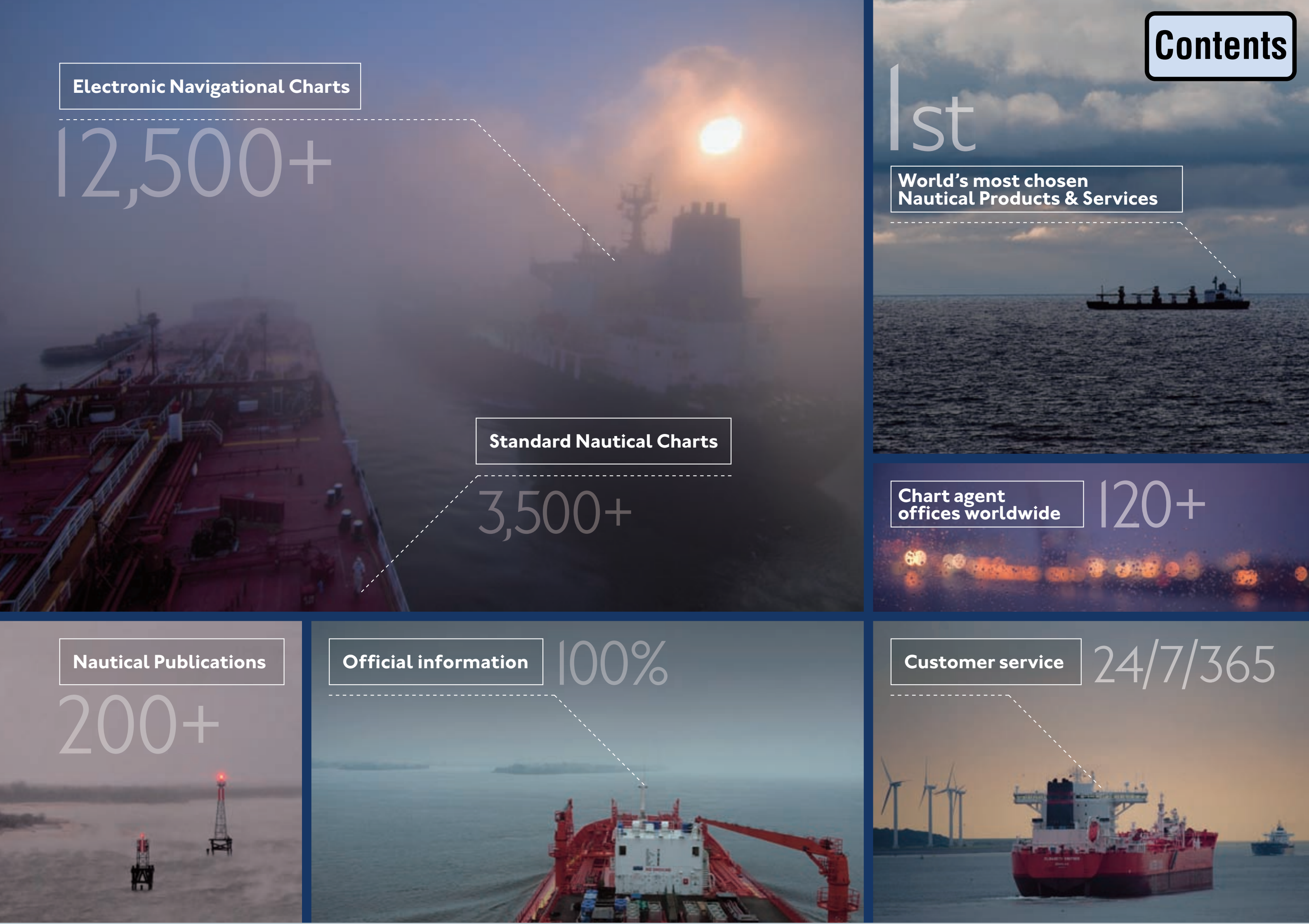

Annual Report and Accounts
2013/14

United Kingdom
Hydrographic Office

Contents

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Hydrographic Office

ANNUAL REPORT AND ACCOUNTS
2013/2014

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as amended by the Government Trading Act 1990

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CHAIR'S MESSAGE

Market conditions
Economic recovery has brought a slight upturn in new vessel deliveries, but commercial shipping continues to weather tough times. This is reflected in increasingly cautious buying behaviour by our distributors and end users and reduced underlying paper chart sales. Nonetheless we have sought to support our business by delivering significant innovation and value across our product portfolio, including our traditional paper charts and publications.

Key achievements
Our agility in pulling through new products to market has improved significantly, we have up-to-date market insight, a professional product management team and our ability to develop and deliver digital data services and software applications has matured. As a result we have delivered at a greater pace in the past year than at any time in our recent history, touching almost every area of our product portfolio. Examples include the introduction of QR codes onto our paper charts so that mariners, port inspectors and distributors can link directly to our web-based notice to mariners (NMs) web service and a wider range of anti-piracy charts and ocean routeing guides that have been well received by the market. A new book on Electronic Chart Display Information System (ECDIS) policy and procedures was launched to complement the practical digital navigation guide published last year. In digital products another step forward was gaining wider flag-state approvals for our ADMIRALTY Digital Publications (ADPs) – increasing the total available market for our digital publications by 50%. We also launched our e-Book reader and 76 new digital publications. Our next ADP (ADMIRALTY List of Radio Signals Volume 2 (ADRS2)) will be in the market by the end of 2014/15 and our Print-on-Demand service continues to grow in use as does e-Navigator.

Internally, we have also made huge strides in transforming our production systems and operational workflow. The work to populate the hydrographic database (HDB) for national charting is complete and we have also rolled out our new chart production system across the office along with new processes on chart updating. This not only gives a significant digital asset, but also gives us the flexibility to produce new products at short-notice and to consider different business models for product and service delivery.

Transformation has placed large demands on our people and we are investing in them to build organisational strength, skills congruence and capability that befits our more competitive, digital world. This investment in our people was formally recognised with a Silver Investors in People Award.

The changes we have made to our business processes and production systems have allowed us to reduce our staff complement and we released 112 permanent civil servants through a Voluntary Early Release Scheme (VERS) at the end of the FY that will reduce our overheads in 2014/15 and beyond. All the colleagues who have now departed under VERS have given years of valuable and dedicated service to the UKHO and mariners around the world and I thank them and pay tribute to the contribution they have made.

Each year staff at the UKHO nominate a local charity and run events throughout the year to raise money for it. This year they nominated Freewheelers, a registered charity that uses specialised motorcycles to transport urgent medical supplies in the South West and raised more than £23,000 towards a new bike. The UKHO also continues to support the ''right-to-read'' scheme and a local community newsletter printing service.

Forthcoming changes
Next year we will continue to build upon the solid foundations of improvements laid this year; anchoring consistency in our approach and reinforcing our ability and confidence to deliver. We will widen our digital services and bring further new paper chart products to market.

Envoi
As the rules of good governance dictate, this is my final year as Chair of the UKHO. I feel both proud and immensely privileged to have been associated with this historic organisation. In particular, to have been a member of the Hydrographic Office Board (HOB) as it dealt with a massive technology change from paper-based to digital navigation, massive changes in production and distribution technology and the emergence of significant changes in market structure. I leave with confidence that Ian Moncrieff and his team have a clear strategy and plan to deliver a sustainable future for the UKHO that has been serving the Royal Navy and the international mariner alike with distinction for 219 years.

S G Rogers

Sandra Rogers
Chair

FOREWORD BY THE CHIEF EXECUTIVE

"From waters they have learned mercifulness – and they have also learned, in the grimmest of schools, precision and resolution. The sea endures no makeshifts. If a thing is not exactly right it will be vastly wrong." – John Buchan

I quoted John Buchan in my foreword to the 2014 edition of our chart catalogue (NP131) and I quote it here again as it captures the unforgiving environment of the mariner that 'endures no makeshifts' and the reliance and trust that mariners place in us to get it exactly right for them when it comes to navigation. This is at the core of what we hold dearest.

Taunton continues to be a busy, always fascinating and stimulating place for those of us privileged to be the stewards of this remarkable capability that focuses on the global safety of the mariner. Our people are at the heart of this and we continue to invest in their continual development. The achievement of a silver Investors in People award from Investors in People confirms the work done in strengthening the training of and investment in the workforce. A successful application to the Institute of Marine Engineering, Science and Technology (IMarEST) assessors secured external accreditation for operations production staff in our Career Level Framework (CLF) scheme. We will follow suit with the British Computer Society for our technology staff this year. Our customer services team have been providing 24/7 support for our customers since 2010 and have achieved an Institute of Customer Service Award in recognition of their continued professionalism. Our staff engagement score this year was on target with the Civil Service benchmark score, although 5% down on the previous year. This was disappointing, but not surprising given the large amount of transformational change this year and continued Civil Service wide pay restraint and austerity measures. I must thank all my colleagues for their continued support and commitment throughout.

Support to Defence and National Security remains our public task priority and we have once again met our targets to support our prime customer. In fact, on top of work we committed to current operations under Key Performance Measure 1 that was again achieved this year, we also delivered in full on 170 ad-hoc contingent tasks – including charts to support humanitarian relief in the Philippines. Our turnaround of national survey data to meet Safety of Life at Sea (SOLAS) obligations continues to increase in pace, assisted by loading all our national data into the HDB to achieve rolling compilation.

As mentioned in the Chair's message, an important focus for us this year has been on improving our technical infrastructure. Together with a revitalised approach to cross-divisional working, this has realised an exceptional number of product innovations this year. The Chair has touched on some of these. I would add that we have launched electronic versions of our nautical publications, a Pay-As-You-Sail folio created under our Electronic Navigational Chart (ENC) product Admiralty Vector Chart Service (AVCS), more anti-piracy charts in strategic areas around the world and the introduction of QR codes onto our paper charts. Significant improvements have been made to our e-Navigator service including the integration of ADMIRALTY Digital Publications in to Planning Station, which is the onboard back-of-bridge component of e-Navigator. Meanwhile, upgrades have also been made to the Fleet Manager component of e-Navigator, our B2B complete product ordering system, which have enhanced usability for our customers. To assist in professionalising our worldwide distribution network, a distributor-training portal has been introduced with mandatory product and technical training.

