UK SPACE AGENCY

Annual Report and Accounts

2016-17

Delivering an excellent space programme with the maximum economic, scientific and policy benefit for the UK.

UK Space Agency
Annual Report and Accounts
2016-17

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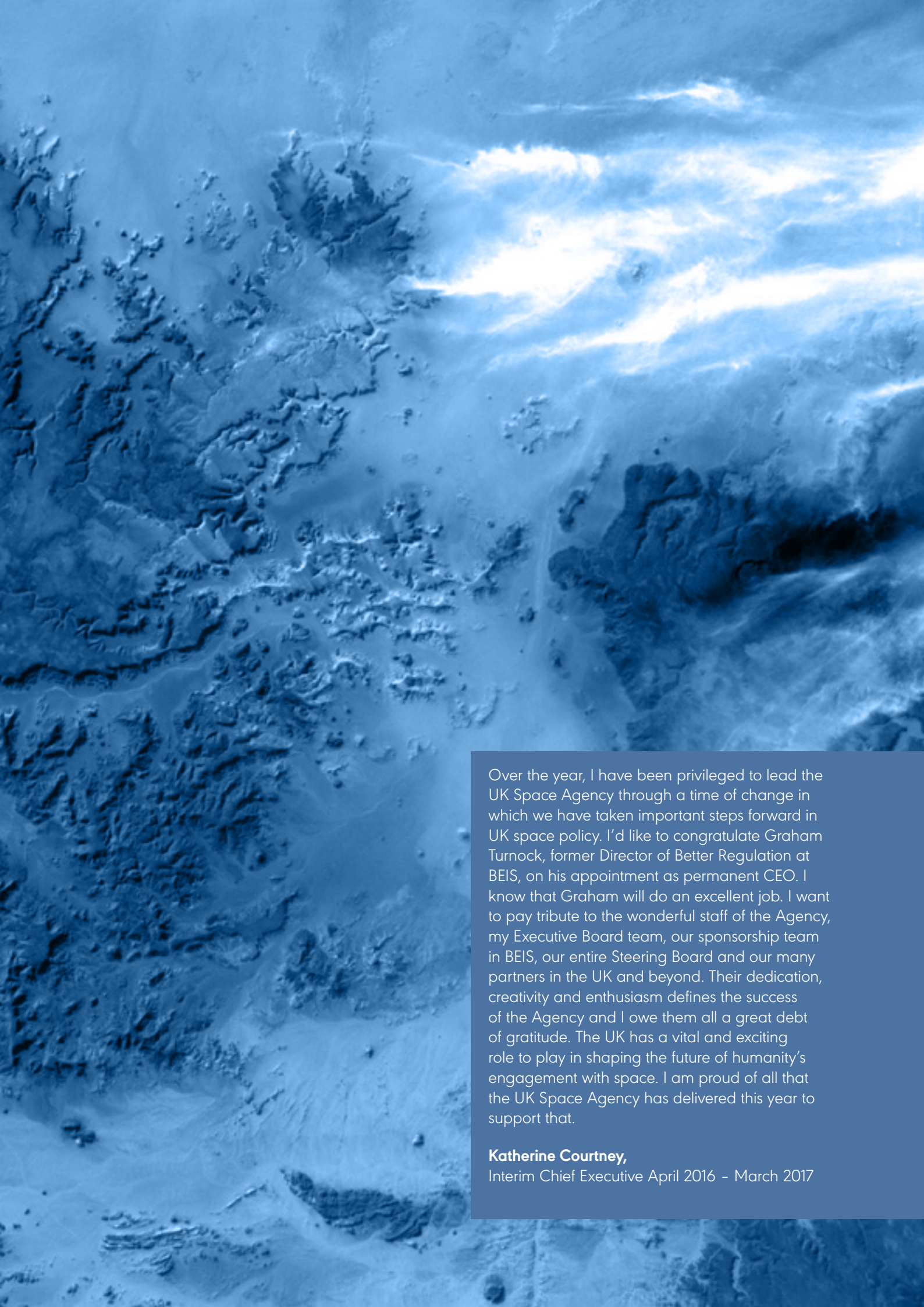


Over the year, I have been privileged to lead the UK Space Agency through a time of change in which we have taken important steps forward in UK space policy. I'd like to congratulate Graham Turnock, former Director of Better Regulation at BEIS, on his appointment as permanent CEO. I know that Graham will do an excellent job. I want to pay tribute to the wonderful staff of the Agency, my Executive Board team, our sponsorship team in BEIS, our entire Steering Board and our many partners in the UK and beyond. Their dedication, creativity and enthusiasm defines the success of the Agency and I owe them all a great debt of gratitude. The UK has a vital and exciting role to play in shaping the future of humanity's engagement with space. I am proud of all that the UK Space Agency has delivered this year to support that.

Katherine Courtney,
Interim Chief Executive April 2016 – March 2017

OVERVIEW

CHIEF EXECUTIVE'S STATEMENT

I am delighted to introduce our Annual Report and Accounts for 2016-17.

Over the past year we have continued to lead the civil space landscape for the UK. Working in close partnership with industry, across government, universities and other nations to deliver an excellent space programme designed to ensure the maximum economic, scientific and policy benefit to the UK.

As well as the highlights listed at the start of this report we have also established the **UK Satellite Launch Programme**, aiming to deliver our commitment to creating a commercial satellite launch capability in the UK. The programme sets out our ambition to establish capabilities for small satellite launch and sub-orbital spaceflight. We continue to work closely with industry in the UK and globally to support the development of these new capabilities. We have already committed over £1.3 million to support industry studies, exploring the feasibility of launch activities in the UK and to develop scientific experiments that could be undertaken in sub-orbital space.

The draft **Spaceflight Bill** published in February 2017 lays out the foundations for our future satellite launch licensing regime. In the future spaceflight will offer the UK the opportunity to build on our strengths in science, research and innovation. It provides opportunities to expand into new markets, creating highly-skilled jobs and boosting local economies across the country.

At the **European Space Agency (ESA)** Ministerial meeting in December 2016 we agreed to invest a further €1.44 billion to continue our commitment to European collaboration in space. This investment will see high profile future missions including the ExoMars mission and the James Webb Space Telescope and includes unprecedented leadership of Europe's study of our changing planet and continued support for the ISS, building on the success of Tim Peake's Principia mission. This investment will ensure that the UK remains at the forefront of new technologies, science and daring space exploration.

I recognise that the environment that the Agency operates in is changing following the triggering of Article 50 and the Government's notification to leave the EU. We are working through the possible impacts on our legislation, regulation and funding arrangements to inform the two year negotiation process between the UK and EU and our future planning.

I would like to thank my predecessor Katherine Courtney and as I take on the responsibility of Chief Executive of the UK Space Agency I look forward to continuing her good work.

As always, our success depends on the outstanding skills and expertise of our workforce. I am most grateful to them for their dedication and commitment.

Graham Turnock
Chief Executive and Accounting Officer
21 June 2017

"We have already committed over **£1.3 million** to support industry studies and agreed to invest a further **€1.44 billion** to continue our commitment to European space collaboration".

HIGHLIGHTS in 2016-17

Our vision remains to support UK space to capture 10% of the global space market by 2030. We have taken the strategic lead in the development and growth of the space sector in the UK – working to deliver real benefits to public services, science and innovation, national security and the wider economy. In 2016-17 this included the following as measured against our six Pathways to Growth:

Growth through new opportunities

The UK Space Agency has been working with partners in the Satellite Applications Catapult, Innovate UK, and industry to identify new customers and market opportunities in sectors of the global economy that could use space data and services to add value and improve productivity. We have reviewed more than 30 individual market sectors to recommend where the greatest opportunities for the UK's space industry lie. We anticipate that when implemented these new opportunities will result in significant additional business for UK space companies. For example, last year Inmarsat launched GX Aviation, the world's first in-flight broadband connectivity solution with reliable, global, high speed coverage provided by a single operator. It allows passengers to browse the internet, stream videos, check social media and more during flights. This is a major investment and growth opportunity for the company that undoubtedly offers social and economic benefits to UK.

Growth from export

Space is an export focused industrial sector for the UK, approximately half of its revenue is derived from overseas activity and so the Agency is committed to continuing to develop new markets and partnerships overseas. Equally as our space industry continues to grow, many overseas companies are recognising the benefits of locating and investing in the UK. Working in partnership with the Department for International Trade, the UK Space Agency has supported a number of activities to encourage export and inward investment in the space sector. These have included industry and academic missions to China, USA, Mexico and the UAE where UK capabilities have been showcased to a variety of customers and investment and industry events with overseas organisations at the Harwell Space Campus and other sites around the UK. We have secured an International Partnership Programme worth over £150 million across the next five years that builds relationships with emerging economies that are expected to benefit from space-enabled services, for example through improvements in food security, marine protection and education.

Innovation supporting growth

The UK Space Agency is taking forward research projects that will provide the UK with new capabilities and products for growth. For example, we are working with the UK company Reaction Engines Limited to support their development of an innovative rocket engine called SABRE (Synergetic Air-Breathing Rocket Engine). SABRE is a revolutionary engine design that will combine air breathing and rocket technology along with ground breaking heat exchange technology into a single engine. SABRE has the potential to provide the UK with a unique product in aerospace and for the heat exchange technology to be licensed for use in a range of other industrial sectors.

Credit: Reaction Engines.

Science to underpin growth

The UK Space Agency supports world-class science in the UK - studying the Earth and its environment in space, our solar system, and the wider Universe. Which delivers exciting new knowledge into how our planet formed, its place in the Universe, and the prospects for life elsewhere. This delivers day-to-day benefits in terms of scientific knowledge on issues like climate change, space weather, and environmental disasters, and provides inspiration for young people to study Science, Technology, Engineering and Maths (STEM) subjects and pursue STEM careers. The novel challenges of space science missions require innovations in technology, engineering and data analysis, which have much wider applications and drive economic growth. For example, technology developed in the UK for the Rosetta Ptolemy instrument is now being used in commercial indoor air-quality sensors.

Credit: ESA

Education for growth

The UK Space Agency has delivered the largest education programme in support of a European astronaut to date. During Tim Peake's six months on the International Space Station (ISS) and since his return in June 2016, his Principia mission has provided many opportunities for students across the UK to engage with science and technology through projects funded by the Agency. Highlights included the Destination Space shows and workshops run in over 20 science centres across the UK (aimed at the very young and attended by 700,000 people so far), the Rocket Science experiment run by the Royal Horticultural Society and involving 600,000 school students across the UK, and the programme of support and training for over 1,400 primary schools run by the Space Education Office. Overall we have reached at least 1.6 million children and young people – equivalent to around 15% of the total UK school population. This high-profile activity is part of a wider programme of education and skills development led by the UK Space Agency to inspire young people to study STEM subjects and to ensure that in the future there are sufficient skilled workers available in the UK to support the rapid growth of the space sector.

Growth through smarter government

Our Space for Smarter Government Programme continues to raise awareness, enable access to the knowledge and expertise within the space sector and demonstrate how satellite data and applications could benefit the public sector. The reputation of the programme continues to grow, as highlighted in the evidence and recommendations of the House of Commons Science and Technology Select Committee's Inquiry into Satellites and Space. The programme has established a strong and growing public sector stakeholder network and provided advice, training and embedded expertise to support numerous individual teams and cross-cutting bodies such as the cross-Government Working Groups on Earth Observation and Remotely Piloted Airborne Systems, the Earth Observation Centre of Excellence, the UK Environmental Observation Framework and the Natural Hazards Partnership.

Credit: Satellite Applications Catapult

ABOUT THE UK SPACE AGENCY

As an Executive Agency of the Department for Business, Energy and Industrial Strategy, the UK Space Agency is responsible for the civil space policy landscape, representing the UK at the international level on global space policy issues, and supporting it with regulatory and licensing regimes for UK space activities.

The UK Space Agency was established to deliver an excellent space programme with the maximum economic, scientific and policy benefit for the UK. To do this the Agency delivers a targeted programme of research and development, innovation and science funding and oversight to drive economic growth through exploitation of space infrastructure, services and data.

The Government has been committed to supporting the delivery of a modern Industrial Strategy that addresses long-term challenges to the UK economy. The direction of this strategy reinforces the UK Space Agency's vision to **support UK space to capture 10% of the global space market by 2030**. This vision was further endorsed by the National Space Policy (2015), which set out high-level plans to:

- **PROMOTE** – Recognise that space is of strategic importance to the UK because of the value that space programmes deliver back to public services, national security, science and innovation and the economy
- **SAFEGUARD** – Commit to preserving and promoting the safety and security of the unique space operating environment, free from interference
- **GROW** – Support the growth of a robust and competitive commercial space sector, underpinned by excellent academic research
- **CO-OPERATE** – Commit to cooperating internationally to create the legal frameworks for the responsible use of space and for collaborating with other nations to deliver maximum benefit from UK investment in space

The UK Space Agency leads on and oversees many projects that will help us deliver our vision to increase the UK's space economy. Since the National Space Policy was published we have developed a much clearer understanding of what these principles will mean in practice and the direction the Agency's work should take to deliver them.

The UK Space Agency currently employs circa 100 staff across five directorates. This includes secondees from other government departments and industry providing additional subject matter skills, knowledge and expertise. Staff are based primarily at the headquarters in Swindon and at two other sites in Harwell (near Oxford) and London.

OUR PLANS FOR THE FUTURE

Within an evolving UK space sector our vision remains to support UK industry to capture **10%** of the global space market by **2030.**

During 2016-17 we delivered a strong space programme aimed at supporting the maximum economic, scientific and policy benefit for the UK.

Looking forward to the next year we shall concentrate on four key performance indicators (KPIs) that will be detailed in the 2017-18 Corporate Plan.

		2017-18			
WHAT the UK SPACE AGENCY will deliver (as set out in the National Space Policy)	Purpose	Delivering an excellent space programme with the maximum economic, scientific and policy benefit for the UK.			
	Vision	To support UK industry to capture 10% of the global space market by 2030.			
	Policy Priorities	Promote	Safeguard	Grow	Cooperate
HOW the UK SPACE AGENCY will deliver (as set out in the Corporate Plan 2017-2018)	Objectives (full Key Performance Indicators (KPIs) will be detailed in the Corporate Plan).	**Satellite Launch Programme** This programme is a key driver of growth in the UK space sector, aiming to enable commercial operators to launch small satellites and offer sub-orbital spaceflights for science and tourism from 2020. **Space Growth Strategy** The UK Space Agency will publish a Space Strategy to set out how they will achieve the policy principles set out in the 2015 National Space Policy. As part of this we are looking forward to receiving proposals on a Sector Deal for the space and satellite sector to support the Industrial Strategy. **National and International Programmes** We will oversee the performance, funding and risks in delivering the Agency's national and international programmes to derive maximum benefit. **Space Regulatory Reform** We will execute our existing regulatory responsibilities efficiently and effectively while working to reform the UK's space regulatory regime to ensure sustainable growth in the space sector, whilst protecting the space operating environment and managing government's long term risks.			
	Critical Enablers	People, Infrastructure, Finance.			

WHAT COULD STOP US ACHIEVING OUR OBJECTIVES?

We continue to develop our risk management system to drive the effective delivery of our business. Risk discussions are a key component of Steering Board and Audit Committee meetings. Members regularly review our Corporate Risk Register to ensure it captures the threats and opportunities we face as an organisation and that sufficient and appropriate management action is in hand.

The aim of our risk management approach is to systematically and proactively identify and treat risks which either threaten the Agency's success or result in opportunities being missed.

The UK Space Agency has established risk registers to manage our risks at corporate and directorate level. These registers set out the initial risk statement, the proposed mitigation strategies, and an assessment of the likelihood and impact of the risk occurring. These registers are reviewed and updated on a regular basis for the Executive Board, Audit Committee and Steering Board. Over the past year the Agency has continued to develop its approach to risk management in particular by setting out a risk appetite statement and designing risk management training. This training will be delivered to key staff in early 2017-18.

Our corporate risks are those that capture the effect of uncertainty on the achievement of our strategic plans and critical enablers; or these that have serious legal, financial viability or reputational implications for the Agency.

Our Corporate Risks at 31 March 2017 – headline statements and current risk ratings only.

Our Corporate Risks at 31 March 2017 – headline statements and current ratings only.

Risk Area	Rating
Programme Oversight The Agency oversees the delivery of a complex portfolio of projects and programmes. Risk – Agency fails to effectively engage with delivery partners to ensure the portfolio is managed within cost, time and scope parameters.	
Space Sector Growth The Agency's vision remains to support growth of UK industry to capture 10% of the global space market by 2030. Risk – Agency fails to anticipate and mitigate key risks to this growth as well as continue to identify and leverage key new sectors.	
Satellite Constellation Licencing The Agency acts on behalf of the BEIS Secretary of State to grant licences to launch or operate space objects. Risk – Agency fails to operate a robust licensing process to ensure risks are properly assessed. Which in turn increases the risk of costs falling to the UK from a failed mission for which BEIS owns the financial liability.	
UK Space Agency Status in Future Landscape The UK Space Agency was established to deliver an excellent space programme with the maximum economic, scientific and policy benefit for the UK. Risk – Agency fails to remain as the space policy hub for the UK as a result of change and uncertainty in the UK research and innovation landscape, for example EU exit negotiations and creation of UK Research and Innovation (UKRI).	
UK Satellite Launch Capability The Agency is committed to enabling commercial operators to launch small satellites and offer sub-orbital spaceflights from the UK. Risk – Agency fails to support industry adequately, accurately forecast demand and or ensure adequate legislation is in place to ensure that the potentially significant benefits to the UK from this programme are not foregone. Following this rating the Infrastructure and Projects Authority undertook an OGC Gateway Review and the Programme has been rated Amber.	
Failure to Sustain Delivery The Agency must ensure it has the appropriate resources in place to deliver our purpose and ensure we operate efficiently and effectively. Risk – Agency fails to ensure robust procedures for identifying key priorities and robust processes for matching resources to priorities impacting on the breadth of work the Agency is able to deliver.	

Low
Medium
High

Credit: RAL Space

OUR FINANCES

A key Agency financial objective is to outturn between +0% and -1% of the financial target.

The Agency's 2016-17 final DEL outturn, excluding Annually Managed Expenditure (AME), was £3.1 million below the outturn target agreed with the BEIS sponsor team, equivalent to -0.8% of the financial target.

	2016-17			
	Budget	Revised financial target	Outturn	(Surplus)/ Deficit
	£000	£000	£000	£000
Admin DEL	3,527	4,027	3,701	(326)
Programme DEL	224,974	211,700	210,139	(1,561)
Capital DEL	148,455	157,500	156,278	(1,222)
Total DEL	**376,955**	**373,227**	**370,118**	**(3,109)**
Non ring-fenced AME	834	834	834	0
Ring-fenced AME - forward contract revaluations	(10,531)	(10,431)	(46,547)	(36,016)
Total AME	**(9,697)**	**(9,697)**	**(45,713)**	**(36,016)**

Foreign exchange hedging impact of new ESA commitments

In December 2016 at the ESA Council of Ministers meeting the UK Space Agency committed over €1.4 billion to ESA for the period of 2017 to 2019, with some commitments stretching to 2021. To aid budgetary certainty over this period, the Agency entered into 14 new foreign exchange forward contracts with the Bank of England for subscriptions payable between February 2017 and October 2021. The total value of these contracts was €685 million (£601 million).

