

Annual Report and Accounts 2015/16

Navigating a sustainable future





Annual Report and Accounts 2015/16

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

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Our vision To be a world-leading marine geospatial information agency and hydrographic office

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Our highlights

Total income £139.6m (2014/15:£134.0m)

Profit on ordinary activities before exceptional costs



Defence income $\underbrace{f_{2014/15:f_{12.7m}}}_{(2014/15:f_{12.7m})}$

- → Record levels of new paper products launched including a range of Port Approach Guides
- → £3m of funding secured for 16/17 for surveying the waters of developing island states as part of a Commonwealth Heads of Government initiative to support growth in their economies
- → Purchased digital print equipment that will allow the switch to full digital printing of all SNCs during 2016/17
- → Received Ministerial approval to proceed with a new office build
- → Delivered a number of system improvements to make it easier for our customers to do business with us

Chair's message



In last year's report, I said that the UKHO intended to be as significant in the "digital age of navigation" as we were in the age of paper. I hope that this year's document will demonstrate that we have done much to achieve this in the intervening period."



The UKHO is known to many as ADMIRALTY Charts. For 200 years, charts had that crinkle of paper and the smell of ink. Then, the UKHO was a byword for accuracy in print. In March 2016, however, half our sales were digital. Paper is becoming the "vinyl" of the shipping world, and the UKHO is now a digital byword for navigational precision.

Digital charts, with their ever-increasing layers of information and great ease of updating, release us from the flat world of paper into the informational depth of digital. Today, the UKHO is developing products that can integrate economics, productivity and ever-improving safety into navigation: digital products, in other words, that both reflect the geospatial needs of our customers and generate new streams of revenue.

The following numbers show what the UKHO has achieved over the last year. Our revenues totalled £139.6m, up by $\pounds 5.6m$ on last year. This growth, combined with our successful reduction in costs as we prepare for the lower margins of the digital world, resulted in an operating profit, before the adjustment for the impairment of buildings, of £34m, a £2m increase on last year. This performance allowed us to pay dividends of over £53m to our owner, the Ministry of Defence (MoD), while still being able to finance our investments in our transformation activities.

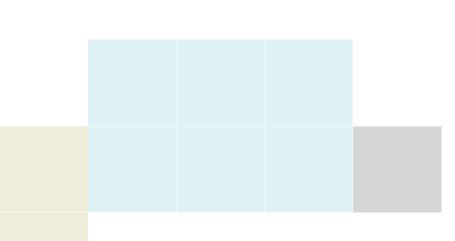
These numbers show we are clearly holding our own in this period of flux as we move away from the analogue margins that have sustained us in the past. We are also pleased to be helping to realise the commitment made by the UK Government to the Commonwealth Heads of Government to support the development of small island economies. The Cross-Government Prosperity Fund has approved £5.6m of funding to support this in 2016/17, of which £3m is allocated to the UKHO. This is to enable small islands to achieve hydrographic governance and to meet their international obligations on maritime safety information, hydrographic surveying and updating navigational charts and publications.

2016/17 will see us make even greater moves into the "new normality" of digital products. To help us live the values associated with this important evolutionary step, the UKHO has started work on building a new office. This will be on our current site in Taunton, providing a working environment that moves us from the 1930s into the 21st century. This will help us in attracting staff with the digital skills we need to create new products and services.

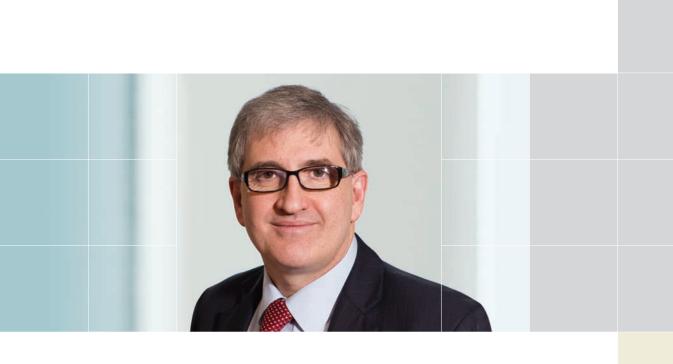
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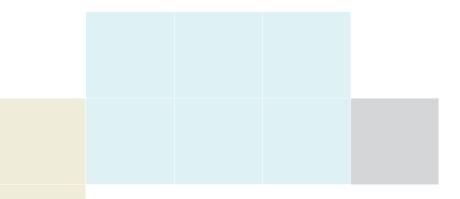
Adam Singer Chair



Foreword by the Chief Executive



The steps we are taking to build a smaller but more technically advanced marine geospatial agency will enable the UKHO to not only keep delivering its public task on a sustainable basis but also deliver a national asset for the future."



2015/16 was a pivotal year for the UKHO on its journey from traditional hydrographic office to marine geospatial agency. Towards the end of the year, monthly sales of data services grew to represent 50% of our total sales for the first time. So there is no doubt that the transformation of our market, from paper-based to digital navigation, is well underway and rapidly gaining momentum.

While this transition is exciting, creating new opportunities to leverage our data, platform and expertise to deliver new value, it is also a real business challenge. In line with the experience of many publishing organisations before us, we expect our overall revenue to decline as the market switches from buying a mixture of paper and digital products and services to digital services only. This shift is also expected to have an adverse impact on our gross profitability, due to the fundamentally different economics of digital navigation.

None of this is unexpected. While our overall revenue and profitability will decline from current levels, the steps we are taking to build a smaller but more technically advanced marine geospatial information agency will enable us to keep delivering our public task better than ever before and on a sustainable basis. We are well placed to create a unique data platform that supports the UK's position as a leading maritime nation. Within this context of change, we successfully achieved all of the year's key performance indicators and programme requirements.

Notable achievements included:

- → Responding to more defence-related data enquiries than ever before. We also provided support for humanitarian operations in the Mediterranean
- → Working across Government to help secure funding to survey the waters of small-island developing states in 2016/17 as part of a UK initiative for the Commonwealth
- → Outsourcing the print of paper publications and moving to all-digital chart production
- → Redeveloping the e-Navigator software suite to deliver a better user experience
- → Relaunching the UKHO Bursary Scheme for overseas hydrographers

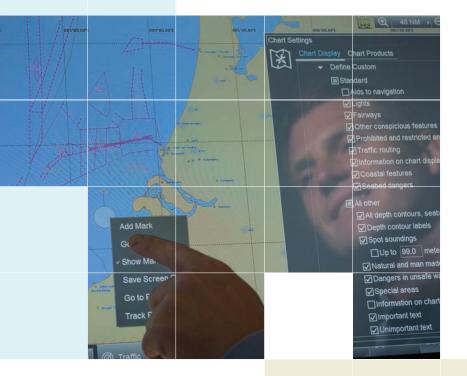


John Humphrey Accounting Officer and Chief Executive 04 July 2016

Performance Report

Making as important a contribution in the future as we have in the past.





Our highlights

- → We implemented a data-compression model for Electronic Navigation Charts (ENCs) that reduces the size of files transmitted by 20-40%
- → We developed a new Passage Planner application that allows mariners to produce International Safety Management (ISM)-compliant passage plans
- → We completely rewrote e-Navigator Planning Station to bring it up to current standards. In doing so, we also updated and simplified the user interface and processes
- → We responded to 2,447 defence-related enquiries during the year

Performance report – overview

Performance summary

This transition to digital is clearly evidenced in our sales. There has been rapid growth in sales of all our digital products and services, while the underlying sales of paper charts and publications have continued to fall. However, the significant expansion of our paper chart product range, including the full launch of ADMIRALTY Port Approach Guides, has to some extent protected our revenue from paper charts against decline. Together with the growth in digital sales, this enabled us to achieve overall revenues of £139.6m in 2015/16, an increase of 4.2% over the previous year.

We are now four years into a five-year programme to reduce our controllable costs. We remain on track to achieve our target of a 25% reduction in this area.

These factors, together with our continuous drive to improve and develop our product range, have driven up our profitability. Profit on ordinary activities, before buildings impairment, is \pounds 34.2m, up by \pounds 2.2m or 6.6% on last year.

Our continuing commercial success enabled us this year to pay a dividend of £53.4m to our parent Department, the MoD.

Looking ahead, the outlook for future profitability is considerably more challenging. First, we expect the decline in paper chart sales to accelerate rapidly as confidence in digital navigation grows. Second, gross margins on digital products and services, digital charts in particular, are significantly lower than we have historically enjoyed.

Description of the business

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

We provide the most comprehensive portfolio of world-leading charts and publications under the ADMIRALTY Maritime Products & Services brand, all compliant with the Safety of Life at Sea Regulations (SOLAS).

Our portfolio contains quality-assured information that enables mariners to make confident and accurate decisions and helps to keep crews, cargo, ships and the environment safe.