It is said that imitation is the sincerest form of flattery, but in our business it is dangerous. We have seen counterfeiting of our paper products in the market and we have responded. We will continue to respond robustly with a combination of international legal action and physical measures that make it abundantly clear where a product is a counterfeit and therefore not SOLAS carriage compliant. This also reinforces my quote above.

In meeting our Trading Fund responsibilities to government we remain profitable with an operating profit of £22m. Since inception as a Trading Fund in April 1996, we have declared to MoD £146.8m in dividends and this year we paid a total dividend of £27m to the MoD.

There are new paper products to come next year as well as a further widening of our digital services and we continue to use our revenue after meeting our running costs and payments back to Government, to improve our offering and to the good of the wider hydrographic community with programmes such as capacity building. My focal points are, as ever, my people and the mariner, both of whom have the greatest resonance with me when it comes to improving what we do now and in the future.

Ian Moncrieff CBE
Accounting Officer
and Chief Executive

STRATEGIC REPORT

Vision

Our vision is to be the world's best provider of hydrographic data services.

Mission

Meet national, Defence and civil requirements for navigational and other hydrographic information.

History

The UKHO was established in 1795 and is a world authority and provider of data essential to safe marine navigation. In 1996 we were established as a Trading Fund operating in accordance with statutory instrument SI 1996/773.

Our accounts have been prepared in accordance with HM Treasury direction of 20th December 2013 as per section 4(6) (a) of the Government Trading Funds Act 1973 and are drawn up to 31 March each year.

Financial structure

The UKHO is 100% owned by the Secretary of State for Defence by way of public dividend capital.

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

Description of the business

Our strength lies in our universally trusted portfolio of charts and publications and the unrivalled global coverage of our ADMIRALTY brand through a world-wide network of distributors. Our portfolio includes over 3,500 standard navigational charts, over 200 paper navigational publications, over 130 digital publications and a growing number of related digital products and services. Our AVCS product includes over 12,000 ENCs of which we produce and maintain 1,744.

Our products are compliant for both paper and digital use and meet the changing legislative carriage compliance criteria for SOLAS shipping. In compiling them, we use data from the Royal Navy (RN), the UK Civil Hydrographic Survey and from foreign government hydrographic offices and other sources, such as ports and shipping companies around the world.

The UK Defence and global commercial maritime fleets represent our core market. Additionally, we operate in a number of related market segments; namely leisure, law of the sea, nautical almanac and training.

We play a significant part in discharging UK Government's responsibilities in terms of safety of navigation as required by the United Nations under the SOLAS Chapter V issued by the International Maritime Organisation (IMO). These extend beyond charting matters to include provision of a 24/7 radio navigational warnings service in our region. As the Government's centre of expertise in hydrography, we advise on policy formulation and represent the UK at international hydrographic fora, including the International Hydrographic Organisation (IHO).

Other than sales to the RN and data licensing arrangements, sales of our ADMIRALTY brand products and services are made through our worldwide network of distributors.

The regulatory environment

Aside from meeting the navigational and other maritime geospatial information needs of Defence, our target market is commercial merchant vessels operating internationally, which are subject to inspection for mandatory carriage of official nautical chart and publications compliance as required by Chapter V of the SOLAS regulations.

Commencing in 2008 with high speed vessels, the IMO has approved the progressive introduction of mandatory digital navigation for SOLAS vessels using ECDIS. By 2018, when all but a few vessels will be covered by the new regulations, some 40,000 vessels will have transitioned to digital navigation. This is a major shift in the planning and conduct of marine navigation and has had a major impact on our organisation, infrastructure, products and services.

The market environment

The shipping market has seen limited signs of recovery after the global economic crisis but still remains tight owing to lower numbers of new vessel builds and increased cost pressure from shipping companies.

Against this background, we continue to provide quality solutions supported through our global distribution network and to grow our digital business ahead of expectations. Research indicates our customers (distributors, shipping companies and mariners) rate our products and services highly.

Our support for Defence

The MoD is our owner and our most important customer, receiving not only standard products but also specialist tailored maritime geospatial services that support UK war fighting capability and operational effectiveness. Due to our specialist staff and unique data holdings we are able to react swiftly to emerging crises as well as deliver on planned tasks. Last year we provided support for 170 short notice and contingent tasks.

Our owner's objectives for us

We have agreed with our owner a balanced scorecard of top-level objectives with associated key performance measures relating to:

- **Objective 1 – Operational support to the RN and other Defence customers**
- **Objective 2 – Support to SOLAS treaty obligations**
- **Objective 3 – Developing profitable business streams (subject to delivery of the above)**
- **Objective 4 - Organisational excellence**

In order to deliver our objectives, we are focused on seven key aspects of our business:

1. Improving and expand our data sources to support the quality and range of our products;
2. Improving our workflows and data handling capabilities to reduce costs;
3. Ensuring we have the skills and leadership capability allowing us to operate in a fast moving digital environment;
4. Supporting our distribution channel so the mariner enjoys a consistent, high quality service;
5. Expanding the digital availability of all our paper products;
6. Developing new paper products that supplement and add value to our digital offering, and
7. Delivering improved IT infrastructure, reducing cost and risk.

Key performance measures - Results 2013/14

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

	Key performance measure	Achievement
1. Defence	Achieve a score of 95 for a composite index measuring the quality and timeliness of deliveries of the Defence programme	Exceeded
2. Safety	Achieve a score of 98 for a composite index measuring timeliness and quality in issuing NMs and Electronic Chart updates.	Exceeded
3. Financial return	Achieve an average 9% Return on Capital over the last 5 years	Exceeded
4. Cost reduction	Achieve a 4% reduction in costs excluding Defence	Exceeded
5. Strategic plan	Deliver at least 80% of the 7 key targets that support the delivery of the 2013/14 Corporate Plan	Exceeded

Highlights of 2013/14 Performance

We exceeded our financial plan for the year; total income increased slightly by 0.5% to £130.5m (2012/13: £129.9m). Within this, income from our Defence customer was slightly down at £11.9m (2012/13: £12.0m). Profit on ordinary activities before exceptional costs fell by 4.5% to £21.8m (2012/13: £22.8m) reflecting changes in product mix and data royalties. Exceptional costs of £3.9m related to the VERS programme.

However, we have had a year of unprecedented delivery against our plans. Specifically we have:

- Implemented the use of an HDB for home waters and areas of prime charting responsibility
- Completely updated our regional teams' office environment and production planning
- Made significant improvements to e-Navigator, and integrated ADMIRALTY Digital Publications
- Revamped our marketing communications and re-launched our channel programme
- Launched our e-Book reader; e-Books and a new ADP with ADRS Vol2
- Rolled out our print on demand service to distributors and launched a number of new 'thematic' paper products

Our future plans

As in previous years, our key performance measures are aligned with our top level objectives and approved by the Owner's Council. The first four measures for 2014/15 will remain the same as those for 2013/14. However, the strategic plan target has been expanded to achieving 7 out of 9 key outcomes as the pace of implementation in our plans accelerates.

Highlights will include:

- Improved support to our Defence customer by replacing legacy systems and delivering more web-enabled services
- Complete our Business Computing Transformation which includes rollout of WIN7 and Office 2010 to desktop users, upgrade of Exchange to latest version and deployment of a variety of new management tools to improve the efficiency and management of our desktop estate.
- Incremental improvements to new systems introduced during 2013/14
- Further focus on continuous improvement and quality management
- Integration of our e-Book reader into e-Navigator and further enhancements to e-Navigator
- Completion of the digitisation of our paper products

Key Performance measures 2014/15

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

	Key performance measure	Change from prior year
1. Defence	To deliver the Defence programme achieving an index rating of 95 or higher	Unchanged
2. Safety	Whilst aiming for 100, to achieve a safety index exceeding 98	Unchanged
3. Financial return	To achieve a return on capital employed of 9% on a 5 year rolling basis	Unchanged
4. Cost reduction	To achieve a further 5% reduction in average resource costs from the 2012/13 cost levels less 4% target reduction from 2012/13	Unchanged
5. Strategic plan	To achieve at least 7 out of 9 outcomes which together reflect a measure of achievement of our strategic objectives	9 measures instead of 7

Key Business Risks

Risk	Impact	Change in risk	Mitigation of risk
1. An error in our products contributes to an incident at sea	Loss of life, material or environmental damage	Reducing	Production and charting processes designed to minimise risk. Continuous improvement of these processes
2. Increased counterfeit products entering the market	Reduced marine safety, fraud	Increasing	Anti-counterfeiting measures being introduced into our products. Sue where we have evidence of fraudulent activity
3. Cyber attack	Business disruption, reputational damage and financial loss	Increasing	Systems designed to be resilient to attack. Enhanced monitoring and awareness
4. Civil Service pay arrangements may limit ability to secure needed skills	Increased costs, business risk and slow development owing to the use of contractors	No change	Review of pay and rewards within the confines of our Treasury remit. Careful planning around required skill sets

Global, economic, social and environmental impact

UK Defence and National Security

Our service to Defence helps to protect not just British, but also allied nations' interests abroad. We encourage Reservists at the UKHO and currently have 9 RN and one Army Reservist within our staff.

Our people

Delivery of our vision depends on our people. They are a critical success factor in our plans to transform the business for the future.

We will continue to invest in our people focussing on our future operating model, training, leadership skills, individual performance management and continuous professional development. We also have a rolling programme of office refurbishment to improve our working environment.

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

	Male	Female
Number of persons of each sex who were directors of the entity at year end *	6	2
Number of persons of each sex who were senior managers of the entity at year end **	5	2
Total number of persons who were employed at the year end	746	336

* Includes HOB members only
** Senior managers have been defined as executive committee members

The local community

In the local community, our people assist local school children to develop their reading skills through the Right to Read Scheme. Our people chose “Freewheelers” the emergency voluntary service as charity of the year for 2013, setting ourselves a target to raise enough money to buy a new specially equipped motorbike; this target was exceeded. Our employees chose the local sea cadets as the 2014 charity with the target of funding a new minibus.

The environment

We are committed to reducing our environmental impact and recycle most of our waste to minimise the amount that goes to landfill. Energy saving measures such as Passive infrared, low-energy light bulbs, insulated buildings / roofs makes the most of our older buildings. For more detailed sustainability information, see page 57.