During the reporting period, the Agency managed a portfolio of 28 foreign exchange forward contracts, four of which matured during the year. These financial instruments have a material impact in the underlying fair value of the hedge contracts, which resulted in a recognised notional revaluation gain of £46.5 million. These movements are outside the control of management and are therefore classified as AME.

More information about the forward contracts can be found in Note 6 to the Financial Statements, Other financial assets and liabilities, on page 85 and Note 11, Other financial commitments, on page 88.

Net assets

Net assets as at 31 March 2017 were £112.8 million, an increase of £26 million from 31 March 2016. This is predominantly due to an increase in the cash balance at year end.

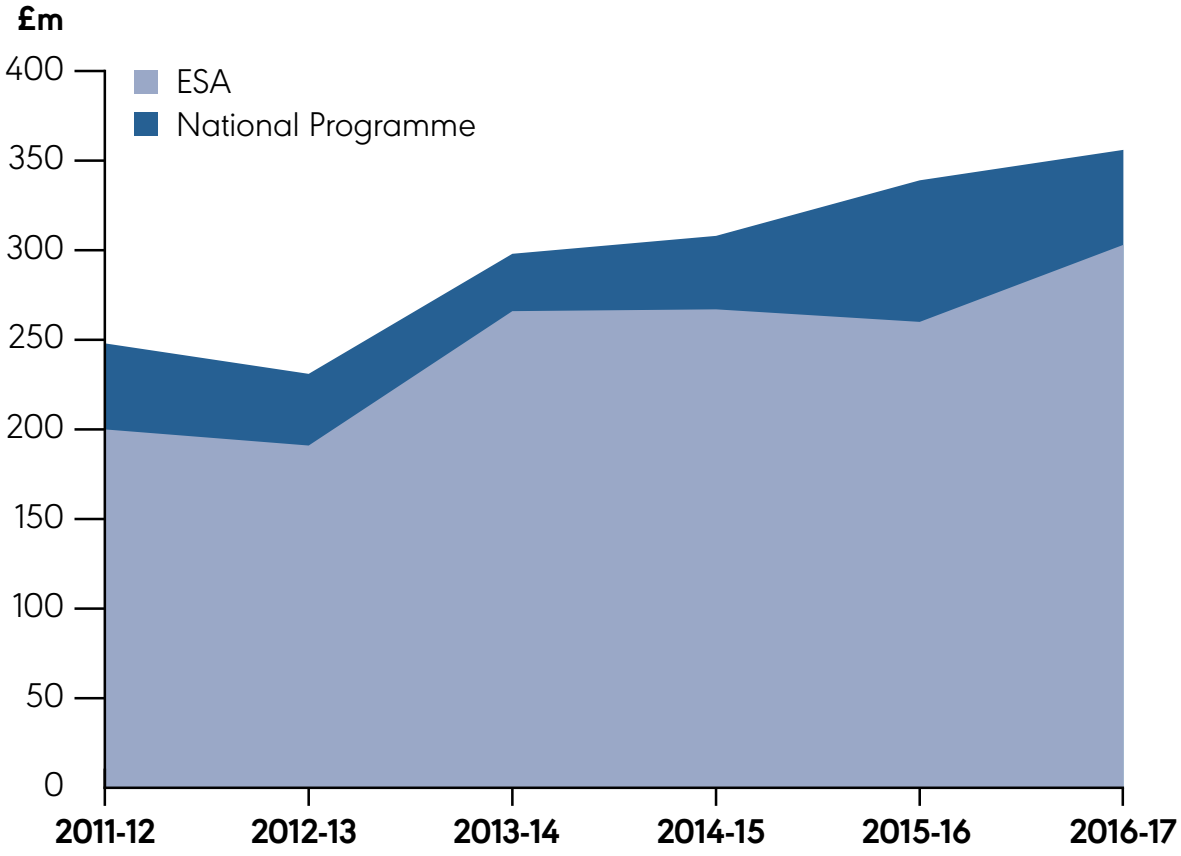
Cash

Cash balances are closely managed on a monthly basis to meet the internal and departmental cash requirements. All cash reserves are held within the Government Banking Service. The Agency does not hold any commercial bank accounts.

The cash balance as at 31 March 2017 was £29 million (2015-16: £2 million). The Agency aims to maintain an adequate cash balance at any point in time. Funding was drawn from BEIS in anticipation of large payments being made to our partners and suppliers during March. Some of these payments were not issued prior to year end, which is reflected in the increased amount of trade and other payables as at 31 March 2017 totalling £34.5 million, compared with £19.9 million as at 31 March 2016. More information can be found in Note 9 Trade Payables and other current liabilities on page 88.

Long term expenditure trends

The UK Space Agency was created in April 2011, and to 31 March 2017 overall direct programme funding has risen from approximately £250 million to £356 million per financial year. The additional funding has allowed the Agency to expand its subscriptions to ESA and also increase its funding to the national programme. Due to the nature of space science, expenditure on such programmes is managed across multi-year profiles.



OUR PEOPLE

Our people are vital to the success of the Agency. Without the commitment, hard work and knowledge of our staff none of the work outlined in this Annual Report would have been possible.

We have continued to invest in our workforce through learning and development initiatives which include project and programme management up skilling. Over the coming year, there will be a refresh of our Learning and Development strategy focussing on management development for both existing line managers and for those new to line management responsibilities. Professional and personal learning and development will continue to be encouraged on an individual basis.

In this year's Civil Service Staff Survey, we obtained an employee engagement index (EEI) of 57%. The EEI is shaped by five individual questions as well as measuring responses to nine key themes as shown in the chart below. Although the overall EEI score decreased slightly from 2015-16 (down 4 %) there was an improvement in four of the nine themes.

People Survey Results			
	2016 Result	**2015 Result**	**2016 BEIS**
My Work	**82%**	83%	77%
Organisational Objectives and Purpose	**74%**	87%	52%
My Manager	**69%**	65%	68%
My Team	**81%**	70%	81%
Learning and Development	**52%**	51%	56%
Inclusion and Fair Treatment	**74%**	73%	79%
Resources and Workload	**64%**	65%	72%
Pay and Benefits	**12%**	13%	26%
Leadership and Managing Change	**33%**	39%	41%
EEI Index	**57%**	61%	54%

The results of the staff survey were analysed, additional insight was gathered at a directorate level as well as through the established People Group. As a result the People Group were split into workstreams to focus on; Communication and Engagement, Leadership and Change, Wellbeing and Work-life Balance and Resources and Workload. Further consultative work across the Agency has taken place and a number of interventions have been carried out subsequently. The work streams are continuing to address issues raised and will continue to consult and improve processes as the year continues. For a more detailed view of our staff see the Staff and Remuneration Report starting on page 57.

Credit: Tim Peake/ESA/NASA

PERFORMANCE ANALYSIS

HOW WE HAVE PERFORMED

Our approach to performance management has continued to develop over the year. Our Executive Board assess detailed monthly performance reports. These are scrutinised by our Steering Board, Audit Committee and BEIS sponsor team every quarter.

In our 2016-17 Corporate Plan we detailed five KPIs which were the priorities for the 2016-17 financial year.

A summary of each KPI is shown in the table below with a red/amber/green rating given at 31 March 2017.

In addition to the KPIs below the UK Space Agency has continued to work closely with the Department for Exiting the EU and other Government Departments to achieve the best possible outcome for the UK space sector following the vote to leave the European Union.

KPI	Status	Summary
Set out the priorities for the UK space sector addressing the need for continued economic growth, increased exports and industrial sustainability. **Metric:** Civil space strategy 2016-2020 in place by end Q3 setting out government plans for the sector with the 5 year timeframe.		Publication timescale has been delayed to take account of the Industrial Strategy published by the Secretary of State for Business, Energy and Industrial Strategy in January 2017. The UK Space Agency has consulted widely on what actions are needed as part of a strategy to implement the National Space Policy. This consultation has involved industry, academia and is also looking across government. The consultation suggested actions grouped around four possible chapters: • societal actions including more efficient public services • safety and security of the space operating environment • commercialising space • international collaboration Following the consultation this will be published in 2018.

KPI	Status	Summary
Run a National Spaceflight Programme to deliver a stepwise approach to establishing a commercial small satellite launch capability in the UK as set out in the National Space Policy. Initial capability will build on the operation of sub-orbital science spaceflights from a UK spaceport. **Metric:** Set out the actions to address priorities for National Spaceflight by the end of Q2.		We have established the Satellite Launch Programme to deliver our commitment to support a commercial satellite launch capability in the UK, and significantly uplifted UK Space Agency resource devoted to this. The Department for Transport, Civil Aviation Authority, Health and Safety Executive and UK Space Agency are working to provide a proportionate, supportive and enabling legal framework for launch and suborbital spaceflight operations. The Department for Transport published the draft Spaceflight Bill in February 2017, which will lay the foundations for our licensing regime, and intends to introduce the Bill in Parliament early in the next Parliamentary session. We are working internationally to build relationships with other nations already active in these markets. We are raising the public profile of our programme, through our new web pages on GOV.UK.
Set out and achieve the UK programme priorities for investment at the European Space Agency's (ESA) Council of Ministers in December 2016. **Metric:** Approval of business cases and allocations of financial resource to support UK CMin 16 objectives by end of Q3.		This year at the European Space Agency (ESA) Ministerial meeting we agreed to invest a further €1.44 billion to continue our commitment to European collaboration in space. This investment will see high profile future missions including the ExoMars mission and the James Webb Space Telescope and includes unprecedented leadership of Europe's study of our changing planet and continued support for the ISS building on the success of Tim Peake's Principia mission. This investment will ensure that the UK remains at the forefront of new technologies, science and daring space exploration.

KPI	Status	Summary
Fund and monitor the progress of the development and delivery of the Agency's agreed national and international space programmes. **Metric:** Ensure all projects remain within approved performance, time and cost parameters.		We have overseen the successful delivery of a number of key national and international programmes, highlights include: • Developing an International Partnership Programme strategy in line with the Global Challenges Research Fund, DFID and UN sustainable development goals, which we are delivering via a series of open project calls. 21 projects to a grant value of £70m and total project value of over £100m have been agreed. These projects are based in developing countries and will all deliver sustainable impacts to the end users using satellites solutions. • Ensuring access to UK facilities available to scientists participating in ESA's microgravity and space environments research programme (SciSpacE). • Defining the key requirements and a business case to deliver an operational space weather capability that will greatly enhance our ability to forecast severe space weather events. • Overseeing NovaSAR project. The spacecraft and payload integration took place in the Autumn 2016. The Flight Readiness Review has not yet been held due to expected launch date now moving to late 2017. • Leading the re-planning of the SABRE project to take into account a new development approach. The System Requirements Review was completed in November 2016. • Completing open call National Space Technology Programme (NSTP) - 41 projects were selected for funding.
Through the Space for Smarter Government Programme (SSGP), facilitate the public sector in using satellite enabled services for smarter, more efficient operations, in addition to stimulating economic growth. **Metric:** Space Enabled Applications Plan published by the end of Q3. Deliver a minimum of two thematic roadmaps which involve at least eight Government organisations and Departments focussing on how space can save the UK money, and grow outputs by end of Q4. Progress work on cross Government products including a Space Catalogue and a joined up space training package delivered by end Q4.		Government requirements relating to disaster risk management and human movement have been explored during the latter stages of 2016-17. Two thematic roadmaps which concentrate on captured key stakeholders' needs have been developed. These cross cutting requirements will be matured and shared with industry and form the basis of a new demonstrator procurement exercise. A review of available public sector space-related training has been undertaken and a new training course specifically aimed at raising awareness of satellite applications for public sector employees has been commissioned. This is due to be piloted in the Summer 2017. A number of new training related stakeholder relationships have been established, which provides a solid foundation on which to build, develop and efficiently promote new cross government training opportunities during 2017-18. Space enabled application plans have been presented at a series of relevant conferences and events.

2016-17 PERFORMANCE IN DETAIL

The Size & Health of the UK Space Industry

Published in December 2016, the Size and Health of the UK Space Industry 2016 report highlights a sector that is high growth, high value-added, high skill, high productivity and export intensive, with a positive outlook for the future.

Conducted by London Economics, the study contains a number of notable improvements from the 2014 survey, ensuring greater coverage and more accurate measurement than ever before. The analysis is based on around 700 space-related organisations, using a mixture of survey responses and desk-based research. The methodology is designed to be consistent with previous surveys and with Organisation for Economic Cooperation and Development (OECD) guidelines, allowing for analysis of trends and international comparison.

With an average annual growth rate of 6.5% between 2012-13 and 2014-15, the sector is continuing to grow much more strongly than the UK average. Indeed, the sector has now more than doubled in size over the past decade, rising from £6.3 billion turnover in 2004-05 to £13.7 billion in 2014-15.

The Applications sub-sector continues to dominate the industry, as new products and services that use satellite data are developed. While smaller manufacturing operations continue to generate sizeable revenues, reflecting world-leading UK capabilities in areas such as small satellites and telecommunications.

The report shows a sector that is globally-focused. Over a third of sector revenues come from exports, rising to over two thirds when we look at a more 'core' definition of the sector excluding large direct-to-home broadcasters. Around half of these exports go to Europe.

Employment in the sector is spread throughout the UK, with Scotland for example accounting for 18% of employees. There are particular clusters of activity, such as the UK Space Gateway at Harwell, Oxfordshire, with 67 organisations employing over 700 staff. Each direct job also supports an additional supply chain job, with total direct and indirect employment estimated at around 80,000.

In this year's report we were keen to collect information on perceived barriers to growth. With two thirds of survey responses coming after the EU exit referendum, it is perhaps unsurprising that economic uncertainty dominated the list of perceived barriers to growth, flagged by 43% of respondents. In general, large companies tended to be most concerned about economic uncertainty and competition, whereas smaller companies are most concerned about access to finance and recruitment issues.

For the first time, the report looks at wider output supported in the UK economy. Assessing the reliance of different sectors on telecommunications, navigation, earth observation and meteorology services provided from space, it estimates that more than £250 billion of wider UK output is supported by satellite services.

The sector has now more than doubled in size over the past decade, rising from **£6.3 billion** turnover in 2004-05 to **£13.7 billion** in 2014-15.

SIZE & HEALTH OF THE UK SPACE INDUSTRY 2016

£13.7bn
Total Income in 2014/15

6.5%
Share of global space economy in 2014/15

38,500
Employees in 2014/15

2.7x
Labour productivity compared to UK average

8%
Space Manufacturing

15%
Space Operations

74%
Space Applications

3%
Ancillary Services

6.5%
Annual growth rate 2012/13 - 2014/15

£415m
R&D expenditure in 2014/15

3 in 4
Employees holding a university degree or higher qualification

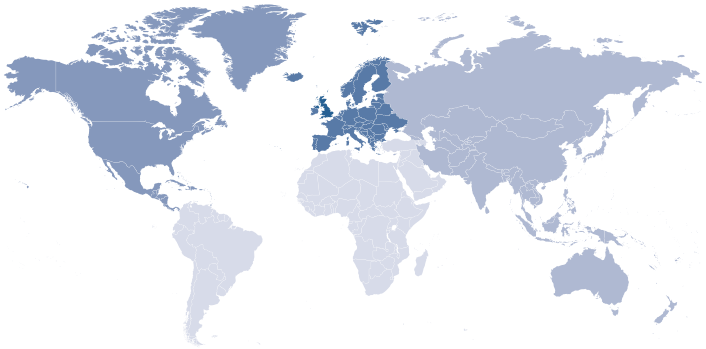
£5.0bn
Exports in 2014/15

49%
Rest of Europe

19%
North America

16%
Asia-Pacific

16%
Other



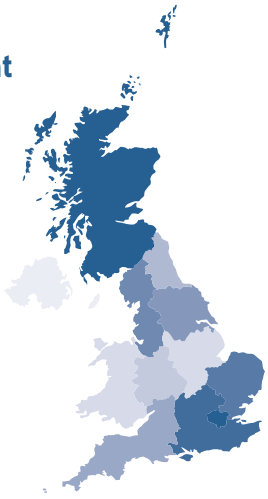
Regional employment

26%
London

23%
South East

18%
Scotland

33%
Other



Wider UK GDP* supported by satellite services

GVA
£5.1bn
Direct contribution of the UK space industry to UK GDP

More than **£250bn**

- Telecommunications
- Navigation
- Earth Observation
- Meteorology

7 in 10
Organisations expect income growth over the next three years

LE London Economics

UK SPACE AGENCY

Space Science

The UK Space Agency space science programme supports world-class science in the UK, keeping the UK at the forefront of discovery, and providing economic benefits in stimulating technological innovation that supports industrial growth. The UK Space Agency space science programme supported 19 space missions in 2016-17, including missions in the design, build and operational phases, and also post-operation data calibration, validation and archiving.

Science highlights of the year include the end of the operational phase of the Rosetta mission, when the Philae spacecraft landed on the comet 67P/Churyumov-Gerasimenko; the first release of data from the GAIA mission, mapping our galaxy in unprecedented detail, and the excellent results from the Lisa Pathfinder mission, proving that we have the technology needed to build a gravitational-wave detector in space. We also published our first impact evaluation of a space science mission, on the UK's involvement in the Herschel mission (https://www.gov.uk/government/publications/impact-evaluation-report-herschel-spire-instrument).

Missions in operation and/or legacy phase

Alsat Nano is a joint cubesat mission between the UK Space Agency and Algerian Space Agency (ASAL) which launched in 2016. The UK Space Agency funded the design, build and verification of the spacecraft as a hands-on learning exercise for Algerian students to demonstrate the practical elements of low cost space technology. On board the spacecraft are three UK built payloads gaining crucial flight heritage to pave the way for further commercial and scientific exploitation. ASAL has provided the launch, and operations are being undertaken in Algeria by UK-trained ASAL operators.

Cassini/Huygens is an ESA, National Aeronautics and Space Administration (NASA) and ASI (Italian Space Agency) mission launched in 1997 to explore the Saturnian system. The UK leads on a magnetic detector. In 2016-17 Cassini discovered more about the composition of the subsurface ocean on Saturn's moon Enceladus, which could potentially support life.

Cluster is an ESA mission of four spacecraft operating together to investigate the Earth's magnetic environment and its interaction with the solar wind, launched in 2000. The UK had key roles in the build of four of the 11 instruments and continues to plan their operation and to run a science operations centre. In 2016 a mission extension was confirmed up to 31 December 2018.

GAIA is an ESA mission launched in 2013 to create the largest and most precise 3D map of the Milky Way. The UK data centre for GAIA, at Cambridge, was critical to the first release of GAIA data, in September 2016, which provided the positions and magnitudes for around 1.1 billion stars and mapping data for around 2 million bright stars.

Herschel was an ESA observatory mission. UK investment supported the design, development, operations and post-operations of the SPIRE (Spectral and Photometric Imaging REceiver) instrument. SPIRE post-operations concluded in June 2016 with delivery of final data products for long term science exploitation.

Hinode is a Japanese solar physics mission, with US and UK instrument contributions, which is increasing our understanding of the causes of solar variability and origins of solar activity. The UK built the EUV Imaging spectrometer and celebrated 10 years of successful operations in 2016.

