



UNITED KINGDOM HYDROGRAPHIC OFFICE

Annual Report and Accounts 2004/2005



THE UNITED KINGDOM
HYDROGRAPHIC OFFICE

**ANNUAL REPORT AND ACCOUNTS
2004/2005**

Ordered by the House of Commons to be printed 06 June 2005

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as amended by the Government Trading Act 1990.

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FOREWORD BY THE CHIEF EXECUTIVE

Once again, at the end of another successful year's trading I am delighted to announce a set of results of which we are very proud. The report and accounts are an excellent reflection of the work of an organisation which remains dedicated to the protection of our Royal Navy and ensuring the safety of millions at sea.

Our revenues in 2004/05 were a record £68m and our profits exceeded £9m before dividend payments. Sales of both paper and digital products have risen and we continue to improve and strengthen the support we offer to the global merchant marine fleet.

The UKHO has made significant investment in key areas for development such as our Production Systems Programme (PSP) and activities with joint venture partners. Our strategic activity has continued to concentrate on cost base management, paper products and the development of alternative revenues, including digital navigation and non-navigation products.

Underpinning our cost base control are three initiatives: the application of an internal market for our support activities; supplementing our batch processing lithograph printing with a Print-on-Demand capability; and streamlining our production infrastructure and processes.

To maintain paper chart and publications output, we have increased the number of Bilateral Arrangements we have with hydrographic offices worldwide to over 50 and similar arrangements with Port Authorities now number almost 100.

In addition to this work, to enable us to utilise our world-wide hydrographic data in the best interests of the mariner, the UKHO has instigated a worldwide initiative. The International Partnering Programme has been highly successful in the first stages of bringing together international data and expertise to provide a seamless variety of safety-critical digital products and services for the mariner.

On home territory, the UKHO continues to work closely and build and maintain relationships with other Government Departments and Agencies. This is illustrated in our close working relationships with the Met Office which provides mutual support, the Maritime Coastguard Agency with whom we are jointly organising an international conference on shallow water survey and Ordnance Survey.

I'm delighted to report that our first joint venture company, Admiralty Coastal Surveys AB, is attracting a great deal of interest and is already bidding on a number of exciting contracts. This joint venture between Admiralty Holdings Ltd and Swedish companies Topeye AB and Airborne Hydrography AB has been developing a new airborne laser survey system called Hawkeye II which has just made its first successful flight. A new provider of cost effective, accurate survey data, Admiralty Coastal Surveys AB will be an important player in the field of laser bathymetry.

I firmly believe that the key to our success lies in the hands of those experts tirelessly working for the safety of the mariner. The dedication, talent and motivation of our people continues to ensure, not simply the protection of our Royal Navy, but that the mariner can always trust in the British Admiralty Chart.



A handwritten signature in dark ink, reading 'Dr. Wyn Williams'. The signature is fluid and cursive, with a long horizontal line extending from the end.

Dr. Wyn Williams
Chief Executive and National
Hydrographer
20 May 2005

VISION, MISSION AND AIMS

Vision

To be the world leader in the supply of hydrographic information and services.

Mission

To meet national, defence and civil requirements for navigational and other hydrographic information in the most efficient manner.

Aims

- To provide hydrographic services for waters of UK national responsibility required by the UN Safety of Life at Sea (SOLAS) Convention.
- To maintain and improve hydrographic capability and flexibility to meet MOD operational requirements in peace, crisis or war.
- To extract maximum value from UKHO capabilities by providing customers with readily accessible hydrographic information and services.

FINANCIAL REVIEW 2004/05

Operating Results

Turnover, inclusive of Other Income, increased in year by 6.3%, from £64.0m in 2003/04 to £68.0m. The growth continued to be generated from commercial customers, a rise of 8.2% to £57.0m. Sales to MOD were down £0.5m to £11.0m. MOD sales as a percentage of total turnover represented 16% of the annual turnover, a fall from 18% in 2003/04 and from 25% in 1996/97 when the UKHO became a Trading Fund. Sales of digital products rose by 20.1% in year reaching £3.9m. Analogue chart sales rose by 1.9% to £36.1m and publications by 21.6% to £16.3m.

Expenditure in 2004/05, excluding depreciation, was £56.3m, £4.8m (9.3%) up on 2003/04. Key components of this increase were costs associated with PSP within R&D which was up £2.8m and higher site maintenance which contributed to a rise of £1.2m in utilities and estate operating costs. Staff costs rose by £1.7m while the average number of staff employed fell from 967 to 958. This was mostly due to a transfer of site security staff to MOD. The resultant re-categorisation also contributed to the rise in estate operating costs.

The profit on ordinary activities before interest was £9.1m, marginally down on 2003/04. Dividends have been paid to MOD every year since 1998/99 and £4.3m has been provided this year. This is in addition to the actual payment of a special dividend of £16.3m bringing this year's total to £20.6m and £35.8m for all years to date.

A Return on Capital Employed (ROCE) of 16.2% was achieved during 2004/05, compared with 16.4% in the previous year. The figure was well above the revised 9% target set by the Ministerial Advisory Board.

The basis of UKHO efficiency measurement has been changed from Added Value to Mark Up. This measures productivity as the difference between salary cost per paid hour and the fully loaded average charge rate per hour – the lower the mark-up, the less overheads absorbed by direct workers and therefore the more productive the organisation. Based upon the methodology applied in 2004/05, the target was to reduce the mark-up to 200% by the end of the year. This target was exceeded with a reduction to 175.6%. However the mark-up measure has been reviewed and a new definition will be used for 2005/06.

Activities and Financial Structure

The UKHO has operated as a Trading Fund Executive Agency within the MOD since gaining this status on 1 April 1996. The principal activity of the organisation is the supply of marine navigational products and services. Its main customers are MOD, world-wide users of the Admiralty range of products and other government departments.

The UKHO is funded by the Secretary of State for Defence by way of Public Dividend Capital (the equivalent of equity funds) on which dividends are paid, and an originating loan repayable over 25 years at a fixed rate of 8.375%. Other financial instruments include cash and liquid resources and various items such as trade debtors, trade creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the UKHO's operations.

The UKHO does not enter into derivative transactions such as interest rate swaps or forward foreign currency exchange contracts and is not permitted to trade in financial instruments.

The UKHO has no material risks arising from its financial instruments. Liquidity is strong and its loan capital is repayable at a fixed rate of interest. It has made a £0.9m investment via AHL in a joint venture with Swedish partners - which is considered to provide an insignificant exposure to foreign currency risk. Minimal sales are made in foreign currency.

Cashflow and Investment

Operating cashflow generated in 2004/05 was £12.4m, a decrease of £1.1m compared with 2003/04. Debtors at the year end of £12.9m compare with £11.5m in the previous year. This essentially mirrors a 10% increase in trading activity during the final quarter of 2004/05 compared with the corresponding period in 2003/04. Creditor balances were up £3.1m compared with 2003/04. Whilst trade creditors were £1.0m lower than 2003/04, accrued expenditure increased by £3.4m. The main elements of this increase were stage payments due on the PSP (£1.4m) and Royalties Payable (£1.3m). Cash balances and short-term investments totalled £25.6m at the end of March 2005, a decrease of £10.2m. The fall primarily reflects the payment of a special dividend during the year. The remaining balance will continue to reduce over the next five years as the major change programme projects and associated capital expenditure reach their peak. Capital expenditure in 2004/05 was £2.2m, £1.4m below that of 2003/04.

Government Funds

The level of Government Funds decreased in 2004/05 by £5.9m to £54.5m, mostly attributable to the impact of special dividend payments. Revaluation Reserves increased by £3.8m and long term loans reduced by the standard repayment of £0.4m.

PERFORMANCE ON KEY TARGETS

Key Target 1

Whilst aiming for 100, to achieve a Safety Index exceeding 95. All Radio Navigational Warnings issued to timescale.

Status: Achieved

PERFORMANCE	2004/05	Q1	Q2	Q3	Q4	Year
Safety Index	Target	95	95	95	95	95
	Actual	98	100	99	101	101
Radio Navigational Warnings	Target	100	100	100	100	100
	Actual	100	100	100	100	100

The Safety Index is a composite measure which measures the timeliness and quality of the data handling processes and also the safety risk associated with the worldwide chart series.