International hydrographic community

We play an influential role within the international community, supporting a wide range of international organisations; primarily for safety of navigation, but also in support of other marine activities such as security, Defence and environmental protection. We support the IMO and the IHO in their collective endeavours, by encouraging all coastal states to implement their treaty obligations to promote SOLAS, through provision of adequate and timely hydrographic information.

We have a leading role in the development of international technical standards and provision of capacity building assistance under the auspices of the IHO. To date we have trained 774 students from 106 countries and we are committed to the continued provision of hydrographic data processing and marine cartography and ENC production training. In addition, our international hydrographic projects manager provides coastal states with advice and management of hydrographic surveys.

Following extensive liaison with various bodies, including the UK Location Programme and now the Defra’s INSPIRE team, we meet our obligations under the UK INSPIRE Regulations 2009. Discoverable metadata allows people to our relevant datasets through both the UK national portal (http://www.data.gov.uk) and the European geoportal (http://inspire-geoportal.ec.europa.eu). These datasets; bathymetric surveys, limits around the UK and ships’ routeing measures can then be downloaded directly from our website (www.ukho.gov.uk/inspire). This facility also provides the access to our Bathymetric Data Archive Centre, as accredited by the Marine Environmental Data and Information Network (MEDIN).

Our suppliers and payment policy

The Government has made a commitment to speed up the payments process of public sector organisations with the aim to pay at least an average 80% of suppliers within 5 days. 93.9% (2012/13: 87.9%) of undisputed invoices were paid within the target. The principles of the *Better Payment Procedure Code* have been observed. A summary of these are contained in *Managing Public Money*.

Our customers

Our portfolio of ADMIRALTY products provides mariners with easy access to quality assured, carriage compliant hydrographic data services. This includes the ADMIRALTY Information Overlay (AIO), a unique UKHO data layer that highlights areas of navigational uncertainty and risk.

To help customers transition to digital navigation and get the best from our products and services, we supply a wide range of complementary publications and services, free updates, training packages, 24/7 customer support and online tools to aid product management, ordering, updating and self-service customer information.

Ian Moncrieff CBE
Accounting Officer and Chief Executive
18 June 2014

DIRECTORS' REPORT

Executives

Ian Moncrieff CBE
Chief Executive

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

John Humphrey
Chief Commercial Officer and
Deputy Chief Executive (Corporate)

Andrew Millard
Chief Financial Officer

Non-Executives

Sandra Rogers
Chairman

Capt David Robertson RN
Hydrographer of the Navy

Gareth Lewis

Barry Wootton

Heather Tayler

UKHO Owner's Council	HOB	ARAC	REMNCO	AHL	Membership at 31 March 2014
●	●			●	Sandra Rogers (Chairman) to 2 May 2014
●	●	*		●	Ian Moncrieff CBE (Chief Executive)
*	●	*		●	Rear Admiral Tom Karsten (UKHO National Hydrographer & Deputy Chief Executive-Hydrography)
	●	*			John Humphrey (Commercial Director)
	*	*			Andrew Millard (Chief Financial Officer)
	●	●	●	●	Barry Wootton (Non-Executive Director)
	●		●	●	Gareth Lewis (Non-Executive Director)
●	●	●	●		Peter Shortt (Director of MoD Business Strategy & Governance, Non-Executive Director) to July 2013
●	●	●	●	●	Heather Tayler (Head of Head Office & Corporate Service Finance, Non-Executive Director, Owner's representative) from July 2013
	●	●		●	Captain Steve Malcolm RN (Captain HM & Hydrographer of the Navy, Non-Executive Director) to Sept 2013
	●	●		●	Captain David Robertson RN (Captain HM & Hydrographer of the Navy, Non-Executive Director) from Sept 2013
	*				Helen Stevens (Trade Union Representative)
●					Rt Hon Mark Francois MP (Chairman) Parliamentary Under Secretary of State & Minister for Defence Personnel, Welfare & Veterans to Oct 2013
●					Rt Hon Anna Soubry MP Parliamentary Under Secretary of State & Minister for Defence Personnel, Welfare & Veterans from Oct 2013
●					David Williams (MoD Director General Finance)
●					Rear Admiral Peter Hudson (Assistant Chief of the Naval Staff (Capability)) to April 2013
●					Rear Admiral Duncan Potts (Fleet Deputy Commander) from April 2013
●					Air Vice Marshal Jonathan Rigby (Director Cyber Intelligence & Information Integration)
●					Sir Alan Massey (Chief Executive, Maritime & Coastguard Agency)
●					Michael Everard CBE (External Advisor Commercial Shipping)

* Invited Attendees

Pension

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

Conflicts of interest

HOB members, members of my executive committee and their direct reports must declare any personal interests that they have with current or potential customers or suppliers.

There were no reported conflicts of interest or related party transactions between HOB members and their activities. However, the spouse of a senior manager is the UK representative of the IIC Technologies Group with whom we contract various outsourced production activities. The manager concerned left the organisation under VERS on 31 March 2014 but did not approve any payments to the company and was not involved in any contract negotiations or commitments with the company.

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

Auditor

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

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

Sickness absence

The average number of days lost through sickness in 2013/14 was 8.15 (2012/13: 8.3).

Report of protected personal data related incidents

The Government has made a commitment to enhance transparency to Parliament and the public about action to safeguard personal information. As part of this commitment, departments and their agencies are required to publish details of incidents that have resulted in the unauthorised disclosure of personal data in their annual reports. We did not have any unauthorised disclosure of personal information in 2013/14.

Employee involvement

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

It is our policy to encourage and develop all members of staff to realise their maximum potential. Wherever possible, vacancies are filled from within. The HOB is committed to a systematic training policy and we have an annual performance appraisal process that focuses on the opportunity for employees to maintain and improve their performance and to develop their potential to a maximum level of attainment. In this way, staff will make their best possible contribution to the organisation's success. We support the principle of equal opportunities in employment and oppose all forms of unlawful or unfair discrimination on the grounds of race, age, nationality, religion, ethnic or national origin, sexual orientation, gender or gender reassignment, marital status or disability. It is also our policy, where possible, to give sympathetic consideration to disabled persons in their application for employment with us and to protect the interests of existing members of our staff who are disabled.

Financial Instruments

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

Events after the reporting period

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

Directors' declaration

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

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

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

Ian Moncrieff CBE
Accounting Officer and Chief Executive
18 June 2014

REMUNERATION REPORT

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

Remuneration policy

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

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

John Humphrey was appointed as Commercial Director from 28 May 2012 on an interim contract through an agency. John has subsequently been selected by a panel for the externally competed role Chief Commercial Officer and Deputy Chief Executive (Corporate) on a permanent SCS contract from 1 April 2014. The selection panel was chaired by an independent Civil Service commissioner.

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

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

Performance pay is dependent firstly on our meeting agreed key performance measures at a corporate level and then on individuals meeting agreed measures in their personal objectives cascaded from the corporate plan. Achievement is determined by individual performance assessment within the line management chain audited by a moderation panel, which reviews application of reporting standards and approves bonus awards across the business. No external comparisons are made. For 2013/14, performance-related pay amounted to 1.9% of salary (2012/13:1.8%). All pay awards are subject to satisfactory performance. This includes consolidated base pay and non-consolidated bonuses.

Service contracts

The Constitutional Reform and Governance Act 2010 require Civil Service appointments to be made on merit and through fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

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

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

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

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

Salary and pension entitlements

(This section has been subject to audit)

The tables on pages 17 and 18 provide details of the remuneration and pension interests of the executive members of the HOB. Details are based on actual payments made by us and thus recorded in these accounts.

Salary

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

Benefits in kind (BIK)

The monetary value of BIK would cover any benefits provided by us, which are treated by the HMRC as a taxable emolument.

Performance Awards

Performance awards are based on performance levels attained and are made as part of the appraisal process by independent Non-Executive Directors (NEDs) on the Remuneration and Nominations Committee (REMNCO). This appraisal process in 2013/14 covered the Chief Executive, the Chief Commercial Officer, the Head of Products Services and Strategy and the Head of Operations. Unless otherwise stated, bonuses relate to the performance in the year in which they become payable to the individual. The awards reported in 2013/14 relate to performance in 2012/13 and the comparative awards reported for 2012/13 relate to the performance in 2011/12.

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

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

The banded remuneration of the current highest paid director in 2013/14 was £140 – 145K (2012/13: £150 – 155K), these include performance award payments. This was 4.9 times (2012/13: 5.4) the median remuneration of the workforce which was £28.4K (2012/13: £28.9K).

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

The table below refers to our permanent staff and does not include agency staff costs.

	2013/14 £K	2012/13 £K
Band of highest paid directors	**140 – 145**	150 – 155
Median of all UKHO employees	**28.4**	28.9
Ratio	**4.9**	5.4

Remuneration Details

	Notes	2013/14 Salary Band £K	2013/14 Performance Awards £K	2013/14 BIK £	2013/14 Total £K	2012/13 Salary Band £K	2012/13 Performance Awards £K	2012/13 BIK £	2012/13 Total £K	2013/14 Pension Benefit (Note 4) £K	2012/13 Pension Benefit (Note 4) £K
Ian Moncrieff CBE	1	**115 – 120**	**20 – 25**	**0**	**140 – 145**	110 – 115	35 – 40	0	150 – 155	**45 – 50**	55 – 60
Rear Admiral Tom Karsten (From 17 Dec 12)	2	**105 – 110**	**0**	**0**	**105 – 110**	30 – 35 (105 – 110*)	0	500	30 – 35	**0**	0
John Humphrey (From 28 May 12)	3	**155 – 160**	**25 – 30**	**0**	**185 – 190**	125 – 130 (150 – 155*)	0	0	125 – 130	**0**	0
Andrew Millard	1	**75 – 80**	**0**	**0**	**75 – 80**	70 – 75	0 – 5	0	75 – 80	**15 – 20**	20 – 25
Richard Brooks (up to 2 Apr 12)		**0**	**0**	**0**	**0**	0 – 5 (80 – 85*)	0	0	0 – 5	**0**	0
Rear Admiral Nick Lambert (up to 14 Dec 12)		**0**	**0**	**0**	**0**	75 – 80 (110 – 115*)	0	0	75 – 80	**0**	0

* denotes full year equivalent

BIK denotes Benefits in kind and is rounded to the nearest £100

Notes

1. Salaries are reviewed annually on 1 April in line with provisions applying to special appointments outside the standard Civil Service performance related pay scheme. The Office of Public Service centrally determines the annual increases for these special appointments.

