Scheme and Annual Salary Bands to which rates apply	%
PCSPS – Band 1 £21,500 and under	16.7
PCSPS – Band 2 £21,501 to £44,500	18.8
PCSPS – Band 3 £44,501 to £74,500	21.8
PCSPS – Band 4 £74,501 and over	24.3

The PCSPS is an unfunded multi-employer defined benefit scheme but we are unable to identify our share of the underlying assets and liabilities. The Government Actuary's Department valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2014/15, employers' contributions of £5,706,000 were payable to the PCSPS (2013/14: £6,096,200) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (2013/14: 16.7% to 24.3%). The scheme's actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014/15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account a stakeholder pension with an employer contribution. Employers' contributions of £34.9k (2013/14: £31.7k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2.1k representing 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2015 were £4.5k. There were no prepaid contributions at that date.

3. Civil Service exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme – a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. These costs include lump sums and annual compensation payments which are paid each year until they retire. Where we have agreed early retirements, the additional costs are met by us and not by the PCSPS.

Ill-health retirement costs are met by the pension scheme and not included in the table.

The total cost includes £1,612,000 for staff leaving through VERS during 2014/15 (2013/14: £3,718,000). Payments to staff will be made in 2015/16. There was one compulsory redundancy for 2014/15: £31,000 (2013/14: none).

The figures below do not include ex gratia costs, none were paid.

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
Exit package cost band	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
< £10,000	0	0	3	5	3	5
£10,000 – £25,000	0	0	17	53	17	53
£25,000 – £50,000	1	0	10	35	11	35
£50,000 – £100,000	0	0	12	21	12	21
£100,000 – £150,000	0	0	2	1	2	1
Total number of exit packages	1	0	44	115	45	115
Total cost (£k)	**31**	0	**1,612**	3,823	**1,643**	3,823

4. Income

	2014/15 £k	2013/14 £k
Commercial sales	121,336	118,686
Sales to the MoD	12,666	11,856
Total income	**134,002**	130,542

5. Operating segments

The business reporting segments are disclosed to enable users of these financial statements to evaluate the financial effects of the business activities.

All operating segments have been derived from the monthly Performance Reports that the board use to run the business. Overhead costs, assets and liabilities are not routinely allocated to segments within these reports and are therefore not disclosed separately.

Furthermore, the board does not review the business on a geographical basis.

	Note	Commercial 2014/15 £k	Defence 2014/15 £k	Total 2014/15 £k	Commercial 2013/14 £k	Defence 2013/14 £k	Total 2013/14 £k
Income	4	121,336	12,666	134,002	118,686	11,856	130,542
Cost of sales				(29,747)			(30,305)
Gross profit				104,255			100,237
Gross Margin %				78%			77%
Overheads				(72,271)			(78,442)
Profit on ordinary activities before interest				31,984			21,795
Exceptional items	7			(1,971)			(3,888)
Profit on ordinary activities before interest and after exceptionals				30,013			17,907
Interest payable	9			(19)			(641)
Interest receivable	8			601			610
Net profit				30,595			17,876
Dividend				(69,419)			(28,091)
Retained (loss) for the financial year				**(38,824)**			(10,215)

Information about major customers

Revenues from two customers exceeded 10% of the UKHO's total revenues.

	Commercial 2014/15 £k	Defence 2014/15 £k	Total 2014/15 £k	Commercial 2013/14 £k	Defence 2013/14 £k	Total 2013/14 £k
Customer 1	15,763	0	15,763	14,131	0	14,131
Customer 2	14,935	0	14,935	14,101	0	14,101

Sales revenue by geographical market

	2014/15 £k	2013/14 £k
Europe, Middle East & Africa	86,080	85,380
Asia Pacific	38,115	36,064
North America	9,329	8,667
Central & Latin America	478	431
Total revenue	**134,002**	130,542

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6. Profit on ordinary activities before interest

Profit on ordinary activities before interest of £32.0m (2013/14:£21.8m) is stated after charging:

	2014/15 £k	2013/14 £k
Depreciation/amortisation – owned assets	6,248	8,120
Loss on disposal of fixed assets	23	1
a Depreciation and impairment	**6,271**	8,121
Royalties	17,343	16,366
Development and transformation activities	7,703	6,809
Utilities and other estates operating costs	5,078	5,038
Materials and services	4,043	7,685
Computing and office machines	3,829	4,241
Travel, training and entertainment expenses	3,043	3,126
Auditor's remuneration (Note a)	162	184
Professional fees	48	68
Operating leases: office machinery	35	37
b Other operating charges	**41,284**	43,554

(a) The NAO audit fee for external audit is £67k (2013/14:£67k).