Lisa Pathfinder, which launched in 2015, has successfully demonstrated the technology needed to build a gravitational wave detector in space, paving the way for a future flagship mission.

Rosetta-Philae is an ESA mission which included the Rosetta orbiter spacecraft, and the Philae lander, which landed on the comet 67P/Churyumov-Gerasimenko in November 2014. The UK was involved in the build of two of the instruments, one on the orbiter and one on the lander. Rosetta has completely changed our picture of comets, and the results are still being analysed. Unexpected results include the effect of dust creating 'seasons' on the comet and the magnetic field activity. The mission ended with the touchdown of the spacecraft on the comet on 30 September 2016. Earlier in September, the orbiter located the Philae lander wedged on its side on the surface of the comet.

STEREO is a NASA mission launched in 2006, primarily to study Coronal Mass Ejections (CMEs); the solar storms that blast into space, some in an Earth-bound direction capable of disrupting communication networks. STEREO has two spacecraft travelling in a similar orbit to the Earth with one ahead and one behind the Earth's path. In 2014 contact was lost with the spacecraft behind the Earth; contact was temporarily regained in 2016 but was lost again. The other spacecraft continues to operate well and return data to the Earth.

Swift is a NASA mission launched in 2004 to study gamma-ray bursts, which are extremely energetic explosions in distant galaxies lasting from a few milliseconds to a several hours. The UK provided the ultraviolet and optical telescope and much of the X-ray telescope camera. In June 2016, Swift captured the release of a short burst of X-rays from one of the most extreme pulsars ever detected.

Missions in the build phase

Bepi Colombo, due to launch in 2018, is an ESA mission in collaboration with Japan that will send two spacecraft to study Mercury. The UK has built MIXS, an imaging X-ray spectrometer, which will tell us about the chemical composition of Mercury. The instrument was delivered to ESA in 2015 and has since been undergoing testing with the spacecraft to ensure it will survive and can operate safely in the harsh conditions.

Euclid, due to launch in 2020, is an ESA mission which aims to revolutionise our understanding of cosmology by investigating the very fabric of the Universe and exploring the nature of dark matter and dark energy. A major milestone was reached in February 2017 as the first four Flight Model detectors for the UK-built visible imager (VIS) on ESA's Euclid space science mission were delivered. The Charge Coupled Device (CCD) detectors were specially designed for Euclid and are being built under contract to ESA by UK technology company e2v Ltd in Chelmsford.

James Webb Space Telescope – Mid Infra Red Instrument (MIRI), due to launch in 2018, is one of four science instruments that will fly on NASA's James Webb Space Telescope, the successor to the Hubble Space Telescope. MIRI was built by a UK-led consortium. All four science instruments have now been integrated with the telescope and in 2016 - 2017 have been undergoing rigorous functional and enviromental testing to ensure that it will withstand the stresses of launch and perform to requirements in the harsh environment of space.

JUICE (JUpiter ICy moons Explorer), due to launch in 2022, is an ESA mission, with the UK leading the development of the magnetometer (JMAG), and contributing to the development of the JANUS camera and the Particle Environment Package. The JMAG instrument reached a major landmark in August 2016 when it successfully passed its Preliminary Design Review by ESA, the first of the 10 instruments for JUICE to reach this this key milestone.

Solar Orbiter, due to launch in 2018/19, is an ESA mission that will study the Sun at a closer distance than ever before, as well as studying the heliosphere (the vast bubble of charged particles blown by the solar wind into the interstellar medium) as it passes the spacecraft. In Spring 2017 the UK-built instruments are completing their development. The spacecraft is being built by Airbus UK.

Missions in the design phase

Athena is an ESA mission, an X-ray telescope that will study the evolution of black holes and the role of hot gas across the galaxy. UK teams are contributing to early developments for the Wide Field Imager instrument, one of the two cameras on Athena.

PLATO is an ESA mission to search for exoplanets (planets outside our solar system) that may have the potential for life. The UK role involves the overall science lead, and key roles in instrument construction and data analysis. A key milestone, formal agreement of the Science Management Plan, was reached in 2016.

M4 is the fourth medium class mission in the ESA Science Programme's Cosmic Vision plan. The UK Space Agency's National Science Programme is supporting UK involvement in all three mission candidates.

The UK has also supported early design work on the **SMILE** mission, a proposed joint ESA-China-Canada mission to study the causes of space weather.

Space Exploration

The UK Space Agency participates in ESA's International Space Station (ISS) programme, and the complementary European Life and Physical Science Programme (ELIPS) which delivers science on the ISS and a range of other space-analogue facilities, such as drop towers, parabolic flights and Antarctic stations. In 2016 over 130 European experiments were completed on the ISS. The Expose experiment which returned with British ESA astronaut Tim Peake is just one example. Here 46 species of small organisms and 150 organic compounds had been bolted onto the outside of the ISS for 18 months, subjected to the full blast of the Sun's energy as well as vacuum, radiation and temperature swings, they will help researchers investigate how chemicals and microbiological life react to unprotected spaceflight – on a comet, for example. Previous Expose experiments have shown that 'water bears' and a species of lichen can survive a trip into space.

The UK Space Agency is also participating in the ESA ExoMars programme. The first element of ExoMars, the orbiter, successfully arrived at Mars on 19 October 2016. After taking some initial data demonstrating that all its instruments were working, the spacecraft started a phase of aerobraking to achieve its final orbit. The mission will investigate trace gases in the atmosphere, such as methane which could have originated from either biological or geological processes. The problems encountered with the Mars Schiaparelli lander have been analysed and understood, the lessons learnt have been incorporated in the ESA 2020 Lander Mission. The 2020 mission will deliver a rover to the surface of Mars which will investigate the geochemical environment and search for signs of past and present life. The rover build is led by Airbus Defence and Space in Stevenage and the Mullard Space Science Laboratory leads the build of the Panoramic Camera.

Space Innovation

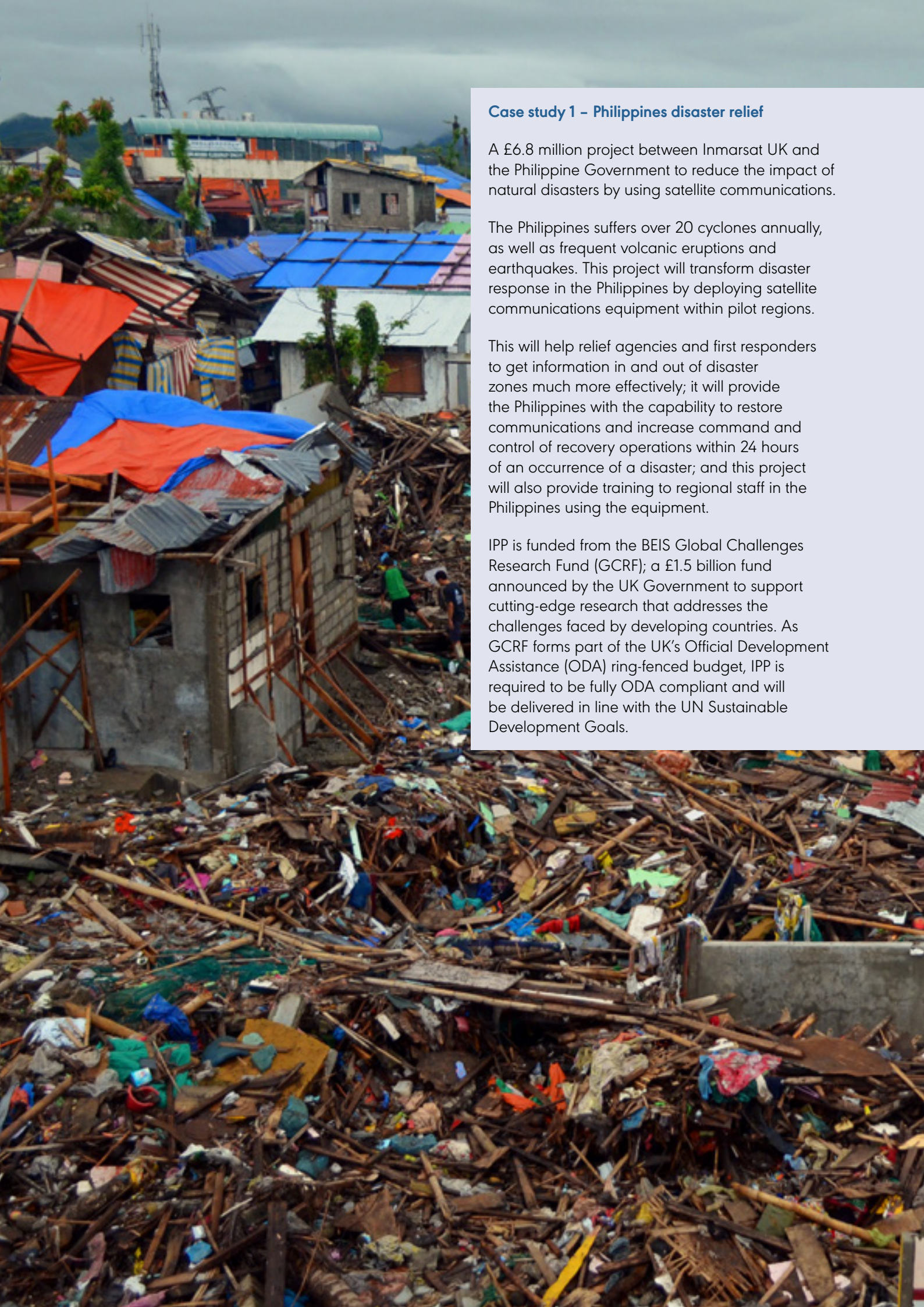
The UK Space Agency is taking forward research projects that will provide the UK with new capabilities and products for growth. For example working with UK industry to develop a new, low-cost, synthetic aperture space radar demonstrator that can produce images from space regardless of whether it's day or night or the Earth is covered by cloud. This NovaSAR system is designed to produce images that will cost a fraction of those produced by existing commercial space radar systems. Furthermore, by combining this radar data with maritime automated identification systems, the combined dataset will enable the UK to develop applications that identify when shipping is off-course or help protect the UK's resources. This satellite is due to launch in 2017-18.

International Partnership Programme

The International Partnership Programme (IPP) is a five-year, £150 million programme run by the UK Space Agency. IPP focuses strongly on using the UK space sector's research and innovation strengths to deliver a sustainable, economic or societal benefit to undeveloped nations and developing economies.

IPP seeks to maximise the practical impact on the lives of those living in developing countries. We do this by partnering with those developing countries and using space solutions to solve their specific challenges, and in doing so increase their capacity to respond to those challenges. As a secondary objective, IPP will contribute to the continued strength of the UK's space sector; building on the unique strengths that the sector has in terms of services and technology to deliver the aid objectives. The projects within IPP span a whole range of themes; including reducing deforestation, disaster response, land-use monitoring, reducing maritime problems and renewable energy.

The programme is run through launching a series of open and themed calls for ideas to the space community. The first of these calls was launched in June 2016 with the second launched in April 2017. 21 projects have been commissioned to date. All IPP projects have a strong focus on engaging with the actual in-country end users and on demonstrating the sustainability of each and every project as well as having strong alignment with the UK Aid Strategy and the United Nations Sustainable development goals. These calls allow the space community to apply for IPP grants of between 50-100% (depending on the size and type of establishment) in order to run projects which meet the aims of the programme.



Case study 1 – Philippines disaster relief

A £6.8 million project between Inmarsat UK and the Philippine Government to reduce the impact of natural disasters by using satellite communications.

The Philippines suffers over 20 cyclones annually, as well as frequent volcanic eruptions and earthquakes. This project will transform disaster response in the Philippines by deploying satellite communications equipment within pilot regions.

This will help relief agencies and first responders to get information in and out of disaster zones much more effectively; it will provide the Philippines with the capability to restore communications and increase command and control of recovery operations within 24 hours of an occurrence of a disaster; and this project will also provide training to regional staff in the Philippines using the equipment.

IPP is funded from the BEIS Global Challenges Research Fund (GCRF); a £1.5 billion fund announced by the UK Government to support cutting-edge research that addresses the challenges faced by developing countries. As GCRF forms part of the UK's Official Development Assistance (ODA) ring-fenced budget, IPP is required to be fully ODA compliant and will be delivered in line with the UN Sustainable Development Goals.

Case study 2 – Deforestation and illegal logging in Guatemala

A £5.9 million project run by Stevenson Astrosat Ltd UK, the Guatemalan Government, Guatemalan Universities and NGOs to develop a Forest Management and Protection system (FMAP) for reducing illegal logging and deforestation.

Illegal removal and transit of valuable trees, change of land use and other such unregulated activities are having huge impacts, both environmentally and socio-economically, in Guatemala and are of real concern to its government.

The key aims of this project are to:

- provide Guatemala with a centralised Forestry Management support tool in order to conduct activities more cost effectively and efficiently
- support Guatemala in their abilities to manage forests through knowledge exchange, capacity building and training
- establish the FMAP system as a certified product for sustainable forestry management, leading to other opportunities in the Central American region, and enabling wider roll-out to neighbouring countries

Outer Space Act Licensing

The Agency acts on behalf of the Secretary of State for Business, Energy and Industrial Strategy to grant licenses under the Outer Space Act 1986 to launch or operate a space object. A rigorous series of assessments are made to help ensure that the proposed activity does not pose risks to public health and safety or to UK national security.

The licensing process also allows government to offset some of the unlimited liability that falls to UK taxpayers through the requirement on licensees to obtain third party liability insurance.

This year the Agency issued 6 Outer Space Act licenses and is currently assessing 21 further applications (as of 31 March 2017). Every licence was issued in advance of the anticipated launch date.

Graham Turnock
Chief Executive and Accounting Officer
21 June 2017

ACCOUNTABILITY REPORT

The Audit Committee has continued its work on ensuring the Agency has effective systems and controls in place supported by a robust process for gathering evidence in support of the Agency's assurance statements of internal control. Focus continued on refining and improving the Risk Register, including dealing with the changed risks concerning regulation of satellite constellations and the Satellite Launch Programme. We continue to scrutinise the Continuous Improvement Action Plan including monitoring the completion of outstanding audit actions. Work has continued on understanding information security and the cyber threat to the Agency, including the Government endorsed "Ten Steps to Cyber Security". We investigated and discussed European Space Agency audit functions and approaches. Finally, the Committee has spent much time discussing and understanding the risks, and associated assurances, facing the Agency connected with the EU exit.

Clive Tucker,
Audit Committee Chair

CORPORATE GOVERNANCE

DIRECTOR'S REPORT

We have an effective corporate governance framework in place to ensure that we continue to deliver against our purpose and vision.

In last year's Director's Report my predecessor highlighted a number of internal control improvements planned for 2016-17. I am pleased to report the Agency has made satisfactory progress in meeting these goals:

Establish a programme of internal assurance to minimise reliance on third parties for the provision of assurance – We have undertaken much work in 2016-17 to strengthen our internal controls. This includes monitoring and reporting on their effectiveness to provide on-going assurance to the Executive Board and Audit Committee. We have gained internal assurance during the year through:

- No breaches of personal information or cyber security
- No instances of identified fraud or bribery
- No investigations required in respect of the whistleblowing policy
- No issues regarding Executives and Non-Executives activities conflicting with their UKSA responsibilities
- No payments to Senior Civil Servants and Non-Executive Members without PAYE tax at source
- Only one freedom of information request not responded to within the required timescales
- Detailed information is reported in the Governance Statement Pages 42-45.

Further mature the Directors' Annual Assurance Statements of internal controls (DAASIC) evidence gathering approach across the Agency – Following the introduction of a formalised process in 2015-16 the process was enhanced with greater scrutiny by a governance officer and by the Audit Committee to ensure Directors control ratings were justified. The process now assists in formally identifying areas with high assurance as well as for improvement which will be monitored in the continuous improvement plan for 2017-18.

Continue to strengthen the risk management discipline across the organisation – We continue to develop our effectiveness at managing risks that could impact on the Agency achieving its objectives. Risk analysis is a key activity of the board and Audit Committee where members review the Corporate Risk Register to ensure it captures all the potential threats to the organisation and that appropriate controls are in place and operating to manage these risks. During 2016-17 the Executive Board and Audit Committee have reviewed and rationalised the Corporate Risk Register ensuring that it focuses on the main risks faced by the Agency.

Develop a workforce plan which will incorporate an approach towards improved recruitment, retention and succession planning, especially with regard to specialist posts – An independent review examined the current system of workforce planning to improve the way that recruitment is carried out; its recommendations will be used to improve our processes. The Executive Board have undertaken succession planning and a business continuity review to ensure that any changes or absences in the Executive would not have any significant impact on the Agency.

Ensure robust scrutiny and governance of business cases produced in support of the government's agreed approach towards the ESA Council of Ministers 2016 – A business case was produced in support of the ESA Council of Ministers meeting held in December 2016. This was scrutinised within BEIS and also received HM Treasury approval enabling the Agency to successfully negotiate its funding commitments with ESA for the coming years.

Establish a culture of good research conduct in awarding and monitoring grant awards and review regularity of expenditure by organisations in receipt of grants from the Agency – We commissioned an internal audit across the ways in which we administer and control grant funding. We received a moderate (definition in the Governance Statement) audit opinion for each process reviewed; management of grant calls; Grant approval and disbursement of funds; Use of administrative resources; and Management of assurance reporting. Three recommendations were reported in March 2017 to enhance the controls we have already have in place. We will implement the agreed actions in 2017-18.

Our Leadership

The UK Space Agency Steering Board has continued to provide strategic leadership for the Agency in delivering its objectives through scrutiny, advice and challenge. The Board's non-executive members bring a wide range of experience, covering industry, academia, legal, and finance.

Non-Executive Members

Prof. David Southwood
Chair of the Steering Board

Appointed as Chair in June 2016.

David holds the post of Senior Research Investigator at Imperial College London where his research interests include solar-terrestrial physics and planetary science. David is a former President of the Royal Astronomical Society and he was Director of Science and Robotic Exploration at the European Space Agency until 2011. Before becoming Chair, David served as a member of the Steering Board.

Clive Tucker
Member of the Steering Board and Chair of the Audit Committee

Appointed in December 2014.

Clive is a solicitor and until 2010 was a corporate partner of international law firm Ashurst LLP where among other transactions he advised on satellite procurement, acquisitions, financings and regulatory matters. He is a non-executive member of the National Committee of the Forestry Commission England, and an independent member of the UK and Ireland Regulatory Board of the Royal Institution of Chartered Surveyors.

Dr Frances Saunders, CB
Member of the Steering Board and Audit Committee and Agency's independent nominated whistleblowing officer

Appointed in December 2014.

Following a variety of research and science and technology management roles within government, Frances' Civil Service career culminated with her appointment as Chief Executive of the Defence Science and Technology Laboratory (Dstl) from 2006-2012. Frances was President of the Institute of Physics between 2013 and 2015 and is a Trustee of the Royal Academy of Engineering and the Engineering Development Trust.

Executive Team

Our Executive team provides day-to-day leadership and management. It ensures that we operate efficiently and effectively, regularly reviewing performance and managing risks, and monitoring business delivery and financial performance.

Dr Graham Turnock
Chief Executive

Appointed in April 2017.