2 Rear Admiral Tom Karsten is a serving RN Officer on loan to the UKHO. Whilst MoD charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service.

3 John Humphrey's salary band represents his pay while on an interim contract pending a competition to fill the post permanently. John won this competition and was appointed 1 April 2014 as a permanent SCS. Total amount paid to Capita including their fees in 2013/14 was £218K (2012/13: £152K). In addition the UKHO paid his receipted travel and accommodation expenses associated with working away from home totalling £17,200 (2012/13 restated: £15,200).

4. Ian Moncrieff and Andrew Millard are members of and contribute to a Civil Service pension scheme. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. This is an estimate of the assumed value of the increase in pension that will be payable on retirement to the individual and has not been paid in the year.

Performance award payments paid in 2013/14 relate to awards earned in 2012/13.

Pension Benefits

(This section has been subject to audit)

	Accrued benefits*		Real increase in benefits		CETV	CETV	CETV
	Pension Note a	Lump sum Note a	Pension Note a	Lump sum	31/03/2014	31/03/2013	Real increase
	£K	£K	£K	£K	£K	£K	£K
Ian Moncrieff CBE	5 – 10	Note b	2.5 – 5	Note b	141	94 (Note c)	32
Andrew Millard	5 – 10	Note b	0 – 2.5	Note b	148	121	14
Richard Brooks	0	0	0	0	0	411	0

* As at 31 March 2014

Notes

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

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

c. The figure is different from the closing figure in last year's accounts. This is due to an error in the CETV figures provided by My CSP.

None of the above are members of partnership pension schemes.

Civil Service Pensions

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

Employee contributions are set at the rate of 1.5% and 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. 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' 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 calculated 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 immediately after the scheme year end, the accrued pension is updated in line with pension increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Further details about the Civil Service pension arrangements can be found on their website at:
www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values (CETV)

A 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 calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

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

Reporting of high paid off-payroll appointments

All off-payroll engagements as of 31 March 2014 for more than £220 per day and that last for longer than 6 months.

No of existing engagements as of 31 March 2014	**57**
Of which...	
No. that have existed for less than one year	24
No. that have existed for between one and two years	16
No. that have existed for between two and three years	5
No. that have existed for between three and four years	10
No. that have existed for four or more years	2

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

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014, for more than £220 per day and that last for longer than 6 months.

No. of new engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014	**103**
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	103
No. for whom assurance has been requested	103
Of which...	
No. for whom assurance has been received	102
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received	1

Board members, and/or senior officials with significant financial responsibility, between 1 April 2013 and 31 March 2014.

No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	1
No. of individuals that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year. This figure should include both off-payroll and on-payroll engagements	4

An interim Commercial Director, was appointed on 28 May 2012 through a framework agency. As a post holder, he was paid on a PAYE basis through Capita. Following a nationally advertised open competition, chaired by an independent Civil Service Commissioner, the position of Chief Commercial Officer and Deputy CE (Corporate) was filled by the Commercial Director post holder as a permanent SCS role with effect from 1 April 2014.

Fees paid to Non-Executive Directors (NEDs)

(This section has been subject to audit)

NEDs are not appointed as civil servants and contracts may be terminated at one month's notice by either party or on dissolution of the HOB, except in the case of gross misconduct when termination is immediate. Their initial term is 3 years and may be extended by mutual agreement at the end of the initial period normally for one or at most two further terms. NED contracts are not pensionable and there is no compensation for early termination. Current NEDs and their fees as at 31 March 2014 were:

	Notes	**2013/14** £K	2012/13 £K	**Partnership Pension 2013/14** £K	Partnership Pension 2012/13 £K
Sandra Rogers	1	**0**	5 – 10	**0**	0
Barry Wootton	2	**15 – 20**	15 – 20	**0**	0
Gareth Lewis	3	**15 – 20**	15 – 20	**0**	0
Captain David Robertson	4	**0**	0	**0**	0
Heather Tayler	4	**0**	0	**0**	0

1. Following her permanent appointment to BIS in July 2012, Sandra Rogers role as the Chair has been unremunerated. She continued to receive expenses incurred. Sandra resigned as Chair on time-served grounds on 2 May 2014.

2. Barry Wootton was appointed on a three-year contract that started 3 July 2006. This has been extended for two 3 year periods and will end 3 July 2015.

3. Gareth Lewis was appointed on a three-year contract commencing 20 October 2011.

4. Captain David Robertson is a serving RN Officer. His unremunerated appointment began in September 2013 as part of his responsibilities as Hydrographer of the Navy. Heather Tayler is a MoD SCS representing our owner. She does not receive separate remuneration for her role. Captain Steve Malcolm was relieved by Captain David Robertson from Sept 2013. Peter Shortt resigned July 2013 and was replaced by Heather Tayler. Neither Captain Steve Malcolm nor Peter Shortt received any remuneration for their role.

Ian Moncrieff CBE
Accounting Officer
and Chief Executive
18 June 2014

STATEMENT OF UNITED KINGDOM HYDROGRAPHIC OFFICE AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds Act 1973 HM Treasury has directed the UKHO to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued on 20th December 2013. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, changes in taxpayer's equity and cash flows for the financial year.

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

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

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

GOVERNANCE STATEMENT

Governance
Scope of responsibility

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

Corporate governance
Our governance framework

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

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

UKHO owner's council

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

Hydrographic Office Board (HOB)

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

In 2012/13, an independent review of HOB effectiveness was carried out. The main conclusions of the review were:

1. The agenda should focus on more strategic discussions and less on operational matters
2. The need for a greater external focus and engagement with our customers and stakeholders
3. Making better use of technology would support more efficient HOB business

Significant progress has been made with regard to points 1 and 2. Ways of making better use of technology are currently on hold due to lack of available resource as a result of higher priority change activities. We will revisit this as soon as resource becomes available.

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

During 2013/14 the board met 6 times and the average attendance was 96%. The attendance of individual members (during their tenure in office) was:

	Attendance
Ian Moncrieff	6/6
Sandra Rogers	6/6
Andrew Millard	6/6
John Humphrey	6/6
Gareth Lewis	6/6
Barry Wooton	6/6
David Robertson	4/4
Peter Shortt	2/2
Steve Malcolm	2/2
Tom Karsten	5/6
Heather Tayler	3/4

Audit and Risk Assurance Committee (ARAC)

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

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

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

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

Remuneration and Nomination Committee (REMNCO)

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

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

The REMNCO:

- Recommends the regular review of performance schemes
- Reviews objectives and bonus drivers including stretch targets
- Considers individual performance and related bonus payments
- Agrees the reward parameters applicable to or any significant revision of existing senior posts
- Considers and advise on any other remuneration and conditions of employment issues

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

Safety of Navigation Assurance Committee (SONAC)

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

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

Compliance with the corporate governance code

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

The HOB periodically uses external consultants to conduct board effectiveness reviews.

Admiralty Holdings Limited (AHL)

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

Governance of AHL accords with MoD policy and has a separate Board with a non-executive chairman. The accounts of AHL and its subsidiaries are audited by Baker Tilly, where required.

AHL currently has no active trading subsidiaries and any residual transactions are immaterial to the accounts in 2013/14. Accordingly group accounts have not been prepared.

UKHO internal control

The governance structures outlined above support a system of internal control which is designed to manage risk to a reasonable, practical level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those 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 for the year ended 31 March 2014 and up to the date of approval of the annual report and accounts and they accord with Treasury guidance.

Capacity to handle risk

Corporate aims and objectives are agreed by the HOB annually. They form the basis of a five-year corporate plan, which is endorsed by the HOB and approved by our Minister. Individual divisional risk-based plans underpin the corporate plan.

Members of the executive committee and their senior managers provide written assurance to me as the Accounting Officer that, to the best of their knowledge, risks have been adequately identified and managed through the implementation of appropriate controls. This forms part of a wider assurance statement covering the integrity and accuracy of performance reports; maintenance of effective controls in relation to the delivery of business objectives, security (physical and data), financial propriety and fraud prevention; conduct of business; management of internal audit recommendations; identification of contingent liabilities and compliance with staff reporting requirements including the provision of appropriate business skill capabilities.

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

The risk management policy sets out the responsibilities of the HOB, executive committee, ARAC and business risk owners.

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

- To identify material risks and ensure that they are visible, fully debated and rigorously challenged
- To help the business improve the control and co-ordination of risk taking across the business

All employees have on-line access to the business risk management policy and guidance in the identification and mitigation of risk. This sets out clear accountabilities and a structured process for identifying, assessing, communicating and managing risks. The policy and guidance is updated at least annually. Staff are supported by a business risk manager who provides guidance and training to staff as necessary.

All identified risks are assessed and ranked. A risk owner is assigned to each risk and has the authority to allocate risk management tasks to specific owners. Executive decision papers contain a section on key risks. We have invested in a computerised risk management system that facilitates nested risk registers across all divisions, including transformation programmes and projects. Corporate risks are owned by divisional heads and are subject to robust and effective review and challenge.

Responsibility for risk management resides at all levels from the executive down through the organisation to each business manager. Risks are co-ordinated by a dedicated risk manager who maintains an oversight and scrutiny role and facilitates risk workshops.

At each meeting of the HOB and the ARAC, risk reports are reviewed that provide a summary of risk management, including all risks identified to be high and the status of their treatment plans, visibility of the current risk profile and changes in that risk profile during the year.

Our risk management processes are subject to internal review by independent internal auditors appointed by the ARAC.

The risk and control framework

The most significant risk is the safety of our core products. This is managed via:-

- Prioritisation of updating via a risk index
- Risk assessment for all new products
- Independent oversight of professional standards and operating processes by the SONAC and the ARAC
- Sample quality checks by the nautical products team
- A nominated head of profession focused on maintaining and improving key skills and active involvement with the IHO to raise standards
- The publication of the AIO to ensure that ENCs in our AVCS meet the same standards as paper charts

The organisation is implementing significant technical change as marine navigation moves into the digital age. These include: implementing enhanced assurance procedures, quality control of ENCs, conversion of manual production methods to digital, workforce training, maintaining ISO 9001:2008 accreditation and achieving and maintaining level 3 of the information assurance maturity model (IAMM).