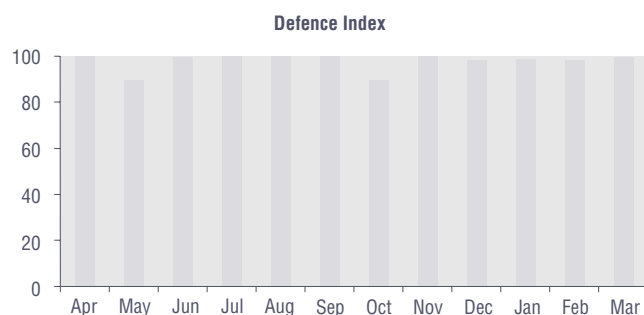
There was a consistently high performance throughout the year, in part because of a greater reduction in the safety risk than that targeted. The Safety Index is being refined and made more stringent for 2005/06.

Key Target 2

To achieve an index rating of 95 or more for the Defence Programme as set out in the Tasking Authorisation Forms.

Status: Achieved

PERFORMANCE



The Index puts a numerical rating on the status of the Tasking Authorisation Forms, as for the previous year. Performance averaged 98, and, indeed, exceeded the target of 95 for every month except May and October 2004.

There were 41 short notice Defence Operational Requests during the year. These comprised:

- One request for the urgent supply of charts for operational reasons
- Three short notice requests to assist in seabed searches
- 19 short notice requests taken from the Beach Intelligence and Survey Database
- Five short notice requests for oceanographic and environmental data and products
- Two requests for information in support of the activities following the Indian Ocean Tsunami
- Four short notice requests for information taken from the Route Survey Database
- Four short notice requests for Technical Support provided by Mine Warfare Data Centre
- Three other assorted requests

Key Target 3

Customer and end user satisfaction to exceed a scale rating of 87 by the end of financial year 2004/05

Status: Partially Achieved

PERFORMANCE	2004/05	Q1	Q2	Q3	Q4	YEAR
Customer	Target	87	87	87	87	87
	Actual	86	87	87	87	87
End User	Target	87	87	87	87	87
	Actual	88	90	90	91	90

Satisfaction is determined through a structured survey programme. This Key Target now focuses exclusively on the ultimate customers, rather than the distributors. End user satisfaction met an increased and challenging target, whilst customer satisfaction narrowly missed exceeding 87.

Key Target 4

To earn revenue of £2.4m from markets other than SOLAS navigational products and services.

Status: Partially achieved

PERFORMANCE

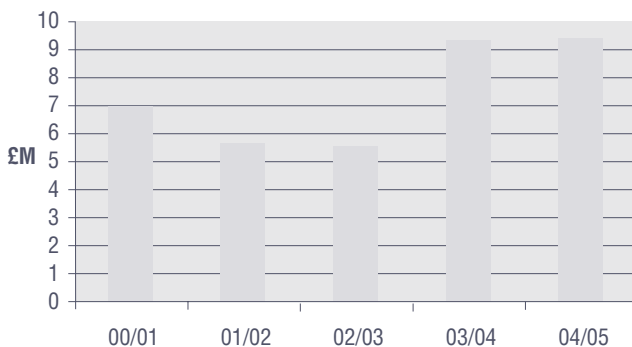
The Key Target looks at income from a range of sources, including leisure, royalties, consultancy and non-navigational uses of data. The outturn for the year of £2.3 million was slightly below target and reflected lower than anticipated income from sales of data for non-navigational purposes. Actions are being taken, including a greater focus on leisure, and a significantly increased target for 2005/06 has been set.

Key Target 5

To break even taking one year with another, and to achieve a Return on Capital Employed of 9% averaged over the period 2004/05 – 2008/09.

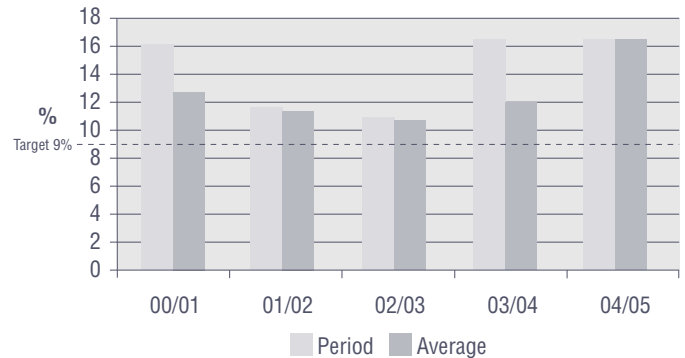
Status: Achieved

KEY TARGET 5: Net Profit



The Net Profit for the year of £9.3M exceeded target. Sales were strong for the year, with growth in both paper (particularly publications) and digital.

KEY TARGET 5: Return on Capital Employed



The Return on Capital employed of 16.2% was slightly above the budget of 15.9%. For 2005/06 the five year average approach will be replaced by one based upon the result of an individual financial year.

Key Target 6

Mark-Up to be reduced to 200% by end 2004/05

Status: Achieved

PERFORMANCE

This is a measure of productivity – the difference between salary cost per paid hour and the fully loaded average charge rate per hour – the lower the mark-up the less overhead absorbed by direct workers and therefore the more productive the organisation. The performance for the year was 176%.

During the year, however, the measure was refined to take better account of the effects of the internal market. The new definition of the measure will be used for 2005/06, with a target of 210%; using this new definition the performance for 2004/05 was 235%.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ON THE UKHO'S STATEMENT OF PERFORMANCE AGAINST 2004-05 KEY TARGETS

The Chief Executive of UKHO has asked me to validate performance against the 2004-05 Key Targets.

Respective responsibility of UKHO, the Chief Executive and the Auditor

UKHO and the Chief Executive are responsible for the measurement and reporting of the Trading Fund's performance against the Key Targets.

I examine and conclude on whether the Trading Fund has met its requirements under the Cabinet Office's guidance (January 2003) on Next Steps Agencies Annual Reports to:

- Provide full details of performance against all UKHO's Key Targets;
- Ensure that all performance information is reliable and fairly presented.

Basis of Conclusion

The validation includes an examination, on a test basis, of evidence relevant to the amounts and disclosures of the outturns and achievements included within the Statement. It also includes an assessment of the significant judgements and methodologies made by UKHO and the Chief Executive in the Statement's preparation.

Conclusion

The Statement of Performance above includes all the UKHO's 2004-05 Key Targets. It reliably and fairly presents the Agency's performance against Key Targets 1-6. I have no observations to make on this Statement.



John Bourn
Comptroller and
Auditor General
25 May 2005

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

KEY TARGETS 2005/2006

Key Target 1 – Safety

Whilst aiming for 100, to achieve a Safety Index exceeding 95. All Radio Navigational Warnings issued to timescale.

Key Target 2 – Defence

To achieve an index rating of 95 or more for the Defence Programme as set out in the Tasking Authorisation Forms.

Key Target 3 – Customer Satisfaction

Customer and end user satisfaction to exceed a scale rating of 87 by the end of financial year 2005/06.

Key Target 4 – Wider Markets

To earn revenue of £3.6m from markets other than SOLAS navigational products and services.

Key Target 5 – Finance

To break even taking one year with another, and to achieve a Return on Capital Employed of 9% in the financial year 2005/06.

Key Target 6 – Finance

Mark-Up to be reduced to 210% by end 2005/06.

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FOREWORD TO THE ACCOUNTS

Statutory Background

The accounts have been prepared in accordance with the Direction given by HM Treasury on 16 February 2005 in pursuance of section 4(6)(a) of the Government Trading Funds Act 1973.

History

The United Kingdom Hydrographic Office (UKHO) was established in 1795 and has developed its position as a world authority and provider of data essential to safe marine navigation. The UKHO became an Executive Agency in 1990 and operated as a Trading Fund within the Ministry of Defence (MOD) from 1 April 1996 in accordance with Statutory Instrument SI 1996/773.

Principal Activity

The principal activity of the UKHO is the supply of marine navigational products and services. The Vision, Mission and Aims of the UKHO are set out at the beginning of the Annual Report. There have been no significant changes in these activities during the year.