Graham has extensive experience across Whitehall and at a European level and has held several other posts in the UK Civil Service with a strong European element, including the Treasury's lead on the EU budget.

Graham has joined the Agency from his role as Director of Better Regulation in BEIS.

Katherine Courtney
Former CE

Appointed as interim Chief Executive from 1 April 2016 to 31 March 2017.

Katherine was responsible for the UK's civil space policy, regulation and programmes. Katherine's early career was spent in the global telecoms industry as a senior executive with both multinational and start-up companies. Katherine moved to the public sector in 2003 and joined the Agency from her role as Director of Enterprise at BIS.

Dr Alice Bunn
Director of Policy (Job Share)

Joined the Agency in February 2012, and was appointed as Director of Policy in May 2014.

Alice leads on space security, regulation, statute, communications and international engagement to stimulate and drive growth and enable strategy delivery. Alice also holds the posts of Senior Vice chair at ESA Council and is Head of the UK ESA delegation.

Rebecca Evernden
Director of Policy (Job Share)

Joined the Agency in June 2016.

Rebecca leads on space security, regulation, statute, communications and international engagement to stimulate and drive growth and enable strategy delivery.

Executive Team

Dr Chris Castelli
Director of Programmes

Joined the Agency in November 2011, and was appointed as Director of Programmes from November 2014.

Chris leads the Agency's involvement with ESA on space science, technology and exploratory missions and manages the Agency's national programmes.

Peter Finn
Chief Operating and Finance Officer and Security, Information and Risk Officer (SIRO)

Joined the Agency in February 2014.

Peter is responsible for the UK Space Agency's operational performance, financial management, risk and assurance, and HR.

Catherine Mealing-Jones
Director of Growth

Joined the Agency in January 2012.

Catherine is responsible for the UK Space Agency strategy to continue to grow the UK space sector, drawing on the expertise of domain experts and acting as a sector sponsor to the UK space industry.

Ross James
Director of Commercial Space and Deputy CEO

Joined the Agency in October 2016.

Ross is responsible for working with and across industry to help realise the UK space industry growth ambitions. Ross is also the Senior Responsible Officer for the Satellite Launch Programme.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the Secretary of State with the consent of HM Treasury has directed the UK Space Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the UK Space Agency 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 Government Financial Reporting Manual 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 Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- prepare the accounts on a going-concern basis

The Department for Business, Energy and Industrial Strategy (BEIS) has appointed the Chief Executive as Accounting Officer of the UK Space Agency. The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding the UK Space Agency's assets, as set out in Managing Public Money, published by HM Treasury.

GOVERNANCE STATEMENT

As Chief Executive and Accounting Officer, I am required to produce an annual governance statement. The Agency's previous Interim Chief Executive, Katherine Courtney, left the Agency on 31 March 2017 and I have signed this statement after satisfying myself that there are no material ongoing governance issues affecting the Agency that I should declare within this statement.

Corporate Governance

This governance statement sets out the governance, risk management and internal control arrangements for the UK Space Agency. It applies to the financial year 1 April 2016 to 31 March 2017 and up to the date of approval of the Annual Report and Accounts. I am supported in my role as Accounting Officer by a governance framework which includes the Agency's Boards, Committees and Senior Management. In forming my assessment I have examined:

- board and committee effectiveness in managing risks, finance and operational performance
- the policies in place impacting on risks such as counter fraud, counter bribery, conflicts of interest and whistleblowing
- the work of internal audit, which awarded the Agency an overall annual 'moderate assurance'
- the assessments of my individual directors in the Director's Annual Assurance Statements of Internal Control (DAASIC) providing an overall rating of 'substantial assurance'
- an assurance handover letter from my predecessor
- the NAO Management Letter

To my knowledge, there is no relevant audit information of which the National Audit Office (NAO) are unaware. I have taken all the steps necessary to ensure any relevant audit information is available to the NAO.

Legal status

The UK Space Agency is an Executive Agency of BEIS and does not have a separate legal status outside of BEIS. Therefore, in order to enter into contracts, delegated powers are conferred on the Agency by the Permanent Secretary. In the event of a contract being entered into, the UK Space Agency is a 'Contracting Authority' on behalf of the Secretary of State for BEIS, which is the 'Authority'. Our legal status was not affected by the machinery of Government changes that switched BIS to BEIS.

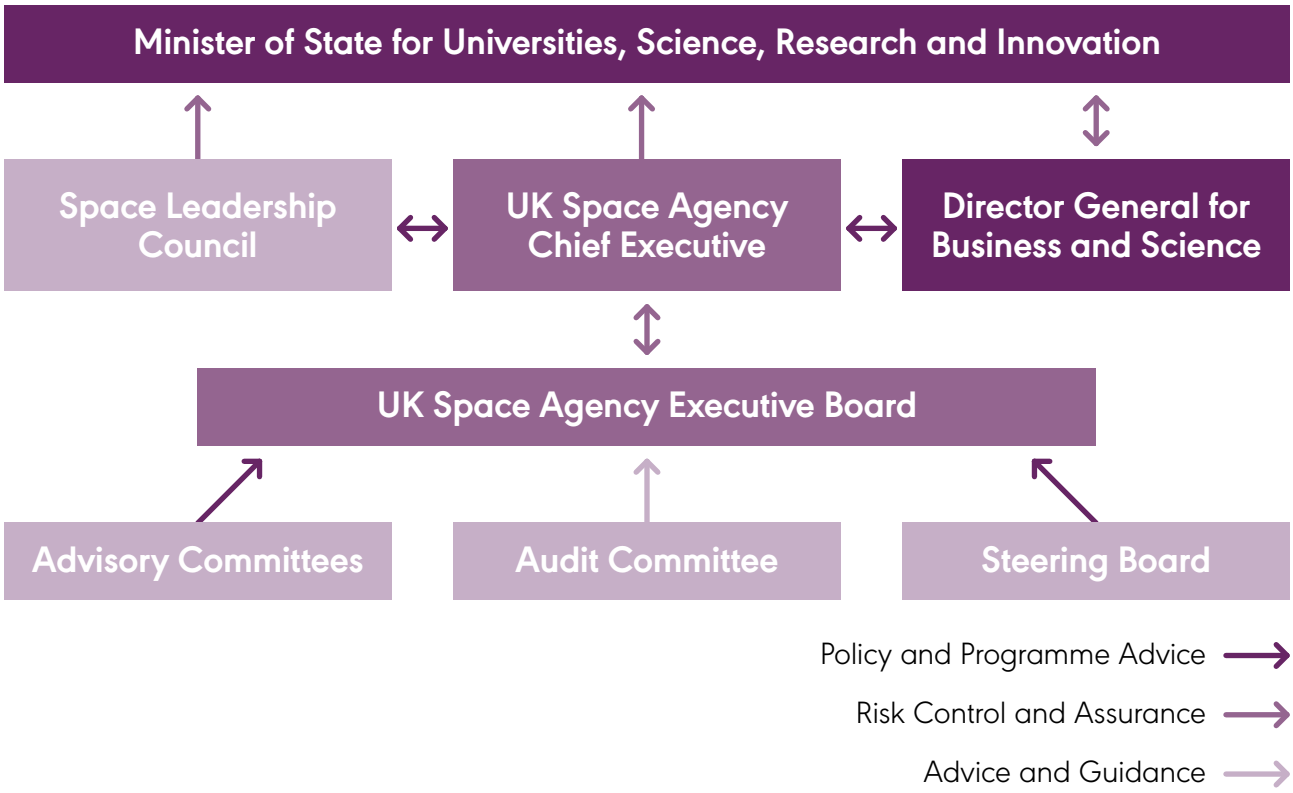
Governance structure

The UK Space Agency is accountable to Parliament for the funds it expends through our parent department, BEIS. Parliament monitors and influences the UK Space Agency through its Select Committees and the Parliamentary Ombudsman. For example, the Science and Technology Select Committee held a review on the draft Spaceflight Bill which reported in April 2017.

The UK Space Agency's working relationship and lines of accountability with BEIS are defined in the UK Space Agency Framework Document (revised and approved by Minsters in summer 2016), Corporate Plan, Allocation Letter(s) and Letter(s) of Delegated Authority made to the Chief Executive. These documents are subject to periodic review. The Agency is also held to account through regular performance reviews with our BEIS sponsor team. These help ensure active engagement and a transparent relationship with our parent department.

Governance and advice

The model below shows the governance arrangements and channels of advice provided to me as Chief Executive of the UK Space Agency.



Steering Board

The primary role of the Steering Board is to advise the Chief Executive (CE) and the executive team on the delivery of the Agency's strategies and plans. The Steering Board has four independent Non-Executive Members (NEMs), one of which chairs the Audit Committee, a BEIS appointee, the Chief Executive and the Agency's Senior Information Risk Officer (SIRO).

David Southwood, who was previously a NEM of the Steering Board, was appointed as its Chair with effect from June 2016, replacing Rob Douglas who stepped down in November 2015. At the time of reporting David's previous NEM position remains under recruitment.

The Steering Board held six scheduled meetings this year. All Board meetings remained quorate throughout the year.

Audit Committee

The Audit Committee is a sub-committee of the Steering Board and provides guidance and assurance to the Chief Executive to assist in fulfilling their Accounting Officer responsibilities. The Chair of the Audit Committee reports to the Steering Board Chair.

The committee consists of two independent NEMs, one BEIS appointee, the Chief Executive and the Agency's SIRO. The meetings are also attended by the representatives from the Government's Internal Audit Agency (GIAA), NAO and the Agency's Executive Board members.

The Audit Committee generally meets on a quarterly basis but can meet more frequently to deal with exceptional matters. Five meetings were held during 2016-17, one of which was an ad-hoc meeting. All Committee meetings remained quorate throughout the year.

Board and Committee attendance 1 April 2016 to 31 March 2017

Board Member	Steering Board	Audit Committee
Katherine Courtney (Interim CE)	5 (6)	4 (5)
Peter Finn (SIRO)	4 (6)	4 (5)
David Southwood (NEM)	4 (6)	-
Frances Saunders (NEM)	5 (6)	4 (5)
Clive Tucker (NEM)	5 (6)	5 (5)
Grazyna Kazmierska (BEIS)	-	5 (5)
Nick Starkey (BEIS)	5 (6)	-

Figures in brackets denote the total number of meetings that could have been attended by the individual based on when they commenced their role.

The members of the Steering Board and Audit Committee, their Terms of Reference and the minutes of meeting discussions are available on the Agency website: **www.gov.uk/ukspaceagency**

Space Leadership Council

Chaired by the Minster for Universities, Science, Research and Innovation and President of UKspace, Andy Green.

The Space Leadership Council (SLC) is the forum through which the space sector engages with Government and has contributed to the success of UK space policy since it was established in 2010. The council acts as a knowledge exchange forum and offers clear and strategic advice to Ministers related to: the implementation of the National Space Policy and the Civil Space Strategy; supporting activities such as the Space Innovation and Growth Strategy priorities for national and ESA investments; cross-government issues such as space security, spectrum and regulation and wider national, European and global science and industrial policy.

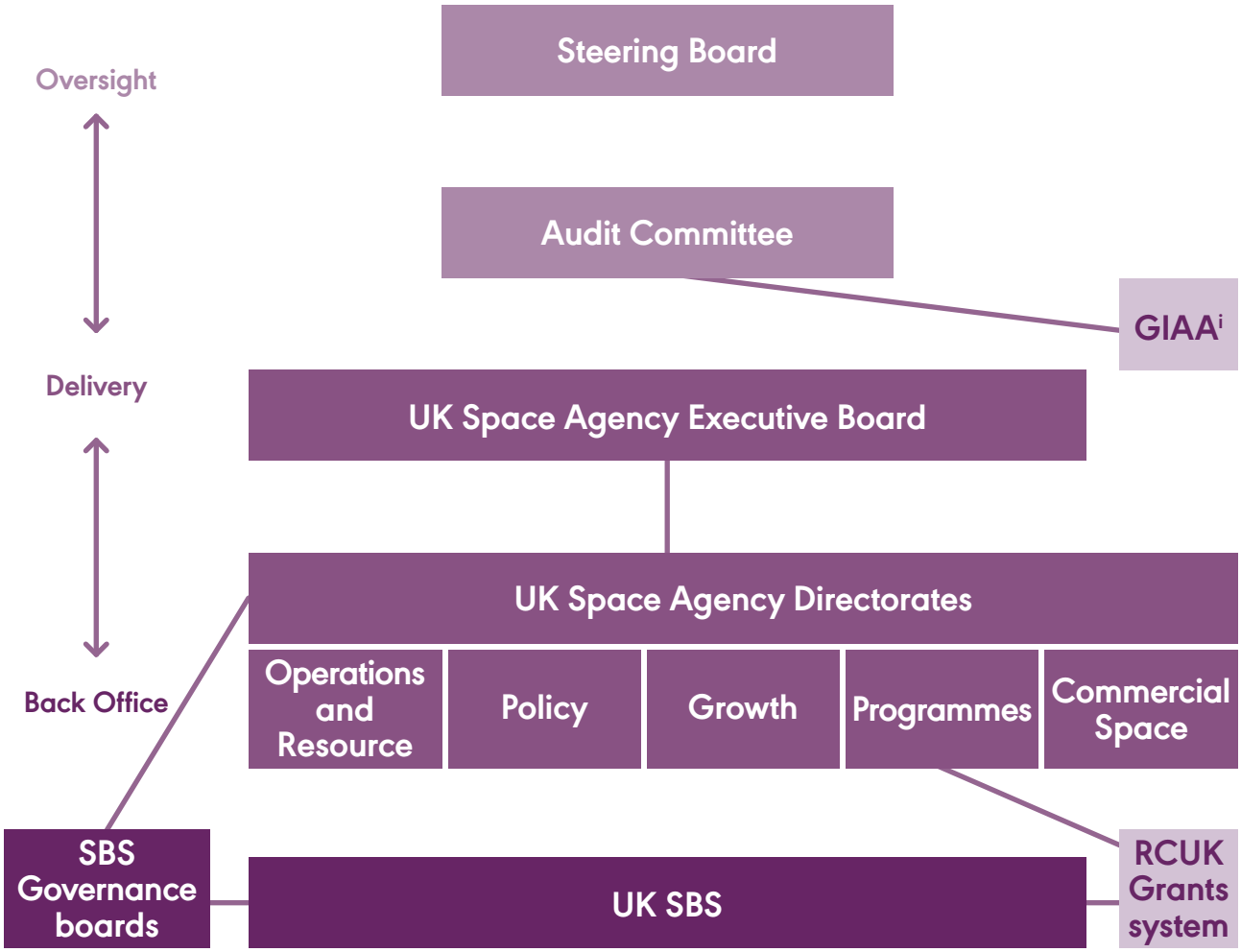
Executive Board

The Executive Board, chaired by the Chief Executive, manages the day-to-day operations and activity of the UK Space Agency, including the provision of policy advice to Ministers. The Board convenes weekly to make decisions and oversee high-level business planning, financial, risk and management issues. The Board receives advice and guidance from the Steering Board and Audit Committee. The Board is also responsible for overseeing standards, values and controls within the Agency. Minutes from the Executive Board are distributed to all staff.

Control environment

The system of internal control is a key component of our governance. It is designed to manage risk to a reasonable level rather than to eliminate all risks, and thus provides a reasonable but not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- identify and prioritise the risks to the achievement of UK Space Agency policies, aims and objectives
- evaluate the likelihood and impact should the risks be realised
- manage the risks efficiently, effectively and economically



Note:
i. GIAA – Government Internal Audit Agency

CONTROL ACTIVITIES

Our control activities aim to ensure that the policies and procedures governing the organisation and our governance arrangements are efficient and effective.

Annual review of effectiveness of internal controls

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the UK Space Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally accountable. This is done in accordance with the responsibilities assigned to me in HM Treasury's 'Managing Public Money', and the requirements set out in my appointment as the UK Space Agency Accounting Officer, including the delegation of financial authority from BEIS. My review is informed by a range of key processes and documents including: Director's Annual Assurance Statements of Internal Control; the annual internal audit programme; the Agency's assurance framework and internal procedures; the Agency's risk appetite; and the NAO management letter.

Outsourced services

UK SBS Limited - To support our business delivery, the Agency uses BEIS's contracted services provider, UK SBS Limited, to provide strategic and operational procurement; and transactional services in finance and human resources. The assurance on the internal control for each of these services is provided by BEIS as part of the Department's Shared Services Programme.

The Government Internal Audit Agency (GIAA) is UK SBS's internal auditor. GIAA's internal audit reports provide input to UK SBS Executive Director's Quarterly Management Assurance letters to Accounting Officers. At the end of 2016-17, the overall assurance for UK SBS customer facing operations was assessed as moderate.

Agency staff attend UK SBS Customer Governance Fora, in particular in Finance, Procurement and HR service delivery areas. There has been one instance in year where my predecessor raised a performance issue with UK SBS concerning the pay for new starters. This issue remains closely under review at the time of reporting.

BEIS ICT services - The UK Space Agency uses BEIS's contracted provider (EVOLVE) for ICT. The assurance on the internal controls for these services is undertaken by BEIS.

Grant administration

Non-academic grant payments made via the National Programme are managed by the Agency through UK SBS. Academic grants are administered by STFC on the Agency's behalf as part of the RCUK grants system.

The governance of these grants is carefully structured by the Agency to include:

- fair and open calls for applications to fund projects
- advisory panels to provide technical and independent advice on which applications to fund
- due diligence undertaken on grant recipients to ensure compliance with State Aid rules
- programme staff to scrutinise grant recipients' progress in delivering project milestones, and to ensure that grant recipients do not breach the grant offer letter's terms and conditions
- an independent annual audit of grant payments paid for by the grant recipient

Payment policy

The UK Space Agency observes the Confederation of British Industry Code of Practice regarding prompt payment, and in accordance with the Government direction, is committed to paying its suppliers within five days of receipt of a valid invoice or earlier if suppliers' terms dictate. During 2016-17 UK SBS processed 1,004 invoices (880 in 2015-16) on behalf of the Agency with 81.18% of payments made within five working days (81.70% in 2015-16) and 95.42% within 30 days (98.75% in 2015-16). The average payment period during 2016-17 was 6.39 days (4.09 days in 2015-16).

International Subscriptions

The UK Space Agency subscribes to various programmes run by the European Space Agency (ESA). ESA is a non-governmental organisation with no requirement for its members to be in the European Union (EU). The UK was one of the founding members when ESA was established on 30 May 1975. Through ESA, its Member States agreed to provide for and to promote, for exclusively peaceful purposes, cooperation among them in space research and technology and their space applications.

The UK Space Agency's subscriptions to ESA are determined at Councils of Ministers which are held periodically. The last Council of Ministers was held in December 2016 and was attended by Jo Johnson MP, Minster for Universities, Science, Research and Innovation. The UK Space Agency actively oversees the expenditure of these subscriptions through its membership of a range of ESA governance committees. In addition, ESA's financial accounts are subject to independent audit. Subscribing to ESA programmes allows UK industry to benefit from contracts awarded to the value of the overall subscription.

Openness and transparency

The Agency is subject to the Freedom of Information (FOI) Act 2000 and the Environmental Information Regulations 2004. In 2016-17 we answered all requests, within the statutory time limits with the exception of one. This was responded to outside of the statutory time limit and resulted in a complaint to the Information Commissioner.

