Oil & Gas Authority

Maximising Economic Recovery

Annual Report and Accounts 2015–16

Annual Report and Accounts of the Oil and Gas Authority 2015–16:

Accounts presented to the House of Commons pursuant to
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Annual Report and Accounts 2015–16

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Performance Report

Overview

Highlights

January 2015

Dr Andy Samuel started as Chief Executive of the Oil and Gas Authority (OGA)

February 2015

Call to Action Report published in response to significant drop in oil and gas prices

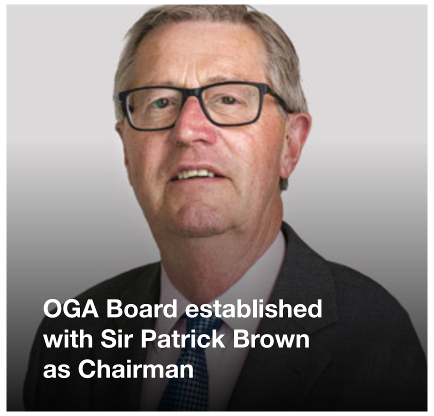
March 2015

Worked with HM Treasury on £1.3 billion package of measures to improve the competitiveness of the UKCS

April 2015

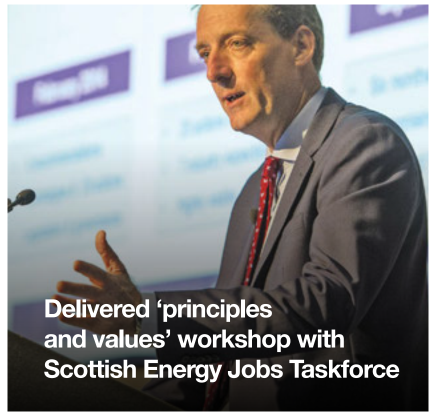
Became Executive Agency of the Department of Energy and Climate Change

April 2015



OGA Board established with Sir Patrick Brown as Chairman

May 2015



Delivered 'principles and values' workshop with Scottish Energy Jobs Taskforce

June 2015

Completed appointment of the OGA leadership team

July 2015

Awarded licences in the 28th Offshore Round

August 2015

Approved Culzean field development

September 2015

Published Call to Action: Six Months On Report at the Offshore Europe Conference

October 2015

Completed £20 million UK Government-funded seismic programme acquisition

November 2015

ised positive
urs with the
MER UK Award

November 2015

Facilitated collaboration on fuel gas amongst Northern North Sea operators

December 2015

Hosted the first MER UK Forum and established the MER UK Boards

January 2016

MER UK Strategy published following extensive consultation

January 2016

Further £20 million of UK Government funding for seismic acquisition

March 2016

Published the OGA Corporate Plan 2016–21

March 2016

Worked with HM Treasury on £1 billion package of measures

Chairman's statement

It is not unusual for a Chairman to write about a successful year. I do not do that, because success in the case of the Oil and Gas Authority (OGA) is difficult to measure objectively, and the story of the first year is more complicated than that.

Our first annual report sets out in some detail the evolution of the OGA, and rightly claims credit for reaching the present state of our activities after only one year.

From my point of view, the performance of the Chief Executive in melding the incoming employees from two cultures into a coherent and effective business was outstanding. And though it is formulaic for the Chairman to thank the employees, I do so because there is no doubt that without their wholehearted commitment to making this new and unprecedented authority work we would not now be seeing Sir Ian Wood's imaginative proposals operating in reality.

If these were not sufficient demands on the OGA, the decline in the oil price required efforts to play a proper part in helping government and the other players in the sector in facing a difficult future. The fact that the OGA was able to do so while delivering the day job is to the credit of all involved.

One element in creating the OGA was a clear view of the sort of authority we wished to be. Not autocratic, not bureaucratic, with a determination to have the right staff number and not to grow thereafter, and with respect for those the law requires to deal with us. We do not want to claim credit if matters go well, because it will be others who pull the levers to bring about change.

Our employees were central to the selection of the values chosen for the Authority. Fair, robust, considerate and accountable. This has been reinforced by the appointment of an exceptional OGA Board.