Financial control

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

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

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

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

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

Improving quality

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

Special payments

No special payments were made during 2013/14.
(2012/13: £20,000).

Internal control within AHL

Some HOB members are also members of the equivalent boards of AHL and its subsidiaries. This, together with external audit reports where required ensures effective controls equivalent to and consistent with those of the UKHO.

The role of internal audit

The ARAC considers and approves the coverage of the internal audit programme and this is flexed to address risks arising during the year. The HOB and the ARAC are aware of the major challenge of maintaining a consistent and improving internal control framework in a period of major change. The activities of the internal audit programme take into account challenges and ensure focus is given where there is the greatest perceived risk. Internal audit for 2013/14 was contracted out to PwC, who as part of their duties, carried out independent checks on the control process on my behalf. Operating to standards defined in the Public Sector Internal Audit Standards they have carried out a programme of risk based audits. They submitted regular reports which include their independent opinion on the adequacy and effectiveness of our internal control together with recommendations for improvement which, when accepted by senior managers, form improvement actions. Outstanding improvement actions, which arise from both internal and external audit recommendations, are reported to and monitored by, the executive committee and are reviewed quarterly by the ARAC.

The opinion given by internal audit based on the work they completed during 2013/14 was that we have adequate and effective internal controls in place for core systems such as the core financial systems and bonus payments. However, management are addressing some issues identified relating to our change activities and SAP.

Business resilience

In terms of business continuity, we have conducted an in-depth business impact analysis (BIA) across the entire organisation. The BIA is fundamental to determining the critical business applications that will be incorporated into our IT Disaster Recovery capability later in 2014 and will include key applications such as Source Data Receipt and Assessment (SDRA), HDB and e-Navigator. As a result of the BIA work we have updated and reissued our divisional business continuity plans, delivered training to those staff who have a business continuity role and conducted desk top exercising to test plan assumptions and team members' knowledge. During the past year our Crisis Management Team have undertaken training in Command Centre Operations & Crisis Leadership and participated in a classroom-based simulated terrorist attack exercise delivered by Avon and Somerset Constabulary.

Information Assurance (IA)

Our Senior Information Risk Owner, who is accountable to the Accounting Officer for the effective implementation of IA at the enterprise level, has engaged with DSAS and MoD CIO during 2013 to improve the level of control over internal processes which support IA. Focus has been on Data Protection Act compliance, risk management and our alignment with MoD risk appetite which have all been addressed successfully. Some additional issues remain in regards to governance structure and accreditation for our critical systems. This is being addressed through an external supplier during 2014.

Ian Moncrieff CBE
Accounting Officer
and Chief Executive
18 June 2014

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

I certify that I have audited the financial statements of the UK Hydrographic Office for the year ended 31 March 2014 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity, Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

As explained more fully in the Statement of the UK Hydrographic Office and Chief Executive's Responsibilities, the UK Hydrographic Office and Chief Executive are 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, examine and certify the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Hydrographic Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the UK Hydrographic Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual 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.

In addition, I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions 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 Hydrographic Office Trading Fund's affairs as at 31 March 2014 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or 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
30 June 2014

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

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

UKHO TRADING FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Note	**2013/14 £K**	2012/13 £K
Income	4	**130,542**	129,953
Change in inventories of finished goods and WIP		**0**	59
Materials and other external charges		**(7,374)**	(6,525)
Staff costs	2	**(49,698)**	(50,692)
Depreciation and impairment	6a	**(8,121)**	(8,785)
Other operating charges	6b	**(43,554)**	(41,199)
Profit on ordinary activities before interest		**21,795**	22,811
Exceptional items	7	**(3,888)**	0
Profit on ordinary activities before interest and after exceptionals		**17,907**	22,811
Interest receivable and similar income	8	**610**	292
Interest payable and similar charges	9	**(641)**	(724)
Profit for the year		**17,876**	22,379
Dividend	10	**(28,091)**	(11,274)
Retained (loss)/profit for the financial year		**(10,215)**	11,105
Other comprehensive income			
Revaluation of non-current assets	11A & C	**1,160**	2,516
		1,160	2,516
Total comprehensive income		**(9,055)**	13,621

The notes on pages 34 to 56 form part of these accounts

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

	Note		2013/14 £K	2012/13 *Restated* £K
Non-current assets:				
Intangible assets	11A	**11,497**		16,683
Property, plant & equipment	11C	**33,362**		34,502
Total non-current assets			**44,859**	51,185
Investment	12		**188**	188
Current assets:				
Inventories	13	**2,490**		2,602
Trade and other receivables	14	**27,374**		27,546
Cash and cash equivalents	15	**113,889**		110,044
Total current assets			**143,753**	140,192
Total assets			**188,800**	191,565
Current liabilities:				
Trade and other payables	16		**(52,058)**	(44,798)
Borrowings	18		**(6,784)**	(689)
Provisions (note a)	17		**(4,246)**	(4,234)
Total current liabilities			**(63,088)**	(49,721)
Non current assets plus net current assets			**125,712**	141,844
Non-current liabilities:				
Provisions (note a)	17		**(555)**	(848)
Long term borrowings	18		**0**	(6,784)
Total non-current liabilities			**(555)**	(7,632)
Assets less liabilities			**125,157**	134,212
Taxpayers' equity:				
Public dividend capital			**13,267**	13,267
Revaluation reserve			**21,448**	21,402
Profit and loss account			**90,442**	99,543
Total taxpayers' equity			**125,157**	134,212

(a) £403k in provisions has been re-categorised between current and non-current liabilities for 2012/13

The notes on pages 34 to 56 form part of these accounts

Ian Moncrieff CBE
Accounting Officer
and Chief Executive
18 June 2014

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2014

	Note	Profit and Loss Reserve £K	Revaluation Reserve £K	Public Dividend Capital £K	Total Reserves £K
Balance at 31/3/12		**87,503**	**19,821**	**13,267**	**120,591**
Changes in equity for 2012/13:					
Other comprehensive Income					
Revaluation of non current assets					
PPE	11C		1,793		1,793
Intangible assets	11A		1,071		1,071
Depreciation- revaluation PPE	11C		22		22
Depreciation- revaluation Intangibles	11A		(370)		(370)
Transfer between reserves, realisation of revaluation surplus					
PPE		789	(789)		0
Intangible assets		146	(146)		0
Total other comprehensive income		**935**	**1,581**		**2,516**
Net income for the period		22,379			22,379
Total recognised income and expense for the period		**23,314**	**1,581**		**24,895**
Dividend	10	(11,274)			(11,274)
Balance at 1/4/13		**99,543**	**21,402**	**13,267**	**134,212**
Changes in equity for 2013/14:					
Other comprehensive income					
Revaluation of non-current assets					
PPE	11C		961		961
Intangible assets	11A		795		795
Depreciation- revaluation PPE	11C		(197)		(197)
Depreciation- revaluation Intangibles	11A		(399)		(399)
Transfer between reserves, realisation of revaluation surplus					
PPE		862	(862)		0
Intangible assets		252	(252)		0
Total other comprehensive income		**1,114**	**46**		**1,160**
Net income for the period		17,876			17,876
Total recognised income and expense for the period		**18,990**	**46**		**19,036**
Dividend	10	(28,091)			(28,091)
Balance at 31/3/14		**90,442**	**21,448**	**13,267**	**125,157**

The notes on pages 34 to 56 form part of these accounts

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2014

	Note	**2013/14 £K**	2012/13 £K
Net cash flow from operating activities	23	**32,445**	32,671
Cash flows from investing activities			
Investments	12	**0**	(50)
Interest received	8	**610**	281
Purchase of property, plant and equipment	11C	**(281)**	(782)
Purchase of intangible assets	11A	**(354)**	(547)
Net cash outflow from investing activities		**(25)**	(1,098)
Cash flows from financing activities			
Repayment of long term loan	18	**(689)**	(635)
Dividend paid	10	**(27,274)**	(10,628)
Interest paid	9	**(612)**	(666)
Net cash outflow from financing activities		**(28,575)**	(11,929)
Net financing			
Net increase in cash and cash equivalents in the period		**3,845**	19,644
Cash and cash equivalents at beginning of year	15	**110,044**	90,400
Cash and cash equivalents at end of year	15	**113,889**	110,044

The notes on pages 34 to 56 form part of these accounts

1. ACCOUNTING POLICIES

A. Basis of accounting

The financial statements have been prepared in accordance with the 2013/14 FReM issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

AHL has not been consolidated, group transactions are immaterial to the accounts. Notes supporting the Statement of Comprehensive Income and the Statement of cash flows have been restated to show Trading Fund figures only.

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

We operate as a Trading Fund within the MoD in accordance with statutory instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 20th December 2013 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973.

B. Accounting convention

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

C. IC-ENC

International Centre for Electronic Navigational Charts (IC-ENC) is an international collaboration to quality control and distribute ENCs.

UKHO operates IC-ENC on behalf of the 28 member hydrographic offices and it is operated on a not-for-profit basis.

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

D. Estimation techniques

There have been no revisions of estimation techniques. Accruals are estimated with reference to available documentation, advice from management and from information gained from similar previous events and are the best estimate at the date of these financial statements.

Staff holiday is recorded on the management information system and therefore the holiday pay accrual calculation is an accurate assessment.

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

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

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

Measurement of provisions and voluntary release schemes is based on third-party estimates.

E. Exceptional items

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

F. Income

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

G. Provision for sales credits

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

H. Non-current assets valuation

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

Intangible assets

Software licences are retained at historic cost due to their short-term economic life. They are amortised over their useful economic lives of between 2 and 5 years.

Development expenditure

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

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

The following factors are considered in estimating useful lives:

Expected use of the asset; the effects of obsolescence, changes in demand, competing products and other economic factors, including the stability of the market and known technological advances.