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

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

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

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

Our international role

The UKHO is committed to strengthening links across the UK and internationally with everyone affected by the sea and its safe passage. The UKHO has close relationships with a range of international organisations, which enable us to play an integral role in developing, maintaining and raising international standards.

We are a leading provider of capacitybuilding assistance under the auspices of the IHO. We have trained over 900 students from 111 countries and are committed to continuing to provide training in hydrographic data processing, marine cartography and ENC production.

We provide coastal states with advice and management of hydrographic surveys to support SOLAS compliance and their blue economies. This involves working collaboratively across governments to ensure alignment with their wider objectives. We also provide commercial bodies and governments with technical advice on the definition and delimitation of maritime space.

A transforming market

Large merchant ships trading internationally are inspected to ensure they are carrying official and compliant nautical charts and publications, which are mandated to be carried under Chapter V of the IMO's SOLAS convention. The IMO has mandated the progressive adoption of digital navigation for these vessels. This process began in 2008. Most ships trading internationally will have adopted the new regulations and made the transition to digital navigation by 2018.

This change represents a seismic shift in the planning and conduct of marine navigation. It provides the dominant context for our vision and business strategy and has already had a major impact on our organisation, infrastructure, products and services.

Performance report – overview (continued)

Improvement and innovation

We continue to improve and innovate with our customers' needs in mind.

For example, we have implemented a data-compression module for ENCs that cuts the size of files transmitted by 20–40%; we continue to work on further ideas that could deliver another 50% reduction. We have also reduced the size of e-Nautical Publication files by 50% and have implemented a method of restarting interrupted downloads.

We have completely rewritten the e-Navigator Planning Station code to bring it up to current standards, simultaneously updating and simplifying the user interface and processes. This code now forms the basis for the integration of all ADMIRALTY digital products – e-Navigator Planning version 2 is the first product to be delivered as part of this new common code base.

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

In these and other ways we are creating, with our chart agents, a high-quality network where our products and services are widely distributed, that ensures we are easy to do business with and that supports the highest level of customer service.

Our support for Defence

We continue to provide a responsive and high-quality service to our Defence customers.

We responded to 2,447 defence-related enquiries during the year, mainly regarding ENCs, ADMIRALTY Raster Charts (ARCs) and e-Navigator.

Sustainability

We are committed to reducing our environmental impact where practicable. This includes recycling most of our waste, utilising energy-efficient measures and investing in more energyefficient appliances.

However, most buildings on the site range in age between 40 and 75 years, meaning they represent a constant efficiency challenge. We have received authority from the MoD to proceed with building a new office at Admiralty Way. This will replace 14 of the current 17 separate buildings, enabling us to reduce our environmental footprint substantially and release much needed land for local housing. It will also provide our staff with a collaborative, modern working environment that supports the Government's policy on flexible working practices.

Further details can be found in our Sustainability Report on page 52.

Our suppliers and payment policy

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

This financial year, our payment of undisputed invoices in this timescale was 94.1% (95.5% in 2014/15). We have observed the principles of the Better Payment Procedure Code, a summary of which is contained in Managing Public Money.

Performance Analysis

Key Performance Measures (KPMs)

Our KPMs are set annually by the MoD on advice from the Owner's Council.

These reflect our current business model as a Ministry of Defence Trading Fund operating with freedom to sell our products through a worldwide network of chart agents. In 2015/16 we exceeded the standards set against all five of our KPMs.

KPMs - results 2015/16

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

	KPM	Achievement
I. 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	Exceeded
3. Financial return	issuing Notices to Mariners (NMs) and Electronic Chart updates Achieve an average 9% Return on Capital over the last five years	Exceeded
4. Cost reduction	Achieve a 5% reduction in costs excluding Defence	Exceeded
5. Strategic plan	To achieve at least 70% of 18 measures of achievement which together provide a balanced score card reflecting our overall programme delivery	Exceeded

Key Business Risks

Risk	Impact	Mitigation of risk
An error in our products contributes to an incident at sea	Financial and reputational loss	Production and charting processes designed to minimise risk. Continuous improvement of these processes
Failure to forecast and respond to the pace of the digital transition	Financial losses and potential change in status	Planning processes include consideration of a number of scenarios combined with market research and developing cost- reduction plans that can be accelerated if required
Inability to attract and retain skills will frustrate our plans to transform into a digital business	Financial loss and inability to remain a sustainable business	Seek freedoms to offer competitive rates. Improve our marketing of the range of leading-edge technical work we offer
Failure to manage our information assets properly	Damage to our reputation and harm to our relationships with data suppliers may lead to financial impacts	Further embed good information assurance practices. Implement the accreditation action plan for all IT systems and applications. Achieve ISO27001



John Humphrey Accounting Officer and Chief Executive 04 July 2016 Financial statements

Directors' report

Executive Directors



John Humphrey Chief Executive and Accounting Officer



RAdm Tim Lowe National Hydrographer and Deputy Chief Executive



Andrew Millard* Chief Financial Officer

Non-Executive Directors



Adam Singer Chairman



Capt David Robertson RN Hydrographer of the Navy



Marion Leslie



Barry Wootton



Heather Tayler

* Invited attendees

UKHO Owner's Council	UKHO Board	Audit and Risk Assurance Committee (ARAC)	Remunerations and Nominations Committee (REMNCO)	Membership
•				Rt Hon Julian Brazier MP (Chairman) Parliamentary Under Secretary of State & Minister for Reserves
•	٠			Adam Singer (Chair)
•	٠	*		John Humphrey (Chief Executive) from February 2016
•	٠	*		John Humphrey (Acting Chief Executive) to February 2016
*	٠	*		Rear Admiral Tim Lowe (UKHO National Hydrographer & Deputy Chief Executive – Hydrography) from August 2015
*	٠	*		Rear Admiral Tom Karsten (UKHO National Hydrographer & Deputy Chief Executive – Hydrography) to June 2015
	*	*		Andrew Millard (Chief Financial Officer)
	٠	•	•	Barry Wootton (Non-Executive Director and Chair ARAC & REMNCO)
	٠		٠	Gareth Lewis (Non-Executive Director) to October 2015
	٠	•		Marion Leslie (Non-Executive Director)
•	٠	٠	٠	Heather Tayler (Director Finance Strategy, Non-Executive Director, Owner's representative)
	٠	•		Captain David Robertson RN (Captain HM & Hydrographer of the Navy, Non-Executive Director)
	*			Helen Stevens (Trades Union Representative)
•				Louise Tulett (DG Finance)
•				Mark Preston (DG Head Office & Commissioning Services) from November 2015
•				Jonathan Slater (DG Head Office & Commissioning Services) to Oct 2015
•				Rear Admiral James Morse (Assistant Chief of Naval Staff (Capability))
•				Major General James Hockenhull (Director Cyber, Intelligence and Information Integration)
•				Sir Alan Massey (Chief Executive, Maritime & Coastguard Agency)
•				Michael Everard CBE (External Adviser Commercial Shipping)

* Invited attendees

Directors' report (continued)

Conflicts of interest

Members of the UKHO Board, members of the 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 during the year between UKHO Board members and their activities.

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

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, Government Departments and their agencies are required to publish details in the annual reports of incidents that have resulted in the unauthorised disclosure of personal data.

During the year, a document containing personal information about an employee was lost by a member of staff while working at home. Upon realising the loss, the individual reported it immediately, we initiated our incident-response process and all relevant stakeholders were informed.

Pension

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

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 of performing the statutory audit was £67K. The Comptroller and Auditor General provided no other audit services to the UKHO during the financial year. The Audit and Risk Assurance Committee (ARAC) reviews all audit findings.

Financial instruments

The accounting treatment of financial instruments, policies and associated risks are reported in accounting policy W and Note 19.

Events after the reporting period

The result of the referendum held on the 23rd June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event can not be made.

Directors' declaration

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

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

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

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

John Humphrey Accounting Officer and Chief Executive 04 July 2016

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

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 18 December 2015. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year. In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:

- → all relevant audit information has been made available to the auditors.
- → 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 and they are fair balanced and understandable

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

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, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I was appointed Accounting Officer on 9 Feb 2016, following my interim appointment, which commenced on I February 2015.

In order to provide this opinion, for the period 1 April 2015 to 31 March 2016, I have received advice and assurances from various sources including:

- → internal and external audit
- → Management Board sub-committees and
- → the Directors and senior managers through their annual assurance statements

Ownership and financial structure

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

Our accounts, which are drawn up to 31 March each year, have been prepared in accordance with the HM Treasury direction of 18 December 2015 as per section 4(6) (a) of the Government Trading Funds Act 1973.

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

Governance framework

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

The Parliamentary Under Secretary of State & Minister for Reserves assists the Secretary of State for Defence in the discharge of his responsibilities with regard to our top-level strategy and plans. Each year, I obtain approval from the Minister for our 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 and services.