We shall soon be translated into a limited company with the Secretary of State as our sole shareholder, a step to bolster our independence and thus our ability to act in the interests of the Maximising Economic Recovery UK Strategy.

2016–17 will be another demanding and interesting year.

Patrick Brown

Sir Patrick Brown
Chairman

Chief Executive's statement

At the beginning of 2015, the creation of the OGA and my appointment as its first Chief Executive, coincided with a deepening decline in global oil and gas prices affecting the industry across the world.

This brought into sharp focus the significant risks facing the mature UK offshore oil and gas industry that Sir Ian Wood highlighted in his 2014 MER Review and underlined the need to implement his recommendations to support and protect the industry.

We made swift progress in appointing a high-calibre leadership team, which set us on a path to establish the OGA as a strong and effective authority. We continued to develop the organisation; rapidly increasing capability whilst remaining cost-conscious and I am delighted to have built an experienced, diverse and committed team.

Our Call to Action Report in February 2015 helped set early direction and identified clear priorities for the industry, government and the Authority in pursuit of our principal objective: to maximise the economic recovery of UK offshore oil and gas. It also set out our role to regulate, influence and promote the sector.

Throughout the year we have worked closely with the Department of Energy and Climate Change (DECC) and other government departments to put in place the legislative and regulatory foundations for the OGA including the Energy Act 2016 and MER UK Strategy.

We have embraced our role to encourage and facilitate greater collaboration across the United Kingdom Continental Shelf (UKCS). During the year we made many successful interventions to facilitate new discoveries, approve new fields and extensions of existing fields, unblock commercial issues, create cost savings and improve plant operations.

I am encouraged by the progress the industry and the OGA made during 2015–16. In all of our work we have consulted and engaged widely with the industry, the UK and Scottish Governments, investors and civic society, and have benefited from high levels of constructive feedback and support.

For example, the UK Government funding for new geophysical surveys in underexplored areas of the UKCS was very welcome and the fiscal changes introduced during the year make the UK fiscal regime for upstream oil and gas one of the most competitive in the world.

Our Corporate Plan 2016–21 describes the OGA's priorities and plans, incorporating uncompleted actions from our Call to Action Report and the Wood Review, in support of our ambition to be a world-class authority, setting the framework for a sustainable and competitive UK oil and gas industry.

While the OGA does not regulate the service sector, a strong supply chain is essential to maximise economic recovery and establish the UK as the 'go to' centre globally for offshore mature basin, subsea and decommissioning solutions.

The introduction of the MER UK Strategy and the new powers provided to the OGA through the Energy Act 2016 can have a positive, transformational effect on the UKCS. We will work with the industry to introduce guidance as new powers and measures are implemented.

The MER UK and Fiscal Forums which bring together government, the industry and the OGA, will continue to be very important in providing strategic direction, oversight and support, helping to create alignment, accountability and collective action on key priorities.

Collaboration between the industry, government and the OGA, and companies' continued engagement with their employees and the trade unions, are essential to the future prospects of the UKCS.

Dr Andy Samuel
Chief Executive

What we do

The OGA was created as one of the key recommendations of Sir Ian Wood's 2014 Review of the UKCS. It became an Executive Agency of DECC on 1 April 2015 with operational independence and is on track to become a government company in 2016. The OGA is largely funded by an industry levy introduced on 1 October 2015.

The OGA is focused on delivering high-quality service and value-for-money to industry. We seek to be a progressive and highly effective authority, doing all we can to attract investment and with that jobs, helping to anchor valuable skills and expertise in this country.