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

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

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

All development expenditure has been revalued as at 31 March 2014 through the application of appropriate indices:

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

Property, plant & equipment

Land and buildings were professionally valued at 31 March 2013 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and buildings were valued at depreciated replacement cost of the estate with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a market value has been provided. All assets have been revalued as at 31 March 2014 during the year through the application of appropriate indices:

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

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

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

H1. Depreciation and amortisation

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

Buildings	Not exceeding 100 years
Plant and Equipment	Between 1 and 20 years
Computers	Between 2 and 5 years

(including capitalised software and licences)

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

H2. Non current assets held for sale

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

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

I. Inventories and work in progress

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

J. Hydrographic data

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

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

K. Pensions

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

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

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

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

L. Insurance

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

M. Development & transformation activities

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

N. Foreign currencies

Assets and liabilities denominated in a foreign currency are translated into sterling at the rate of exchange ruling as at 31 March 2014. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Statement of Comprehensive Income. Assets and liabilities are translated at the rate ruling at 31 March 2014; exchange differences arising are recognised in reserves.

O. Going concern

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

P. Royalties

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

Q. Treatment of leases

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

R. Provisions

Provisions for liabilities and charges have been established under the criteria of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the 31 March 2014.

The rate advised by HM Treasury is used to discount provisions to current prices – the rate for financial year 2013/14 being 1.9% (2012/13: -1.8%). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Income.

Early retirement costs

We provide in full for the cost of meeting pensions up to the normal retirement age in respect of early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 2013/14:1.8% (2012/13: 2.35%). Pensions payable after the normal retirement age are met by the Civil Service pension arrangement; however any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by us. Redundancies are provided for in full.

R1. Provision for bad and doubtful debts

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

S. Cash and cash equivalents

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

T. Reserves

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

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

U. Taxation

U1. Corporation tax

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

U2. VAT

We are VAT registered and all business VAT is recoverable.

V. Treatment of finance leases as a lessor

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

W. Financial instruments

We account for financial instruments within *IFRS 7 and IAS39*.

Trade and other receivables

All receivables, including trade and VAT receivables, staff loans and advances are classified as loans and receivables and are initially recognised at fair value (plus transaction costs) and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. However our receivables that are due within 1 year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

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

Trade and other payables

Liabilities covering trade payables, accruals, VAT, tax and loans are classified as other liabilities and are initially recognised at fair value (plus transaction costs) and subsequently at amortised cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, our liabilities falling due within 1 year are not discounted.

Cash and cash equivalents

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

X. Investments

Cash requirements are held in interest bearing accounts and invested for specific periods to meet demands of the business.

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

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

The following have not been adopted early by us.

IFRS 9 Financial instruments

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

Phase I
To improve the usefulness for users of financial statements by simplifying the classification and measurement for financial instruments.

Phase II
To improve the usefulness of financial statements for users by improving the amortised cost measurement, in particular the transparency of provisions for losses on loans and for the credit quality of financial assets.

The IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new standard. They have tentatively decided to require entities to apply IFRS 9 for periods beginning on or after 1 January 2018.

IAS 17 Leases

Amendments to the existing standard to develop a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised in the Statement of Financial Position.

The effective date has yet to be confirmed.

IAS 18 Revenue recognition

A new standard is to be published to clarify the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The effective date has yet to be confirmed.

Financial Reporting Manual accounting policies have been adopted in full.

Amendments to the 2014-15 FReM

(Applicable for accounting periods beginning on 1 April 2014)

IFRS13 Fair value measurement

Requiring entities to apply prospectively from 1 April 2015

Added guidance on applying the new group accounting standards (IFRS10 Consolidated financial statements, IFRS11 Joint Arrangements and IFRS12 Disclosure of interests in Other Entities.

HM Treasury have reviewed the content of the FReM and a new format has been proposed for 2014/15 with the aim to:-

- Make it easier for preparers to identify all relevant adaptations and interpretations by referring to one chapter
- To improve the internal consistency of the document by explaining each adaptation and interpretation only once
- To make it clearer to prepares which standards have been adopted and should be applied
- To shorten the FReM by removing text which duplicates accounting standards

None of these changes to the FReM are anticipated to have a future material impact on the financial statements of the UKHO.

2. STAFF NUMBERS AND RELATED COSTS

Staff Numbers

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

	2013/14	2012/13
Operations	**412**	400
Support	**494**	489
Print and supply	**114**	112
Commercial	**94**	116
Total staff numbers	**1,114**	1,117
Civil servants	**1,023**	1,000
Agency staff	**85**	111
Service personnel	**6**	6
Total staff numbers	**1,114**	1,117

Of these staff, 1 FTE permanent staff and 0 FTE agency staff were engaged on capital projects during the year (1 and 1 respectively for 2012/13 (restated)).

At 31 March 2014, 112 staff left UKHO employment through VERS. As at 1 April 2014, the actual number of civil servants was 935 and agency staff 81, a total of 1,016.

Salary

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

	2013/14 £K	2012/13 £K
Salaries, wages etc.	**33,699**	32,248
Social security costs	**2,632**	2,527
Pension costs	**6,128**	5,950
Agency staff costs	**6,458**	9,162
Service personnel costs	**781**	805
Total staff costs	**49,698**	50,692

During the year, £108k was capitalised as staff costs that were engaged in capital projects during the year. (2012/13: £192k).

Members of the Owner's Council receive no remuneration from the UKHO apart from the Chief Executive. The costs of full time government officials are borne by their parent departments. The fees and expenses of the external advisers are paid by the MoD.

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

Pension

For 2013/14, the applicable employer contribution pension rates were as follows:

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

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

For 2013/14, employers' contributions of £6,128k were payable to the PCSPS (2012/13: £5,950k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (2012/13: 16.7% to 24.3%). The scheme's actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013/14 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account a stakeholder pension with an employer contribution. Employers' contributions of £31.6K were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1.9K representing 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2014 were £3.7K. There were no prepaid contributions at that date.

3. CIVIL SERVICE EXIT PACKAGES

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

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

The total cost includes £3,718k for staff leaving through VERS during 2013/14. Payments to staff will be made in 2014/15. There have been no compulsory redundancies during the year (2012/13: none).

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

Exit package cost band	**Number of other departures agreed**		**Total number of exit packages by cost band**	
	2013/14	2012/13	**2013/14**	2012/13
< £10,000	**5**	1	**5**	1
£10,000 - £25,000	**53**	3	**53**	3
£25,000 - £50,000	**35**	1	**35**	1
£50,000 - £100,000	**21**	1	**21**	1
£100,000 - £150,000	**1**	0	**1**	0
Total number of exit packages	**115**	**6**	**115**	**6**
Total cost (£K)	**3,823**	**152**	**3,823**	**152**

4. INCOME

	2013/14 £K	2012/13 £K
Commercial sales	**118,686**	117,943
Sales to the MoD	**11,856**	12,010
Total Income	**130,542**	129,953

5. OPERATING SEGMENTS

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

All operating segments have been derived from the monthly Performance Report that the board use to run the business. Overhead costs, assets and liabilities are not routinely allocated to segments within this report and are therefore not used to aid users' understanding of these financial statements.

Furthermore, the board does not review the business on a geographical basis. None of our non-current assets exceed the 10% reportable segment and as such would all be classified as UK based.

	Note	**Commercial 2013/14 £K**	**Defence 2013/14 £K**	**Total 2013/14 £K**	Commercial 2012/13 *Restated* £K	Defence 2012/13 *Restated* £K	Total 2012/13 *Restated* £K
Income	4	**118,686**	**11,856**	**130,542**	117,943	12,010	129,953
Cost of sales		**(28,227)**	**(2,078)**	**(30,305)**	(24,891)	(1,737)	(26,628)
Gross profit		**90,459**	**9,778**	**100,237**	93,052	10,273	103,325
Margin %		**76%**	**82%**	**77%**	79%	86%	80%
Overheads				**(78,442)**			(80,514)
Profit on ordinary activities before interest				**21,795**			22,811
Exceptional items	7			**(3,888)**			0
Profit on ordinary activities before interest and after exceptionals				**17,907**			22,811
Interest payable	9			**(641)**			(724)
Interest receivable	8			**610**			292
Net profit				**17,876**			22,379
Dividend				**(28,091)**			(11,274)
Retained profit for the financial year				**(10,215)**			11,105

£2,504k has been re-categorised between Defence and Commercial to correctly present the Defence segment for 2012/13.

Sales revenue by geographical market

	2013/14 £K	2012/13 £K
United Kingdom	**44,473**	43,469
Singapore	**14,571**	14,101
Other countries	**71,498**	72,383
Total revenue	**130,542**	**129,953**

Information about major customers

Revenues from two customers exceeded 10% of the UKHO's total revenues. The geographical location is UK based.

	Commercial 2013/14 £K	**Defence 2013/14 £K**	**Total 2013/14 £K**	Commercial 2012/13 £K	Defence 2012/13 £K	Total 2012/13 £K
Customer 1	**14,131**	**0**	**14,131**	12,993	0	12,993
Customer 2	**14,101**	**0**	**14,101**	14,561	0	14,561

6. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

Profit on ordinary activities before interest of £21.8m (2012/13:£22.8m) is stated after charging:

	2013/14 £K	2012/13 £K
Depreciation/amortisation - owned assets	**8,120**	8,779
Loss on disposal of fixed assets	**1**	6
Impairment adjustments	**0**	0
a Depreciation and impairment	**8,121**	8,785
Operating leases: office machinery	**37**	8
Professional fees	**68**	63
Development & transformation activities	**6,809**	4,366
External auditor's remuneration (Note a)	**184**	116
Travel, training and entertainment expenses	**3,126**	3,329
Materials and services	**7,685**	7,331
Utilities and other estates operating costs	**5,038**	7,080
Computing and office machines	**4,241**	4,233
Royalties	**16,366**	14,673
b Other operating charges	**43,554**	41,199

(a) The NAO audit fee is £67k (2012/13: £69k).

7. EXCEPTIONAL ITEMS

	2013/14 £K	2012/13 £K
VERS	**3,718**	0
Early retirement	**136**	0
Trading Fund rationalisation	**34**	0
Total exceptionals	**3,888**	0

VERS (Voluntary early release scheme)

This reflects a release scheme which operated in 2013/14. All costs have been accrued during the year and will be fully applied in 2014/15.