Principal Customers

The main customer groupings of the UKHO are:

- UK Ministry of Defence.
- Distributors of the Admiralty range of products and services for supply to mariners world-wide.
- Other government departments.

Research and Development

These activities primarily relate to the development of new products and enhancement of existing products.

Financial Review for the year ended 31 March 2005

Trading results for the year confirm that the UKHO has exceeded the financial targets approved by the responsible Minister. These were to break even, and achieve an average 9% return on capital employed over a five year rolling period.

A financial review commentary is provided at the beginning of the Annual Report.

Reserves

A proposed dividend of £4.3m will be paid to the MOD for the year. This is in addition to a special dividend of £16.3m paid to MOD during the year. This produces a net reduction in retained profit of £11.3m.

Fixed Assets

Of the £2.2m capital investment undertaken during the financial year the primary expenditure has been focussed towards upgrading production systems which accounted for approximately £1.3m of this total.

Future Developments

The UKHO Corporate Plan covering the financial years from 2005/06 to 2014/15 sets out the UKHO's strategy and investment plans.

A key component of this strategy is on-going significant investment in new technology to provide the UKHO with the scope and flexibility to develop new digital products and value added services. Whilst driven by commercial needs, it supports the plan for the Royal Navy to become fully digital. Central to these investments is the Production Systems Programme (PSP) which requires investment in technology and redesign of processes in order to improve the efficiency of gathering and assessing hydrographic data and compiling charts and publications. Following initial studies carried out during 2003/04 the first system project was delivered at the end of 2004/05 with final completion due in 2007/08.

The introduction of a new site maintenance contract has identified the need for more investment to maintain our current building stock at adequate levels. In addition, the cost of refurbishment needed to rationalise the site is likely to be significantly more than previously estimated.

In May 2003 it was decided to develop joint ventures with third parties in order to exploit commercial activities. These ventures would be run as part of Admiralty Holdings Limited which was incorporated in October 2002 for this purpose. Discussions with several prospective partners have been undertaken. Two agreements had been signed as at 31 March 2005 and further opportunities in this area are being actively pursued.

In line with other trading funds, and adopting appropriate best practice from the private sector, changes are being made both to the MAB and the Hydrographic Office Board (HOB). In 2005/06, the MAB will be superseded by a new Owner's Council and the HOB will be chaired by an independent appointee. Further details of the changes are included under the respective Board sections below.

Admiralty Holdings Limited

The consolidated accounts incorporate those of the trading fund together with those of AHL and all of the AHL subsidiary undertakings. All the entities are consolidated using the acquisition method and their results are incorporated from the date that control passes. All accounts are drawn up to 31 March each year.

AHL and its subsidiary undertakings were incorporated during 2002/2003. All the issued share capital of AHL is held in the name of the Secretary of State for Defence. Authority to manage the operation of the company and its subsidiary undertakings has been delegated to a board of directors all of whom are also executive members of the Hydrographic Office Board, including in particular Dr Wyn Williams, the Chief Executive and National Hydrographer.

Following HM Treasury guidance, this group of companies has been set up as a suitable vehicle to enter into joint ventures and other similar arrangements.

Under the guidance provided in Financial Reporting Standard No 2: Accounting for Subsidiary Undertakings, the UKHO is preparing consolidated accounts on the basis that, despite not having a direct investment interest in AHL, the Hydrographic Office Board is capable of exercising, and exercises, dominant influence over the activities and day-to-day operations of the corporate group through majority control of the board of directors of AHL and its subsidiary undertakings.

Euro Conversion Preparation

No additional expenditure has been incurred during 2004/05 in respect of preparatory work to support any future decision for conversion to the Euro. The UKHO operates SAP software which is capable of supporting multi-currency transactions. Changes to SAP configuration in year to make use of foreign currency for some normal transactions has proved this concept.

United Kingdom Hydrographic Office Ministerial Advisory Board

The United Kingdom Hydrographic Office Ministerial Advisory Board (MAB) provides the forum to advise the Parliamentary Under Secretary of State for Defence, as the Minister responsible for the Hydrographic Office Trading Fund, on:

- The strategic direction of the UKHO and its overall policy objectives.
- The broad lines of the UKHO's development, as set out in the Corporate Plan.
- The setting of UKHO targets and the monitoring of performance against them, together with the financial and management reports provided by the Chief Executive.
- The role the UKHO plays in support of the Government's statutory responsibilities in the United Nations SOLAS Convention.
- The use of assets.
- Any areas of potential conflict between the Department as owner and principal customers of the UKHO.

Membership of the MAB during the year was:

Ivor Caplin MP

Parliamentary Under Secretary of State for Defence and Minister for Veterans
Chairman of the Board
Succeeded by **Don Touhig MP**
From 10 May 2005

Dr Wyn Williams

Chief Executive UKHO and National Hydrographer

Vice Admiral Sir Mark Stanhope KCB OBE

Deputy Commander in Chief Fleet
Until 18 June 2004

Vice Admiral Tim McClement OBE

Deputy Commander in Chief Fleet
From 18 June 2004

Air Vice-Marshal Stuart Peach CBE

Director General Intelligence Collection
From 1 April 2004 – replaced former membership held by Assistant Chief of the Naval Staff following a MOD re-organisation

Captain Tim Lowe RN

Navigation Advisor to the Admiralty Board
Appointed as member from 1 April 2004 until 7 November 2004

Captain Jeremy Blunden RN

Navigation Advisor to the Admiralty Board
From 8 November 2004

Mr Nicholas Evans

Director General Management & Organisation

Captain John Garner

Director of Standards
(formerly Director of Quality and Standards),
Maritime and Coastguard Agency
To 31 October 2004

Mr Paul Jackson

Director of Standards
Maritime and Coastguard Agency
From 1 November 2004

Mr Michael Everard CBE

External Advisor
(Business/Shipping)

Mr Michael Gates

External Advisor
(Business/Finance)

With effect from 1 April 2005 the MAB will be replaced by the “UKHO Owner’s Council” with a slightly different membership. New members will include the MOD Finance Director, a Shareholder Executive member representing HM Government governance interests, a member of the MOD’s Directorate of Business Delivery and the planned appointment of an independent Chairman of the UKHO Board. The UKHO Chief Executive will retain membership. Chairmanship will remain with the Parliamentary Under Secretary of State for Defence and Minister for Veterans. The external advisor (Business/Finance) is stepping down but existing representation of the Royal Navy, MOD, SOLAS and commercial customers will be unchanged.

United Kingdom Hydrographic Office Board

Membership of the HOB during the year was:

Dr Wyn Williams

Chief Executive and National Hydrographer

Mr Michael Gates

Non-Executive Director

Mrs Sandra Rogers

Non-Executive Director

Captain David Lye, OBE, RN

Captain HM and Hydrographer of the Navy

Non-Executive Director

To 17 January 2005

Captain Ian Turner, OBE, RN

Captain HM and Hydrographer of the Navy

Non-Executive Director

From 18 January 2005

Mr Victor Jenkins

Director of Operations and Deputy Chief Executive

To 9 May 2004

Mr Barrie Bussey

Finance Director

Dr Peter Cox

Director of Safety and Quality

To 9 May 2004

Director Operations and Director Safety and Quality

From 10 May 2004

Mr Tim Squire

Technical Director

To 9 May 2004

Technical Director and Deputy Chief Executive

From 10 May 2004

Mr Robert Moss

Director of Marketing and Supply

Mr Stephen Parnell

Director of Corporate Development

Re-designated as Director of Service Delivery

From 1 April 2004

None of the board members have directorships that are in conflict with their management responsibilities of the UKHO.

During 2005/06 changes will be made to the Hydrographic Office Board, in line with similar changes for other trading funds. These take account of developments in the private sector and build on the existing corporate governance arrangements within the UKHO. The roles of Chief Executive and Chairman of the HOB will be separated and an independent, non-executive Chairman will be appointed. In addition, membership will be extended to a representative of a Trade Union and a member of the MOD Directorate of Business Delivery will attend Board meetings.