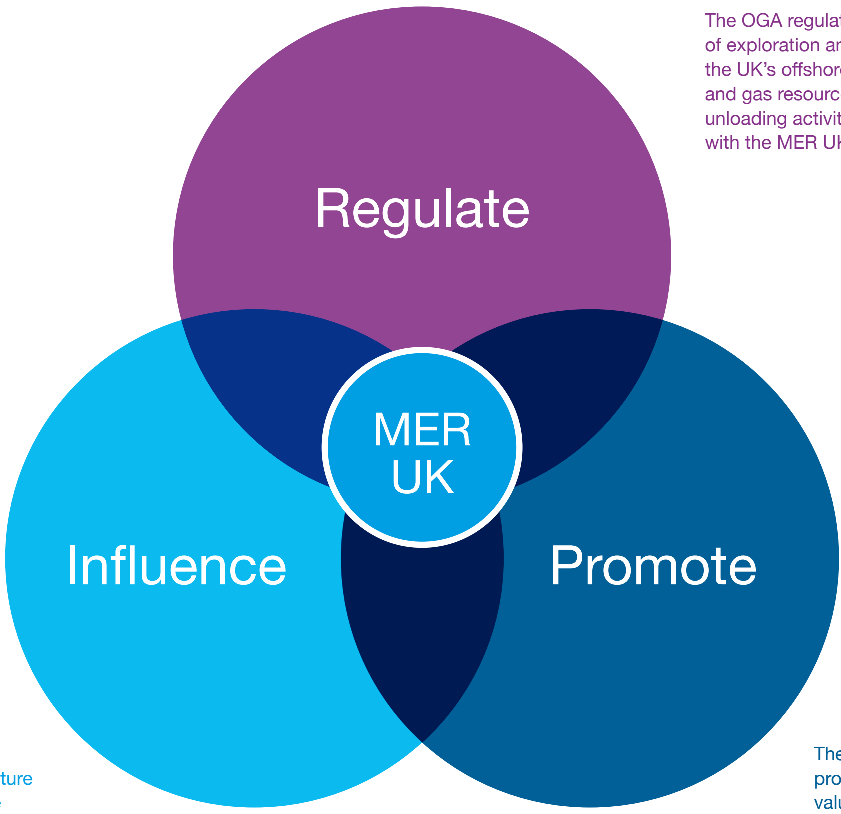
Legislative context

The Infrastructure Act 2015 put into statute the principal objective of maximising economic recovery of the UK's offshore oil and gas resources. The MER UK Strategy, which came into force in March 2016, following extensive consultation, sets out the central and supporting obligations on the industry and the OGA to achieve the principal objective.

The Energy Act 2016, which received Royal Assent in May 2016, creates the legislative framework to establish formally the OGA as a government company with new powers. These include the ability to participate in meetings with operators, access data and provide enhanced dispute resolution. It also introduces a range of sanctions such as enforcement notices and fines of up to £1 million.

Figure 1: Our role

The OGA regulates the licensing of exploration and development of the UK's offshore and onshore oil and gas resources, gas storage and unloading activities in accordance with the MER UK Strategy.



The OGA has a critical role to influence and encourage a culture of greater collaboration on the UKCS, improve commercial behaviours, and the creation of a more efficient industry.

The OGA has an important role to promote investment in the UKCS, value creation in the UK and through exports, and the overall development and prosperity of the industry including wider supply chain.

Our ambition, priorities and values

Figure 2: Our way forward

Why

Ambition	To be a world-leading authority setting the framework for a sustainable and competitive UK oil and gas industry
Purpose	To maximise the economic recovery of oil and gas

What

Role	Regulate	Influence	Promote
	• License and steward offshore oil and gas E&P • License and steward onshore oil and gas E&P • License gas storage and unloading	• Industry operating costs and efficiency • Greater industry collaboration • Industry culture and behaviours	• Investment in the UKCS • Value creation in the UK and through exports • Industry, supply chain and technology development

Priorities	Revitalise exploration	Improve asset stewardship	Drive regional development and protect critical infrastructure	Improve decommissioning efficiency	Leverage technology and data	Create the right conditions	Develop people, processes and systems
This means	Implementing a licensing regime that encourages high levels of exploration, using data, analysis and insights to influence and help incentivise exploration on the UKCS and improve success rates	Stewarding the development of UK oil and gas resources and working with industry to optimise efficiency while maintaining high standards of safety and environmental management	Seeing the big picture and maximising the sum of the parts, making sure that barriers to regional development are removed and that critical infrastructure and production hubs are protected	Achieving the maximum extension of field life and ensuring that decommissioning is executed in a safe, environmentally sound and cost effective manner and that the UK gains a competitive industrial capability	Ensuring that existing technologies are deployed to their full effect, relevant new technologies are developed and that the collection, analysis and sharing of data is used to maximise economic recovery	Engaging with industry, government and others to create an operating environment and supply chain that supports MER UK, sustaining high levels of skilled employment, economic value and energy security for the UK	Creating a diverse, high-performing team and a great place to work, where employees are supported to develop their capability, in an organisation with simple processes and systems