7. Exceptional items

	2014/15 £k	2013/14 £k
Voluntary early release scheme	1,874	3,718
Early retirement	40	136
Compulsory redundancy	31	0
Trading Fund rationalisation	26	34
Total exceptionals	**1,971**	3,888

Voluntary early release scheme (VERS)

This reflects a release scheme which operated in 2013/14 and 2014/15. 112 staff left the UKHO during 2013/14 and a further 44 staff left during 2014/15. All costs have been accrued during the year and will be paid by 2015/16.

Early retirement

This reflects early retirements arising from a variety of restructuring exercises. The provision as at 31 March 2015 is £9,000 (£52,000 at 31 March 2014) to cover committed early release costs. The remaining provision has been discounted at 1.3% and will be paid by 2015/16.

Compulsory redundancy

This reflects payments to one member of staff who was made redundant following a reorganisation.

Trading Fund rationalisation

The provision covers committed early release costs. The remaining provision has been discounted at 1.3% and will be paid by 2019/20.

Notes to the accounts (continued)

8. Interest receivable and similar income

This relates to interest receivable from commercial banks – high interest account, short-term investments for varying periods between three and twelve months. Interest received and receivable has arisen from financial assets classified as loans and loan receivables. These are primarily short-term investments held at fixed interest rates.

	2014/15 £k	2013/14 £k
Interest receivable and similar income	600	610
Total	**600**	610

9. Interest payable and similar charges

	Note	2014/15 £k	2013/14 £k
a. Interest paid to the MoD in respect of the long-term loan		0	612
b. Unwinding of the discount and movement on provision for early retirements and rationalisation	17	19	29
Total interest payable and similar charges		**19**	641

A £13.5m loan was received from the MoD in April 1996 and was due to be repaid by 31 March 2021. During 2014/15, the loan was repaid early in full.

Interest paid and payable has arisen from financial liabilities classified as other liabilities measured at amortised cost.

10. Dividends

	2014/15 £k	2013/14 £k
Ordinary dividend	11,419	12,091
Special dividend	58,000	16,000
Total dividend	**69,419**	28,091

The special dividend of £58m includes an equity withdrawal of £50m by MoD.

The ordinary dividend is declared in year and the payment made in the following year.

Special dividends are declared and paid in the same year.

11A. Intangible non-current assets

	Software licenses £k	Development software £k	Assets under construction £k	Total £k
Cost or valuation:				
At 1 April 2013	15,994	29,072	156	45,222
Additions	3	351	0	354
Reclassification	0	0	(156)	(156)
Revaluation	0	795	0	795
At 31 March 2014	15,997	30,218	0	46,215
At 1 April 2014	15,997	30,218	0	46,215
Additions	32	0	0	32
Adjustment (Note a)	0	383	0	383
Revaluation	0	797	0	797
At 31 March 2015	16,029	31,398	0	47,427
Amortisation:				
At 1 April 2013	14,139	14,400	0	28,539
Charged	1,356	4,424	0	5,780
Revaluation	0	399	0	399
At 31 March 2014	15,495	19,223	0	34,718
At 1 April 2014	15,495	19,223	0	34,718
Charged	219	3,699	0	3,918
Adjustment (Note a)	0	383	0	383
Revaluation	0	510	0	510
At 31 March 2015	15,714	23,815	0	39,529
Net Book Value:				
At 31 March 2015	**315**	**7,583**	**0**	**7,898**
At 31 March 2014	502	10,995	0	11,497

(a) In 2013/14, there was a change to the presentation of the revalued depreciation and the movement in year was shown under depreciation. In 2014/15, the adjustment refers to the reclassification of the opening balance.

All intangible assets are owned by the UKHO.

Notes to the accounts (continued)

11B. Analysis of intangible non-current assets

The disclosure below shows individual intangible assets that are material to our financial statements.