Payment Policy

The UKHO's general policy is to pay suppliers within 30 days of receipt of a valid invoice or delivery date whichever is later, unless more specific terms are agreed.

In the year ended 31 March 2005, 98.7% (2003/04 – 99.1%) of undisputed invoices were paid within the stipulated timeframe. The principles of the "Better Payment Procedure Code" have been observed. A summary of these are contained in "Government Accounting".

Policy on the Employment of the Disabled

The UKHO is committed to a policy of equality of opportunity. Disablement is not seen as a bar to recruitment or advancement, the test applied being the ability to do the job.

Remuneration Committee

This committee oversees and manages UKHO's pay and reward strategy making sure that it is affordable, responsive to the changing needs of the business and in line with Public Sector pay policy. The committee, chaired by a non-executive director, comprises three executive directors and reports to the Chief Executive.

Staff Involvement

The UKHO is committed to improving the quality of communication with staff and encouraging their commitment to the UKHO's continued success. Line management provides the key focus for staff involvement supplemented by dissemination of information by means of regular bulletins, monthly summaries from the Chief Executive, the publication of a bi-monthly UKHO newspaper, presentations by the Chief Executive and Directors to staff, and Defence Council Instructions. The UKHO Intranet also provides a vehicle for rapid and accessible communication. Formal consultations over a wide range of issues are conducted through the Whitley Committee, chaired by the Chief Executive, which meets several times a year. Trades Unions are actively encouraged to contribute to studies and other reviews.

Audit & Controls Assurance Committee

The Audit & Controls Assurance Committee provides the Chief Executive with guidance and independent assurance on the effectiveness of the system of internal control. Meeting quarterly, its membership consists of the three non-executive directors, one of whom chairs the committee, and is an external member of the Ministerial Advisory Board for the UKHO.

Auditor

The accounts are audited by the Comptroller and Auditor General in accordance with section 4(6) of the Government Trading Funds Act 1973. The cost was £70K for performance of the statutory audit and £5k for validation of key targets. No other audit services were provided by the Comptroller and Auditor General during the financial year. All audit findings are reviewed by the Audit and Controls Assurance Committee.



Dr. Wyn Williams

Chief Executive and National Hydrographer
20 May 2005

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the UKHO's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Each year I obtain approval from the responsible Minister for my corporate risk register, plan and financial projections covering a rolling ten year period. The Minister reviews performance in year through the UKHO Ministerial Advisory Board

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of UKHO's policies, aims and objectives, to evaluate the likelihood of these risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in UKHO for the year ended 31st March 2005 and up to the date of approval of the annual report and accounts, and with the exception of business continuity accords with Treasury guidance.

Capacity to handle risk

Corporate aims and objectives are agreed by the UKHO Board at an annual strategic risk workshop. These form the basis of a ten year corporate plan, financial projections and risk register which are agreed by the UKHO Board and approved by the responsible Minister. Individual directorate registers underpin the corporate risk register.

Directors provide written assurance that to the best of their knowledge, risks have been adequately identified and managed through the implementation of appropriate controls

All staff have on-line access to guidance in the identification and mitigation of risk. Senior management have also been provided with Corporate Governance and Risk Management training in recognition of their responsibility for the management of risk.

The risk and control framework

The most significant risk to the organisation is in the safety of our core products. Controls include:

- prioritising of activity needed to update current products through the application of a safety index,
- new products are subject to a formal risk assessment by the UKHO Product Safety Management Board,
- the quality of professional standards is regularly reviewed by the Safety Of Navigation Assurance Committee chaired by a non-executive director,
- sample quality checks by the Charting Review and Standards branch.

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

The UKHO Board undertakes quarterly reviews based on total financial performance against budgets and forecasts. I undertake formal quarterly performance reviews with Directors and agree changes with my Finance Director

Change management control, covering the development of new products and investments in new processes and infrastructure, is subject to professional project management, investment appraisal, risk assessment and formal review by the UKHO Programme Board. Major programmes of work are endorsed by the UKHO Board. Project closure reports and Post Project Evaluations are undertaken.

A Balanced Scorecard approach provides monthly reports on key business targets, linked to directorate aims and objectives.

The principles of ISO9001:2000 continue to be applied to our internal control framework, with focus on monitoring the effectiveness of controls measured and tested against business objectives rather than simply addressing compliance.

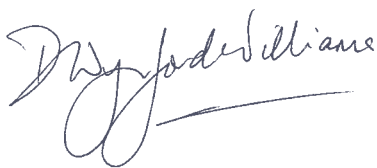
Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within UKHO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and the Audit and Controls Assurance Committee; a plan to address weaknesses and ensure continuous improvement of the system is in place.

The review of the effectiveness of internal control is coordinated through the Audit and Controls Assurance Committee which provides guidance and independent assurance. Meeting quarterly its membership consists of the three non-executive directors with input from External Audit, Internal Audit, Planning Branch and executive directors as necessary.

Internal Audit for 2004/05 was contracted out to Bentley Jennison, Chartered Accountants, who as part of their duties carried out independent checks on the control process on my behalf. Operating to standards defined in the Government Internal Audit Standards they have carried out a programme of risk based audits. They submitted regular reports which include their independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement which, when accepted by senior managers, form improvement actions. Outstanding improvement actions are reported and monitored monthly by the directing team and reviewed periodically by the Audit and Controls Assurance Committee and the UKHO Board.

The UKHO cannot yet demonstrate full compliance with MOD business continuity planning requirements. Business continuity arrangements are subject to continuous refinement. They comprise business resumption plans to recover onsite operational incidents; offsite storage of critical data; arrangements for incident control and for the ten most critical functions to be accommodated elsewhere together with site-wide business continuity strategy that assumes loss of the whole site. This is still subject to full compliance testing.



Dr. Wyn Williams

Accounting Officer and Chief Executive
20 May 2005

STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds Act 1973 the Treasury has directed the United Kingdom Hydrographic Office to prepare a statement of accounts for each financial year in the form and on the basis set out in their Accounts Direction issued on 16 February 2005. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the year.

In preparing the accounts the UKHO is required 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 have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the UKHO will continue in operation.

The Treasury has appointed the National Hydrographer, in his capacity as Chief Executive of the United Kingdom Hydrographic Office, as the Accounting Officer for the Hydrographic Office Trading Fund. His relevant responsibilities in this role, including his responsibility for propriety and regularity of the public finances for which he is answerable and for keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements on pages 20 to 40 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 27.

Respective responsibilities of the United Kingdom Hydrographic Office, the Chief Executive and Auditor

As described on page 18 the United Kingdom Hydrographic Office and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The United Kingdom Hydrographic Office and the Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 16 to 17 reflects the United Kingdom Hydrographic Office's compliance with Treasury's guidance on the 'Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's 'Statement on Internal Control' covers all risks and controls. I am also not required to form an opinion on the effectiveness of the United Kingdom Hydrographic Office's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the United Kingdom Hydrographic Office and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the United Kingdom Hydrographic Office's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the United Kingdom Hydrographic Office and its subsidiary undertakings at 31 March 2005 and of the consolidated net profit, the consolidated total recognised gains and losses and the consolidated cash flows for the year then ended and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn
Comptroller and
Auditor General
25 May 2005

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

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05 £M	2003/04 £M
		Continuing Operations	Continuing Operations
Turnover:			
Group and share of joint ventures		67.1	63.1
Less: share of joint ventures turnover		(0.1)	0.0
Group turnover		67.0	63.1
Change in stocks of finished goods and WIP		0.1	0.1
Other operating income		1.0	0.9
Materials and other external charges		(5.6)	(5.1)
Staff costs	2e	(31.4)	(29.7)
Depreciation and impairment	3a	(2.7)	(3.4)
Other operating charges	3b	(19.3)	(16.7)
Profit on ordinary activities before interest	3	9.1	9.2
Share of operating profit in joint ventures		(0.2)	0.0
Interest receivable and similar income (Group)	4	1.5	1.2
Interest payable and similar charges:	5		
Group		(1.1)	
Joint ventures		0.0	
		(1.1)	(1.1)
Profit on ordinary activity before tax		9.3	9.3
Taxation		0.0	0.0
Net Profit		9.3	9.3
Dividend		(20.6)	(3.3)
Retained profit/(loss) for the financial year		(11.3)	6.0

The notes on pages 24 to 40 form part of these accounts.