How

Values	Accountable	Fair	Robust	Considerate
Behaviours	One team – proactive, efficient, delivery-focused, respected and trusted – a catalyst for change			

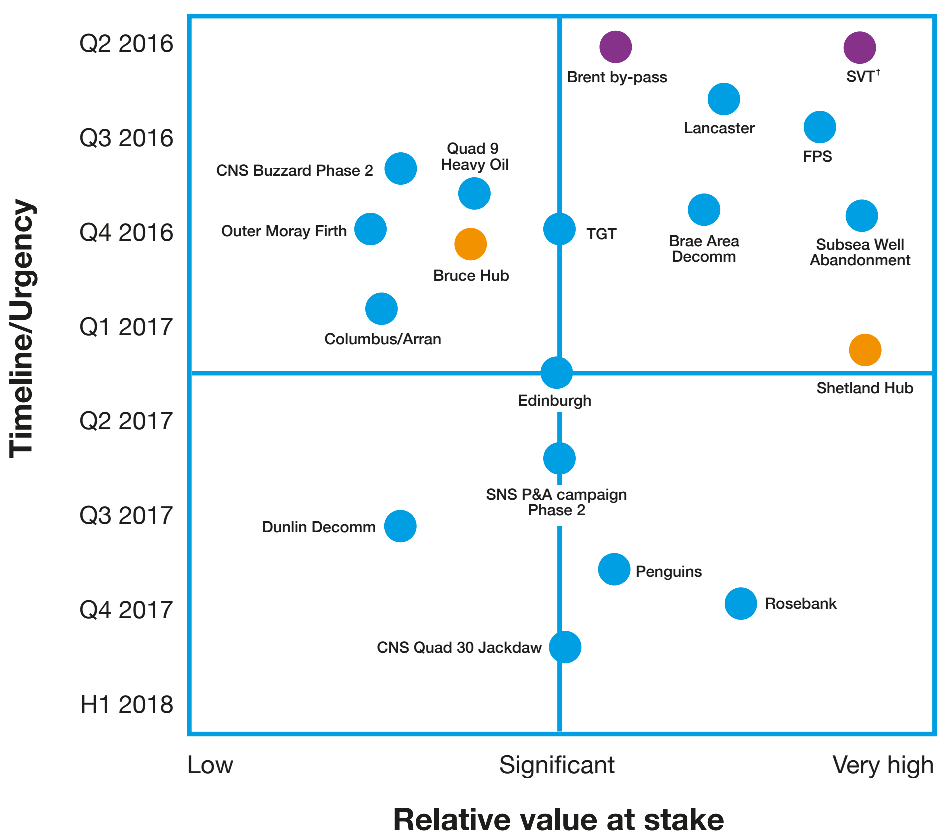
Our corporate plan

Published in March 2016, our Corporate Plan 2016–21 describes the OGA's priorities and plans, incorporating uncompleted actions from our Call to Action Report and the Wood Review, in support of our ambition to be a world-class authority, setting the framework for a sustainable and competitive UK oil and gas industry.

It sets out key areas the OGA will regulate, influence and promote and how the MER UK Forum and Boards will harness the tripartite relationship between the industry, government and the OGA to deliver tangible outcomes, including the development of the sector strategies recommended in the Wood Review.

We consulted widely on the development of our Corporate Plan and incorporated much of the valuable feedback received. We will continue to prioritise carefully, seeking out those activities with the highest return, while continuing to work with industry to update our plans and welcoming feedback from our stakeholders.

Figure 3: OGA Opportunity Matrix



Key

CNS – Central North Sea
SNS – Southern North Sea
P&A – Plugging and abandonment
FPS – Forties Pipeline System
TGT – Theddlethorpe Gas Terminal
SVT – Sullom Voe Terminal

† Improved cost transparency and cost reduction activities have led to greater alignment between SVT owners and users who believe that the current contractual arrangements can deliver fair cost allocation without the need to change the commercial structure. The OGA will continue to work with all stakeholders on the development of an efficient and sustainable Shetland Hub.