Project	Description	Carrying value 31/03/2015 £k	Remaining amortisation period (months)
Development software e-Navigator	ADMIRALTY e-Navigator is our integrated digital catalogue, product viewer and passage-planning aid for organising, updating and consolidating all paper and digital information needed for planning safe voyages while simplifying essential tasks.	4,431	21
Hydrographic Database	The development of global, digital, vector-based data and service capability.	1,682	36
ADMIRALTY Vector Chart Service (AVCS)	AVCS brings together Electronic Navigational Charts (ENCs) from national hydrographic offices around the world and ENC coverage produced by the UKHO in co-operation with foreign governments to provide comprehensive, official, worldwide coverage.	972	36
		7,085	

11C. Property, plant & equipment

	Freehold land £k	Buildings £k	Plant & machinery £k	Furniture & fittings £k	Information technology £k	Assets under construction £k	Total £k
Cost or valuation:							
At 1 April 2013	8,523	33,281	6,918	274	9,641	446	59,083
Additions	0	0	0	0	213	68	281
Reclassification	0	0	0	0	389	(233)	156
Disposals	0	0	(4)	(33)	(259)	0	(296)
Revaluation	179	949	(167)	0	0	0	961
Reclassification held for sale	0	0	(2)	(1)	2	0	(1)
At 31 March 2014	8,702	34,230	6,745	240	9,986	281	60,184
At 1 April 2014	8,702	34,230	6,745	240	9,986	281	60,184
Additions	0	0	153	0	1,279	368	1,800
Reclassification	0	0	0	0	280	(280)	0
Disposals	0	0	(114)	0	(384)	0	(498)
Adjustment (Note a)	0	326	416	0	2	0	744
Revaluation	182	1,582	13	0	0	0	1,777
At 31 March 2015	8,884	36,138	7,213	240	11,163	369	64,007
Depreciation:							
At 1 April 2013	0	11,459	5,529	105	7,487	0	24,580
Charged	0	1,201	323	11	805	0	2,340
Disposals	0	0	(4)	(33)	(258)	0	(295)
Revaluation	0	333	(136)	0	0	0	197
At 31 March 2014	0	12,993	5,712	83	8,034	0	26,822
At 1 April 2014	0	12,993	5,712	83	8,034	0	26,822
Charged	0	1,201	285	10	834	0	2,330
Disposals	0	0	(103)	0	(372)	0	(475)
Adjustment (Note a)	0	326	416	0	0	0	742
Revaluation	0	610	11	0	0	0	621
At 31 March 2015	0	15,130	6,321	93	8,496	0	30,040
Net book value:							
At 31 March 2015	**8,884**	**21,008**	**892**	**147**	**2,667**	**369**	**33,967**
At 31 March 2014	8,702	21,237	1,033	157	1,952	281	33,362

(a) In 2013/14, there was a change to the presentation of the revalued depreciation and the movement in year was shown under depreciation. In 2014/15, the adjustment refers to the reclassification of the opening balance.

All property, plant and equipment assets are owned by the UKHO.

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12. Investments

	2014/15 (Note a) £k
Analysis of loans	
1 April 2014	188
Movement in year	(175)
Net book value 31 March 2015	**13**

(a) Trading Fund investments include the capitalisation of long-term trading debts owed to the UKHO.

AHL has not been consolidated. Group transactions have been deemed immaterial to the accounts.

13. Inventories

	2014/15 £k	2013/14 £k
Finished inventories	1,722	1,837
Materials	517	567
Work in progress	178	86
Total inventories	**2,417**	2,490

14. Trade and other receivables

	2014/15 £k	2013/14 £k
Trade receivables	19,802	19,747
Prepayments and accrued income	8,094	7,575
Net investments and finance leases	18	15
Other receivables	659	37
Total receivables	**28,573**	27,374
Analysis of total receivables:		
Other central government bodies (Intra-government balances)	2,651	3,274
Bodies external to government	25,922	24,100
Total receivables	**28,573**	27,374

15. Cash and cash equivalents

	2014/15 £k	2013/14 £k
Balance 1 April	113,889	110,044
Net change in cash and cash equivalent balances	(45,941)	3,845
Balance 31 March	**67,948**	113,889

The following balances at 31 March were held at:

	2014/15 £k	2013/14 £k
Commercial banks-short term investments	50,000	60,000
Commercial banks-instant access, high interest	16,287	53,001
Third-party assets	1,661	888
Net cash and cash equivalents	**67,948**	113,889

The carrying amounts of cash and cash equivalents approximate their fair values.