Our Framework Document was updated in 2015; this can be found at https://www. gov.uk/government/organisations/ukhydrographic-office/about#our-frameworkdocument

The UKHO Owner's Council

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

UKHO Board

The UKHO's plans are formulated by a Board of executives and non-executives. This UKHO Board also routinely monitors progress and endorses our investment business cases.

We were due to have our bi-annual independent review of the UKHO Board effectiveness during 2015/16. However, due to the appointments of a new Chair and CEO, combined with the review of the Framework Document, this review has been delayed until 2016/17.

The quality of management information provided to the UKHO Board to support decisions is reviewed regularly. The UKHO Board is satisfied that the quality of the information is fit for purpose. During 2015/16 the Board met seven times and the average attendance was 93%. The attendance of individual members (during their tenure in office) was:

	Attendance
John Humphrey	7/7
David Robertson	7/7
Barry Wootton	7/7
Adam Singer	7/7
Marion Leslie	6/7
Andrew Millard*	6/7
Tom Karsten	2/3
Tim Lowe	4/4
Heather Tayler	6/7
Gareth Lewis	4/4

* Invited attendee

Audit and Risk Assurance Committee (ARAC)

The ARAC is a sub-committee of the UKHO Board. 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 four 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.

Invited members of the executive committee, the NAO and our appointed internal auditors, Defence Internal Audit (DIA), attend its quarterly meetings.

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

The Chair of the ARAC reports to the UKHO Board on its proceedings.

Remuneration and Nomination Committee (REMNCO)

The REMNCO works within the MoD and other Government guidelines to advise me and the UKHO Board on remuneration and reward for the executive Directors.

The committee comprises three nonexecutive 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 and
- → considers and advises on any other issues regarding remuneration and conditions of employment

The Chair of the committee reports on its proceedings to the Accounting Officer and the Chair of the UKHO Board.

Safety of Navigation Advisory Committee (SONAC)

SONAC, which advises the Board on product safety and other safety matters is chaired by a UKHO Board non-executive Director, Captain David Robertson RN, Hydrographer to the Navy. It also draws from a wide range of independent experts including the Royal Navy, The Maritime and Coastguard Agency, The Royal National Lifeboat Institute, Trinity House, Associated British Ports, The Marine Accident Investigation Branch, The Chamber of Shipping and The Royal Yachting Association.

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

Compliance with the corporate governance code

The UKHO Board has carried out a selfassessment using the NAO checklist on its code of good practice compliance. The Board considers that it has complied with all aspects of the corporate governance code to the extent that it is deemed relevant and practical.

The UKHO Board periodically uses external consultants to conduct Board-effectiveness reviews. As stated above, this bi-annual review has been delayed until 2016//17.

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.

AHL is currently dormant and has no active trading subsidiaries.

The UKHO internal control

The governance structures outlined above support a system of internal control which is designed to manage risk to a reasonable, practical level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives. We evaluate the likelihood of those risks being realised and their likely impact should they be realised, and manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2016. Up to the date of approval of the annual report and accounts, they accord with Treasury guidance.

Corporate governance and risk management

Members of the executive committee and their senior managers provide written assurance to me as the Accounting Officer. This covers the integrity and accuracy of

- → performance reports
- → maintenance of effective controls in relation to the delivery of business objectives
- → security (physical and data)
- → financial propriety and fraud prevention
- → conduct of business
- → management of internal audit recommendations
- → identification of contingent liabilities and
- → compliance with staff reporting requirements, including the provision of appropriate business skill capabilities

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

We have appropriate risk management governance structures, processes and activities in place to effectively manage our risks to a consistent level of rigour. This allows informed decisions to be made by the right people at the right times. Our risk management policy is aligned to the latest MoD risk management framework as set out in the Joint Services Publication JSP892. It is available online to all employees. Corporate risks are owned by divisional heads and are subject to robust review and challenge by the UKHO Board and the ARAC.

All employees have online access to the business risk management policy and to guidance on identifying and mitigating risk. This sets out clear accountabilities and a structured process for identifying, accessing, communicating and managing risks. Performance analysis

Governance statement (continued)

Financial control

Financial performance is controlled by cascading detailed plans supporting the delivery of those objectives articulated in the first year of the corporate plan. These form the basis of the annual budget from which delegated authority is derived. They also demonstrate the linkage between our 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 UKHO Board reviews financial performance at each meeting.

Budget holders carry out monthly variance reviews of revenues and spending in their areas of responsibility.

In addition, the executive committee undertakes monthly reviews of a range of KPMs, both financial and non-financial. These measures are selected to give the UKHO Board confidence that all key aspects of the business are being scrutinised and provide a framework for early intervention when performance does not meet expectations. Taking such measures also ensures that management has scrutinised the assumptions underlying all major programmes and projects to ensure that they remain valid. All major programmes are subject to programme and project management disciplines, investment appraisal, risk assessment and formal scrutiny by the executive committee.

Our IT security procedures conform to Cabinet Office and MoD instructions and mandatory safeguards regarding both personal and personnel data. We are obliged to operate our commercial function in accordance with relevant administrative policy, Government procurement and regulatory requirements. Management regularly reviews its commercial strategy and ensures that procurement accountabilities are clearly defined.

Improving quality

We recently recertified under the ISO9001:2008 standard. No instances of non-conformity were raised. The auditor highlighted a number of areas that demonstrated the UKHO's commitment to quality. These included its highly effective management review process, the involvement of senior management in requesting audits, a corporate strategy that sets out a clear actionable vision in which quality objectives may be set, and the inclusion of continuous improvement initiatives within the corporate plan.

Improving internal controls

We have continued our focus on quality and continuous improvement. We have implemented a number of initiatives to support and enhance error reduction and defect analysis. We have promoted a focus on the customer experience throughout the organisation, providing a greater understanding of customer needs and enhanced cross-divisional working. We have reinvigorated the safety management system, putting a new governance structure in place to support product safety within the UKHO and ensure that ownership, accountability and responsibility are in the right places.

Special payments

No special payments were made during the year. (2014/15:£0).

The role of internal audit

The ARAC considers and approves the coverage of the internal audit programme, which is flexed to address risks arising during the year. The UKHO Board and the ARAC are aware of the major challenge of maintaining a consistent and improving internal control framework during 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 2015/16 was contracted out to DIA. As part of its duties, it carried out independent checks on the control process on my behalf. Operating to standards defined in the Public Sector Internal Audit Standards. DIA also carried out a programme of riskbased audits. It submitted regular reports, including its independent opinion on the adequacy and effectiveness of our internal control. It also made recommendations for improvement which, when accepted by senior managers, form improvement actions. The executive committee receives reports on, and monitors, outstanding improvement actions arising from both internal and external audit recommendations.

The opinion given by internal audit on the work it completed during 2015/16 constituted "Limited Assurance".

They commented that the UKHO is an organisation presently going through transformational change. It is moving away from its traditional paper-based operations and positioning itself within the digital market in order not only to maintain its market share but also to exploit future growth.

They further commented that it is not uncommon, during large-scale transformation programmes, for control environments to become strained as process and organisational changes are adopted at pace. Although the system of internal control was found to be operating effectively across a range of audits, the significant number of limited assurance opinions demonstrated the need for controls to keep abreast of changes. The issues raised by DIA where immediate remedial or mitigating action is possible have largely been addressed. The remainder will be addressed during the coming year, often as part of ongoing programmes which are either in place or due to start.

Business Continuity

We operate an effective business continuity management (BCM) system in the UKHO that aligns to ISO 22301.

We maintain an ongoing programme to ensure that our BCM documentation remains up to date, that staff members are trained and that our plans are tested. Progress against our BCM programme is reported regularly to ARAC; key activities this year included the release of new incident and crisis management plans and a technology business continuity plan.

Crisis command training has been provided to members of our crisis management team. In terms of testing during the year, we:

- → carried out a desktop exercise with Avon & Somerset Police (ASP) to test our emergency, business continuity and crisis management procedures in the event of a terrorist attack
- → conducted fail-over testing for applications that are backed up at our data centre in Plympton
- → tested our intruder response procedures
- → tested the off-site relocation arrangements for our customer services team.

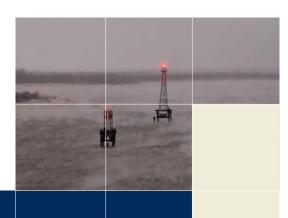
Information Assurance (IA)

We have made significant progress in embedding IA processes across the organisation and have attained Level 2 of the Government's IA Maturity Model following formal assessment by the MoD's Defence Assurance and Information Services (DAIS). Contributing factors included:

- → our embedded governance structure, with the strong engagement of senior managers
- → a well-structured culture change programme in which a wide range of change activities across the organisation has been implemented
- → the embedding of information security experts within the business to drive forward the accreditation of IT systems and applications
- → projects managers engaging with key IA stakeholders so that information security is built in rather than bolted on



John Humphrey Accounting Officer and Chief Executive 04 July 2016



Remuneration and staff report

Our Directors

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 UKHO Board is responsible for directing and controlling the major activities of the organisation.