Opportunity Area

- New
- Ongoing
- Complete

To help focus collective efforts the OGA identified, and shared with the industry and government, its most urgent commercial facilitation priorities, which are shown in the Opportunity Matrix above. Some are designed to tackle immediate risks whilst others will help make sure opportunities are realised. Successful delivery of these priorities has the potential to deliver an additional 3 to 4 billion barrels of oil equivalent.

Our targets and key performance indicators

Our Corporate Plan 2016–21 identifies stretching targets and key performance indicators (KPIs) against which we will measure our delivery and report progress in our Annual Report and Accounts 2016–17.

Where appropriate, targets and KPIs have been reviewed and agreed by the MER UK Boards and performance will be measured against a 2015 baseline. For longer-term targets, interim targets will be agreed so that performance can be effectively monitored.

Revitalise exploration

KPI	Target	Timing	Who
Number of exploration and appraisal wells	50 per annum	Q1 2021	Industry with OGA support
Onshore licensing activity	Regulate the drilling, fracking and testing of next shale well	Q4 2016	OGA

Improve asset stewardship

KPI	Target	Timing	Who
Production efficiency	80%	Q4 2016	Industry with OGA support
OPEX reduction	30%	Q4 2018	Industry
Enhanced oil recovery (million barrels of oil equivalent (mmboe))	250 mmboe	Q4 2020	Industry with OGA support

Drive regional development and protect critical infrastructure

KPI	Target	Timing	Who
Reserves sanctioned	Review and deliver optimisation opportunities such as best infrastructure hosts, consolidation and help resolve commercial blockages	Q4 2018	OGA with industry support
Critical hubs	Extend life of key hubs: SVT, FPS, CATS, St Fergus, SNS Terminals*	Q4 2020	Industry with OGA support
Preliminary decisions on terms for infrastructure access within four months	90%	Q4 2016	OGA

*Sullom Voe Terminal (SVT), Forties Pipeline System (FPS), Central Area Transmission System (CATS), Southern North Sea (SNS)

Improve decommissioning efficiency

KPI	Target	Timing	Who
Decommissioning costs	>35% reduction vs 2015 base case	2020	Industry with OGA support
Policy positions	Maintain or improve	2018	Industry with DECC advice and OGA input as required
Supply chain market	Develop demand-led supply positions	2016 to 2021	Industry with OGA support

Leverage technology and data

KPI	Target	Timing	Who
Cost reduction from technology	30% to 50% cost reduction	Q1 2021	Industry with OGA support
Additional value and barrels from technology	~4.5bn boe	Q1 2021	Industry with OGA support

Create the right conditions

KPI	Target	Timing	Who
Preliminary decision on informal dispute resolution issued within the timescale set out in guidance	90%	Q1 2021	OGA
Dispute resolution cases	Year-on-year decline	Q4 2020	Industry with OGA support
External perception of commercial behaviour	UKCS recognised as a co-operative place to do business	Q4 2020	Industry with OGA support
Driving investment plan	Complete work with HMT focusing on exploration, infrastructure access and barriers to new entrants for late-life assets	Q4 2016	HMT with OGA support and evidence from industry
Cost efficiency	Improvements of 30% to 40% from supply chain	Q1 2021	Industry with OGA monitoring and support

Our principal risks

The OGA faces many risks to the delivery of its ambition and strategic priorities in support of maximising the economic recovery of UK offshore oil and gas. The risks to which the OGA is exposed also reflect the scale, complexity and novel nature of its goals. Many of these risks relate directly to our work with the oil and gas industry; some concern the ongoing development of our organisation; and others to external factors outside the OGA's direct control.

The OGA established a risk management framework consistent with current best practice, identifying, assessing, treating, monitoring and reporting risks and opportunities. Further information on our approach is included in the Governance section on page 43.

A summary of the principal risks to which the OGA has been exposed and which it has managed during the year is provided below. While mitigating actions have been deployed to reduce these risks, they remain significant. We do not expect to mitigate these risks entirely. Instead, our aim is to manage risks down to an acceptable level balancing the cost of doing so with the potential impacts if they materialised.