Business continuity and disaster recovery

In addition to the cross-council and UK SBS business continuity and disaster recovery plan, the UK Space Agency has a business continuity management plan. A scheduled test of BCT was not conducted in 2016-17. However, the plan was successfully activated during an incident in Polaris House in February 2017, our plan will be updated in 2017-18 to reflect the lessons learned.

Welfare

During 2016-17 there were no reportable injuries within the UK Space Agency under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 2013, as in the previous year.

Information security

The UK Space Agency is expected to meet a range of mandatory cyber security outcomes as described in the Government's Security Policy Framework. This framework is supplemented by policy, advice and guidance provided by the Cabinet Office and the National Cyber Security Centre. Government has developed and promoted two standards for cyber security - the Cyber Essentials and Ten Steps to Cyber Security. The Agency's core IT provision is managed and delivered by external suppliers contracted via BEIS. Our overarching security policy and procedural framework governing this IT provision is set by BEIS (taking into account the Government's guidance described above). All new staff members are required to undertake the mandatory 'Responsible for Information General User' training, which is also completed annually by all staff. An annual report on security outcomes (the Departmental Security Health Check) is made to BEIS each year.

This year the Agency undertook a review of cyber security (including the Ten steps guidance) independently supported by GIAA auditors. The review identified a number of actions to improve controls and these will be implemented in 2017-18. I am not aware of any breaches of personal data or IT security during the reporting period.

Counter Fraud and Bribery

The Agency's control environment is spread across three entities: the Agency's finance team; UK SBS and BEIS finance, this provides independent oversight in the prevention and detection of fraud. Any transactions that are deemed to be unusual would be flagged to the Agency's finance team. The Agency is also part of the BEIS Group Counter Fraud

Network. The network meets regularly to cascade latest learning, discuss current and emerging fraud trends and identify and share best practice.

Updated Cabinet Office Fraud guidance due to be published next year will set the benchmark that the Agency is required to achieve. The Fraud Policy will be enhanced with a new Fraud Strategy. All staff are required to undertake the 'Counter Fraud' training annually. There were no instances of fraud identified within the Agency in 2016-17.

Gifts and Hospitality

The Civil Service Code (https://www.gov.uk/government/publications/civil-service-code) states that civil servants must not accept gifts or hospitality or receive other benefits from anyone which might reasonably be seen to compromise their personal judgement or integrity. All UK Space Agency employees are fully aware that they must not accept offers of gifts or hospitality without considering whether it would be both legal and proper to do so. All staff must follow specific guidelines for the treatment and recording of any offers of gifts and receipt of hospitality.

Conflicts of Interest

All staff must comply with the Civil Service Code and BEIS standards of conduct. Any outside employment, business interests and financial interests or political activities must be declared and approved by a Director and the HR Business Partner. UK Space Agency Executives and Non-Executives are required to provide declarations of interests at each Board meeting. The Agency maintains a register of NEMs' private, professional and commercial interests which is updated periodically. No issues regarding conflict with their managerial responsibilities have materialised.

Whistleblowing and raising concern policy

The Agency follows the BEIS Whistleblowing and Raising Concern Policy, which has been aligned with the latest version of the Civil Service Employee Policy (CSEP) and includes information about the Whistleblowing Hotline. Staff are required to familiarise themselves with the policy. To further embed the policy within the organisation, the Agency's independent nominated whistleblowing officer briefed staff in October 2016 on the policy in detail and allowed staff to raise any concerns. In 2016-17 there were no instances of whistleblowing used by Agency's staff that fell within the scope of the policy.

Macpherson Review

The UK Space Agency conducted an annual review of analytical modelling as advocated by the Macpherson review (2013), and did not identify any that were considered to be business critical. I confirm that the UK Space Agency complies with the requirements.

Alexander Review

I confirm that the UK Space Agency is compliant with the requirements of the Alexander Review (2012); all Senior Civil Servants and Non-Executive Members are paid via payroll resulting in appropriate tax contributions being deducted at source.

With regards to the reform of the intermediaries' legislation known as IR35, the Agency has conducted a review all its off payroll working to ensure full compliance with the revised regulations from 6 April 2017.

Assurance

Director's Annual Assurance Statements of Internal Control (DAASIC)

The Agency's Directors self-assessed the effectiveness of internal controls as at 31 March 2017 within their area of responsibility with relevant justifications for given assurance levels. This review assists in identifying areas with high assurance as well as for improvement which are monitored in the continuous improvement plan for 2017-18.

Directors are asked to ensure that within their areas of responsibility there are measures that:

- underpin reliability of financial and other information
- achieve compliance with internal policies and external legislation and regulations
- ensure the development, implementation and monitoring of controls which manage the risks for which you are the lead Director

Directors provide an Agency defined assurance level of substantial, moderate, limited or unsatisfactory over the adequacy and appropriateness of key internal controls within their area of responsibility as set out below.

DAASICS 2016-17

CONTROL AREA	POLICY	GROWTH	COMMERCIAL SPACE	PROGRAMME	OPPS & RESOURCES
1. Financial Control	Substantial	Substantial	Substantial	Substantial	Substantial
2. Knowledge & Information Management	Moderate	Substantial	Moderate	Moderate	Moderate
3. Human Resources	Moderate	Substantial	Substantial	Moderate	Substantial
4. Health & Safety	Moderate	Moderate	Moderate	Moderate	Moderate
5. Engaging with Users / Promotion of Science	Substantial	Substantial	Substantial	Substantial	Substantial
6. Planning & Performance	Moderate	Substantial	Substantial	Substantial	Substantial
7. Awarding & Managing Grant Funding	Substantial	Substantial	Substantial	Substantial	N/A
8. External Regulation & Statute	Moderate	Moderate	Substantial	Moderate	Substantial

Each of the five Directors provide individual ratings for 36 key controls which are categorised into eight control areas and the average rating is recorded in the table. In summary there was an improvement from 2015-16 with only five individual limited assurances out of the 180 assurances provided. The Agency aspires to have no limited assurance and improvements in control will be addressed in the Continuous Improvement Plan.

A review of the DAASIC process will be undertaken in 2017-18 to ensure that the self-assessed assurances are moderated to provide a consistent justification for each assurance rating. This was the second year of the process and as such requires ongoing review and development as the Agency grows and matures.

Internal audit and assurance programme

The Audit and Assurance Services Group (AASG), the Agency's internal auditor, joined the Government Internal Audit Agency (GIAA) in October 2016. Internal audit was provided independently by the Government Internal Audit Agency (GIAA). GIAA reports annually to the Accounting Officer. The cost of internal audits undertaken during 2016-17 was £36,000. No remuneration was paid to the internal auditors in respect of non-audit work during 2016-17. GIAA has provided an annual internal audit opinion on the overall adequacy and effectiveness of the Agency's framework of governance, risk management and control stating: 'Sufficient internal audit work has been undertaken to allow the GIAA to provide a positively stated (evidence-based) and reasonable (not absolute) assurance opinion on the overall accuracy and effectiveness of the UK Space Agency's system of internal control. The overall opinion is Moderate Assurance.'

This was based on the results of the seven individual audits completed in the year. Moderate is the same overall opinion assurance as the previous year although there was an increase from 70% to 71.4% where GIAA provided substantial or moderate assurance.

Assurance Key	GIAA Assurance Definitions
Substantial	The framework of Governance, Risk Management and Control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of Governance, Risk Management and Control.
Limited	There are significant weaknesses in the framework of Governance, Risk Management and Control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of Governance, Risk Management and Control such that it is inadequate and ineffective or is likely to fail.
Advisory	Advisory work on risk and control issues driven by risk based planning, typically on areas where risk and control are not in existence or well established [this could relate to new systems or areas undergoing significant change where there is no system of internal control to assure].

The internal audit review programme is managed by GIAA, and developed annually in consultation with the Audit Committee and directors. The recommendations arising from these audits are discussed by the Executive Board, Audit Committee, and as appropriate by the Steering Board. A summary of the audit outcomes is provided below.

The audit outcomes for the three core programme audits conducted by GIAA in 2016-17 show that some improvements are required to enhance effectiveness of the framework of governance, risks and control.

Summary of Internal Audit work undertaken in 2016-2017

CORE PROGRAMME	STATUS	ASSURANCE	2016-17 ACTION
Business Cases	Final	Moderate	There were five agreed actions originally planned to be completed by 31 March 2017. All of these have been addressed and the changes will take effect in 2017-18 when the new Investment Gateway is implemented.
Grant Conditions	Draft	Moderate	Audit in draft stage at the year end. The three recommendations will be reviewed and agreed actions implemented in 2017-18.
Satellite Launch Approval Process	Final	Moderate	There were seven agreed actions of which six were originally planned to be completed by 31 March 2017. All of these have been addressed with three actions closed completely and three actions evolving due to changes in regulatory function.

Cross client internal audits

GIAA has been appointed as the internal auditor for the BEIS Research Councils based on the research council campus in Swindon. Our Agency's internal audit plan includes 'cross client audits', conducted by the GIAA assessing multiple partner organisations in one review to reduce costs and identify best practice. GIAA issues a separate audit assurance rating for each partner organisation participating in a particular cross client audit.

The UK Space Agency participated in four cross client audits during 2016-17. Of these, there were two audits for which the Agency received limited assurance. The Business Continuity and IT Disaster Plan, whilst in place, will be improved following GIAA recommendations on best practice and will be tested more frequently in 2017-18. There was one instance of a complaint to the Information Commissioner for non-response to a freedom of information request. The failure to respond to the freedom of information request (FOI) in time was found to have been an isolated administrative error. More rigorous controls with end-to-end tracking have now been introduced. The Agency has also joined the Information Compliance Network to ensure our FOI procedures continually adhere to best practice.

CROSS-CLIENT PROGRAMME	STATUS	ASSURANCE	2016-17 ACTION
Business Continuity and IT Disaster Recovery	Draft	Limited	Audit in draft stage at the year end. The seven UKSA recommendations will be reviewed and agreed actions implemented in 2017-18.
Freedom of Information	Final	Limited	Final Audit Report agreed at the end of March 2017. The four UKSA agreed actions will be implemented as planned in 2017-18.
Data Handling and Security [NB6]	Draft	Moderate	Audit in draft stage at the year end. The two UKSA recommendations will be reviewed and agreed actions implemented in 2017-18.
Grants Processing	Final	Moderate	Final Audit Report agreed in November 2016. The two UKSA agreed actions planned before 31 March 2017 have been completed. The other five agreed actions will be completed in 2017-18 as planned.

National Audit Office

The draft management letter from the NAO concerning the audit of the 2016-17 Financial Statements has been received which raised no material issues that will have implications for internal control.

Accounting Officer's conclusion

As Chief Executive, I am assured that the Agency has appropriate levels of internal control and governance to manage the business, consistent with my responsibilities as the Accounting Officer. I have been provided with evidence of:

- board and committee effectiveness in managing risks, finance and operational performance
- the policies in place impacting on risks such as counter fraud, counter bribery, conflicts of interest and whistleblowing
- the work of internal audit, which awarded the Agency an overall annual 'moderate assurance'
- the assessments of my individual directors in the Director's Annual Assurance Statements of Internal Control (DAASIC) providing an overall rating of 'substantial assurance'
- an assurance discharge letter from the former Accounting Officer

Equally, I am confident from the evidence provided by my Chief Operating and Financial Officer (COFO) and the NAO that the accounts for the year ended 31 March 2017 are a true and fair reflection of the organisation, and accord with Treasury guidance. I conclude that the Agency has satisfactory governance and risk management systems in place to safeguard public money.

Whilst the Agency will continue to focus on assurance processes and build on the work we have already progressed in this area, I recognise that the Agency has a number of important assurance goals to achieve. My review has identified the following internal control and governance improvements that the Agency will address during the next year:

- review the Agency's risk appetite and continue to embed risk management in the organisation by providing staff with further guidance and training
- increase the proportion of controls rated as substantial as measured in the DAASIC process
- update the Business Continuity and IT Disaster Plan in-line with recommendations on best practice from the GIAA
- agree and implement an Agency 2016-17 Learning and Development plan that ensures compliance with mandatory training requirements and also targets key learning activities to strengthen the Agency control framework
- increase all staff awareness of key risk management policies and procedures, formalising their periodic review and understanding
- strengthen UK interests within ESA in terms of Board representation and continue to press ESA to deliver its reform agenda

Graham Turnock
Chief Executive and Accounting Officer
21 June 2017

REMUNERATION AND STAFF REPORT

REMUNERATION AND STAFF REPORT

Senior Civil Service remuneration policy

Remuneration Policy

The remuneration arrangements for Senior Civil Servants are set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found on the website of the Office of Manpower Economics at www.ome.uk.com.

The remuneration packages of all Senior Civil Servants (SCS) within BEIS are monitored by a Senior Oversight Committee which advises ministers on managing the balance between the ongoing pay restraint policy within the public sector and ensuring the right quality of leadership and specific skills needed by its Partner Organisations is achieved. All Agency Executive board members are SCS.

Performance and reward

The Senior Civil Service (SCS) pay system consists of relative performance assessments. The highest performing individuals in BEIS were awarded a non-consolidated performance reward for their performance against objectives in 2015-16 which was paid in 2016-17. These awards varied in amount within an overall cost envelope set by the Senior Salaries Review Body and approved by the Government. Consolidated base pay awards are limited to a 1% increase to the Department's SCS pay bill. No base pay increases were paid to those assessed to be the lowest 10% of performers or those receiving a salary in the upper quartile of their pay band other than those assessed as being among the top 25% of performers.

Further information about the performance and reward arrangements for Senior Civil Servants can be found at www.gov.uk/government/collections/senior-civil-service-performance-management-and-reward

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 also specify the circumstances when appointments may be made otherwise.

Unless otherwise stated, 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. The notice period for all Senior Civil Servants covered by this report is in line with the Civil Service terms and conditions.

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

Audited Information

Salary and pension entitlements

The following table shows the number of Senior Civil Servants within the UK Space Agency as at 31 March 2017, including the details of their salary and pension entitlements.

Table 1: Remuneration of Senior Civil Servants 2016-17

Name	Salary[i] in bands of £5,000		Performance reward payments[ii] to nearest £1,000		Benefits in kind to nearest £100		Pension benefits[iii] to nearest £1,000		Single total figure of remuneration in bands of £5,000	
	2016-17	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**	2015-16
Katherine Courtney[iv]	**130-135**	Not in post	**-**	Not in post	**-**	Not in post	**46**	Not in post	**180-185**	Not in post
Chris Castelli	**70-75**	70-75	**-**	-	**-**	-	**27**	31	**95-100**	105-110
Catherine Mealing-Jones	**70-75**	70-75	**-**	-	**-**	-	**26**	35	**95-100**	105-110
Peter Finn	**65-70**	65-70	**-**	10	**-**	-	**27**	35	**95-100**	110-115
Alice Bunn[v]	**45-50**	45-50	**8**	-	**-**	-	**20**	23	**70-75**	60-65
Rebecca Evernden[vi]	**40-45**	Not in post	**-**	Not in post	**-**	Not in post	**17**	Not in post	**55-60**	Not in post
Ross James[vii]	**40-45**	Not in post	**-**	Not in post	**-**	Not in post	**8**	Not in post	**40-45**	Not in post

Notes:

i. Salary levels disclosed have been recorded on an actual basis.

ii. Performance rewards are non-consolidated payments.

iii. The value of pension benefits accrued during the year is calculated by MyCSP as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

iv. Katherine Courtney was appointed interim Chief Executive with effect from 1 April 2016 for a period of 1 year. She left the Agency on 31 March 2017. Graham Turnock was appointed as Chief Executive from 1 April 2017.

v. Alice Bunn, joint Director of Policy, works as a job share on a part-time basis as 0.7 FTE. A full time equivalent (FTE) annualised salary in 2016-17 would have been £65 - £70k (2015-16: £65k - £70k).

vi. Rebecca Evernden was appointed as joint Director of Policy with effect from 6 June 2016. She works as a job share on a part-time basis as 0.7 FTE. A full time equivalent (FTE) annualised salary in 2016-17 would have been £65-70k.

vii. Ross James is on a 1-year loan from the Department for Work and Pensions from 3 October 2016 as Director of Commercial Space. He works on a part-time basis as 0.8 FTE. A full time equivalent (FTE) annualised salary in 2016-17 would have been £85-90k.

Salary

Salary includes gross salary; overtime; London weighting or allowances; recruitment and retention allowances; private office allowances; ex-gratia payments; and any other allowances or payments to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

Bonuses

Bonuses are non-consolidated award payments, based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2016-17 relate to performance in 2015-16 and the comparative bonuses reported for 2015-16 relate to performance in 2014-15. Bonuses are limited to the top 25% of performers across BEIS.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Agency and treated by HM Revenue and Customs as a taxable emolument. No Senior Civil Servant covered by this report received any benefits in kind during the year.

Single total figure of remuneration

Single total figure of remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind, compensation payments and pension benefits accrued during the reporting period. It does not include severance payments; employer pension contributions; the cash equivalent transfer value of pensions; and the payment of legitimate expenses.

Pay multiples

The Agency is required to disclose the relationship between the remuneration of the highest-paid director in the Agency and the median remuneration of the Agency's workforce.

	2016-17	2015-16
Band of Highest Paid Directors' Total Remuneration[i]	**£130-£135k**	£90-£95k
Median Total Remuneration[ii]	**£44,983**	£41,601
Ratio	**2.95**	2.2

Notes:

i. The highest paid director in 2016-17 was Katherine Courtney (2015-16: David Parker, the previous Chief Executive who left the Agency on 31 March 2016).

ii. Remuneration is the total annual salary including allowances per employee as at 31 March 2017 and adjusted for Full Time Equivalent (FTE).

The banded remuneration of the highest paid director in the Agency in the financial year 2016-17 was £130k - £135k (2015-16: £90k - £95k). This was 2.95 times (2015-16: 2.2 times) the median remuneration of the workforce, which was £44,983 (2015-16: £41,601).

Although the Agency's median pay in 2016-17 continued to grow compared with the previous year largely due to a number of senior members of staff joining the Agency (including the addition of two director posts), the rise in the interim Chief Executive's pay in 2016-17 resulted in a significant increase to the pay multiples ratio from 2.2 to 2.95.

In both 2016-17 and 2015-16, no employee received salary in excess of the highest paid director. Remuneration in the Agency ranged from £15,872 to £134,620 (2015-16: £15,962 to £91,350).

Total remuneration includes full year equivalent salary, non-consolidated performance related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Pension Benefits

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 Cabinet Office introduced a new pension scheme for civil servants, alpha. This new scheme is set out in the Public Service (Civil Service And Others) Pension Scheme (CSOPS) regulations. It provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed employees and the majority of existing employees joined alpha.

Prior to 1 April 2015, employees participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS operates four defined benefit schemes: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65. The PCSPS is now closed to new members.

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, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha.

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 3.8% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. 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 Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. 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 8% and 14.75% (depending on the age of the employee at the beginning of the tax year) 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 earnings (in addition to the employer's basic age-related contribution). Employers also contribute a further 0.5% of pensionable earnings to cover the cost of centrally-provided risk benefit cover such as death in service and ill health retirement referred to as mini-Accruing Superannuation Liability Charges (mini-ASLCs).