Commercial banks – instant access, high-interest account earns interest between 0.4% and 0.5%. Short-term investments earn between 0.57% and 0.95% and are made for varying periods of between three and twelve months.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2015 exchange rates.

Third-party assets

We hold third-party monies of £1.7m (2013/14: £0.9m). This relates to monies held on behalf of IC-ENC. We operate IC-ENC on behalf of the 33 member states. The accounts recognise the total liability to IC-ENC members together with the cash held on their behalf.

16. Trade and other payables

	2014/15 £k	2013/14 £k
Accruals and other deferred income	26,255	30,646
Proposed dividend	11,419	12,091
Trade payables	9,568	8,506
Other taxation and social security	1,037	801
Other payables	0	14
Total payables	**48,279**	52,058
Analysis of total payables:		
Other central government bodies (Intra-government balances)	13,402	13,647
Bodies external to government	34,877	38,411
Total payables	**48,279**	52,058

Notes to the accounts (continued)

17. Provisions

	Balance at 1 April 2013 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2014 £k
Current liabilities:						
Sales credits	3,831	5,533	0	(5,430)	0	3,934
Rationalisation (Note a)	314	7	7	(328)	248	248
Early retirement (Note a)	89	0	2	(91)	44	44
Legal	0	20	0	0	0	20
Total current liabilities	4,234	5,560	9	(5,849)	292	4,246
Non-current liabilities:						
Rationalisation (Note a)	630	(14)	15	0	(247)	384
Early retirement (Note a)	51	0	1	0	(44)	8
Royalties	167	(7)	3	0	0	163
Total non-current liabilities	848	(21)	19	0	(291)	555
Total liabilities at 31 March 2014	5,082	5,539	28	(5,849)	1	4,801

(a) The provision for rationalisation and early retirement have been recategorised between current and non-current liabilities for 31 March 2014.

	Balance at 1 April 2014 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2015 £k
Current liabilities:						
Sales credits	3,934	4,503	0	(4,310)	0	**4,127**
Rationalisation	248	0	4	(252)	173	**173**
Early retirement	44	0	1	(45)	0	**0**
Legal	20	45	0	0	0	**65**
Total current liabilities	4,246	4,548	5	(4,607)	173	**4,365**
Non-current liabilities:						
Rationalisation	384	4	7	0	(173)	**222**
Early retirement	8	18	0	(17)	0	**9**
Royalties	163	(1)	3	0	0	**165**
Total non-current liabilities	555	21	10	(17)	(173)	**396**
Total liabilities at 31 March 2015	4,801	4,569	15	(4,624)	0	**4,761**

Analysis of expected timing of cash flows at 31 March 2014

	2014/15 £k	2015/16 £k	2016/17 – 2020/21 £k	Balance at 31 March 2014 £k
Sales credits	3,934	0	0	3,934
Rationalisation	241	168	222	631
Early retirement	44	9	0	53
Royalties	0	163	0	163
Legal	20	0	0	20
Total	4,239	340	222	4,801

Analysis of expected timing of cash flows at 31 March 2015:

	2015/16 £k	2016/17 £k	2017/18 – 2019/20 £k	Balance at 31 March 2015 £k
Sales credits	4,127	0	0	4,127
Rationalisation	173	116	106	395
Early retirement	0	9	0	9
Royalties	0	165	0	165
Legal	65	0	0	65
Total	4,365	290	106	**4,761**

No amounts are expected to be called after 1 April 2020.

Sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by ADMIRALTY Chart Agents. The provision represents a moving average of credits allowed over the last three years, expressed as a percentage of sales after discounts. It is anticipated that the provision will be fully applied during 2015/16.

Rationalisation

This reflects the outstanding liability for early retirements arising from a restructuring exercise undertaken in 2007. The provision has been discounted at 1.3% and will be fully applied by 2019/20.