Sustained low oil and gas prices undermine OGA's core ambition and purpose

The OGA's ambition is to be a world-leading authority setting the framework for a sustainable and competitive UK oil and gas industry, with the principal objective of maximising the economic recovery of UK offshore oil and gas. Against a backdrop of sustained low oil and gas prices and the maturity of the UKCS there is a risk that government, the industry and the OGA are compelled to focus on the immediate situation at the expense of MER UK in the long term.

To mitigate this risk a cross-government Low Oil Price Contingency Team has been established to address the immediate impact of low commodity prices. The creation of this dedicated team, now led by and reporting to DECC, has enabled the OGA to focus on delivering the longer-term activities set out in our Corporate Plan 2016–21. Prioritisation of workload will be very important ensure the OGA's workload is managed effectively during 2016–17.

Domino effect caused by negative profitability

Our Call to Action Report 2015 highlighted the risk that negative cash flow in producing fields could lead to the premature decommissioning of critical infrastructure, with the potential to shut down whole areas of the UKCS, stranding valuable resources. We referred to this as the 'domino effect'.

Sustained low oil and gas prices during the year caused some companies to cease trading. The risk of further similar situations remains very real.

Failure to achieve government company milestones

During the year, an internal programme of activity was initiated, working closely with colleagues in DECC, to make sure that all necessary governance, policies, processes and systems are in place to enable the OGA to be vested as a government company during 2016. With such a significant programme of change and transition there is a risk that key requirements are not fulfilled within the agreed timetable, and vesting as a government company may be delayed.

The OGA has implemented robust programme governance to make sure that key actions are understood and delivered on time. Constructive relationships have been established between the OGA, DECC and other key government departments, such as the Cabinet Office and HM Treasury, to drive delivery of key milestones. We will continue to use these during 2016 to manage the risk.

Performance analysis

Responding to lower prices

During the year sustained low commodity prices affected the global oil and gas industry. This magnified the issues with which companies operating on the UKCS have been grappling for a number of years, highlighting the need for operational and behavioural transformation and a more inclusive relationship with the service sector, which could provide solutions that improve efficiency and operating performance.

Call to Action Report

Published in February 2015, our Call to Action Report identified the key risks for the UKCS as a result of reduced commodity prices. It also set out our early priorities to establish the new Authority with the expertise, capacity and capability to deliver the MER UK Strategy. Our Call to Action: Six Months On Report, published in September 2015, highlighted the collective progress made by the industry, government and the OGA.

Fiscal competitiveness

We worked closely with HM Treasury and the industry ahead of the March 2015 and March 2016 budgets. Two packages of measures worth, respectively, £1.3 billion and £1 billion were announced and welcomed by the industry. We continued to support HM Treasury in implementing its Driving Investment Plan providing expertise and evidence throughout the year. Investors in the UKCS now benefit from one of the most competitive oil and gas fiscal regimes in the world.

Low Oil Price

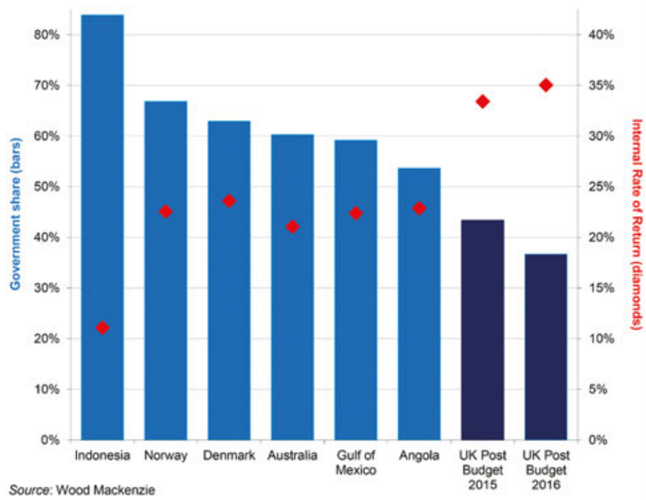
In November 2015, a cross-government contingency team was established to address the immediate impact of the low commodity prices. The team brings together legal, commercial, policy and analytical expertise to work with companies and investors to assess and manage the impact of low commodity prices on the UKCS.