Early retirement

This reflects early retirements arising from a variety of restructuring exercises. The provision as at 31 March 2014 is £53k (£140k at 31 March 2013) to cover committed early release costs. The remaining provision has been discounted at 1.8% and will be fully applied by 2015/16. Full details of the provision are shown in Note 17.

Trading Fund rationalisation

The provision as at 31 March 2014 is £631k (£944k at 31 March 2013) to cover committed early release costs. The remaining provision has been discounted at 1.8% and will be fully applied by 2019/20. Full details of the provision are shown in Note 17.

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8. INTEREST RECEIVABLE AND SIMILAR INCOME

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

	2013/14 £K	2012/13 £K
Interest receivable and similar income	**610**	292
	610	**292**

9. INTEREST PAYABLE AND SIMILAR CHARGES

Trading Fund	Note	**2013/14 £K**	2012/13 £K
a. Interest paid to the MoD in respect of the long-term loan		**612**	666
b. Unwinding of the discount and movement on provision for early retirements and rationalisation	17	**29**	58
Total interest payable and similar charges		**641**	724

Interest paid and payable has arisen from financial liabilities classified as other liabilities measured at amortised cost. This is primarily interest payable on the MoD borrowings.

10. DIVIDENDS

	2013/14 £K	**2012/13 £K**
Ordinary dividend	**12,091**	11,274
Special dividend	**16,000**	0
Total dividend	**28,091**	**11,274**

The ordinary dividend shows what has been declared for that corresponding year, the cash outflow is paid in the year following declaration. Special dividends are declared and paid in the same year.

11A. INTANGIBLE NON-CURRENT ASSETS

Cost or Valuation:	Software Licences £K	Development Software £K	Assets under Construction £K	Total £K
At 1 April 2012	15,725	28,159	91	43,975
Additions	269	212	65	546
Revaluation	0	701	0	701
At 31 March 2013	**15,994**	**29,072**	**156**	**45,222**
At 1 April 2013	15,994	29,072	156	45,222
Additions	3	351	0	354
Reclassification	0	0	(156)	(156)
Revaluation	0	795	0	795
At 31 March 2014	**15,997**	**30,218**	**0**	**46,215**
Amortisation:				
At 1 April 2012	12,398	9,719	0	22,117
Charged	1,741	4,681	0	6,422
At 31 March 2013	**14,139**	**14,400**	**0**	**28,539**
At 1 April 2013	14,139	14,400	0	28,539
Charged	1,356	4,424	0	5,780
Revaluation	0	399	0	399
At 31 March 2014	**15,495**	**19,223**	**0**	**34,718**
Net Book Value:				
At 31 March 2014	**502**	**10,995**	**0**	**11,497**
At 31 March 2013	1,855	14,672	156	16,683

All intangible assets are owned by the UKHO

11B. ANALYSIS OF INTANGIBLE NON-CURRENT ASSETS

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

Project	Description	Carrying value 31/03/2014 £K	Remaining amortisation period (months)
Development software			
e-Navigator	Admiralty e-Navigator is our integrated digital catalogue, product viewer and passage planning aid for organising, updating and consolidating all paper and digital information needed for planning safe voyages while simplifying essential tasks.	6,786	33
Maritime data project	The development of global, digital, vector based data and service capability.	2,170	48
Admiralty Vector Chart Service (AVCS)	AVCS brings together Electronic Navigational Charts (ENCs) from national hydrographic offices around the world and new ENC coverage produced by UKHO in co-operation with foreign governments to provide comprehensive, official, worldwide coverage.	1,255	48
		10,211	

11C. PROPERTY, PLANT & EQUIPMENT

Cost or valuation:	Freehold land £K	Buildings £K	Plant & machinery £K	Furniture & fittings £K	Information technology £K	Assets under construction £K	Total £K
At 1 April 2012	10,226	29,491	7,243	375	9,115	241	56,691
Additions	0	0	89	0	500	437	1,026
Reclassification	0	318	(318)	0	232	(232)	0
Disposals	0	0	(147)	(101)	(206)	0	(454)
Revaluation	(1,703)	3,472	46	0	0	0	1,815
Reclassification-held for sale	0	0	5	0	0	0	5
At 31 March 2013	**8,523**	**33,281**	**6,918**	**274**	**9,641**	**446**	**59,083**
At 1 April 2013	8,523	33,281	6,918	274	9,641	446	59,083
Additions	0	0	0	0	213	68	281
Reclassification	0	0	0	0	389	(233)	156
Disposals	0	0	(4)	(33)	(259)	0	(296)
Adjustment	0	0	(2)	(1)	2	0	(1)
Revaluation	179	949	(167)	0	0	0	961
At 31 March 2014	**8,702**	**34,230**	**6,745**	**240**	**9,986**	**281**	**60,184**
Depreciation:							
At 1 April 2012	0	9,985	5,522	179	6,980	0	22,666
Charged	0	1,198	421	27	711	0	2,357
Reclassification	0	276	(276)	0	0	0	0
Disposals	0	0	(143)	(101)	(204)	0	(448)
Reclassification-held for sale	0	0	5	0	0	0	5
At 31 March 2013	**0**	**11,459**	**5,529**	**105**	**7,487**	**0**	**24,580**
At 1 April 2013	0	11,459	5,529	105	7,487	0	24,580
Charged	0	1,201	323	11	805	0	2,340
Disposals	0	0	(4)	(33)	(258)	0	(295)
Revaluation	0	333	(136)	0	0	0	197
At 31 March 2014	**0**	**12,993**	**5,712**	**83**	**8,034**	**0**	**26,822**
Net book value:							
At 31 March 2014	**8,702**	**21,237**	**1,033**	**157**	**1,952**	**281**	**33,362**
At 31 March 2013	8,522	21,822	1,390	169	2,154	446	34,502

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

12. INVESTMENTS

	2013/14 (Note a) £K
Analysis of loans	
1 April 2013	188
Movement in year	0
Net book value 31 March 2014	**188**

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

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

13. INVENTORIES

	2013/14 £K	2012/13 *Restated (Note a)* £K
Finished inventories	**1,837**	1,912
Materials	**567**	574
Work in progress	**86**	116
Total inventories	**2,490**	2,602

(a) The figures in 2012/13 have been restated to show correctly against their item categories.

14. TRADE AND OTHER RECEIVABLES

	2013/14 £K	2012/13 £K
Trade receivables	**19,747**	20,880
Prepayments & accrued income	**7,575**	6,515
Net investments & finance leases	**15**	14
Other receivables	**37**	137
Total receivables	**27,374**	27,546
Analysis of total receivables		
Other central government bodies	**3,274**	2,977
Intra-government balances	**3,274**	2,977
Bodies external to government	**24,100**	24,569
Total receivables	**27,374**	27,546

15. CASH AND CASH EQUIVALENTS

	2013/14 £K	2012/13 £K
Balance 1 April	**110,044**	90,400
Net change in cash and cash equivalent balances	**3,845**	19,644
Balance 31 March	**113,889**	110,044

	2013/14 £K	2012/13 £K
Commercial banks- short term investments	**60,000**	0
Commercial banks- instant access, high interest	**53,001**	34,861
Third party assets	**888**	1,083
Government banking service	**0**	74,100
Net cash and cash equivalents	**113,889**	110,044

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

Commercial banks - instant access, high interest account earns interest at 0.5%. Short-term investments earn between 0.51% and 0.95% and are made for varying periods of between three and twelve months, deposits with Government banking service earn 0.25% for all investment periods.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2014 exchange rates.

Third party assets

We hold third party monies of £0.9m (2012/13: £1.1m). This relates to monies held on behalf of IC-ENC. We operate IC-ENC on behalf of the 30 member states. The accounts recognise the total liability to IC-ENC members together with the cash held on their behalf.

16. TRADE AND OTHER PAYABLES

	2013/14 £K	2012/13 £K
Accruals and other deferred income	**30,646**	23,364
Proposed dividend	**12,091**	11,274
Trade payables	**8,506**	9,188
Other taxation and social security	**801**	838
Other payables	**14**	134
Total payables	**52,058**	44,798
Analysis of total payables		
Other central government bodies	**13,647**	14,404
Intra-government balances	**13,647**	14,404
Bodies external to government	**38,411**	30,394
Total payables	**52,058**	44,798

17. PROVISIONS

	Balance at 1 April 2012	Charged to operating cost	Unwinding of discount	Applied	Reclassification	**Balance at 31 March 2013**
	£K	£K	£K	£K	£K	**£K**
Current liabilities						
Sales credits	**3,261**	4,371	0	(3,801)	0	**3,831**
Rationalisation (note a)	**0**	0	0	0	314	**314**
Early retirement (note a)	**0**	0	0	0	89	**89**
Total current liabilities	**3,261**	4,371	0	(3,801)	403	**4,234**
Non-current liabilities						
Rationalisation (note a)	**1,296**	11	36	(399)	(314)	**630**
Early retirement (note a)	**263**	23	7	(153)	(89)	**51**
Royalties	**162**	0	4	1	0	**167**
Total non-current liabilities	**1,721**	34	47	(551)	(403)	**848**
Total liabilities	**4,982**	4,405	47	(4,352)	0	**5,082**

(a) The provision for rationalisation and early retirement have been re-categorised between current and non-current liabilities for 31 March 2013.

Analysis of expected timing of cash flows at 31 March 2013

	2013/14	**2014/15**	**2015/16 - 2019/25**	**2020/21 - 2024/25**	**Balance at 31 March 2013**
	£K	£K	£K	£K	**£K**
Sales credits	3,831	0	0	0	3,831
Rationalisation	299	236	395	14	944
Early retirement	88	44	8	0	140
Royalties	0	167	0	0	167
Total	**4,218**	447	403	14	**5,082**

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

Analysis of expected timing of cash flows at 31 March 2014:

	2014/15	2015/16	2016/17 - 2020/21	Balance at 31 March 2014
	£K	£K	£K	£K
Sales credits	3,934	0	0	3,934
Rationalisation	241	168	222	632
Early retirement	44	9	0	52
Royalties	0	163	0	163
Legal	20	0	0	20
Total	**4,239**	**340**	**222**	**4,801**

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

Sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by ADMIRALTY chart 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 2014/15.

Rationalisation

This reflects the outstanding liability for early retirements arising from a restructuring exercise undertaken in 2007. The provision has been discounted at 1.8% and will be fully applied by 2019/20.