Early retirement

This reflects the outstanding liability for early retirements arising from a variety of restructuring exercises undertaken in previous years. The provision has been discounted at 1.3%. The provision will be fully applied by 2015/16.

Legal

This reflects the provision for a potential supplier claim that has been brought against us during 2013/14. It is anticipated that the provision will be fully applied during 2015/16.

Royalties

These royalties have been reclassified from an accrual into a provision. These amounts refer to bilateral agreements with other hydrographic offices that are not yet finalised that will probably result in a legal obligation to pay future royalties. The provision has been discounted at 1.5% and will be fully applied by 2016/17.

Notes to the accounts (continued)

18. Long-term borrowings

	2014/15 £k	2013/14 £k
Balance brought forward	6,784	7,473
Repayment of loan	(6,784)	(689)
Balance carried forward	**0**	6,784

A £13.5m loan was received from the MoD in April 1996 and was due to be repaid by 31 March 2021. During 2014/15 we repaid the loan in full.

Analysis of repayments	2014/15 £k	2013/14 £k
Current liabilities		
Within 1 year	0	6,784
Balance carried forward	0	6,784
Total long-term borrowings	**0**	6,784

19. Public dividend capital

	2014/15 £k	2013/14 £k
Public dividend capital	13,267	13,267
Total	**13,267**	13,267

Public dividend capital represents the deemed equity shareholding in the UKHO.

20. Financial instruments

IAS 39 Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which *IAS 39* mainly applies. We have very limited borrowing powers, nor do we invest surplus funds, and except for relatively insignificant sales in foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing us in undertaking our activities.

As permitted by *IAS 39*, receivables and payables which mature or become payable within 12 months from the reporting date have been omitted from the currency profile if deemed immaterial.

Liquidity risk

We are able to meet both our normal working capital requirements and future capital investments without recourse to borrowing. We are therefore not exposed to significant liquidity risks.

Interest rate risk

Our financial assets and liabilities that are subject to interest are assessed at fixed rates. We are not exposed to significant interest rate risk and there is no sensitivity analysis provided on this risk because all financial liabilities are subject to fixed rates.

Foreign currency risk

Our trading exposure to foreign currency risk is not significant. Both the capital and interest payments are exposed to foreign currency fluctuations. A sensitivity analysis is not disclosed as assets, and liabilities at the reporting date, expressed in foreign currency, are not deemed to be material.

Fair values

The current value of all our financial instruments are considered to equate to fair value at the 31 March 2015.

Financial instruments

IFRS 7 Financial instruments, disclosures, requires us to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the credit risks to which we are exposed and how these risks are managed. For each type of credit risk arising from financial instruments, we are also required to provide summary quantitative data about our exposure to the credit risk at the reporting date. At 31 March 2015, we had no material risks arising from our financial instruments that arise in the course of normal business operational activities.

We are subject to some credit risk. The carrying amount of receivables, net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other receivables consist of a large number of diverse customers spread over a diverse geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. All outstanding financial assets which remain within their credit terms at 31 March 2015 primarily relate to established customers whose credit worthiness has been subject to regular review and gives no cause for concern regarding full future settlement. The table below provides details of receivables beyond the due date and impairments made.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

Notes to the accounts (continued)

20. Financial instruments (continued)

Receivables beyond the due date

2013/14	Not overdue £k	Overdue 0 – 3 months £k	Overdue 3 – 6 months £k	Overdue 6 –12 months £k	Overdue Over 12 months £k	Total £k
Receivables – not impaired	17,927	1,006	40	0	16	18,989
Receivables – impaired	0	0	0	0	105	105
Gross receivables total	17,927	1,006	40	0	121	19,094
Bad debt provision	0	0	0	0	(105)	(105)
Net total receivables	17,927	1,006	40	0	16	18,989
2014/15						
Receivables – not impaired	19,183	210	398	11	0	19,802
Receivables – impaired	0	50	3	0	92	145
Gross receivables total	19,183	260	401	11	92	19,947
Bad debt provision	0	(50)	(3)	0	(92)	(145)
Net total receivables	19,183	210	398	11	0	**19,802**

	2014/15 £k	2013/14 £k
Financial assets		
Loans and receivables (including cash and cash equivalents)	90,304	136,289
	90,304	136,289
Financial liabilities		
Other financial liabilities	33,267	48,222
	33,267	48,222

We have no exposure to the following classes of financial instruments: collateral-financial assets pledged as security for financial liability, compound financial instruments, loan defaults and breaches and hedge accounting.