B Bussey
Finance Director
20 May 2005



Dr Wyn Williams
Chief Executive and National Hydrographer
20 May 2005

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2005

	Note	31 March 2005 £M	31 March 2004 £M
Fixed Assets			
Intangible Assets	7a	0.9	0.6
Tangible Assets	7b	<u>29.4</u>	24.4
		30.3	25.0
Investments in joint ventures:			
Loans	8	0.9	0.0
Share of gross assets		0.9	0.0
Share of gross liabilities		<u>(1.0)</u>	0.0
		0.8	0.0
Current Assets			
Stock	9	1.9	1.7
Debtors	10	12.9	11.5
National Loans Fund		24.7	36.1
Cash in Hand		<u>0.9</u>	0.0
		40.4	49.3
Current liabilities			
Creditors			
amount falling due within one year	11	(14.5)	(11.4)
Net Current Assets		25.9	37.9
Total assets less current liabilities		57.0	62.9
Provisions for liabilities and charges	12	3.5	3.7
Financed by:			
Trading Fund			
Public dividend capital		13.3	13.3
Long term loans	13	11.3	11.7
Revaluation reserve	14	10.5	6.7
Profit and loss account	14	19.4	28.7
Total government funding	20	54.5	60.4
Admiralty Holdings Limited			
Profit and loss account	14	(1.0)	(1.2)
Total Funding		57.0	62.9

The notes on pages 24 to 40 form part of these accounts.



B Bussey
Finance Director
20 May 2005



Dr Wyn Williams
Chief Executive and National Hydrographer
20 May 2005

TRADING FUND BALANCE SHEET AS AT 31 MARCH 2005

	Note	31 March 2005 £M	31 March 2004 Restated £M
Fixed Assets			
Intangible Assets	7a	0.9	0.6
Tangible Assets	7b	<u>29.4</u>	24.4
		30.3	25.0
Investment	8	1.9	(1.2)
Current Assets			
Stock	9	1.9	1.7
Debtors	10	12.9	11.5
National Loans Fund		24.7	36.1
Cash in Hand		<u>0.8</u>	0.0
		40.3	49.3
Current liabilities			
Creditors			
amount falling due within one year	11	(14.5)	(11.4)
Net Current Assets		25.8	37.9
Total assets less current liabilities		58.0	61.6
Provisions for liabilities and charges	12	3.5	3.7
Financed by:			
Public dividend capital		13.3	13.3
Long term loans	13	11.3	11.7
Revaluation reserve	14	10.5	6.7
Profit and loss account	14	19.4	28.7
Total government funding	20	54.5	60.4
		58.0	64.1

The notes on pages 24 to 40 form part of these accounts.



B Bussey
Finance Director
20 May 2005



Dr Wyn Williams
Chief Executive and National Hydrographer
20 May 2005

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2005

	2004/05 £M	2003/04 £M
	Continuing Operations	Continuing Operations
Profit for the financial year	9.3	9.4
Unrealised current cost revaluation surplus	3.0	0.6
Total recognised gains and losses relating to the year	12.3	10.0

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05 £M	2003/04 £M
Net cash inflow from operating activities	17	12.4	13.5
Investments		(1.0)	0.0
Returns on investments and servicing of finance			
Interest received	4	1.5	1.1
Interest paid	5	(1.0)	(1.0)
Dividend paid on public dividend capital		(19.6)	(2.9)
		(19.1)	(2.8)
Capital Expenditure			
Payments to acquire tangible fixed assets		(2.3)	(3.6)
Receipts from sales of tangible fixed assets		0.0	0.0
		(2.3)	(3.6)
Net cash inflow before use of liquid resources and financing		(10.0)	7.1
Management of liquid resources			
Increase in short term deposits		11.4	(7.7)
Financing			
Repayment of long term loan		(0.3)	(0.3)
(Decrease) / Increase in cash and bank balance	19	1.1	(0.9)

The notes on pages 24 to 40 form part of these accounts.

1. ACCOUNTING POLICIES

A. Basis of Accounting

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 16 February 2005, pursuant to section 4(6) of the Government Trading Funds Act 1973. They follow the accruals concept of accounting and the historical cost convention, modified to include revaluation of Fixed Assets as set out in Note E below. They comply with the accounting and disclosure requirements of the Companies Act 1985, generally accepted accounting practice in the United Kingdom (UK GAAP), accounting standards issued by the Accounting Standards Board, and HM Treasury guidance, insofar as they are appropriate.

In the accounts for 2004/2005, the Income and Expenditure Account and Balance Sheet have been revised to reflect the inclusion of Admiralty Holdings Limited joint venture operations in accordance with Financial Reporting Standard 9.

B. Basis of Consolidation

The consolidated accounts incorporate those of the trading fund together with those of Admiralty Holdings Limited and all of its subsidiary undertakings. All the entities are consolidated using the acquisition method, and their results are incorporated from the date that control passes. All accounts are drawn up to 31 March each year, and all inter company transactions and balances are eliminated on consolidation.

Admiralty Holdings Limited and its subsidiary undertakings were incorporated during 2002/2003. All the issued share capital of Admiralty Holdings Limited is held in the name of the office of the Secretary of State for Defence. Authority to manage the operation of the company and its subsidiary undertakings has been delegated to a board of directors the majority of whom are also executive members of the Hydrographic Office Board, including in particular Dr Wyn Williams, the Chief Executive and National Hydrographer.

Following HM Treasury guidance, this group of companies has been set up as a suitable vehicle to enter into joint ventures and other similar arrangements, which the UKHO as a trading fund could not necessarily enter into in its own right.

Under the guidance provided in Financial Reporting Standard No 2: Accounting for Subsidiary Undertakings, the UKHO is preparing consolidated accounts on the basis that, despite not having a direct investment interest in Admiralty Holdings Limited, the Hydrographic Office Board is capable of exercising, and actually exercises, dominant influence over the activities and day-to-day operations of the corporate group through majority control of the board of directors of Admiralty Holdings Limited and all of its subsidiary undertakings.

C. Turnover

Turnover represents the accrued value of sales net of VAT after allowing for distributor discount.

D. Provision for Sales Credits

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

E. Fixed Assets

Valuation

Ownership of the Agency's assets is vested in the Secretary of State for Defence.

Intangible Assets

Software licences are retained at historic cost due to their short term economic life.

Tangible Assets

Land, Buildings and a specific selection of significant items of plant and machinery were professionally valued at 1 October 2004 by the Valuation Office Agency using appropriate methods. The remaining assets have been revalued annually through the application of appropriate indices:

- Land - the Gross Domestic Product Index;
- Buildings – the Buildings Tender Price Index;
- Plant and Equipment – the Office for National Statistics index 2924 (industrial and commercial machinery and services equipment);
- Computers (excluding software licences) – are retained at historic cost due to their short term economic life.

New additions and improvements are capitalised at cost where the value of discrete items exceeds £1,000 excluding VAT. Only software (and associated licenses) which is stable (i.e. not subject to frequent upgrades) and is related to processes vital to core business, has been capitalised.

Depreciation and Amortisation

Freehold Land is not depreciated. Depreciation on other assets is calculated to write off the original cost or restated value evenly over their estimated useful lives (life of the licence in the case of software) taking account of any residual second-hand or scrap value. Estimated useful lives are as follows:

Buildings	Not exceeding 50 years
Plant and Equipment	Between 1 and 20 years
Computers (including capitalised software and licenses)	Between 2 and 5 years

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

F. Stocks and Work in Progress

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

G. Hydrographic Database

In carrying out its business, the UKHO utilises raw hydrographic data provided by the Ministry of Defence and the Maritime and Coastguard Agency but a significant element is also derived from foreign governments and private companies. The vast bulk of this hydrographic data is owned by these third parties, and the UKHO pays for its usage through royalties. The very small proportion of data deemed to be owned by the UKHO was mainly acquired many years ago, and is not normally used now in the production of charts without being updated by recent soundings etc. Consequently, the data are of limited value to the UKHO.