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, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha.

All sections of the PCSPS and CSOPS schemes have provision for death and medical retirement benefits. Anyone entitled to be covered by these schemes is also covered by the Civil Service Injury Benefit Scheme in the event of sustaining an injury at work.

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

Table 2: Pension benefits of Senior Civil Servants 2016-17[i]

Name	Pension increase in real terms and (if applicable) related lump sum at retirement age in bands of £2,500	Accrued pension at retirement age as at 31/03/2017 and (if applicable) related lump sum in bands of £5,000	CETV at 31/03/2016 to the nearest £1,000	CETV at 31/03/2017 to the nearest £1,000	Real increase in the CETV as funded by the employer, to the nearest £1,000	Employer contribution to partnership pension account to the nearest £100
Katherine Courtney	2.5 - 5	30 - 35	Not in post	559	36	-
Chris Castelli	0 - 2.5	5 - 10	80	101	13	-
Catherine Mealing-Jones	0 - 2.5 plus lump sum of 0	25 - 30 plus lump sum of 65 - 70	399	431	12	-
Peter Finn	0 - 2.5 plus lump sum of 0	25 - 30 plus lump sum of 70 - 75	414	445	11	-
Alice Bunn	0 - 2.5	15 - 20	171	187	8	-
Rebecca Evernden	0 - 2.5	10 - 15	Not in post	172	6	-
Ross James	0 - 2.5	20 - 25	Not in post	367	6	-

Notes:

i. The pension figures quoted show pension earned in PCSPS or CSOPS (alpha) – as appropriate. Where the Senior Civil Servant has benefits in both the PCSPS and CSOPS the figure quoted is the combined value of their benefits in the two schemes.

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 within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 of Steering Board and Audit Committee Non-Executive Members

Appointments to the Agency's Steering Board and Audit Committee are made by BEIS Ministers, in accordance with the Commissioner for Public Appointments' Code of Practice for Ministerial Appointments to Partner Organisations.

In line with the other governance bodies within BEIS family of partner organisations, from 1 April 2013 the Agency's non-executive members receive an honorarium of £6,000 per annum to cover work for the Agency. The Chair of the Steering Board, David Southwood, receives additional £2,000 honorarium. Non-executive members are also reimbursed for any reasonable expenses incurred on behalf of the Agency.

Table 3: Remuneration of Steering Board and Audit Committee Non-Executive Members 2016-17

Non-Executive Member	Position	Period of Appointment	Honoraria	
			2016-17 £000	2015-16 £000
David Southwood[(i)]	Chair of Steering Board	Nov 2011 - May 2018	**8**	8
Clive Tucker	Chair of Audit Committee	Dec 2014 - Nov 2017	**6**	6
Frances Saunders	Non-Executive	Dec 2014 - Nov 2017	**6**	6

Notes:

i. David Southwood was appointed as Chair of Steering Board with effect from 6 June 2016 for a period of 2 years. Previously he was attending the Steering Board as a Non-Executive Member.

ii. Nick Starkey and Grazyna Kazmierska attended the Steering Board and Audit Committee respectively as BEIS appointees. They are not remunerated for their work as honoraria are not payable to members who are civil servants, employees of the UK Space Agency or full time employees of organisations whose funds are derived from Votes of Parliament.

Staff report

The Agency's employees are eligible to be members of the Principal Civil Service Pension Scheme (PCSPS) and Public Service (Civil Service And Others) Pension Scheme (CSOPS) known as alpha which came into force from 1 April 2015. Many PCSPS members transferred into alpha on that date, while others will transfer into it over the next few years. The PCSPS is now closed to new members.

In this document the term 'Scheme' covers both PCSPS and CSOPS arrangements.

The Scheme is unfunded, defined benefit, contributory, public service occupational pension scheme in which the UK Space Agency is unable to identify its share of the underlying assets and liabilities.

The Scheme is subject to periodic actuary valuations. Contributions are paid both by employers and employees at a combined level, determined by the scheme Actuary, sufficient to meet the liabilities being built up by the active membership (as adjusted to reflect any surplus or shortfall in the Scheme). The scheme Actuary reviews employer contributions every four years following a full scheme valuation. The last full actuarial valuation was carried out as at 31 March 2012 and determined that from 1 April 2015 the average employer contribution would increase to 21.1% of pensionable earnings (18.9% up to 31 March 2015). The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. More details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

During 2016-17, employer contributions of £752,234 were payable to the Scheme (2015-16: £637,302) at one of four rates in the range 20.0% to 24.5% of pensionable earnings (2015-16: 20.0% to 24.5%), based on salary bands.

Under the Partnership scheme employees have the option of opening a partnership pension account with one of the stakeholder pension providers approved by Cabinet Office, namely Scottish Widows and Standard Life. Stakeholder pensions are a type of personal pension with employer contributions which are age related and from 1 October 2015 range from 8% to 14.75% of pensionable earnings (3% to 12.5% up to 30 September 2015). Employee contributions are voluntary and unlimited, and are matched by employer contributions up to 3% of pensionable earnings (the maximum possible employer contribution therefore is 17.75%). During 2016-17, employer contributions of £3,038 were payable to partnership pension providers (2015-16: £1,356). There were no prepaid contributions at 31 March 2017.

In addition, employer mini-ASLC contributions of £155 (2015-16: £157), from 1 October 2015 set at 0.5% of pensionable pay regardless of salary bands (0.8% up to 30 September 2015), were payable to the Scheme during 2016-17 for provision of risk benefits to those employees opting for partnership pension arrangements. These contributions cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

No employee (2015-16: none) retired early on ill-health grounds, therefore there were no additional pension liabilities accrued during the reporting period (2015-16: none).

There were no redundancy or other departure costs paid during the year (2015-16: none).

Table 4: Analysis of staff costs and average number of persons

	2016-17			2015-16		
	Permanently employed £000	**Other £000**	**Total £000**	Permanently employed £000	Other £000	Total £000
Wages and salaries	3,538	-	3,538	2,986	-	2,986
Social security costs	410	-	410	266	-	266
Other pension costs	755	-	755	639	-	639
Subtotal	**4,703**	**-**	**4,703**	3,891	-	3,891
Add cost of inwards secondments		122	122	-	65	65
Less recoveries in respect of outward secondments		(70)	(70)	-	(13)	(13)
Total staff costs	**4,703**	**52**	**4,755**	3,891	52	3,943
	FTE	**FTE**	**FTE**	FTE	FTE	FTE
Average number of persons employed	**79.5**	**2.1**	**81.7**	69.5	1.4	70.9

Notes:

i. On average there have been 2 FTE outward secondees (0.75 FTE in 2015-16) when UK Space Agency's staff have been seconded to other organisations.

ii. In addition to the 2.1 FTE inward secondees in the above table (1.4 FTE in 2015-16), the UK Space Agency also benefited from an average of 2.1 FTE inward secondees (3.1 FTE in 2014-15) provided at nil cost by other government organisations and industry as part of their staff development programme.

Unaudited information

Recruitment policies

Recruitment into the Civil Service is regulated by the Civil Service Commission (CSC). The Agency follows the CSC principles and ensures that appointments are made on merit after fair and open competition. The Agency also works closely with the parent Department to ensure these principles are adhered to.

In addition, the Agency adheres to the Government Interview Scheme (GIS), which ensures that any application with a disability is guaranteed an interview provided they meet the minimum criteria for the post.

The Agency has continued to expand to meet the demands of work undertaken and as a result in 2016-17 we ran 32 recruitment campaigns either on a permanent or fixed term basis. Of these posts seven posts were secured by internal candidates on promotion, one person commenced on the apprenticeship scheme and we have utilised the facility of loans from other government departments to fill 10 posts.

The Agency continues to abide by the principles of the external recruitment controls, and external campaigns are only run once authorised by the parent Department where it is essential to support frontline delivery of services or is a business critical need. Where external recruitment is necessary, a clear business case is required. In 2016-17 three external appointments were made on a fixed term basis.

The Agency's attrition rate increased from 4% in 2015-16 to 12% during the reporting period with 9% of those leaving the Agency transferring to other government departments.

No consultancy costs have been incurred during 2016-17 (2015-16: nil). The cost of contingent labour during the year was £44,757 (2015-16: £44,214).

Remuneration policy

The remuneration policy adopted by the UK Space Agency is in line with the BEIS departmental policy. The Agency's pay awards are limited to an average of 1% annual salary increase. Non-consolidated performance payments are awarded to the top 25% performers based on individual contributions to the Agency as formally assessed by the annual performance reviews.

The Agency runs a Rewards and Recognition Scheme, which is a special bonus scheme for individual payments recommended by line managers and colleagues for specific projects or outstanding pieces of work that are not covered by the normal performance management system. These payments are non-consolidated and the maximum amount available is capped to 0.6% of the total annual paybill (excluding SCS pay). During 2016-17 we issued 43 awards totalling £13,475 (2015-16: 37 awards totalling £12,200).

Staff Composition

The internal Workforce Planning Committee plays a key part in ensuring that the Agency has both the capacity and capability to deliver the aims and objectives of the Agency.

We have brought in specialist skills where necessary to support frontline delivery and fill business critical posts whilst maintaining the Agency's headcount at a sustainable level.

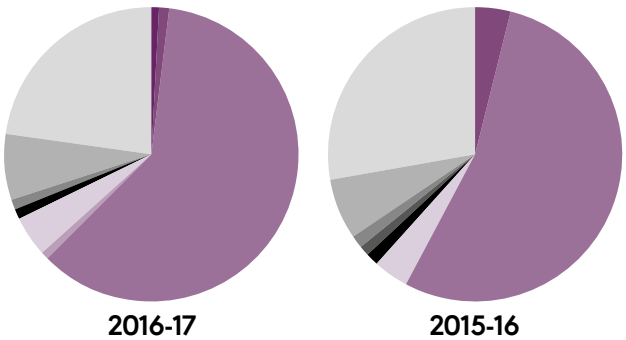
UK Space Agency grades	**2016-17 %**	2015-16 %
Administrative assistants and Administrative officers[i]	3.1	3.9
Executive officers	4.2	6.6
Higher executive officers and Senior executive officers[ii]	41.3	38.9
Grade 7/6	44.0	44.4
Senior Civil Servants	7.4	6.2

Notes:
i. Includes 1 apprentice as at 31 March 2017 and 2 apprentices as at 31 March 2016.
ii. Includes 1 fast streamer as at 31 March 2017 and 1 fast streamer as at 31 March 2016.

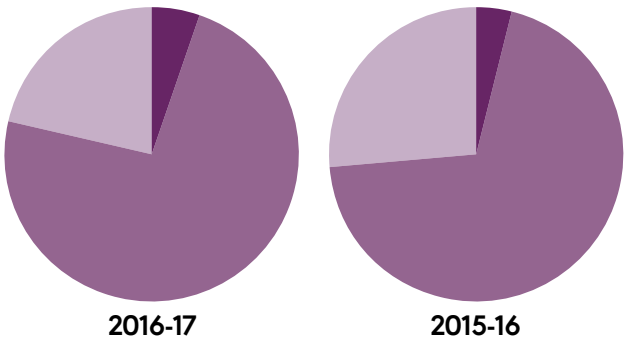
Gender

Working pattern

Ethnicity



Disability



Workforce diversity (Executive Board only)	**2016-17 (% declared)**	2015-16 (% declared)
Black and minority ethnic	0	0
Women	57	40
Disabled	0	0
Working pattern - part-time	29	20

Sickness Absence

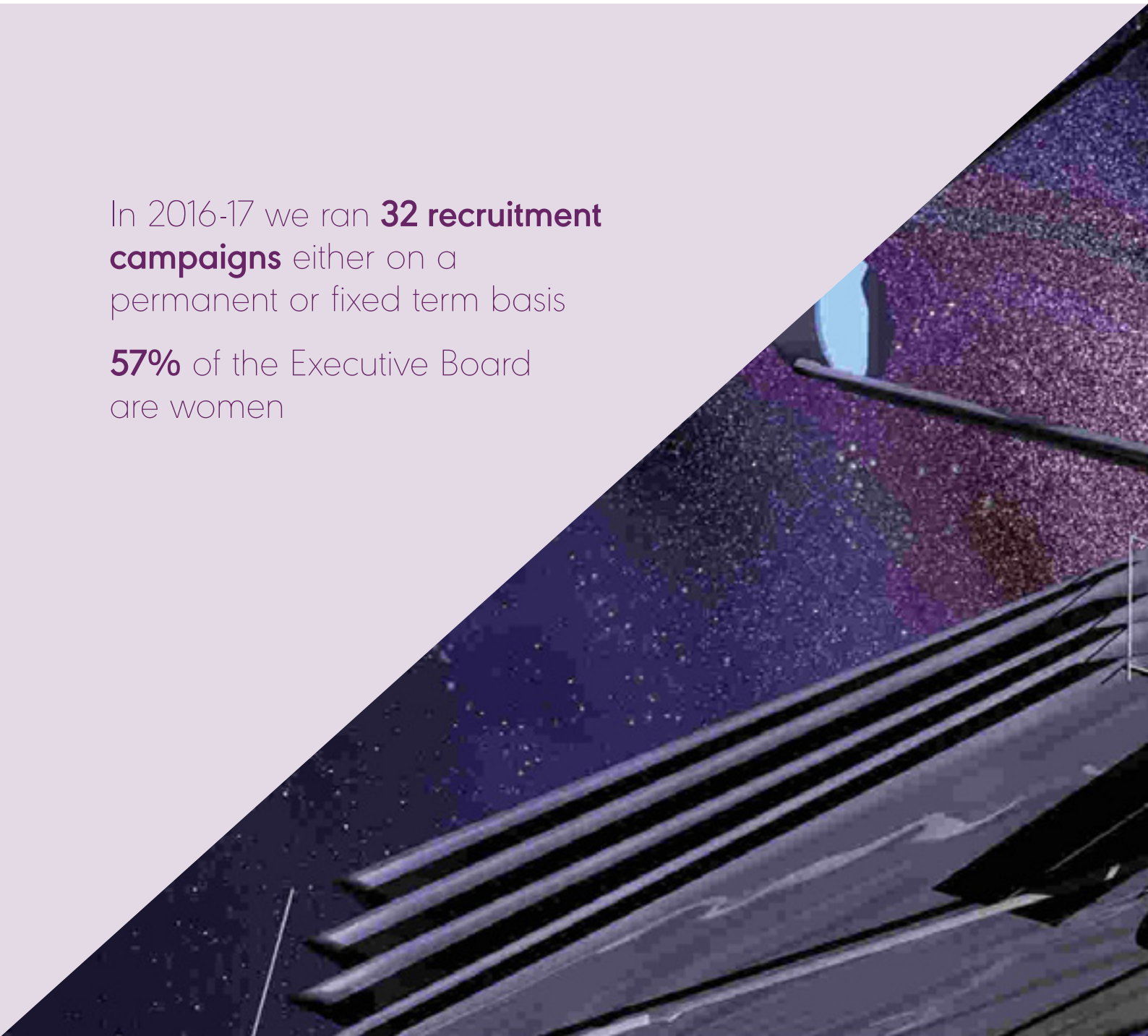
In the last 12 months, the average workings days lost through recorded sickness absence was 2.91 days per employee staff year (2015-16: 8.3 days). Excluding long term absences, the average would be 1.1 days per employee staff year (2015-16: 2.5 days).

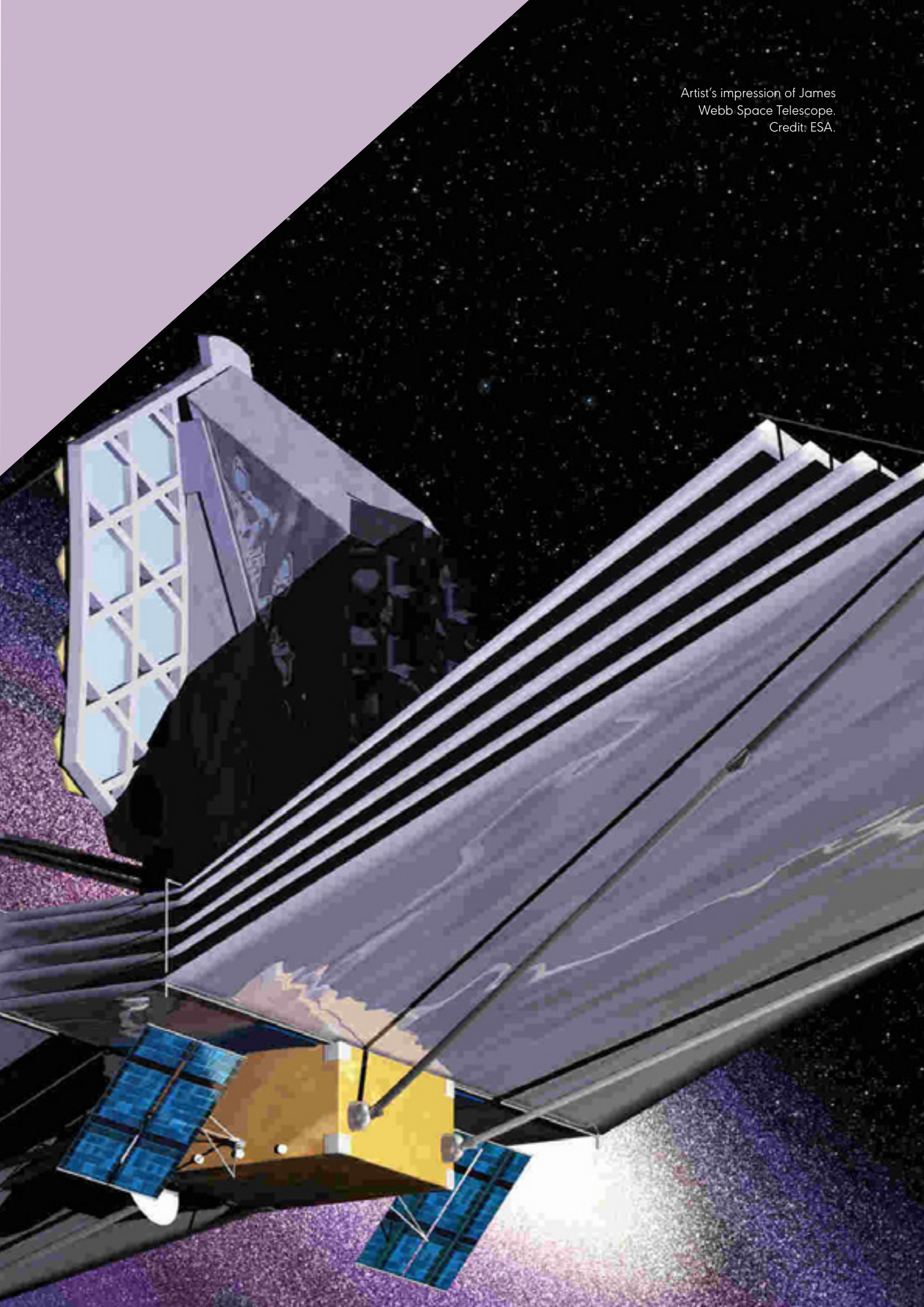
Equality, diversity and Inclusion

The UK Space Agency is fully committed to providing equal opportunities for all staff. The Agency follows the Civil Service guidelines, ensuring that all staff have equality of opportunity on the basis of their suitability and skills, without discrimination on the basis of age, disability, gender, flexible working, marital status, sexual orientation, race, colour, nationality, ethnic or national origin or religious belief.