As additional disclosure, the details of the emoluments and pension of the Chief Financial Officer are also disclosed. While he is not formally a member he participates in meetings and exercises influence on the decisions made.

Remuneration policy

The following remuneration policy refers to the employment of our directors.

One director employed during the year is a Senior Civil Servant (SCS) and subject to SCS terms and conditions, including the remuneration and bonus policy. The second director is on secondment from the Royal Navy (RN). His remuneration is set and paid by the RN. The non-executive directors are not UKHO employees but, apart from two who are employed by the MoD, they are paid a fee for their services.

- → John Humphrey was appointed Chief Commercial Officer and Deputy Chief Executive (Corporate) on a permanent SCS contract from 1 April 2014. John was appointed Chief Executive from 1 February 2016
- → Rear Admiral Tom Karsten was appointed National Hydrographer and Deputy Chief Executive (Hydrography) on 17 December 2012. Tom retired from the Navy and the Hydrographic Office on 12 June 2015
- → Rear Admiral Tim Lowe was appointed National Hydrographer and Deputy Chief Executive (Hydrography) on 11 August 2015

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. 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 on our meeting agreed key performance measures at a corporate level.

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

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

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

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

Salary and pension entitlements

(This section has been subject to audit)

The tables on pages 22-24 provide details of the remuneration and pension interests of the executive members of the UKHO Board.

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

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

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual.

The bonuses reported in 2015/16 relate to performance in 2014/15 and the comparative bonuses reported for 2014/15 relate to the performance in 2013/14.

Remuneration and staff report (continued)

Remuneration details

2015/16	Notes	Salary Band £k	Performance Awards £k	Compensation (Note 2) £k	Total £k	Pension Benefit (Note 5) £k
	Notes			LK		
John Humphrey		115-120	0	0	115-120	45-47.5
Rear Admiral Tim Lowe	3	80-85			80-85	
(from 11 Aug 16)		(0- 5)*				
Andrew Millard	1	75-80	0	0	75-80	20-25
Rear Admiral Tom Karsten	4	25-30	0	0	25-30	0
(up to 12 Jun 15)		(0- 5)*				
lan Moncrieff CBE	2	0	15-20	0	15-20	0

2014/15	Notes	Salary Band £k	Performance Awards £k	Compensation (Note 2) £k	Total £k	Pension Benefit (Note 5) £k
John Humphrey		0- 5	35-40	0	45- 50	40-45
(From I April I4)						
Rear Admiral Tom Karsten	4	110-115	0	0	0- 5	0
Andrew Millard	I	75-80	0	0	75-80	20-25
Ian Moncrieff CBE	1	95-100	35-40	50-55	185-190	30-35
(up to 31 Jan 15)		(115-120)*				

* denotes full year equivalent

Notes

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

2. Ian Moncrieff CBE left under VERS (Voluntary early release scheme) terms on 31 January 2015. He received a bonus payment in 2015/16 based on performance in 2014/15.

3. Rear Admiral Tim Lowe is a serving RN Officer on loan to the UKHO. Whilst RN charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service Pension and CETV figures are not disclosed.

4. Rear Admiral Tom Karsten was a serving RN Officer on loan to the UKHO. Whilst RN charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service Pension and CETV figures are not disclosed.

5. John Humphrey and Andrew Millard are members of, and contribute to, a Civil Service pension scheme. John joined the scheme I April 2014. The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. This is an estimate of the assumed value of the increase in pension that will be payable on retirement to the individual and has not been paid in the year.

Pension benefits

(This section has been subject to audit.)

	Accrued ben	Accrued benefits*		benefits	CETV	CETV	CETV
	Pension (Note a)	Lump sum (Note a)	Pension (Notea)	Lump sum	31/03/2016	31/03/2015	Real
	£k	£k	£k	£k	£k	£k	£k
John Humphrey	25-27.5	(Note b)	2.5-5	(Note b)	330	272	19
Andrew Millard	10-12.5	(Note b)	0-2.5	(Note b)	219	179	22

* As at 31 March 2016

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.

None of the above are members of partnership pension schemes.

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 2015/16 was $\pounds 115 - \pounds 120K$ ($2014/15 \pm \pounds 145 - \pounds 150K$). These include performance award payments. This was 3.9 times ($2014/15 \pm 5.3$) the median remuneration of the workforce which was $\pounds 29.7K$ ($2014/15 \pm 28.5K$).

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

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

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

	2015/16 £k	2014/15 £k
Band of highest-paid directors Remuneration (£'000)	115-120	145-150
Median of all UKHO employees	29.7	28.5
Ratio	3.9	5.3

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

Remuneration and staff report (continued)

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 UKHO Board, except in the case of gross misconduct when termination is immediate. Their initial term is three years and may be extended by mutual agreement at the end of the initial period, normally for one or at most two further terms. NED contracts are not pensionable and there is no compensation for early termination. NEDs who served during the year and their fees were:

	Notes	2015/16 £k	2014/15 £k
Adam Singer	1	25-30	15-20
(From 3 May 14)			(25–30)*
Barry Wootton	2	15-20	15-20
Gareth Lewis	3	5-10	15-20
(to 19 Oct 15)		(15-20)*	
Marion Leslie	4	15-20	0-5
(From I Jan I5)			(15-20)*
Captain David Robertson	5	0	0
Heather Tayler	5	0	0

* Full time equivalent

I. Adam Singer, Chair, was appointed on a three-year contract that started 3 May 2014 and will end 25 June 2017.

 Barry Wootton was appointed on a three-year contract that started 3 July 2006. This has been extended for two three-year periods and further extended exceptionally by one year which ends 3 July 2016.

3. Gareth Lewis was appointed on a three-year contract commencing 20 October 2011. This was further extended by one year which ended 19 October 2015.

4. Marion Leslie was appointed on a three-year contract commencing 1 January 2015 and will end 31 December 2017.

5. Captain David Robertson is a serving RN Officer. His appointment began in September 2013 as part of his responsibilities as Hydrographer of the Navy. Heather Tayler is a MoD SCS representing our owner. Neither receives separate remuneration for their roles.

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

Our staff

The Way We Work corporate theme sets out our vision to ensure that we have the right size, structure and skills to deliver an efficient, sustainable and responsive organisation for the future.

To meet our future operating model, we will continue to invest in training, leadership skills, individual performance management and continuous professional development, and focus on attracting and retaining digital skills for the future. This includes new talent-acquisition avenues such as apprentices, graduates and trainees.

Core management development and training is in place to develop an accountable line management population able to successfully deliver the required business change through their people.

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.

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

Staff costs

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

	2015/16 £k	2014/15 £k
Salaries, wages etc	30,408	31,949
Social security costs	2,341	2,523
Pension costs	5,973	5,741
Agency staff costs	5,742	6,517
Service personnel costs	924	777
Total staff costs	45,388	47,507

No costs were capitalised for staff that were engaged in capital projects during the year.

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

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

Staff numbers

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

year was made up us to		
	2015/16	2014/15
Operations	427	395
Support	408	467
Print and supply	96	106
Commercial	52	76
Total staff numbers	983	1,044
Civil servants	906	946
Agency staff	71	92
Service personnel	6	6
Total staff numbers	983	1,044
	Male	Female
Gender of each director of the UKHO at year end *	5	2
Gender of each senior manager of the UKHO at year end **	41	17
Total number of persons who were employed at the year end	660	295

* Includes Hydrographic Office Board (UKHO Board) members only

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

Remuneration and staff report (continued)

Sickness absence

The average number of days lost through sickness in 2015/16 was 7.3 (2014/15: 7.75).

Employee involvement

We are focussed on ensuring our communication with employees is engaging and inclusive with Line Managers at the centre of all dissemination of information. In addition, there are formal communication channels that include monthly divisional meetings summarising key issues including financial performance, regular updates on our intranet including a regular blog by the Chief Executive or other members of the senior management team, and an employees' forum in which employees are free to raise any issues of general concern or of topical interest.

Throughout the year we hold an all-staff conference and staff briefings about our progress against the corporate plan, including a personal presentation by the Chief Executive to all employees.

We annually ask staff to complete the Civil Service People Survey, results of which are reported to the UKHO Board. Formal consultations over a wide range of issues are conducted through the Whitley committee, chaired by the Chief Executive, which meets several times a year. Trade Unions are actively encouraged to contribute to studies and other reviews and are represented at the UKHO Board.

People are key to our success and we take their development seriously to ensure all staff can realise their maximum potential. Our performance management system, which includes a minimum of two appraisals a year and regular monthly one-to-one meetings, ensures that the UKHO has a system to regularly monitor performance and create personal development plans linked directly to objectives with suitable training interventions for all staff. We have a number of professional frameworks that teams follow to monitor and track development and our new apprenticeship programme is nurturing our preference for growing our own talent.