The UKHO has not valued, therefore, any part of the hydrographic database, but charges direct to revenue all costs of acquiring and maintaining data as they are incurred.

H. Heritage Assets

The UKHO is custodian of historically important hydrographic records acquired or produced by the Agency during its 200 year history. These records represent less than five percent of the total volume of hydrographic records held and meet the HM Treasury definition of non-operational assets. Accordingly they have not been valued. The UKHO's historic archives are accessible to the public by appointment.

I. Pensions

Civilian staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. However, since the UKHO is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid at rates determined from time to time by the Government Actuary. New entrants from 1 October 2002 have the option to open a partnership pension account, a "money purchase" stakeholder pension arrangement with an employer contribution. Service personnel are deemed to be on loan to the UKHO, which carries no liability for their pension other than insofar as these form a constituent element of the monthly loan service charge paid to the MOD for their services.

Full provision for early retirements is normally made in the year of retirement.

J. Insurance

In common with other Government-owned organisations, the UKHO carries commercial insurance only where it is considered cost effective. It carries its own risks in respect of professional indemnity, damage to buildings and their contents, business interruption, employers' liability, public liability etc.

In the event of any loss occurring which exceeds the scope to be covered from retained profit, the UKHO will consult with the MOD about the action to be taken.

K. Research and Development

All expenditure on research and development of non-commercial products is written off to the Income and Expenditure Account. Research and development of commercial products is similarly written off until such time as all the requirements of SSAP 13 "Accounting for Research and Development" are met, from which point they are capitalised. Amortisation of these costs commences with the commercial production of the product. The costs are amortised on a straight line basis over the product commercial lives.

L. Foreign Currencies

Assets and liabilities denominated in a foreign currency are translated at the rate(s) of exchange ruling at the balance sheet date. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Income and Expenditure account.

M. Investments

In accordance with Treasury rules, funds surplus to immediate requirements of £1M or more are deposited with the National Loans Fund for a minimum of 7 days. Immediate cash requirements are held in an interest bearing bank account.

N. Royalties

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

O. Treatment of Operating Leases

All expenditure incurred in respect of operating leases is charged to operating expenses in the year in which they arise. The UKHO has no finance leases.

P. Cost of Capital

The government rate of 3½% has been used as the cost of capital in calculating any discounted figures.

Q. Liquid Resources

For the purposes of the Cash Flow Statement, all amounts deposited with the National Loans Fund have been treated as liquid resources in line with Financial Reporting Standard 1 “Cash Flow Statements”.

R. Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group’s taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

2. STAFF COSTS AND NUMBERS

- a. The Chief Executive received total remuneration, excluding pension contributions, of £88073 (£87,485 2003/04) and, other than pension benefits as described below, received no other payments or benefits in the year.
- b. The bands of salary, pension entitlements and the value of any taxable benefits in kind of the executive members of the Hydrographic Office Board were as follows:

Name of Officer	Salary, including performance pay	Age	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/05 and related lump sum	CETV at 31/03/04	CETV at 31/03/05	Real increase in CETV
	(£K)		(£K)	(£K)	(£K)	(£K)	(£K)
Dr Wyn Williams	85-90	58	0 -2.5 plus 2.5 – 5 lump sum	35-40 plus 100-105 lump sum	597	651	20
Mr Steve Parnell	60-65	55	0-25 plus 0-2.5 lump sum	20-25 plus 65-70 lump sum	392	422	9
Mr Robert Moss	55-60	54	0-25 plus 0-2.5 lump sum	0-5 plus 10- 15 lump sum	54	67	10
Mr Vic Jenkins to 09/05/04	10-15	54	0-25 plus 0-2.5 lump sum	25-30 plus 75-80 lump sum	448	457	11
Mr Barrie Bussey	90-95	56	0-25 plus 0-2.5 lump sum	10-15 plus 35-40 lump sum	188	212	14
Mr Tim Squire	70-75	42	0-2.5	15-20	128	147	10
Dr Peter Cox	60-65	57	2.5-5	35-40	450	519	43

There were no benefits in kind or employer contributions to the Partnership pension account.

Salary

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

Benefits in kind

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

Pension

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based “final salary” defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality “money purchase” stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

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 CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in CETV reflects the increase in CETV effectively funded by the employer. It takes account of 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.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the United Kingdom Hydrographic Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers’ contributions of £3,168K were payable to the PCSPS (2003-04 £3,049K) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme’s Actuary reviews employer contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Contributions due to the partnership pension providers at the balance sheet date were £2K. There were no contributions prepaid at that date.

For the purpose of calculating the real increase in pension for the year inflation has been assumed at 3.1%.

The aggregate remuneration paid to the Non-Executive Directors was £41,202 (2003/04 - £54,137).

	Age	Director's Fees and Expenses	
		2004/05	2003/04
		£	£
Captain David Lye OBE RN	55	-	-
Captain Ian Turner OBE RN	49	315	-
Mr Michael Gates	60	25,697	25,594
Mrs Sandra Rogers	49	15,190	28,543
		41,202	54,137

- c. Members of the Ministerial Advisory Board receive no remuneration from the UKHO apart from the Chief Executive (see Note 2a above). Salary and pension costs of full time government officials are borne by their parent departments with the fees and expenses of the external advisers being paid by the MOD.
- d. The average number of employees during the year was made up as follows:

	Note	2004/05	2003/04
Senior Management		6	7
Professional Compilation Staff		451	474
Printing and Supply		152	152
Administration and Support		307	297
Agency staff		39	35
Service personnel	2g	3	2
		958	967

- e. Total staff costs for the year were as follows:

	Note	2004/05	2003/04
		£M	£M
Salaries, wages and allowances		24.7	23.5
Social security costs		1.9	1.8
Pension costs		3.2	3.0
Agency staff costs		1.3	1.1
Service personnel loan costs	2g	0.3	0.3
		31.4	29.7

- f. For 2004/05 the applicable pension rates were as follows:

Scheme and Annual Salary Bands to which rates apply	%
PCSPS - Band 1 - £17,500 and under	12.0
PCSPS - Band 2 - £17,501 to £36,000	13.5
PCSPS - Band 3 - £36,001 to £62,000	16.5
PCSPS - Band 4 - £62,001 and over	18.5

- g. Whilst Service personnel occupy permanent posts within the UKHO, and as such are reflected in the analysis of the average number of employees for the year covered by the accounts (Note 2d), they are deemed by the MOD to be on loan to the UKHO. In view of this, the MOD levy capitation based loan charges as opposed to actual salary costs for all service personnel. Apart from the element included in the loan charge, the UKHO carries no liability for the pension costs of Service personnel.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

Profit on ordinary activities before interest of £9.1M (2003/04 - £9.2M) is stated after charging:

	31 March 2005 £M	31 March 2004 £M
Depreciation/amortisation - owned assets	2.6	3.2
Loss on disposal of fixed assets	0.0	0.0
Impairment adjustments	0.1	0.2
3a	2.7	3.4
Operating leases: Office machinery	0.0	0.0
Professional fees	0.6	1.7
Research and development	4.6	1.8
Auditor's remuneration	0.1	0.1
Travel, training and entertainment expenses	1.9	1.3
Materials and services	3.7	4.8
Utilities and other estates operating costs	3.1	1.9
Computing and office machines	2.3	2.2
Royalties payable	3.0	3.0
3b	19.3	16.7

Materials and services include an exceptional credit of £0.6M in respect of a rate rebate received in 2004/05 retrospective to 2000-2001.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

This relates to interest receivable from investments in the National Loans Fund, short term deposits held in an interest bearing bank account and interest charges on overdue payments. Interest from investments in the National Loans Fund constitutes the majority of interest receivable.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Note	31 March 2005 £M	31 March 2004 £M
Interest paid to the Ministry of Defence in respect of the long-term loan		1.0	1.0
Unwinding of the discount on provision for restructuring	12	0.1	0.1
		1.1	1.1

6. TAXATION

UKHO is not subject to income or corporation tax in the United Kingdom. However Admiralty Holdings Limited and its subsidiary undertakings are liable to pay corporation tax in the United Kingdom on their taxable profits. No provision has been made in these accounts for tax payable by Admiralty Holdings Limited and its subsidiaries on the grounds that tax losses arose during the year. Admiralty Holdings Limited has a deferred tax asset in respect of tax losses carried forward, which has not been recognised in these accounts on the grounds of uncertainty with regard to recoverability.