In 2016-17 we ran **32 recruitment campaigns** either on a permanent or fixed term basis

57% of the Executive Board are women





Artist's impression of James Webb Space Telescope. Credit: ESA.

PARLIAMENTARY ACCOUNTABILTY AND AUDIT

PARLIAMENTARY ACCOUNTABILITY

These pages present information about the UK Space Agency that is useful to readers for accountability and decision making purposes that is not covered elsewhere in the report.

Our Chief Executive is personally accountable to Parliament for our performance. Our financial statements are subject to audit by the Comptroller and Auditor General, who heads up the National Audit Office and is responsible for scrutinising public spending and safeguarding the interests of taxpayers on behalf of Parliament. The NAO's Audit certification is presented on page 68.

Regularity of expenditure (audited)

Fees and charges income

The Outer Space Act 1986 is the legal basis for regulation of activities in outer space carried out by organisations or individuals established in the United Kingdom or one of its Overseas Territories or Crown Dependencies. It confers licensing and other powers on the Secretary of State for Business, Energy and Industrial Strategy acting through the UK Space Agency. In 2016 - 2017 the total statutory licence fees collected by the Agency amounted to £110,500. More information can be found in Note 5 Income from operating activities on page 85.

Losses and special payments

There were no losses or special payments incurred during the year (2015-16: None).

Remote contingent liabilities

Under international (UN) convention, the UK Government is ultimately liable for third party costs from accidental damage arising from UK space activities. To manage the risk to the Government, the Outer Space Act 1986 requires licensees to indemnify HMG against any proven third party costs. In March 2015 the Outer Space Act 1986 was amended to cap the previously unlimited liability for licensed activities. The cap is set at 60 million euro for the majority of missions. This amendment came into force from 1 October 2015 and was designed to adequately balance the risk to the UK Government whilst ensuring UK space operators remain competitive internationally. There is a requirement on licensees to obtain third party liability insurance (set at 60 million euro for the majority of missions) for the duration of the licensed activity, with the UK Government a named beneficiary.

The UK Government is therefore exposed to a potential liability for third party costs which are not recoverable from the licensee. This liability is unquantifiable at the time of reporting.

EU Exit

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two year negotiation process between the UK and EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised.

During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the UK Space Agency for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000.

The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, 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 and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as 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 Resources and Accounts Act 2000. 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 amountsband 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 UK Space Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the UK Space Agency; and the overall presentation of the financial statements. In addition I read all the financial and nonfinancial information in the Performance Report and Accountability 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 UK Space Agency's affairs as at 31 March 2017 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
22 June 2017

Our Annual Report and Accounts 2016-17

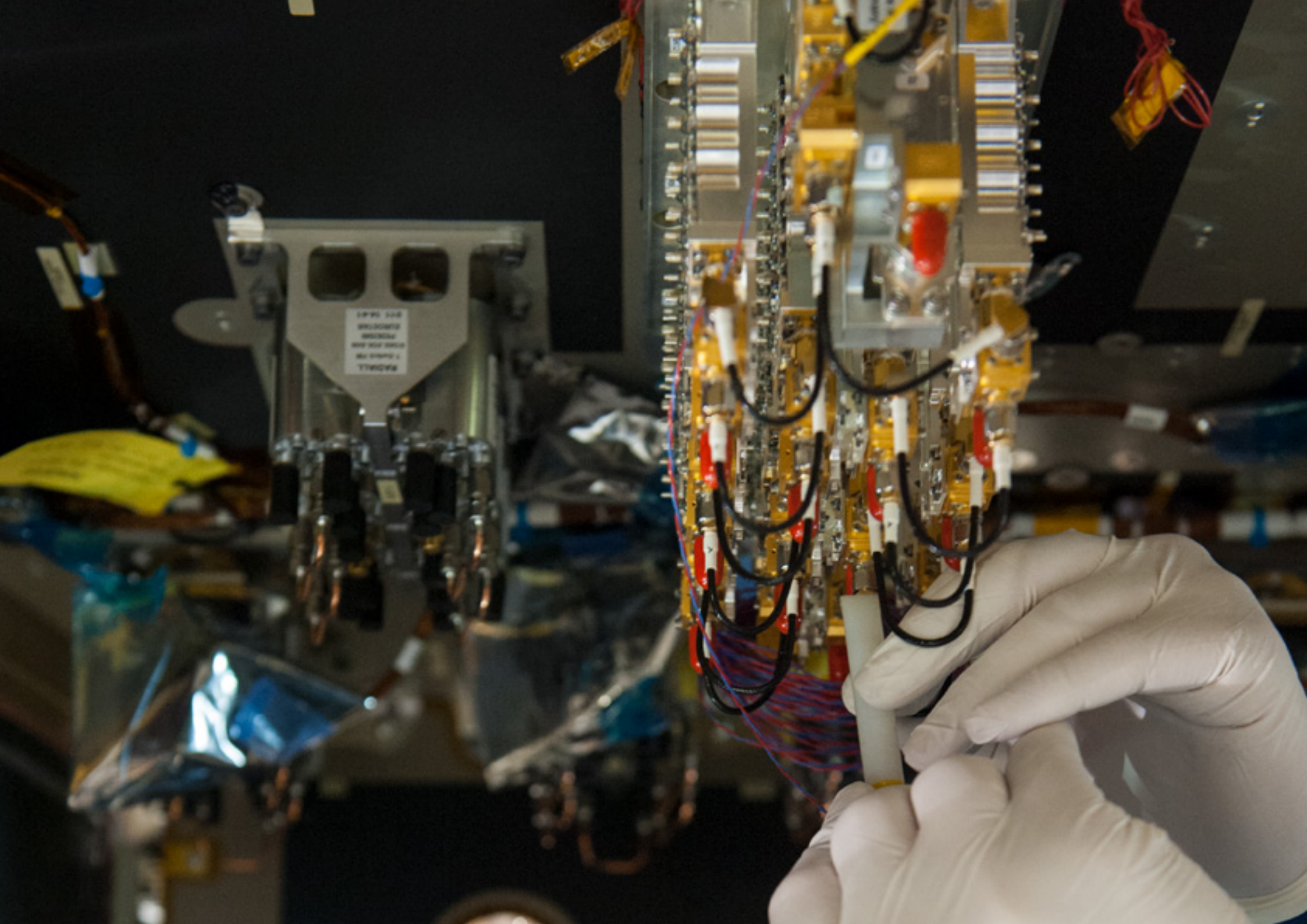
Our Annual Report and Accounts are presented to Parliament following certification of our financial statements by the Comptroller and Auditor General to the House of Commons (see page 68). The cost of the audit was £40,000. No remuneration was paid to the external auditors in respect of non-audit work in 2016-17.

Our UK Space Agency Audit Committee endorsed this report at its meeting on 20 June 2017. Our Annual Report and Accounts is prepared in accordance with the Government Financial Report Manual (FReM), Managing Public Money and any applicable HM Treasury (HMT) instructions.

I believe that the information we have presented in our Performance Report (pages 6 to 33) provides a fair, balanced and understandable analysis of our performance. As required, I have signed and dated our Performance Report on page 23, as well as signing here our Accountability Report, which meets our key accountability requirements to Parliament.

Our fully audited Financial Statements follow in the rest of this document, which give a true and fair view of the UK Space Agency's state of affairs and of its profit, changes in taxpayers' equity and cash flows. I have signed our Statement of Financial Position on page 75.

Graham Turnock
Chief Executive
21 June 2017




ACCOUNTS

FINANCIAL STATEMENTS

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Note	2016-17	2015-16
		£000	£000
Income from operating activities	5	(1,484)	(398)
Total operating income		**(1,484)**	(398)
Staff costs	3	4,755	3,943
International subscriptions, grants and other funding	4	359,957	340,373
Technical contracts and contract management	4	5,384	3,704
Other operating expenditure	4	2,369	2,274
Total expenditure		**372,465**	350,294
Net operating expenditure		**370,981**	349,896
Other comprehensive net expenditure			
Items reclassified to net operating costs during the year:			
Net gain/(loss) released on the disposal of cash flow hedges[i]	4,6	26,082	(20,372)
Items which may be reclassified subsequently to net operating costs:			
Net (gain)/loss on revaluation of cash flow hedges[ii]	6	(46,547)	(65,899)
Total comprehensive net expenditure for the year ended 31 March 2017		**350,516**	263,625

Notes:

i. The reported gains on disposal of cash flow hedges are notional gains which represent the total cumulative unrealised gains for the disposed contracts previously recognised in the revaluation reserve. More information can be found in Note 4 - Total expenditure and Note 6 - Other financial assets and liabilities.

ii. The reported gains on revaluation of forward exchange contracts are notional gains caused by an increase in the fair value of the contracts held at 31 March 2017 compared to the fair value of contracts held at 31 March 2016. The UK Space Agency abides by the HM Treasury and BEIS group rules relating to hedging. More information can be found in Note 6 - Other financial assets and liabilities.

The notes on pages 78 to 90 form part of these financial statements.

Statement of Financial Position for the year ended 31 March 2017

	Note	31 March 2017	31 March 2016
		£000	£000
Non-current assets			
Other financial assets	6	52,838	45,322
Total non-current assets		**52,838**	45,322
Current assets			
Trade & other receivables	7	34,312	41,336
Other financial assets	6	31,818	18,094
Cash & cash equivalents	8	29,107	1,965
Total current assets		**95,237**	61,395
Total assets		**148,075**	106,717
Current liabilities			
Trade & other payables	9	34,519	19,930
Total current liabilities		**34,519**	19,930
Total assets less current liabilities		**113,556**	86,787
Non-current liabilities			
Other financial liabilities	6	775	-
Total non-current liabilities		**775**	-
Total assets less total liabilities		**112,781**	86,787
Taxpayers' equity			
General fund		28,900	23,371
Revaluation reserve		83,881	63,416
Total taxpayers' equity		**112,781**	86,787

The notes on pages 78 to 90 form part of these financial statements.

Graham Turnock
Chief Executive and Accounting Officer
21 June 2017

Statement of Cash Flows for the year ended 31 March 2017

	Note	2016-17	2015-16
		£000	£000
Cash flows from operating activities			
Net operating expenditure for the year		(370,981)	(349,896)
Adjustments for non cash transactions - auditor's remuneration	4	40	40
(Increase)/Decrease in trade and other receivables	7	7,024	(212)
Increase/(Decrease) in trade payables	9	14,589	(9,585)
Net cash outflow from operating activities		**(349,328)**	(359,653)
Cash flows from financing activities			
Net parlimentary funding - drawn down		376,470	358,300
Net financing		**376,470**	358,300
Net increase/(decrease) in cash and cash equivalents in the period		**27,142**	(1,353)
Cash and cash equivalents at the beginning of the period	8	1,965	3,318
Cash and cash equivalents at the end of the period	8	29,107	1,965

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

2016-17	General fund[i]	Revaluation reserve[ii]	Total
	£000	£000	£000
Balance at 01 April 2016	**23,371**	**63,416**	**86,787**
Net Parliamentary Funding – drawn down	376,470	-	376,470
Net operating expenditure for the year	(370,981)	-	(370,981)
Non-cash adjustments			
Non-cash charges - auditor's remuneration	40	-	40
Movements in reserves			
Disposals	-	(26,082)	(26,082)
Revaluations	-	46,547	46,547
Balance at 31 March 2017	**28,900**	**83,881**	**112,781**

2015-16	General fund[i]	Revaluation reserve[ii]	Total
	£000	£000	£000
Balance at 01 April 2015	14,927	(22,855)	(7,928)
Net Parliamentary Funding – drawn down	358,300	-	358,300
Net operating expenditure for the year	(349,896)	-	(349,896)
Non-cash adjustments			
Non-cash charges - auditor's remuneration	40	-	40
Movements in reserves			
Disposals	-	20,372	20,372
Revaluations	-	65,899	65,899
Balance at 31 March 2016	23,371	63,416	86,787

Notes:

i. The general fund is used to support the on-going operations of the Agency and represents the investment made by the Agency or parent Department.

ii. The revaluation reserve represents the increase of value of financial derivatives in relation to the cashflow hedge instruments.

The notes on pages 78 to 90 form part of these financial statements.

1. Statement of Accounting Policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FReM) issued by HM Treasury, as set out in a statutory Accounts Direction issued pursuant to section 7(2) of the Government Resources and Accounts Act 2000.

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 UK Space Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the UK Space Agency are described below. They have been applied consistently in dealing with items that are considered material in relation to the accounts.

1.2 Going concern

The UK Space Agency is an Executive Agency of the Department for Business, Energy and industrail Strategy (BEIS), and the Department's estimates and forward plans include provision for the Agency's continuation. It has therefore been considered appropriate to prepare these accounts on a going concern basis.

1.3 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of non-current assets and financial assets and financial liabilities.

1.4 Presentational currency

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£'000). The functional currency of the Agency is pounds sterling.

1.5 Financial instruments

The UK Space Agency recognises and measures financial instruments in accordance with IAS 39 Financial Instruments: Recognition and Measurement as interpreted by the FReM.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the Statement of Financial Position when the UK Space Agency becomes a party to the contractual provisions of an instrument.

The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments. The fair value of financial instruments which are not traded in an active market is determined using generally accepted valuation techniques, including estimated discounted cash flows.

Financial assets are de-recognised when the rights to receive future cash flows have expired or are transferred and the UK Space Agency has transferred substantially all the risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

1.6 Derivative financial instruments under IAS 39 Financial Instruments: Recognition and Measurement

Derivative financial instruments comprise forward contracts held to hedge the Agency's exposure to foreign currency risk. They are designated as cash flow hedges. The effective portion of change in the fair value is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Net Expenditure. Amounts accumulated in equity are recycled to the Statement of Comprehensive Net Expenditure in the periods when the hedged item affects the Statement of Comprehensive Net Expenditure.

Financial instruments held to hedge foreign currency risk exposures are designated as cash flow hedges if the criteria for applying cash flow hedge accounting under IAS 39 are met. If the criteria are not met, such as when a forecast transaction is no longer expected to occur, the forward contract is accounted for as a financial instrument held for trading purposes and any cumulative gain or loss that was reported in taxpayer's equity is immediately transferred to the Statement of Comprehensive Net Expenditure.

The UK Space Agency does not hold or issue derivative financial instruments for trading purposes.

1.6.1 Financial assets

The UK Space Agency classifies financial assets into the following categories:

- financial assets at fair value through Statement of Comprehensive Net Expenditure;
- held-to-maturity investments
- loans and receivables
- available-for-sale assets

The classification depends on the purpose for which the financial asset is held or acquired. The UK Space Agency determines the classification of financial assets at initial recognition.

Gains and losses in fair value are recognised directly to equity except for impairment losses. Impairment losses are recognised in the Statement of Comprehensive Net Expenditure. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Net Expenditure.

1.6.2 Financial liabilities

The UK Space Agency classifies financial liabilities into the following categories

- financial liabilities at fair value through Statement of Comprehensive Net Expenditure
- other financial liabilities

The classification depends on the purpose for which the financial liability is held or acquired. Management determines the classification of financial liabilities at initial recognition.

1.7 Operating income

Operating income is income that relates directly to the operating activities of the UK Space Agency and is measured at the fair value of consideration received or receivable and is shown net of trade discounts; value added tax and other taxes. It comprises, principally, statutory licence fees for activities covered by the Outer Space Act 1986; co-funding income from other public sector bodies and EU; and charges for services provided, on a full cost basis, to external customers.

1.8 Grants payable and receivable

Grants payable are recognised in the period in which the grant recipient carries out the activity that creates an entitlement to grant. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Statement of Comprehensive Net Expenditure on the basis of estimates of claims not received and are included in accruals in the Statement of Financial Position.

1.9 Ownership of equipment purchased by research grant

Equipment that has been purchased by an Institution with research grant funds supplied by the UK Space Agency belongs to that Institution. Through the Conditions of Grant applied to funded institutions, the UK Space Agency reserves the right to determine how such equipment shall be disposed of and how any disposal proceeds are to be utilised. Such equipment is excluded from these financial statements.

1.10 Insurance

As an Executive Agency of the Department for Business, Energy and Industrial Strategy (BEIS), the UK Space Agency, along with other public bodies of the Departmental group, do not generally insure. Insurance will only be obtained on items which, with the agreement of the Department, require it due to the risks involved. Insurance premiums are charged to the Statement of Comprehensive Net Expenditure. Staff travelling overseas on business are covered by the Department's insurance policy for any medical costs incurred abroad, but are expected to take out their own travel insurance policy to cover any loss or damage to personal property. Claims directly related to business property are considered under BEIS expenses policy guidelines.

1.11 Foreign exchange

Transactions that are denominated in a foreign currency are translated into pound sterling at the rate of exchange prevailing on the date of each transaction unless covered by a forward hedge contract. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the rates of exchange ruling at that date. These translation differences are recognised in the Statement of Comprehensive Net Expenditure, except for those revaluations in relation to effective hedge contracts which remain in equity in accordance with IAS 39: Financial Instruments Recognition and Measurement.

1.12 Pensions

UK Space Agency staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and Civil Servants And Others Pension Scheme (CSOPS) as described in the Remuneration and Staff Report. Defined benefit schemes are unfunded. The UK Space Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS/CSOPS. In respect of the defined contribution elements of the Schemes, the UK Space Agency recognises the contributions payable for the year.

Contributions to the defined benefit pension scheme are charged to the Statement of Comprehensive Net Expenditure in accordance with actuarial recommendations so as to spread the cost of the pensions over the employees expected working lives.

Further details of the pension schemes can be found on the Civil Service Pensions website at **www.civilservicepensionscheme.org.uk**

1.13 Employee benefits

In accordance with IAS 19 Employee Benefits, the Agency is required to recognise short-term employee benefits when an employee has rendered service in exchange for those benefits. Included in the financial statements is an accrual for the outstanding employee holiday entitlement at 31 March 2017 on an undiscounted basis.

1.14 Taxation

The UK Space Agency, as an Executive Agency of the Department for Business, Energy and Industrial Strategy, is exempt from income and corporation tax by way of its Crown exemption.

Value Added Tax (VAT) is accounted for in the financial statements, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Statement of Comprehensive Net Expenditure, and included under the relevant expenditure heading

- irrecoverable VAT on the purchase of an asset is included in additions

The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within other receivables and payables in the Statement of Financial Position.

1.15 Operating leases

Leases in which significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating lease rentals are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the lease term, in accordance with IAS 17 Leases. The amounts payable in the future, under these operating lease arrangements are not discounted.

Operating lease income is recognised in income on a straight line, undiscounted basis over the lease term.

1.16 Contingent liabilities

The UK Space Agency discloses contingent liabilities in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. In the event that a contingent liability crystallises, it is expected that the parent department, BEIS, will fund this liability.

1.17 Reporting by operating segment

Under HM Treasury guidance in the FReM, the UK Space Agency is expected to meet the requirements of IFRS 8 Operating Segments to report information concerning operating segments where the criteria under IFRS 8 are met.