21. Commitments under leases

Operating leases

Commitments under operating leases to pay rentals after 31 March are analysed as follows:

The plant and equipment lease relates to a five-year contract with Canon for a site-wide printing and copying system.

	2014/15 £k	2013/14 £k
Plant and equipment		
Due within one year	84	75
Due after one year but within five years	148	266
Total leases	**232**	341

22. Capital commitments

	2014/15 £k	2013/14 £k
Capital expenditure that has been contracted for, but has not been provided in these accounts		
Property, plant & equipment	1,398	380
Total capital commitments	**1,398**	380

23. Reconciliation of profit on ordinary activities before interest to net cash inflow from operating activities

	2014/15 £k	2013/14 £k
Profit on ordinary activities before interest and after exceptionals	30,013	17,907
Non-cash movement-loan write-off	12	0
Interest, unwinding of the discount and movement on provision for early retirements and rationalisation	(19)	(30)
Depreciation & Amortisation	6,249	8,121
Loss on sale and disposal of non-current assets	23	1
Decrease in inventories	73	112
(Increase)/Decrease in receivables	(1,199)	172
(Decrease)/Increase in payables	(3,106)	6,443
(Decrease) in provisions	(40)	(281)
Net cash inflow from operating activities	**32,006**	32,445

Notes to the accounts (continued)

24. Contingent liabilities

A contingent liability exists in relation to an age and disability discrimination claim that has been brought against the UKHO.

25. Losses and special payments

During the year, there were no special severance payments (2013/14:£0).

There were unrecoverable trade receivables of £28,828 (2013/14: £1,306) and there were no write-offs in respect of fruitless payments and unrecoverable overpayments to staff (2013/14:£0).

26. Related party transactions

The UKHO is a Trading Fund owned by the MoD.

The MoD, as our parent department, is regarded as a related party. During the year, we have also entered into material transactions with the department and with other entities for which the department is regarded as the parent department. All these transactions were carried out under standard contract terms.

Other related parties

We have had various material transactions with other Government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, PCSPS and HMRC employer's and employee's income tax and national insurance.

All transactions are carried out on standard contract terms.

27. Events after the reporting period

There have been no events after the reporting period requiring adjustment to the financial statements.

28. Authorisation of accounts

The accounts were authorised for issue on the date of certification by the Comptroller and Auditor General.

Sustainability report for 2014/15

The report is produced in line with the latest public sector reporting requirements on sustainability, as detailed in the FReM. We continue to make significant progress in meeting MoD sustainability targets in recent years, making significant reductions on baseline years in all areas below: emissions, waste, water and energy. We continue to promote a range of green commuter travel. The following provides a breakdown of performance in key environmental areas:

Emissions

	Notes	2014/15 tCO_2e	2013/14 tCO_2e	2012/13 tCO_2e
Gross emissions for scopes 1 & 2 (energy)				
Electric		3,500	3,686	3,452
Gas		756	767	708
Total Gross emissions for scopes 1 & 2 (energy)		4,256	4,453	4,160
Emissions from organisation-owned fleet vehicles		0	0	12
Total gross emissions for scopes 1 & 2		4,256	4,453	4,172
Gross emissions scope 3 (business travel)	a	101	52	42
Total gross emissions for scopes 1,2 & 3		4,357	4,505	4,214
Net emissions for scopes 1 & 2		4,256	4,453	4,172
Net emissions for scope 3 (business travel)		101	52	42
		£k	£k	£k
Expenditure on official business travel		1,021	1,051	788
Expenditure on energy		781	802	705
Total expenditure on energy and business travel		**1,802**	1,853	1,493

tCO_2e: Tonnes of CO_2 equivalent

a. Gross emissions scope 3 (business travel) for rail only includes UK travel

Targets and commentary

We have previously reported a 25% reduction in our carbon footprint and this target will continue to improve with the reduction of staff employed on site and as a consequence the gradual closure of some of our smaller buildings. One of our older buildings which dates back to WW2 has now been completely emptied of staff and is now mothballed and other smaller buildings are earmarked for closure over the next 18 months.