7a. INTANGIBLE FIXED ASSETS

Consolidated	Software Licences	Total
	£M	£M
Cost or Valuation:		
At 1 April 2004	1.7	1.7
Additions	0.7	0.7
Reclassification	0.0	0.0
Disposals	0.0	0.0
Revaluation	0.0	0.0
Downward revaluations	0.0	0.0
Impairment	0.0	0.0
At 31 March 2005	2.4	2.4
Amortisation:		
At 1 April 2004	1.1	1.1
Charged	0.4	0.4
Disposals	0.0	0.0
At 31 March 2005	1.5	1.5
Net Book Value:		
At 31 March 2005	0.9	0.9
At 31 March 2004	0.6	0.6

Trading Fund	Software Licences	Total
	£M	£M
Cost or Valuation:		
At 1 April 2004	1.7	1.7
Additions	0.7	0.7
Reclassification	0.0	0.0
Disposals	0.0	0.0
Revaluation	0.0	0.0
Downward revaluations	0.0	0.0
Impairment	0.0	0.0
At 31 March 2005	2.4	2.4
Amortisation:		
At 1 April 2004	1.1	1.1
Charged	0.4	0.4
Disposals	0.0	0.0
At 31 March 2005	1.5	1.5
Net Book Value:		
At 31 March 2005	0.9	0.9
At 31 March 2004	0.6	0.6

7b. TANGIBLE FIXED ASSETS

Consolidated	Freehold Land and Buildings	Plant and Equipment	Furniture	Computers	Assets under Construction	Total
	£M	£M	£M	£M	£M	£M
Cost or Valuation:						
At 1 April 2004	22.3	3.2	0.4	9.0	0.1	35.0
Additions	0.0	0.3	0.2	0.7	0.3	1.5
Reclassification	0.6	(0.6)	0.0	0.1	(0.1)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation	5.8	1.0	0.0	0.0	0.0	6.8
Downward revaluations	(0.1)	(0.7)	0.0	0.0	0.0	(0.8)
Impairment	0.0	(0.1)	0.0	0.0	0.0	(0.1)
At 31 March 2005	28.6	3.1	0.6	9.8	0.3	42.4
Depreciation:						
At 1 April 2004	2.7	0.9	0.0	7.2	0.0	10.8
Charged	0.8	0.4	0.1	0.9	0.0	2.2
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
At 31 March 2005	3.5	1.3	0.1	8.1	0.0	13.0
Net Book Value:						
At 31 March 2005	25.1	1.8	0.5	1.7	0.3	29.4
At 31 March 2004	19.6	2.2	0.3	2.1	0.1	24.4

Trading Fund	Freehold Land and Buildings	Plant and Equipment	Furniture	Computers	Assets under Construction	Total
	£M	£M	£M	£M	£M	£M
Cost or Valuation:						
At 1 April 2004	22.3	3.2	0.4	9.0	0.1	35.0
Additions	0.0	0.3	0.2	0.7	0.3	1.5
Reclassification	0.6	(0.6)	0.0	0.1	(0.1)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation	5.8	1.0	0.0	0.0	0.0	6.8
Downward revaluations	(0.1)	(0.7)	0.0	0.0	0.0	(0.8)
Impairment	0.0	(0.1)	0.0	0.0	0.0	(0.1)
At 31 March 2005	28.6	3.1	0.6	9.8	0.3	42.4
Depreciation:						
At 1 April 2004	2.7	0.9	0.0	7.2	0.0	10.8
Charged	0.8	0.4	0.1	0.9	0.0	2.2
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
At 31 March 2005	3.5	1.3	0.1	8.1	0.0	13.0
Net Book Value:						
At 31 March 2005	25.1	1.8	0.5	1.7	0.3	29.4
At 31 March 2004	19.6	2.2	0.3	2.1	0.1	24.4

8. INVESTMENTS

	Consolidated £M	Trading Fund £M
Analysis of loans in Admiralty Holdings Limited:		
01-Apr-04 (Note 8i)	0.0	1.0
Additions	1.0	1.0
31-Mar-05	1.0	2.0
Provision for diminution in value (Note 8ii):	0.1	0.1
Net Book Value		
31-Mar-05	0.9	1.9

(i) Represents capitalisation of long-term trading debts owed to UKHO. All other loans have been provided to AHL for investment as equity and loan capital in SeaZone Solutions Limited and Admiralty Coastal Surveys AB, joint venture companies.

(ii) Represents provision against loan capital provided for SeaZone Ltd.

Admiralty Coastal Surveys AB is a Swedish company. Loan investments have been revalued as at 31 March 2005 for exchange rate variations.

9. STOCK

	31 March 2005 £M	31 March 2005 £M	31 March 2004 £M	31 March 2004 £M
	Consolidated	Trading Fund	Consolidated	Trading Fund
Materials	0.4	0.4	0.3	0.3
Work in Progress	0.0	0.0	0.0	0.0
Finished stocks	1.5	1.5	1.4	1.4
	1.9	1.9	1.7	1.7

10. DEBTORS

	31 March 2005 £M Consolidated	31 March 2005 £M Trading Fund	31 March 2004 £M Consolidated	31 March 2004 £M Trading Fund Restated
Trade debtors	11.9	11.9	10.7	10.7
Other debtors	0.5	0.5	0.2	0.2
Prepayments and accrued income	0.5	0.5	0.5	0.5
	12.9	12.9	11.5	11.5

Prior year Trading Fund balances have been restated to reflect the conversion of outstanding debts totalling £1.0M to a loan.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2005 £M Consolidated	31 March 2005 £M Trading Fund	31 March 2004 £M Consolidated	31 March 2004 £M Trading Fund
Bank overdraft	0.0	0.0	0.3	0.3
Trade creditors	1.6	1.6	2.6	2.6
Other taxes and social security	0.7	0.7	0.7	0.7
Other creditors	0.0	0.0	0.0	0.0
Accruals and other deferred income	7.9	7.9	4.5	4.5
Proposed dividend	4.3	4.3	3.3	3.3
	14.5	14.5	11.4	11.4

12. PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated	Balance at 01 April 2004	Charged to Profit and Loss	Unwinding of the discount	Applied	Balance at 31 March 2005
	£M	£M	£M	£M	£M
Provision for sales credits	2.3	2.1	0.0	(2.1)	2.3
Provision for early retirement	1.4	0.4	0.1	(0.7)	1.2
	3.7	2.5	0.1	(2.8)	3.5

Trading Fund	Balance at 01 April 2004	Charged to Profit and Loss	Unwinding of the discount	Applied	Balance at 31 March 2005
	£M	£M	£M	£M	£M
Provision for sales credits	2.3	2.1	0.0	(2.1)	2.3
Provision for early retirement	1.4	0.4	0.1	(0.7)	1.2
	3.7	2.5	0.1	(2.8)	3.5

Provision for Sales Credits

A provision is made against current sales in respect of future credits for superseded stocks held by Admiralty Chart Distributors. The provision represents a moving average of credits allowed over the last three years, expressed as a percentage of sales after discounts. It is anticipated that the provision will be fully applied during 2005/06.

Provision for Early Retirement

This reflects the outstanding liability for early retirements arising from a variety of restructuring exercises undertaken between financial years 1998/99 to 2000/01. In previous years separate analyses have been provided under the headings of "Provision for Early Retirement" and "Provision for Restructuring". However, as both essentially relate to early retirement liabilities it has been decided to combine the totals under a single heading for clarity. Further early retirements have occurred during the current year and these have been provided for in full in the year. The reserve has been discounted at 3.5%. The provision is expected to be fully applied by 2010/11.