Pension

For 2015/16, the applicable employer contribution pension rates were:

Scheme and annual salary bands to which	
rates apply	%
PCSPS – Band I – £22,000 and under	20.0
PCSPS – Band 2 – £22,001 to £45,000	20.9
PCSPS – Band 3 – £45,000 to £75,000	22.1
PCSPS – Band 4 – £75,000 and	24.5
over	

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.civilservicepensions.gov.uk).

For 2015/16, employers' contributions of £5,939k were payable to the PCSPS (2014/15: £5,706k) at one of four rates in the range 20% to 24.5% of pensionable pay, based on salary bands (2014/15: 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 2015/16 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 or a stakeholder pension with an employer contribution. Employers' contributions of £33.8k (2014/15: £34.9k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1.2k representing 0.5% 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 2016 were £4.3k. There were no prepaid contributions at that date.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: Three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60, and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on | April 2012 will switch into alpha sometime between I June 2015 and I February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha), and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue

at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of I/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 I October 2002 calculated broadly as per classic, and benefits for service from October 2002 worked out as in premium. In Nuvos, a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to Nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015, and 8% and 14.75% from 1 October 2015 – depending on the age of the member - into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note part of that pension may be payable from different ages.)

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

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 £3,306k for staff leaving through VERS during 2015/16 (2014/15: £1,612k). Payments to staff will be made in 2016/17.

There was no compulsory redundancy for 2015/16. There was one compulsory redundancy for 2014/15: £31k.

The figures over the page do not include ex gratia costs. None were paid.

Remuneration and staff report (continued)

Exit package cost band	Num	nber of compulsory redundancies		Number of other departures agreed		otal number of exit kages by cost band
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<£10,000	0	0	3	3	3	3
£10,000-£25,000	0	0	31	17	31	17
£25,000-£50,000	0	1	28	10	28	11
£50,000-£100,000	0	0	23	12	23	12
£100,000-£150,000	0	0	0	2	0	2
Total number of exit packages	0	[85	44	85	45
Total cost (£k)	0	31	3,306	1,612	3,306	1,643

Reporting of high-paid off-payroll appointments

All off-payroll engagements as of 31 March 2016 for more than £220 per day and that last for longer than 6 months.

Number of existing engagements as of 31 March 2016	39
Of which	
Number that have existed for less than one year	
Number that have existed for between one and two years	10
Number that have existed for between two and three years	13
Number that have existed for between three and four years	
Number that have existed for four or more years	4

We have received assurance that 37 of the 39 individuals outlined above are paying the correct amount of tax. We are awaiting responses from the remaining 2.

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than 6 months.

Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	15
Number of the above which include contractual clauses giving the department the right to request assurance in relation to Income Tax and National Insurance obligations	15
Number from whom assurance has been requested	15
Of which	
Number from whom assurance has been received	10
Number from whom assurance has not been received	5
Number that have been terminated as a result of assurance not being received	3

From those whom assurance has not yet been received 3 have been terminated and the remaining 2 have since provided assurance.

Board members and/or senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016

Number of off-payroll engagements of board members and/or senior officials with significant financial responsibility during the financial year	0
Number of individuals that have been deemed 'board members and/or senior officials with significant financial responsibility' during the financial year. This figure includes both off-payroll and on- payroll engagements.	8



John Humphrey Accounting Officer and Chief Executive 04 July 2016

Parliamentary accountability

The UKHO Chief Executive is personally accountable to Parliament for the performance and management of the Trading Fund. Our Annual Report and Accounts are subject to audit by the Comptroller and Auditor General, who heads up the National Audit Office and is responsible for scrutinising public spending and safeguarding the interests of taxpayers on behalf of Parliament. The NAO audit certification is presented on page 30.

More information on our Parliamentary Accountability is published in our Framework Document.

Our Framework Document was updated in 2015; this can be found at https://www. gov.uk/government/organisations/ukhydrographic-office/about#our-frameworkdocument.

Statement of Parliamentary Supply (subject to audit)

As a trading fund agency, we do not have a statement of parliamentary supply.

Public spending and administration budgets

As a trading fund agency, we receive neither a departmental net expenditure limit nor an administrative control total. All our operating expenditures are funded by receipts from trading operations. Our Chief Executive receives his letter of authority directly from the Permanent Under Secretary of MoD.

Pricing and Charges (subject to audit)

Our products are priced according to their cost and to our assessment of their market value in relation to other similar products and the value our end users derive from these products.

Regularity of expenditure (subject to audit)

There were unrecoverable trade receivables of \pounds Ik (2014/15: \pounds 29k) and there were no write offs in respect of fruitless payments and unrecoverable overpayments to staff (2014/15: \pounds 0).

Long term expenditure trends

Our strategy is to remain a sustainable business. We will manage our costs to achieve this as we move progressively into a digital market where margins are lower and opportunities for competitive threats increase.

Remote Contingent Liabilities

The Government ultimately carries the risk in the event that an error in our products causes an incident at sea. All our safety and quality systems are focused on mitigating this risk. In line with Government policy on insurances, we self-insure and any liabilities are considered to be under-written by our parent department, MoD.

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 UK Hydrographic Office (UKHO) for the year ended 31 March 2016 under the Government Trading Funds Act 1973. The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of UKHO, the Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government 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 UKHO's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by UKHO; and the overall presentation of the financial statements. In addition I read all the financial and nonfinancial 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.

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- → the financial statements give a true and fair view of the state of UKHO's affairs as at 31 March 2016 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- → the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

→ adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- → the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- → I have not received all of the information and explanations I require for my audit; or
- → the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General 14 July 2016

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 ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2016

Statement of comprehensive income For the year ended 31 March 2016

	Note	2015/16 £k	2014/15 £k
Income	4	139,598	134,002
Materials and other external charges		(6,766)	(6,956)
Staff costs	3A	(45,388)	(47,507)
Depreciation and impairment	3B	(20,525)	(6,271)
Other operating charges	3C	(46,395)	(41,284)
Profit on ordinary activities before interest		20,524	31,984
Exceptional items	5	(3,733)	(1,971)
Profit on ordinary activities before interest and after exceptionals		16,791	30,013
Interest receivable and similar income	6	489	601
Interest payable and similar charges	7	(7)	(19)
Profit for the year		17,273	30,595
Dividend	8	(48,997)	(69,419)
Retained loss for the financial year		(31,724)	(38,824)
Other comprehensive income			
Revaluation of non-current assets	9A & B	1,196	1,444
	,, (QD	.,.,0	.,
Total comprehensive income		(30,528)	(37,380)

The notes on pages 36 to 53 form part of these accounts

Statement of financial position As at 31 March 2016

	Note	2015/16 £k	2014/15 £k
Non-current assets:			
Property, plant & equipment	9A	20,243	33,967
Intangible assets	9B	4,205	7,898
Total non-current assets		24,448	41,865
Investment	10	0	13
Current assets:			
Inventories	11	2,129	2,417
Trade and other receivables	12	34,285	28,573
Cash and cash equivalents	13	61,446	67,948
Total current assets		97,860	98,938
Total assets	_	122,308	40,8 6
Current liabilities:			
Trade and other payables	14	(60,045)	(48,279)
Provisions	15	(4,740)	(4,365)
Total current liabilities		(64,785)	(52,644)
Non-current assets plus net current assets		57,523	88,172
Non-current liabilities:	_		
Provisions	15	(275)	(396)
Total non-current liabilities		(275)	(396)
Assets less liabilities		57,248	87,777
Taxpayers' equity:			
Public dividend capital		13,267	13,267
Revaluation reserve		9,599	21,727
Profit and loss account		34,382	52,783
Total taxpayers' equity		57,248	87,777

The notes on pages 36 to 53 form part of these accounts

John Humphrey Accounting Officer and Chief Executive 04 July 2016 **Financial statements**

Overview

Performance analysis

Corporate governance report

Parliamentary accountability Remuneration and staff report and audit report

Statement of changes in taxpayers' equity For the year ended 31 March 2016

		Profit and Loss Reserve	Revaluation Reserve	Public Dividend Capital	Total Reserves
Balance at 1/4/14	Note	£k 90,442	£k 21,448	£k 13,267	£k 125,157
Changes in equity for 2014/15:		70,442	21,440	13,207	123,137
Other Comprehensive Income					
Revaluation of non-current assets					
Property, plant & equipment (PPE)	9A		1 777		1,777
	9A 9B		1,777 797		797
Intangible assets	9D 9A		(620)		(620)
Depreciation – revaluation PPE					(/
Depreciation – revaluation Intangibles	9B		(510)		(510)
Realisation of revaluation surplus		0 (7	(0/7)		0
Property, plant & equipment		863	(863)		0
Intangible assets		302	(302)		0
Total other comprehensive income		1,165	279		1,444
Net Income for the period		30,595			30,595
Total Recognised income and expense for the period		31,760	279		32,039
Dividend	8	(69,419)			(69,419)
Balance at 31/3/15		52,783	21,727	13,267	87,777
Changes in equity for 2015/16:					
Other comprehensive income					
Revaluation of non-current assets					
Property, plant & equipment	9A		1,737		1,737
Intangible assets	9B		1,004		1,004
Depreciation – revaluation PPE	9A		(783)		(783)
Depreciation – revaluation Intangibles	9B		(762)		(762)
Realisation of revaluation surplus					
Property, plant & equipment		13,324	(13,324)		0
Total other comprehensive income		13,324	(12,128)		1,196
Net income for the period		17,272			17,272
Total recognised income and expense for the period		30,596	(2, 28)		18,468
Dividend	8	(48,997)	/		(48,997)
Balance at 31/3/16		34,382	9,599	13,267	57,248