Direct impacts commentary

The main impacts for us in terms of carbon emissions are our electricity and fuel consumption. However, a range of efficiency initiatives have been introduced, from lower energy IT equipment, to the installation of small print on demand digital printers to remove the reliance on conventional high-energy consuming lytho printing presses for chart printing. Also, we have begun the process of closing down our older uneconomical buildings – Note: during the final quarter we engaged with our energy supplier EDF and commissioned an energy survey and will be considering sub-metering.

Overview of direct impacts

We are able to influence the emissions of our supply chain significantly through procurement specifications.

Sustainability report for 2014/15 (continued)

Waste

		2014/15 tonnes	2013/14 tonnes	2012/13 tonnes
Non-hazardous waste	Reused/recycled incinerated/energy from waste	416	420	463
	Landfill	26	26	29
Hazardous waste	Reused/recycled	6	6	11
Total waste		**448**	452	503

Targets and commentary

We continue to exceed the MoD agreed targets for reducing waste to landfill. We generated approximately 448 tonnes of residual office waste, 93% we recycled. Note: this does not include the chart paper waste which is 100% recycled.

Direct impacts commentary

We undertake regular waste audits and visits to the waste contractors, as well as providing opportunities to recycle up to 23 different waste streams from our offices and work environments.

Overview of indirect impacts

We continue to place certain quality objectives on our suppliers in terms of their waste disposal performance and remain committed to work alongside them to improve the culture and actual performance in relation to waste management and disposal.

Water

	2014/15 M^3	2013/14 M^3	2012/13 M^3
Water consumption	**11,735**	12,708	10,745
	£k	£k	£k
Water supply costs	**48**	51	42

M^3: cubic metres

Targets and commentary

Water consumption will noticeably decrease with the planned reduction in staff numbers.

Direct impacts and commentary

Our on-site print production consumes water. Procurement of more efficient machinery will assist in reducing consumption.

Overview of indirect impacts

We procure our water supply in accordance with Government sustainability guidelines.

Energy

		2014/15 GWh	2013/14 GWh	2012/13 GWh
Energy consumption	Renewable electricity	6.69	6.48	6.51
	Gas	3.98	4.04	3.73
Total energy consumption		**10.67**	**10.52**	**10.24**
		£k	£k	£k
Total energy expenditure		**781**	802	705

Targets and commentary

This year has seen no noticeable reduction.

Direct impacts commentary

Our main areas for energy consumption continue to be the running of the printing presses. However, the introduction of efficient smaller digital print-on-demand machines has reduced our energy consumption. Also, powering the server rooms and lighting, heating and cooling our offices will slowly reduce as we shrink the size of the business in terms of head count and occupied office space. We remain committed to ensure that operational equipment usage is as energy efficient as possible.

Overview of direct impacts

We remain committed to the principle of energy reduction.

Biodiversity and adaption action plans

Biodiversity and climate adaption planning remains in its infancy. However the UKHO will take its lead as advised by the Defence Infrastructure Organisation who are the recognised MoD authority.

Sustainability procurement commentary

We have implemented a number of measures in order to embed sustainability into our supplier selection process and seek evidence and innovation from the market place in order to procure sustainably. Contracts, specifications and terms and conditions include environmental factors which reflect the consumption of our large print production facility, as well as social considerations such as equality and diversity.

Whole-life cost analysis is undertaken for relevant contracts and targets are agreed and reviewed with suppliers as part of our supplier review agenda. We have also adopted simple incentive initiatives where appropriate. Training forms part of our induction process and success is measured as part of our own internal performance appraisal process.
We believe we are proactively supporting the sustainability agenda.

Notes:

1. The above report has been prepared in accordance with guidance laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial-reporting.gov.uk. These requirements are fully consistent with non-financial information requirements laid down under the Greening Government commitments (including the transparency requirements).
2. Emissions accounting includes all scope 1 and 2 emissions along with separately identified emissions related to official travel (scope 3). Department for the Environment, Food and Rural affairs conversion rates have been used to account for carbon.
3. There were no changes to accounting policies or boundaries that impacted prior year or year-on-year carbon reporting.

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