Although the Agency considers that its activities contribute to an overall mission within the same business environment, nevertheless there are separable operating segments on a geographical basis, namely National and International. See note 2 for further details.

1.18 Estimation techniques used and key judgements

The preparation of the UK Space Agency's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances, the results of which form the basis for

making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying value of the asset or liability. Where applicable these uncertainties are disclosed in the notes to the financial statements.

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Accounting Policies, revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are fluctuations in the fair value of financial assets/liabilities measured using forward market exchange rates (see Note 7).

1.19 Changes to International Financial Reporting Standards (IFRS) and 2016-17 Financial Reporting Manual (FReM)

1.19.1. Changes to IFRS

In accordance with the FReM, these financial statements apply EU adopted IFRS and Interpretations in place as at 1 January 2016. The following new standards will be adopted by the Agency in full, when they are adopted by the FReM, unless the requirements are interpreted or adapted by the FReM:

- IFRS 9: Financial instruments, will replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. In July 2014 the International Accounting Standards Board (IASB) published the final version of the Standard, which introduced new classification and measurement requirements and a new hedge accounting model. The Standard will be effective for accounting periods beginning on or after 1 January 2018 (subject to EU adoption). This standard is not expected to have any material impact on the financial statements of the UK Space Agency as no significant changes are being proposed to hedge accounting.
- IFRS 16: Leases, will replace IAS 17 Leases and related interpretations. IFRS 16 was published by IASB in January 2016 with the aim of improving the financial reporting of leases. The standard will be effective for accounting periods beginning on or after 1 January 2019 and will be adapted in the 2019-20 FReM (subject to EU adoption and the Exposure Draft process). HM Treasury will issue an Exposure Draft in advance of the effective date. This Standard will have an impact on the financial statements of the UK Space Agency, but the full details are not known at the time of reporting.
- IFRS 15: Revenue from Contracts with Customers, will replace IAS 18 Revenue. IFRS 15 was issued by IASB in May 2014, but was amended in September 2015 to defer the effective date to 1 January 2018 (subject to EU adoption). It is expected to be adopted in the 2018-19 FReM (subject to EU adoption and Exposure Draft process). HM Treasury will be issuing an Exposure Draft in the summer of 2016. The changes introduced in this Standard are not expected to have any effect on the financial statements of the UK Space Agency.

1.19.2. Changes to the FReM

No changes have been introduced to the 2016-17 FReM.

2. Statement of operating costs by operating segment

The UK Space Agency has two main geographical segments namely, international and national, and it is on this basis that reportable segments have been identified.

Funding is received by the UK Space Agency from BEIS to cover the cost of international subscriptions to the European Space Agency and the remainder of its programme work at a national level. National programme work includes being responsible for delivering aspects of specific project work in the UK as well as funding universities and companies to undertake various research and development activities.

The activities within the two segments are reported to the Executive Board on a monthly basis using a management accounts format which analyses on an administration and programme basis and is compared against funding allocation. This is further analysed at directorate level enabling full financial control to be maintained.

The segments are separate for decision making purposes and there are no transactions between the two segments.

There have been no changes in segmental identification since the previous reporting period.

Statement of Financial Position analysis by segment is not reported to the Executive Board and, therefore, in accordance with IFRS 8 Operating Segments, is not disclosed in the financial statements.

	2016-17			2015-16		
	National segment	**International segment**	**Total**	National segment	International segment	Total
	£000	**£000**	**£000**	£000	£000	£000
Gross expenditure	66,374	306,091	372,465	89,346	260,948	350,294
Income	(111)	(1,373)	(1,484)	(6)	(392)	(398)
Net operating costs	**66,263**	**304,718**	**370,981**	89,340	260,556	349,896

Description of segments

The national segment mainly consists of expenditure on work undertaken within the UK either by the means of funding to research institutions or companies or expenditure on major national programmes.

The international segment mainly consists of expenditure with the European Space Agency in the form of subscriptions which are used to fund, along with subscriptions from other national governments, its various space programmes.

Central administrative and operational costs are reported under the national segment reflecting the way they are reported to the Executive Board.

3. Staff Costs

	2016-17	2015-16
	£000	£000
Wages and salaries	3,538	2,986
Social security costs	410	266
Other pension costs	755	639
Subtotal	**4,703**	3,891
Add cost of inward secondments	122	65
Less recoveries in respect of outward secondments	(70)	(13)
Total staff costs	**4,755**	3,943

Further analysis of staff costs, average number of persons employed and other relevant disclosures can be found in the Remuneration and Staff Report.

4. Total expenditure

	Note	2016-17	2015-16
		£000	£000
International subscriptions			
Total European Space Agency subscriptions	i	*328,873*	239,423
Recognised (gain)/loss on forward exchange contracts		*(26,082)*	20,372
Net (gain)/loss on foreign exchange spot rate (non-hedge)		*663*	172
Total ESA subscriptions		**303,454**	259,967
Other international subscriptions		17	22
Other international grants & payments			
Other international grants		1,786	157
ESA mandatory tax adjustment	ii	834	802
National grants and other funding			
National programme grants	iii	18,223	19,548
International Partnership Programme		14,707	-
SABRE		6,238	488
Spectrum charges		4,017	8,422
Spaceflight Programme		1,368	-
National Space Technology Programme		1,238	7,178
NovaSAR		1,000	4,628
International Partnership Space Programme		731	18,704
Jason 3 / Jason CS		-	11,984
Other national programme grants and funding		6,344	8,473
Total subscriptions, grants and other funding		**359,957**	340,373
Technical contracts and contract management		**5,384**	3,704
Operational costs			
Payments for departmental shared services	iv	563	318
Travel and subsistence		562	532
Rentals under operating leases	v	470	466
Auditors remuneration (external)		40	40
Other		734	917
Total operational costs		**2,369**	2,274
Total expenditure		**367,710**	346,351

Notes:

i. The Agency pays an annual subscription to ESA in Euros. To manage our budgets effectively, the Agency entered into forward exchange contracts with the Bank of England to hedge about 73% of its total 2016-17 commitments to ESA. The total exposure at spot rate in 2016-17 would have been £328.9m.

ii. The Agency is liable in accordance with Article 42 of the Coordinated Organisation's Pension Scheme Rules, for the amount of tax adjustment applicable to pensions borne by the Member State in which the recipient is subject to taxes on income. The disclosed liability relates to tax of the recipients in the United Kingdom for the European Space Agency.

iii. Prior to the creation of the Agency the responsibility for provision of academic research grants was undertaken by the Science and Technology Facilities Council (STFC). Since 1 April 2011, such grants are the responsibility of the Agency. Due to the ongoing nature of some of the grants and the expertise that STFC have in this area it has been agreed that STFC would continue to maintain the process and make any necessary payments, recharging the Agency for the costs of such grants. The cost of maintaining and processing these payments is minimal and STFC has agreed to undertake this activity on a nil cost basis. Therefore there is no charge for this activity to the Agency.

iv. Payments for departmental shared services include the costs of centrally provided information technology, general overheads and legal advice. The increase in the overall charge was driven by legal advice costs of £300k (2016-17: £83k).

v. The Agency entered into two operating lease agreements for office accommodation. See Note 12 Operating Leases for more information.

5. Income from operating activities

	Note	2016-17	2015-16
		£000	£000
EU SST Programme		1,091	110
European GNSS Agency rental income	12.2	282	282
Outer Space Act 1986 licence fees		111	6
Total		**1,484**	398

6. Other financial assets / liabilities

The UK Space Agency has a number of derivative contracts that have been designated as cashflow hedges to better plan currency fluctuations in relation to its international subscriptions payable to the European Space Agency in Euros. These contracts are revalued at each year end based on the future forward market rates, as provided by the Bank of England, at that time. Any such revaluations at the year end therefore reflect unrealised gains and losses at that time.

The UK Space Agency uses forward exchange contracts as part of a balanced portfolio of hedges designed to control foreign currency risk in line with the level of risk appetite adopted by the Executive Board. The Agency is fully compliant with the BEIS departmental hedging policy, which forbids using financial instruments for speculative purposes. Hedging contracts may be placed with the Bank of England where the expected cost at the current exchange rate represents at least 2% of the total budget or the value of the transaction is greater than £2million. The only form of hedging foreign currency risk allowed within the BEIS family of partner organisations is the use of forward contracts so as to provide greater budget certainty and therefore plan the future expenditure more effectively.

	Note	2016-17	2015-16
		£000	£000
Balance at 01 April 2016		63,416	(22,855)
Disposals (contracts settled in year)	i	(26,082)	20,372
Revaluation movement	ii	46,547	66,393
Balance at 31 March 2017		**83,881**	63,416
Non-current other financial assets		52,838	45,322
Current financial assets		31,818	18,094
Total other financial assets		**84,656**	63,416
Non-current other financial liabilities		(775)	-
Total other financial liabilities		**(775)**	-
Total net other financial assets and liabilities		**83,881**	63,416
Net (gain)/loss on revaluation of cash flow hedges	iii	**(20,465)**	(86,271)

Notes:

i. The disposal value arose through the completion of four forward exchange contracts with settlement dates falling in the reporting period. This notional value represents the total cumulative unrealised (gain)/loss for each of these contracts previously recognised in the revaluation reserve and removed on completion.

ii. Revaluation movement represents the difference in the fair value of the contracts still in place at 31 March 2017 and 31 March 2016. It also reflects initial and interim valuations on the 14 new forward exchange contracts placed during the reporting period. These contracts are for subscriptions payable up to 1 October 2021. The GBP to EUR forward rate moved on average from 1.23 to 1.15 during the year.

iii. The reported gains on revaluation of forward exchange contracts are notional gains caused by an increase in the fair value of the contracts held at 31 March 2017 compared to the fair value of contracts held at 31 March 2016.

Cashflow hedge contracts

The hedge contract is designed to allow for cash flow planning and enables better budgeting to align with the comprehensive spending reviews which are normally undertaken by the government every three years. The hedge contract is not designed to protect against currency risk which will result in an unrealised gain or loss arising each year end when hedges are revalued. On completion of the contract there will be either an opportunity gained or lost resulting from the movement in the exchange rate. As this is outside management control, and in line with the HM Treasury's Consolidated Budgeting Guidance 2016-17, these gains and losses are only recognised under the resource annually managed expenditure (RAME) budgetary category.

On acquisition and at the reporting date the hedges met the IAS 39 effectiveness criteria. The discounted cost of the contracts was compared with the discounted current market valuation, and both prospective and retrospective tests of effectiveness were within the 80% - 125% tolerance range.

At the start of the reporting period, the Agency managed a portfolio of 14 forward exchange contracts, 3 of which matured during the year. Following the commitments made at the Council of Ministers meeting with ESA in December 2016, the Agency entered into 14 new forward exchange contracts for subscriptions payable between 1 February 2017 and 1 October 2021. The total cost of these contracts was £601,258,503 and 1 of the contracts matured during the year. As at 31 March 2017 fair value of all forward contracts held by the Agency at that date was £1,225,640,269. There has been a positive movement on the revaluation reserve as at 31 March 2017 of £83,880,780.

The fair value of forward exchange contracts is determined by comparing the contractually agreed cost on creation of the contract with the fair value of the contract translated at the future forward market rate provided by the Bank of England at close of trading on 31 March 2017 for the relevant forward exchange contracts settlement dates. These are indicative rates only, and therefore in accordance with IFRS 13 Fair Value Measurements, the valuation inputs are classified as Level 2.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The UK Space Agency does not issue any loans, apart from staff loans, and does not have any outstanding loans. Any staff loans in issue are not material and do not present any credit risk to the organisation.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. In common with other government agencies, the future financing of its liabilities is to be met by future funding from the parent department, namely the Department for Business, Energy and Industrial Strategy, which receives its funding by means of Supply, voted annually by Parliament. There is no reason to believe that future approvals will not be forthcoming, therefore, on this basis the UK Space Agency is not exposed to liquidity risks.

Market risk

Foreign currency risk

The UK Space Agency's exposure to foreign currency risk during the year was significant, though this was considerably mitigated by the use of cashflow hedge contracts. The expenditure on international subscriptions to the European Space Agency, in Euros, was made in three instalments during the year. The Agency aims to manage a portfolio of forward contracts to purchase Euros at approximately 80% of the annual subscription payable to ESA during a calendar year thereby fixing the exchange rate to be used. Depending on the movement of exchange rates and risk appetite, this percentage (coverage) can fluctuate by 10%. The remaining 10-30% is translated at the prevailing spot rate.

The Agency has also limited transactional currency exposure arising from occasional payments made in currencies other than sterling and through reimbursing foreign travel and subsistence costs for staff travelling to international bodies. Such transactions are translated at the prevailing spot rate and the amounts involved are not material.

Interest rate risk

The UK Space Agency does not invest or access funds from commercial sources. The UK Space Agency does not have any loans or contracts that are subject to interest rate fluctuation and is not subject to any interest rate risk.

The UK Space Agency does not participate in any market reliant activities and is not subject to market risk.

7. Trade receivables and other current assets

	31 March 2017	31 March 2016
Trade and other receivables less than one year	**£000**	£000
Trade receivables	-	70
Other receivables	19	15
Prepayments & accrued income	34,211	41,114
VAT	82	137
Total	**34,312**	41,336

Note:

i. Prepayments and accrued income include a prepayment made to the European Space Agency of £34,119k (2015-16: £41,079k).

8. Cash and cash equivalents

	31 March 2017	31 March 2016
Cash and cash equivalents	**£000**	£000
Government banking service[i]	29,107	1,965
Total	**29,107**	1,965

Note:

i. Included in the cash balance is £145,617 (2015-16: £85,914) held on behalf of the Ministry of Defence, who are third party beneficiaries in the EU SST programme. This funding was received from EU.

9. Trade payables and other current liabilities

	31 March 2017	31 March 2016
Trade and other payables less than one year	**£000**	£000
Trade payables	557	407
Other payables	275	265
Accruals and deferred income[i ii]	33,687	19,258
Total	**34,519**	19,930

Notes:

i. Accruals include accrued expenditure in respect of European Space Agency of £12,000k (2015-16: £659k); the NovaSAR project of £5,750k (2015-16: £4,750k); SABRE of £2,018k (2015-16: £627K);University of Leicester of £2,429k (2015-16: £547k); STFC of £1,7776k (2015-16: £525k); the IPP programme of £766k (2015-16: Nil); and DSTL of £616k (2015-16: £40k).

ii. The UK Space Agency is the main UK beneficiary of an EU funded programme called EU SST. As at 31 March 2017 the Agency received £2,054k; £853k of which was treated as deferred income (2015-16: £772k).

10. Capital commitments

There were no capital commitments as at 31 March 2017 (2015-16: None).

11. Other financial commitments

The UK Space Agency has entered into non-cancellable forward contracts (which are not leases or PFI contracts), in connection with a financial instrument for hedging international subscription payments. The payments to which the Agency is committed, analysed by the period during which the commitment expires, are given below:

	31 March 2017	31 March 2016
	£000	£000
Not later than one year	215,754	193,694
Later than one year and not later that five years	926,005	542,963
Total	**1,141,759**	736,657

In addition to the ESA financial commitments disclosed in the above table, the Agency also has grant commitments relating to the National Programme and IPP programme. The expectation is that these commitments will be disclosed in full from 2017-18.

12. Operating leases

12.1 Obligations under operating leases

Total future minimum lease payments under non-cancellable operating leases are given below:

	2016-17	2015-16
Offices	**£000**	£000
Not later than one year	479	478
Later than one year and not later than five years	1,972	1,961
Later than five years	4,956	5,553
Total	**7,407**	7,992

Notes:

i. In 2013-14 the UK Space Agency entered into a lease agreement with NATS (En Route) Plc for office accommodation at the NATS Swanwick Control Centre. The lease commenced on 7 January 2014 and will expire on 31 December 2030. There is no security of tenure after this date. The agreed initial rent charge is £83,745 per annum, which will be reviewed every 5 years and linked to the Retail Price Index (RPI). The base occupier's and tenant's charges were initially set at £359,609 per annum, and are reviewed annually in line with the movements in RPI. In 2016-17, the total lease payments charged to the Statement of Comprehensive Net Expenditure were £452,427. These charges were fully paid by 31 March 2017.

ii. On 10 July 2014 the UK Space Agency entered into a short-term lease agreement with the Science and Technology Facilities Council (STFC) for office accommodation at the Electron Building (office No. 34) based within the Harwell Oxford campus for a lease term up to 31 March 2017 at the cost of £11,329 per annum, to be reviewed annually in line with the movements in RPI. On 1 April 2017 the lease agreement was extended for period of 1 year to 31 March 2018 at the cost of £12,264 per annum. In 2016-17 the total lease payments charged to the Statement of Comprehensive Net Expenditure were £11,901.

12.2 Operating leases granted

Total future minimum sublease income under non-cancellable operating subleases is given below:

	2016-17	2015-16
Offices	**£000**	£000
Not later than one year	291	291
Later than one year and not later than five years	1,240	1,240
Later than five years	3,183	3,593
Total	**4,714**	5,124

Note:

i. In 2013-14 the UK Space Agency granted an operating sublease to the European GNSS Agency (GSA). The lease is for an agreed amount for a period of 16 years from 7 January 2014. The lease covers office accommodation rented from NATS (EN ROUTE) Plc. In line with the superior lease with NATS, GSA have no security of tenure after the lease expires on 31 December 2030. The initial agreed rental charge was £275,207 per annum, which is reviewed annually in line with the movements in RPI. In 2016-17, the total lease income charged to the Statement of Comprehensive Net Expenditure was £282,150 (2015-16: £282,150).

13. Head office accommodation

The UK Space Agency operates out of the Research Councils' site in Swindon, which is owned by the Research Councils on a joint tenancy agreement. All relevant costs are charged and recorded against operating costs as incurred. There are no capital commitments.

14. Contingent liabilities disclosed under IAS 37

In 2013-14 the UK Space Agency entered into an operating lease with NATS (En Route) Plc for office accommodation. At the end of the lease term in December 2030 the Landlord has the contractual right to enforce the Agency to pay for costs of dilapidation. However, due to the specialised nature of the asset, the expectation is that the Landlord will continue using the asset in its current state and therefore will not choose to exercise this option. In the event of the lease contract being terminated by the Landlord before the end of the lease term, the Agency will be compensated. The likelihood of outflow of economic benefit is therefore assessed as not probable.

15. Related party transactions

During 2016-17, the UK Space Agency was an Executive Agency of the Department for Business, Energy and Industrial Strategy and BEIS was regarded as a related party with which the Agency had various material transactions. In addition, the back-office function for processing national grants was outsourced to the Science and Technology Facilities Council which was also recognised as a related party.

The UK Space Agency also had various material transactions with other entities for which BEIS is regarded as the parent Department, namely: Biotechnology and Biological Sciences Research Council, and Engineering and Physical Sciences Research Council.

Employee benefits received by Agency's key management personnel are disclosed in the Remuneration and Staff Report on page 55. In addition, the UK Space Agency made the following aggregated payments to third parties where Agency's directors and non-executive members are also senior members of staff:

			Value of transactions
Name	**Position with related party**	**Description of transactions**	**£000**
David Southwood	Trustee for the National Space Centre	Programme expenditure	**145**

16. Events after the reporting period

There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to the financial statements.

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