13. LONG TERM LOAN

	31 March 2005 £M	31 March 2005 £M	31 March 2004 £M	31 March 2004 £M
	Consolidated	Trading Fund	Consolidated	Trading Fund
Analysis of repayments				
Within 1 year	0.3	0.3	0.3	0.3
Between 1 and 2 years	0.4	0.4	0.4	0.4
Between 2 and 5 years	1.4	1.4	1.3	1.3
After 5 years	9.2	9.2	9.7	9.7
	11.3	11.3	11.7	11.7

14. RESERVES

Consolidated	Revaluation Reserves £M	Profit and Loss Account £M	Total £M
At 1 April 2004	6.7	27.5	34.2
Profit for the year	0.0	(11.3)	(11.3)
Revaluation of fixed assets	6.8	0.0	6.8
Downward revaluation	(0.8)	0.0	(0.8)
Realisation of revaluation surplus	(2.2)	2.2	0.0
At 31 March 2005	10.5	18.4	28.9

15. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The UKHO has very limited powers to borrow or invest surplus funds and except for relatively insignificant sales in foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the department in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The UKHO is able to meet both its normal working capital requirements and future capital investments without recourse to borrowing. It is not therefore exposed to significant liquidity risks.

Interest-rate risk

All UKHO financial assets and liabilities that are subject to interest are assessed at fixed rates. The UKHO is not therefore exposed to significant interest-rate risk.

Foreign currency risk

The UKHO's trading exposure to foreign currency risk is not significant. Both foreign currency income and expenditure is negligible. Of a £1M investment in Admiralty Holdings Limited, approximately £0.9M has been re-invested in a Swedish joint venture company. Both the capital and interest payments are exposed to foreign currency fluctuations. The remainder of the balance is primarily invested in a UK joint venture company.

Fair values

The fair value of loans provided to the UKHO is assessed at £7.25M as at 31 March 2005, discounted applying the National Loans Fund rate for equivalent term annuity loans as at that date of 4.85%.

16. CAPITAL COMMITMENTS

	31 March 2005 £M Consolidated	31 March 2005 £M Trading Fund	31 March 2004 £M Consolidated	31 March 2004 £M Trading Fund
Contracted for but not provided for in the accounts:				
Capital	6.0	6.0	0.2	0.2

17. RECONCILIATION OF CONSOLIDATED PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST TO CONSOLIDATED NET CASH INFLOW FROM OPERATING ACTIVITIES

	31 March 2005 £M	31 March 2004 £M
Consolidated profit on ordinary activities before interest	9.1	9.2
Depreciation	2.6	3.2
Impairment adjustment	0.1	0.2
Loss / (Profit) on sale and disposal of tangible fixed assets	0.0	0.0
Decrease / (increase) in stocks	(0.2)	(0.1)
(Increase) in debtors	(1.4)	(0.3)
(Decrease) / increase in creditors	2.4	1.0
Increase / (decrease) in provisions	(0.2)	0.3
Consolidated net cash inflow from operating activities	12.4	13.5

18. ANALYSIS OF CHANGES IN CONSOLIDATED NET FUNDS

	At 1 April 2004 £M	Cash Flow in Year £M	Other changes in year £M	At 31 March 2005 £M
Cash in hand and at bank	0.0	0.9	0.0	0.9
Bank Overdraft	(0.3)	0.3	0.0	0.0
	(0.3)	1.2	0.0	0.9
Debt due within 1 year	(0.3)	0.3	(0.4)	(0.4)
Debt due after 1 year	(11.4)	0.0	0.4	(11.0)
	(11.7)	0.3	0.0	(11.4)
National Loans Fund Deposit	36.1	(11.4)	0.0	24.7
	24.1	(9.9)	0.0	14.2

19. RECONCILIATION OF CONSOLIDATED NET CASH FLOW TO MOVEMENT IN CONSOLIDATED NET FUNDS

	2004/05	2003/04
	£M	£M
(Decrease) / increase in cash in year	1.1	(0.9)
Cash outflow from movement in debt	0.4	0.3
Cash used to increase liquid resources	(11.4)	7.7
Change in net funds	(9.9)	7.1
Net Funds at 1 April 2004	24.1	17.0
Net Funds at 31 March 2005	14.2	24.1

20. RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2004/05	2004/05
	£M	£M
	Consolidated	Trading Fund
01 April 2004	60.4	60.4
Profit for the year before dividend	9.1	9.1
Revaluation reserve movement in year	5.9	5.9
Repayment of long term loan	(0.3)	(0.3)
Proposed dividend and special dividend paid	(20.6)	(20.6)
31 March - at the end of each year	54.5	54.5

21. TRADING FUND KEY FINANCIAL TARGETS

These are:

- To break even taking one year with another.
- To achieve a return on capital employed of 9% averaged over the period 2004/05- 2008/09.

Achievement of (a) is confirmed with a net profit after interest of £9.3M. Assessment of (b) is detailed below.

Return - modified historic cost profit on ordinary activities before interest.

Capital - average net assets, being total assets less current and long term liabilities and charges.

	31 March 2005	31 March 2004	Average
	£M	£M	£M
Profit on ordinary activities before interest	9.1	9.2	9.1
Total assets less current liabilities	57.0	62.9	57.0
Less: Long term liabilities and charges	(3.5)	(3.7)	(3.5)
Capital employed - end of year	53.5	59.2	53.5
Capital employed - beginning of year	59.2	52.9	59.2
Average Capital Employed	56.3	56.0	56.3
Return on Capital Employed	16.2%	16.5%	16.2%

This is the first year of a new five-year average period.

22. RELATED PARTY TRANSACTIONS

During the year, the UKHO entered into material transactions with related parties as follows:

Defence Intelligence Joint Environment - provision of Hydrographic products and services - £11.8M, of which £1.08M is included in the Trade Debtor balance as at 31 March 2005.

Pay and Pensions Agency – purchase of services - £33K, of which £5K is included in the Trade Creditor balance as at 31 March 2005.

Defence Procurement Management Training – provision of training services - £31K, of which there were no outstanding Trade Creditor balances at 31 March 2005.

Defence Estates – provision of professional services, £15K of which there were no outstanding Trade Creditor balances at 31 March 2005.

Qinetiq – purchase of professional services £16K, of which there were no outstanding balances included in the Trade Creditor balance as at 31 March 2005.

Maritime and Coastguard Agency – provision of professional services £924K, of which there were no outstanding balances included in the Trade Debtor balance as at 31 March 2005.

Director General Human Resources (Navy) – recharge of the costs of RN service personnel on loan to the UKHO, £348K, there were no outstanding Trade Creditor balances at 31 March 2005.

Ministry of Defence Guard Service – provision of site security services £494K of which £58K was included in the Trade Creditor balance at 31 March 2005.

The value of products and services supplied during the year are shown exclusive of VAT. The amounts outstanding at the year end are shown inclusive of VAT.

Admiralty Holdings Limited – The consolidated accounts incorporate those of the trading fund together with those of Admiralty Holdings Limited and all of its subsidiary undertakings. All the entities are consolidated using the acquisition method, and their results are incorporated from the date that control passes. All accounts are drawn up to 31 March each year.

Admiralty Holdings Limited and its subsidiary undertakings were incorporated during 2003/2004. All the issued share capital of Admiralty Holdings Limited is held in the name of the office of the Secretary of State for Defence. Authority to manage the operation of the company and its subsidiary undertakings has been delegated to a board of directors the majority of whom are also executive members of the Hydrographic Office Board, including in particular Dr Wyn Williams, the Chief Executive and National Hydrographer.

Following HM Treasury guidance, this group of companies has been set up as a suitable vehicle to enter into joint ventures and other similar arrangements, which the UKHO as a trading fund could not necessarily enter into in its own right.

Under the guidance provided in Financial Reporting Standard No 2: Accounting for Subsidiary Undertakings, the UKHO is preparing consolidated accounts on the basis that, despite not having a direct investment interest in Admiralty Holdings Limited, the Hydrographic Office Board is capable of exercising, and actually exercises, dominant influence over the activities and day-to-day operations of the corporate group through majority control of the board of directors of Admiralty Holdings Limited and all of its subsidiary undertakings. During the year UKHO incurred certain expenses on behalf of Admiralty Holdings Limited. At the balance sheet date, the total of these expenses was calculated and charged to Admiralty Holdings Limited by the UKHO.

As at 31 March 2005 a total of £1.03M was outstanding to be paid to the UKHO.



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