The notes on pages 36 to 53 form part of these accounts

Statement of cash flows For the year ended 31 March 2016

		2015/16	2014/15
	Note	£k	£k
Net cash flow from operating activities	22	48,327	32,006
Cash flows from investing activities			
Investments	10	13	160
Interest received	6	489	600
Purchase of property, plant and equipment	9A	(1,925)	(1,800)
Purchase of intangible assets	9B	0	(32)
Net cash outflow from investing activities		(1,423)	(1,072)
Cash flows from financing activities			
Repayment of long term loan		0	(6,784)
Dividend paid	8	(53,419)	(70,091)
Dividend from Subsidiary	10	13	0
Net cash outflow from financing activities		(53,406)	(76,875)
Netfinancing			
Net decrease in cash and cash equivalents in the period		(6,502)	(45,941)
Cash and cash equivalents at beginning of year	3	67,948	113,889
Cash and cash equivalents at end of year		61,446	67,948

The notes on pages 36 to 53 form part of these accounts

Notes to the accounts

1. Accounting policies

A. Basis of accounting

The financial statements have been prepared in accordance with the 2015/16 FReM issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

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

We operate as a Trading Fund within the MoD in accordance with statutory instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 18th December 2015 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973.

B. Accounting convention

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

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

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

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

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

D. Estimation techniques

To achieve consistency across MoD the index used to revalue buildings has been

changed from the Tender Price Index to a MoD generated index, based on the BiS Output Price Index for new construction work, public non-housing.

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

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

We have received approval to proceed with a new office build at Admiralty Way. Plans are to replace 14 of the current 17 buildings. These 14 buildings will be demolished in two phases. The best estimate for the timings of their vacation prior to demolition is currently March 2017 and March 2019. These buildings have been impaired by £13,641k to reflect the estimated value in use for their remaining life. Estimated value in use has been estimated by taking the normal annual depreciation times the years left until vacation prior to demolition.

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

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

E. Exceptional items

Exceptional items are those significant items which individually, or if of a similar type in aggregate, are separately disclosed by virtue of their size or incidence to enable a full understanding of our financial performance. Business restructurings are considered exceptional in nature (as detailed in Note 5).

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 2 of the Accounts in accordance with IFRS 8 Operating Segments.

G. Provision for sales credits

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

H. Non-current assets valuation

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

Intangible assets

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

Development expenditure

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

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

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

Specifically, databases and other software that are established for the internal use of management within the reporting entity

(such as payroll or HR systems) will not be recognised as intangibles.

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

All intangible assets in Note 9B are owned by the UKHO.

All development expenditure has been revalued as at 31 March 2016 through the application of appropriate indices: Intangible Assets, Development Costs, and IT COMMS. These are published annually by Defence Analytical Services and Advice.

Property, plant and equipment

Land and buildings were professionally valued at 31 March 2013 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and buildings were valued at depreciated replacement cost of the estate, with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a market value has been provided. Assets have been revalued as at 31 March 2016 during the year through the application of appropriate indices:

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

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

All property, plant and equipment assets in Note 9 are owned by the UKHO.

H1. Depreciation and amortisation

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

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

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

${\rm H2.\,Non-current\,assets\,held\,for\,sale}$

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

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

I. Inventories and work in progress

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

J. Hydrographic data

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

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

K. Pensions

Our staff are covered by the provisions of the PCSPS, which is an unfunded multiemployer 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 3a and the Remuneration and Staff report (pages 20–29).

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 allow for this if cost effective. We carry our own risks in respect of all other insurable risks. In the event of any loss occurring which exceeds the scope to be covered from insurance or retained profit, we will consult with the MoD about the action to be taken.

M. Development and transformation activities

All expenditure on development transformation activities of noncommercial 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 products' 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 2016. 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 2016; 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 2016.

The rate advised by HM Treasury is used to discount provisions to current prices – the short-term rate for financial year 2015/16 being 1.55% (2014/15: 1.5%). 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, 2015/16: 1.37% (2014/15: 1.3%). 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.

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 noncurrent assets.

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

U. Taxation

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.

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

W. Financial instruments

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

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 their amortised cost. Discounting is relevant to those receivables and loans which carry a nil or a subsidised rate of interest. However, our receivables that are due within one year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

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

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 their amortised cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, our liabilities falling due within one year are not discounted.

Cash and cash equivalents

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

X. Investments

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

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

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

The following have not been adopted early by us:

IFRS 9 Financial instruments

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

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

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

IAS 17 Leases

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

The effective date has yet to be confirmed.

IAS 18 Revenue recognition

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

Financial Reporting Manual accounting policies have been adopted in full.

Amendments to the 2015–16 FReM

Applicable for accounting periods beginning on | April 2015.

IFRS13 Fair value measurement

Requiring entities to apply prospectively from I April 2015.

2015-16 FReM updates

Updates published in December 2014 introduced changes to the structure of the Annual Report and Accounts. These introduced a requirement for the report to be split into three parts: the Performance Report, the Accountability Report and the Financial Statements. The 2015/16 report is prepared under this format

There are a number of minor amendments published in December 2015. None of these are considered to have a material impact on the financial statements of the UKHO.

Overview

2. Operating segments

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

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

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

	Note	Commercial 2015/16 £k	Defence 2015/16 £k	Total 2015/16 £k	Commercial 2014/15 £k	Defence 2014/15 £k	Total 2014/15 £k
Income	4	126,420	13,178	139,598	121,336	12,666	134,002
Cost of sales				(35,321)			(29,747)
Gross profit				104,277			104,255
Margin %				75%			78%
Overheads				(83,753)			(72,271)
Profit on ordinary activities before interest				20,524			31,984
Exceptional items	5			(3,733)			(1,971)
Profit on ordinary activities before interest and after exceptional items				16,791			30,013
Interest receivable	6			489			601
Interest payable	7			(7)			(19)
Net profit				17,273			30,595
Dividend				(48,997)			(69,419)
Retained loss for the financial year				(31,724)			(38,824)

Information about major customers

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

	Commercial 2015/16 £k	Defence 2015/16 £k	Total 2015/16 £k	Commercial 2014/15 £k	Defence 2014/15 £k	Total 2014/15 £k
Customer I	19,258	0	19,258	15,763	0	15,763
Customer 2	17,493	0	17,493	14,935	0	14,935

Sales revenue by geographical market

	2015/16 £k	2014/15 £k
Europe, Middle East & Africa	93,513	86,080
Asia Pacific	36,656	38,115
North America	8,942	9,329
Central & Latin America	487	478
Total revenue	139,598	134,002

2014/15

2015/16

3. Profit on ordinary activities before interest

Profit on ordinary activities before interest of £20.5m (2014/15:£32m) is stated after charging:

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

	£k	£k
Salaries, wages etc	30,408	31,949
Social security costs	2,341	2,523
Pension costs	5,973	5,741
Agency staff costs	5,742	6,517
Service personnel costs	924	777
A. Total staff costs	45,388	47,507
	2015/16 £k	2014/15 £k
Depreciation/amortisation-owned assets	6,861	6,248
Loss on disposal of fixed assets	23	23
Impairment adjustments (Note 2)	13,641	0
B. Depreciation and impairment	20,525	6,271
	2015/16	2014/15

Office machinery operating leases C. Other operating charges	46,395	41,284
Professional fees	37	48
External auditor's remuneration (Note I)	139	162
Travel, training and entertainment expenses	2,640	3,043
Software maintenance & office equipment	4,406	3,829
Materials and services	5,289	4,043
Utilities and other estates operating costs	3,678	5,078
Development & transformation activities	2,934	7,703
Royalties	6,011	6,614
Data costs	21,260	10,729
	2015/16 £k	2014/15 £k

(I) The NAO audit fee for external audit is £67k (2014/15: £67k).

(2) We have received approval to proceed with a new office build at Admiralty Way. Plans are to replace 14 of the current 17 buildings. These 14 buildings will be demolished in two phases. The best estimate for the timings of their vacation prior to demolition is currently March 2017 and March 2019. These buildings have been impaired by £13,641k to reflect the estimated value in use for their remaining life.