Early retirement

This reflects the outstanding liability for early retirements arising from a variety of restructuring exercises undertaken in previous years. The provision has been discounted at 1.8%. The provision will be fully applied by 2015/16.

Legal

This reflects the provision for a potential supplier claim that has been brought against us during 2013/14. It is anticipated that the provision will be fully applied during 2014/15.

Royalties

These royalties have been reclassified from an accrual into a provision. These amounts refer to bilateral agreements with other hydrographic offices that are not yet finalised that will probably result in a legal obligation to pay future royalties.

18. LONG TERM BORROWINGS

	2013/14 £K	2012/13 £K
Balance brought forward	**7,473**	8,108
Repayment of loan	**(689)**	(635)
Balance carried forward	**6,784**	7,473

A £13.5m loan was received from MoD in April 1996 and is repayable by instalments until 31 March 2021. Interest is charged at 8.375% per annum and the interest rate is fixed for the duration of the loan.

Analysis of repayments	**2013/14 £K**	2012/13 £K
Current liabilities		
Within 1 year	**6,784**	689
Balance carried forward	**6,784**	689
Non-current liabilities		
Between 1 and 2 years	**0**	747
Between 2 and 5 years	**0**	2,649
After 5 years	**0**	3,388
	0	6,784
Total long-term borrowings	**6,784**	7,473

The MoD loan has been re-categorised to current liabilities as it has been agreed with the MoD that a full repayment will be made in 2014/15. We have since made this repayment.

19. PUBLIC DIVIDEND CAPITAL

	2013/14 £K	2012/13 £K
Public dividend capital	**13,267**	13,267
	13,267	13,267

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

20. FINANCIAL INSTRUMENTS

IAS 39 Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which *IAS 39* mainly applies. We have very limited borrowing powers 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 us in undertaking its activities.

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The loan received from MoD has been classified as other financial liabilities and is held at amortised cost. The current value of all our financial instruments are considered to equate to fair value at the 31 March 2014.

Financial instruments

IFRS 7 Financial instruments, disclosures, requires us to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the credit risks to which we are exposed and how these risks are managed. For each type of credit risk arising from financial instruments, we are also required to provide summary quantitative data about our exposure to the credit risk at the reporting date. At 31 March 2014, we had no material risks arising from our financial instruments that arise in the course of normal business operational activities.

We are subject to some credit risk. The carrying amount of receivables, net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other receivables consist of a large number of diverse customers spread over a diverse geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. All outstanding financial assets which remain within their credit terms at 31 March 2014 primarily relate to established customers whose credit worthiness has been subject to regular review and gives no cause for concern regarding full future settlement. The table below provides details of receivables beyond the due date and impairments made.

Significant accounting policies

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

Receivables beyond the due date

2012/13	Not overdue Note a	Overdue Note a 0 - 3 months	Overdue 3 - 6 months	Overdue 6-12 months	Overdue Over 12 months	Total
		£K	**£K**	**£K**	**£K**	**£K**
Receivables - not impaired	19,179	1,204	39	2	15	20,439
Receivables - impaired	0	58	31	0	36	125
Gross receivables total	19,179	1,262	70	2	51	20,564
Bad debt provision	0	(58)	(31)	0	(36)	(125)
Net total receivables	**19,179**	**1,204**	**39**	**2**	**15**	**20,439**

2013/14						
Receivables - not impaired	17,927	1,006	40	0	16	18,989
Receivables - impaired	0	0	0	0	105	105
Gross receivables total	17,927	1,006	40	0	121	19,094
Bad debt provision	0	0	0	0	(105)	(105)
Net total receivables	**17,927**	**1,006**	**40**	**0**	**16**	**18,989**

(a) Receivables have been re-categorised between not overdue and overdue for 2012/13.

Categories of financial instruments

	2013/14 £K	2012/13 £K
Financial assets		
Loans and receivables (including cash and cash equivalents)	**136,289**	133,462
	136,289	133,462
Financial liabilities		
Other financial liabilities	**48,222**	42,780
	48,222	42,780

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

21. COMMITMENTS UNDER LEASES

Operating leases

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

The property and vehicle leases expired in 2013 and in 2013/14 we entered into a five-year contract with Canon for a site wide printing and copying system.

	2013/14	2012/13
	£K	£K
Property		
Due within one year	**0**	70
Total	**0**	70
Plant and equipment		
Due within one year	**75**	18
Due after one year but within 5 years	**266**	30
Total	**341**	48
Total leases	**341**	118

22. CAPITAL COMMITMENTS

	2013/14	2012/13
	£K	£K
Capital expenditure that has been contracted for, but has not been provided in these accounts		
Property, plant & equipment	**380**	0
Intangible assets	**0**	408
Total capital commitments	**380**	408

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

	2013/14	2012/13
	£K	£K
Profit on ordinary activities before interest and after exceptionals	**17,907**	22,811
Interest, unwinding of the discount and movement on provision for early retirements and rationalisation	**(30)**	0
Depreciation & Amortisation	**8,121**	8,779
Loss on sale and disposal of non-current assets	**1**	6
Decrease/(Increase) in inventories	**112**	(329)
Decrease/(Increase) in receivables	**172**	(2,572)
Increase in payables	**6,443**	3,876
(Decrease)/Increase in provisions	**(281)**	100
Net cash inflow from operating activities	**32,445**	32,671

24. CONTINGENT LIABILITIES

There have been no contingent liabilities during 2013/14 (none for 2012/13).

25. LOSSES AND SPECIAL PAYMENTS

During the year, there were no special severance payments (2012/13: £20,000).

There were unrecoverable trade receivables of £1,306 (2012/13: £0) and there were no write offs in respect of fruitless payments and unrecoverable overpayments to staff (2012/13: none).

26. RELATED PARTY TRANSACTIONS

UKHO is a Trading Fund owned by MoD.

The MoD as our parent department is regarded as a related party. During the year, we have also entered into material transactions with the department and with other entities for which the department is regarded as the parent department viz. All these transactions were carried out under contract terms and subject to the normal course of internal and external audit.

Other related parties:-

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

All transactions are carried out on standard contract terms and are subject to the normal course of internal and external audit.

The spouse of a senior manager is the UK representative of the IIC Technologies group with whom we contract various outsourced production activities. Some of the officers' managers are responsible for the day-to-day operation of this relationship. The manager concerned does not approve any payments to the company and has not been involved in any contract negotiations or commitments with the company. The manager concerned left on 31/3/2014.

During 2013/14, payments made to IIC Technologies totalled £1,249,307 (2012/13: £750,626).

All figures reported exclude VAT.

27. EVENTS AFTER THE REPORTING PERIOD

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

28. AUTHORISATION OF ACCOUNTS

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

SUSTAINABILITY REPORT FOR 2013/14

The report is produced in line with the latest public sector reporting requirements on sustainability, as detailed in the FReM.

We continue to make significant progress in meeting MoD sustainability targets in recent years, making significant reductions on baseline years in all areas below: emissions, waste, water and energy. We continue to promote a range of green commuter travel.

The following provides a breakdown of performance in key environmental areas:

Emissions

	Notes	2013/14	2012/13	2011/12
		tCO^2e	tCO^2e	tCO^2e
Gross emissions for scopes 1 & 2 (energy)				
Electric		3,686	3,452	3,741
Gas		767	708	625
Total Gross emissions for scopes 1 & 2 (energy)		4,453	4,160	4,366
Emissions from organisation owned fleet vehicles		0	12	18
Total gross emissions for scopes 1 & 2		**4,453**	**4,172**	**4,384**
Gross emissions scope 3 (business travel)	a	52	42	34
Total gross emissions for scopes 1,2 & 3		**4,505**	**4,214**	**4,418**
Net emissions for scopes 1 & 2		4,453	4,172	4,384
Net emissions for scope 3 (business travel)		52	42	34
		£K	**£K**	**£K**
Expenditure on official business travel		1,051	788	1,072
Expenditure on energy		802	705	687
Total expenditure on energy and business travel		**1,853**	**1,493**	**1,759**

tCO2e: Tonnes of CO2 equivalent

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

Targets and Commentary

We have significantly reduced our carbon footprint by 25% in the past few years, although un-predictable extreme weather and increase in staff numbers coupled with the need to temporarily lease additional office space has meant that further efficiencies have not as yet been achieved. However staff numbers are planned to reduce along with moth balling of smaller subsidiary buildings which will positively impact on reducing further our carbon footprint.

Direct impacts commentary

The main impacts for us in terms of carbon emissions are our electricity and fuel consumption. Strategies are in place to reduce these impacts through a range of efficiency programmes.

Overview of direct impacts

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

Waste

		2013/14 tonnes	2012/13 tonnes	2011/12 tonnes
Non hazardous waste	Reused/recycled incinerated/energy from waste	420	463	335
	Landfill	26	29	0
Hazardous waste	Reused/recycled	6	11	12
Total waste		**452**	**503**	**347**

Targets and commentary

We continue to exceed MoD agreed targets for reducing waste to landfill. We generated approximately 452 tonnes of residual office waste, 93% we recycled. Note; this does not include the chart paper waste which is 100% recycled.

Direct Impacts commentary

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

Overview of indirect impacts

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

Water

	2013/14	2012/13	2011/12
	M³	**M³**	**M³**
Water consumption	12,708	10,745	8,410
	£K	**£K**	**£K**
Water supply costs	51	42	34

M³: cubic metres

Targets and commentary

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

Direct impacts and commentary

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

Overview of indirect impacts

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

Energy

		2013/14 M KWh	2012/13 M KWh	2011/12 M KWh
Energy consumption	Renewable electricity	6.48	6.51	7.06
	Gas	4.04	3.73	3.29
		£K	£K	£K
Total energy expenditure		**802**	**705**	**687**

Targets and commentary

This year has seen no noticeable reduction.

Direct impacts commentary

Our main areas for energy consumption continue to be the running of the printing presses, powering the server rooms and lighting, heating and cooling our offices. Our overall energy consumption is highly dependant upon the weather. We remain committed to ensure that operational equipment usage is as energy efficient as possible.

Overview of direct impacts

We remain committed to the principle of energy reduction.

Biodiversity and adaption action plans

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

Sustainability procurement commentary

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

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

Notes:

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

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