4. Income

	2015/16 	2014/15 £k
Commercial sales	126,420	121,336
Sales to MoD	13,178	12,666
Total income	139,598	134,002

5. Exceptional items

		2015/16 £k	2014/15 £k
Voluntary early release scheme (VERS)	This reflects a voluntary release scheme 85 staff left the UKHO during 2015/16 (2014/15 44). All costs have been accrued during the year and will be paid in 2016/17.	3,756	1,874
Early retirement	This reflects early retirements arising from a variety of restructuring exercises. The provision as at 31 March 2016 is £0 (£9,000 at 31 March 2015) to cover committed early release costs.	(39)	40
Compulsory Redundancy		0	31
Trading Fund rationalisation	The provision covers committed early release costs. The remaining provision has been discounted at 1.37% and will be paid by 2019/20	16	26
Total exceptionals		3,733	1,971

6. 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 12 months. Interest received and receivable has arisen from financial assets classified as loans and loan receivables. These are primarily short-term investments held at fixed interest rates.

	2015/16	2014/15
	£k	£k
Interest receivable and similar income	489	600

7. Interest payable and similar charges

	Note	2015/16 £k	2014/15 £k
Unwinding of the discount and movement on provision for early retirements and	15	7	19
rationalisation			

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

8. Dividends

	2015/16 £k	2014/15 £k
Ordinary dividend	6,997	,4 9
Special dividend	42,000	58,000
Total dividend	48,997	69,419

Ordinary dividends are declared in year and paid the following year.

Special dividends are declared and paid in the same year.

9A. Property, plant and equipment

	Freehold land £k	Buildings £k	Plant & machinery £k	Furniture & fittings £k	Information technology £k	Assets under construction £k	Total £k
Cost or valuation:							
At I April 2014	8,702	34,230	6,745	240	9,986	281	60,184
Additions	0	0	153	0	1,279	368	1,800
Reclassification	0	0	0	0	280	(280)	0
Disposals	0	0	(4)	0	(384)	0	(498)
Revaluation	182	1,582	13	0	0	0	1,777
Adjustment (Note a)	0	326	416	0	2	0	744
At 31 March 2015	8,884	36,138	7,213	240	, 63	369	64,007
At April 2015	8,884	36,138	7,213	240	11,163	369	64,007
Additions	0	0	105	0	22	1,798	1,925
Reclassification	0	0	107	0	62	(169)	0
Disposals	0	0	(10)	0	(5,330)	0	(5,340)
Adjustment (Note a)	0	0	0	0	2	0	2
Revaluation	(3)	1,626	4	0	0	0	1,737
Impairment (Note b)	0	(13,641)	0	0	0	0	(13,641)
At 31 March 2016	8,881	24,123	7,529	240	5,919	1,998	48,690
Depreciation:							
At April 2014	0	12,993	5,712	83	8,034	0	26,822
Charged	0	1,201	285	10	834	0	2,330
Disposals	0	0	(103)	0	(372)	0	(475)
, Adjustment (Note a)	0	326	416	0	0	0	742
Revaluation	0	610	[]	0	0	0	621
At 31 March 2015	0	5, 30	6,321	93	8,496	0	30,040
At April 2015	0	15,130	6,321	93	8,496	0	30,040
Charged	0	1,368	688	10	876	0	2,942
Disposals	0	0	(9)	0	(5,309)	0	(5,318)
Revaluation	0	683	100	0	0	0	783
At 31 March 2016	0	17,181	7,100	103	4,063	0	28,447
Net book value:							
At 31 March 2016	8,881	6,942	429	137	1,856	1,998	20,243
At 31 March 2015	8,884	21,008	892	147	2,667	369	33,967

(a) In 2014/15, the adjustment refers to the reclassification of the opening balance.

(b) We have received approval to proceed with a new office build at Admiralty Way. Plans are to replace 14 of the current 17 buildings. These 14 buildings will be demolished in two phases. The best estimate for the timings of their vacation prior to demolition is currently March 2017 and March 2019. These buildings have been impaired by £13,641k to reflect the estimated value in use for their remaining life.

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

Overview

9B. Intangible non-current assets

	Software Licences £k	Development Software £k	Total £k
Cost or Valuation:			
At I April 2014	15,997	30,218	46,215
Additions	32	0	32
Revaluation	0	797	797
Adjustment Note a	0	383	383
At 31 March 2015	16,029	31,398	47,427
At I April 2015	16,029	31,398	47,427
Revaluation	0	1,005	1,005
At 31 March 2016	16,029	32,403	48,432
Amortisation:			
At I April 2014	15,495	19,223	34,718
Charged	219	3,699	3,918
Disposals	0	383	383
Revaluation	0	510	510
At 31 March 2015	5,7 4	23,815	39,529
At I April 2015	15,714	23,815	39,529
Charged	166	3,769	3,935
Revaluation	0	763	763
At 31 March 2016	15,880	28,347	44,227
At 31 March 2016	149	4,056	4,205
At 31 March 2015	315	7,583	7,898

All intangible assets are owned by the UKHO.

9C. Analysis of intangible non-current assets

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

Project	Description	Carrying value 31/03/2016 £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.	1,960	21
Hydrographic database	The development of global, digital, vector based data and service capability.	1,173	36
ADMIRALTY Vector Chart Service (AVCS)	The AVCS brings together Electronic Navigational Charts (ENCs) from national hydrographic offices around the world and new ENC coverage produced by the UKHO, in co-operation with foreign governments, to provide comprehensive, official, worldwide coverage.	678	36
		3,811	

10. Investments

	2015/16 £k	2014/15 £k
Analysis of loans		
I April 2015	13	188
Movement in year	(13)	(175)
Net book value 31 March 2016	0	13

Trading Fund investments include the capitalisation of long-term trading debts owed to the UKHO, which has now been repaid by AHL.

11. Inventories

	2015/16 £k	2014/15 £k
Finished inventories	1,622	1,722
Materials	452	517
Work in Progress	55	178
Total inventories	2,129	2,417

12. Trade and other receivables

	2015/16	2014/15
Note	£k	£k
Trade receivables	24,185	19,802
Prepayments & accrued income	10,058	8,094
Net investments & finance leases	11	18
Other receivables	31	659
Total receivables	34,285	28,573
Analysis of total receivables		
Other central government bodies	2,964	2,651
Bodies external to government	31,321	25,922
Total receivables	34,285	28,573

13. Cash and cash equivalents

	2015/16 £k	2014/15 £k
Balance I April	67,948	113,889
Net change in cash and cash equivalent balances	(6,502)	(45,941)
Balance 31 March 2016	61,446	67,948

The following balances at 31 March 2016 were held at:

	2015/16 £k	2014/15 £k
Commercial banks – short-term investments	0	50,000
Commercial banks – instant access, high interest	57,460	16,287
Third-party assets	3,986	1,661
Net cash and cash equivalents	61,446	67,948

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

Commercial banks – instant access, high-interest account earns interest between 0.4% and 0.5%. Short-term investments earn between 0.57% and 0.95% and are made for varying periods of between three and 12 months.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2016 exchange rates.

Third-party assets

We hold third-party monies of £4.0m (2014/15: £1.7m). This relates to monies held on behalf of IC-ENC. We operate IC-ENC on behalf of the 40 member states. The accounts recognise the total liability to IC-ENC members together with the cash held on their behalf.

14. Trade and other payables

	2015/16 £k	2014/15 £k
Accruals and other deferred income	37,800	26,255
Proposed dividend	6,997	,4 9
Trade payables	14,330	9,568
Other taxation and social security	918	1,037
Total payables	60,045	48,279
Analysis of total payables		
Other central government bodies	9,107	13,402
Bodies external to government	50,938	34,877
Total payables	60,045	48,279

15. Provisions

	Balance at I April 2014 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2015 £k
Current liabilities						
Sales credits	3,934	4,503	0	(4,310)	0	4,127
Rationalisation (Note a)	248	0	4	(252)	173	173
Early retirement	44	0	1	(45)	0	0
Legal	20	45	0	0	0	65
Total current liabilities	4,246	4,548	5	(4,607)	173	4,365
Non-current liabilities						
Rationalisation (Note a)	384	4	7	0	(173)	222
Early retirement (Note a)	9	17	0	(17)	0	9
Royalties	163	(1)	3	0	0	165
Total non-current liabilities	556	20	10	(17)	(173)	396
Total liabilities at 31 March 2015	4,802	4,568	15	(4,624)	0	4,761
	Balance at I April 2015 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2016 £k
Current liabilities						
Sales credits	4,127	5,378	0	(4,947)	0	4,558
Rationalisation	173	0	2	(175)	117	7
Early retirement	9	0	0	(9)	0	0
Legal	65	0	0	0	0	65
Total current liabilities	4,374	5,378	2	(5,131)	117	4,740
Non-current liabilities						
Rationalisation	222	0	3	0	(7)	108
Early retirement	0	0	0	0	0	0
Royalties	165	0	2	0	0	167
Total non-current liabilities	387	0	5	0	(117)	275
Total liabilities at 31 March 2016	4,761	5,378	7	(5,131)	0	5,014

(a) The provision for rationalisation has been recategorised between current and non-current liabilities for 31 March 2015

Analysis of expected timing of cash flows at 31 March 2015

	2015/16 £k	2016/17 £k	2018/20 £k	Balance at 31 March 2015 £k
Sales credits	4,127	0	0	4,127
Rationalisation	173	116	106	395
Early retirement	0	9	0	9
Royalties	0	165	0	165
Legal	65	0	0	65
Total	4,365	290	106	4,761

Analysis of expected timing of cash flows at 31 March 2016

Total	4,740	275	0	5,015
Royalties Legal	0 65	167 0	0	167 65
Early retirement	0	_	0	-
Rationalisation	7	108	0	225
Sales credits	4,558	0	0	4,558
	2016/17 £k	2017/18 £k	2019/20 £k	Balance at 31 March 2016 £k

No amounts are expected to be paid after 31 March 2020.

Sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by ADMIRALTY Chart Agents. The provision represents a moving average of credits allowed over the last three years, expressed as a percentage of sales after discounts. It is anticipated that the provision will be fully applied during 2016/17.

Rationalisation

This reflects the outstanding liability for early retirements arising from a restructuring exercise undertaken in 2007. The provision has been discounted at 1.37% 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 1.37% and 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 2016/17.

Royalties

These royalties have been reclassified from an accrual into a provision. These amounts refer to bilateral agreements with other hydrographic offices that are not yet finalised that will probably result in a legal obligation to pay future royalties. The provision has been discounted at 1.55% and will be fully applied by 2016/17.

16. Long-term borrowings

	2015/16 £k	2014/15 £k
Balance brought forward	0	6,784
Repayment of loan	0	(6,784)
Balance carried forward	0	0

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

17. Public dividend capital

	2015/16 £k	2014/15 £k
Public dividend capital	13,267	13,267

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

18. Financial instruments

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

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The current value of all our financial instruments is considered to equate to fair value at the 31 March 2016.

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 2016, 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 2016 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.

19. Financial instruments

Receivables beyond the due date

2014/15	Not overdue £k	Overdue 0–3 months £k	Overdue 3–6 months £k	Overdue 6–12 months £k	Overdue Over 12 months £k	Total £k
Receivables – not impaired	19,183	209	398		0	19,802
Receivables – impaired	0	50	3	0	92	145
Gross receivables total	19,183	259	401	11	92	19,947
Bad debt provision	0	(50)	(3)	0	(92)	(145)
Net total receivables	19,183	209	398	[]	0	19,802

2015/16	Not overdue £k	Overdue 0–3 months £k	Overdue 3–6 months £k	Overdue 6–12 months £k	Overdue Over 12 months £k	Total £k
Receivables – not impaired	21,757	2,395		22	0	24,185
Receivables – impaired	0	0	0	0	29	29
Gross receivables total	21,757	2,395	[]	22	29	24,214
Bad debt provision	0	0	0	0	(29)	(29)
Nettotal receivables	21,757	2,395	11	22	0	24,185

	2015/16 £k	2014/15 £k
Financial assets		
Loans and receivables (including cash and cash equivalents)	95,731	90,304
Financial liabilities		
Other financial liabilities	58,844	33,267

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

20. Commitments under leases

Operating leases

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

	2015/16 £k	2014/15 £k
Plant and equipment		
Due within one year	84	84
Due after one year but within 5 years	63	148
Total lease commitments	147	232

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

21. Capital commitments

	2015/16	2014/15
	£k	£k
Capital expenditure that has been contracted for, but has not been provided in these accounts		
Property, plant & equipment	303	1,398

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

	2015/16 £k	2014/15 £k
Profit on ordinary activities before interest and after exceptional items	16,791	30,013
Non cash movement – loan write off	0	12
Interest, unwinding of the discount and movement on provision for early retirements and rationalisation	(7)	(19)
Depreciation & amortisation	6,861	6,249
Impairment	13,641	
Loss on sale and disposal of non-current assets	22	23
Decrease in inventories	288	73
Increase in receivables	(5,712)	(, 99)
Increase in payables	16,190	(3,106)
Increase in provisions	253	(40)
Net cash inflow from operating activities	48,327	32,006

23. Contingent liabilities

None.

24. Losses and special payments

There were unrecoverable trade receivables of $\pm 1k$ (2014/15: $\pm 29k$) and there were no write offs in respect of fruitless payments and unrecoverable overpayments to staff (2014/15: ± 0).

25. Related party transactions. The UKHO is a Trading Fund owned by the MoD

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

Other related parties

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

All transactions are carried out on standard contract terms.

26. Events after the reporting period

The result of the referendum held on the 23rd June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event can not be made.

27. Authorisation of accounts

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

Sustainability report for 2015/16

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

	2015/16 tCO2e	2014/15 tCO2e	2013/14 tCO2e
Gross emissions for scopes 1 & 2 (energy)			
Electricity	3,209	3,500	3,686
Gas	583	756	767
Total Gross emissions for Scopes I & 2 (energy)	3,792	4,256	4,453
Gross emissions scope 3 (business travel)	90	101	52
Total gross emissions for scopes 1,2 & 3	3,882	4,357	4,505
Net emissions for scopes 1 & 2	3,792	4,256	4,453
Net emissions for scope 3 (business travel)	90	101	52
	£k	£k	£k
Expenditure on official business travel	853	1,021	1,051
Expenditure on energy	710	781	802
Total expenditure on energy and business travel	1,563	1,802	1,853

tCO2e: Tonnes of CO2 equivalent

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

Targets and commentary

We continue to reduce our carbon footprint year on year, and this will continue to improve with the reduction of staff employed on site and as a consequence of the gradual closure of most of our smaller buildings by September 2016. In addition, we have now begun the process of removing from site the industrial activities, with Print Publications moved off site, and the remaining Print activities being moved before the expected new office build by the end of 2018.

Direct impacts commentary

The main impacts for us in terms of carbon emissions are our electricity and fuel consumption. However, a range of efficiency initiatives previously introduced have had a positive impact, from lower energy IT equipment, to the successful installation of small print on demand digital printers to remove the reliance on conventional high energy consuming lytho printing presses for chart printing. Also, as already stated, we have begun the process of closing down our older uneconomical buildings – Owen Block being the first with Walker, Franklin, Dampier, Challenger and Parry Blocks to follow.

Overview of direct impacts

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

Waste

		2015/16 tonnes	2014/15 tonnes	2013/14 tonnes
Non-hazardous waste	Reused/recycled Incinerated/energy from waste	412	416	420
	Landfill	5	26	26
Hazardous waste	Reused/recycled	7	6	6
Total waste		424	448	452

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

	2015/16 M3	2014/15 M3	2013/14 M3
Water consumption	14,415	11,735	12,708
	£k	£k	£k
Water supply costs	55	48	51

Targets and commentary

We expect water consumption to noticeably decrease with a planned reduction in staff numbers.

Energy

		2015/16 MKWh	2014/15 MKWh	2013/14 MKWh
Energy consumption	Renewable electricity	6.12	6.69	6.48
	Gas	3.62	3.98	4.04
Total energy consumption		9.74	10.67	10.52
			£k	£k
Total energy expenditure		710	781	802

Sustainability report for 2015/16 (continued)

Targets and commentary

This year has seen a 9.1% reduction (2.6%: 2014/15).

Direct impacts commentary

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

Overview of direct impacts

We remain committed to the principle of energy reduction.

Biodiversity and adaption action plans

Biodiversity and climate adaption planning remains in its infancy. However, the UKHO will take its lead as advised by the Defence Infrastructure Organisation which is 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.

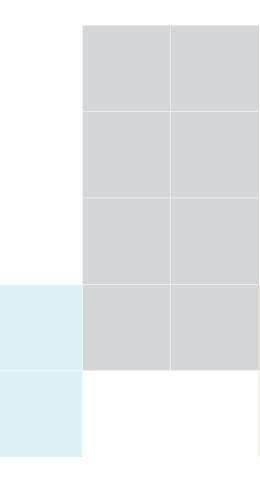
Whole-life cost analysis is undertaken for relevant contracts and targets are agreed and reviewed with suppliers as part of our supplier review agenda. We have also adopted simple incentive initiatives where appropriate. Training forms part of our induction process and success is measured as part of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

Notes:

The above report has been prepared in accordance with guidance laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at http://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).

Emissions accounting includes all scope I 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.

There were no changes to accounting policies or boundaries that impacted prior year or year-on-year carbon reporting.





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