Licence flexibility

Understanding the low oil price environment and recognising the likely deferral of activity, we have worked with licensees to provide flexibility and pragmatic solutions, eg by re-phasing the fulfilment of specific commitments.

Figure 4:

Relative competitiveness of UK fiscal regime for oil and gas exploration and production



Source: Wood Mackenzie

Inter-Ministerial Group

During a visit to Aberdeen in January 2016, the Prime Minister announced that the Government had formed an inter-ministerial group, chaired by the Secretary of State for Energy and Climate Change, to address the impact of the low commodity price environment. The OGA Chief Executive is a member of this group, which held its first meeting in January 2016.

Building the OGA

During the year significant emphasis was placed on establishing the OGA, smoothly transitioning to a standalone organisation, creating the appropriate legislative framework and putting in place the necessary people, processes and systems.

Executive Agency

On 1 April 2015, the OGA became an Executive Agency, which created operational independence from DECC to the fullest extent possible within the established boundaries, and direct accountability for exploration and development decisions and approvals.

Becoming a government company

The Energy Act 2016, which received Royal Assent in May 2016, creates the legislative framework to establish formally the OGA as a government company, limited by shares under the Companies Act 2006, with the Secretary of State for Energy and Climate Change the sole shareholder. The Chairman of the OGA Board, Sir Patrick Brown, and three Non-Executive Directors were appointed during 2015.

Creating the legislative framework

The Energy Act 2016 also provides the OGA with new regulatory powers, including the ability to participate in meetings with operators, to have access to data, provide dispute resolution and introduce a range of sanctions such as improvement notices and fines of up to £1 million. We will continue to work closely with the industry to encourage collaboration and facilitate action, using sanctions only when necessary.

Maximising Economic Recovery UK Strategy

The Infrastructure Act 2015 put into statute the principal objective of maximising economic recovery of the UK's offshore oil and gas resources (MER UK). DECC produced a draft MER UK Strategy, with input from the OGA Stakeholder Board (comprising industry executives, trade association representatives and senior government officials, and chaired by the OGA Chief Executive), and an industry workshop in Spring 2015. A public consultation was undertaken in Autumn 2015 and the final Strategy was published in draft in January 2016 and came into force in March 2016. It sets out the obligations on the industry and the OGA to achieve MER UK.

Delivering value for money

In October 2015, following comprehensive consultation with the industry, an industry levy was introduced to fund the OGA, in line with the established principle across regulation and service delivery of 'user pays', where the Authority recovers its costs from the companies benefiting from its services. We remain very focused on high-quality delivery and providing value for money to the industry.

Figure 5: MER UK Central and Supporting Obligations

Central obligation	Supporting obligations
Relevant persons must, in the exercise of their relevant functions, take the steps necessary to secure that the maximum value of economically recoverable petroleum is recovered from the strata beneath relevant UK waters.	Exploration
	Asset Stewardship
	Development
	Decommissioning
	Technology
	Collaboration
	Cost reduction

Revitalising exploration

Strategic Priority	Implementing a licensing regime that encourages high levels of exploration, using analysis and insight to influence proactively and help incentivise exploration on the UKCS.

Revitalising exploration strategy

Despite the low levels of exploration activity in recent years, encouraging discoveries have recently been made in the West of Shetland and the Northern North Sea, Central North Sea and Southern North Sea. During the year, we worked with the industry to enhance exploration investment, integrated exploration into regional development plans, and licensed mature areas to extend asset life and maximise resource recovery. We developed and began implementing a long-term frontier exploration programme, consisting of geophysical data acquisition, reprocessing and analysis coupled with geotechnical regional studies. In 2016, following consultation with the industry, we plan to publish a comprehensive strategy to revitalise exploration.

UK Government-funded seismic

The Chancellor of the Exchequer announced £20 million of funding for a seismic acquisition programme in the March 2015 budget, as part of a £1.3 billion package of measures to drive investment on the UKCS. We delivered the programme successfully with zero reportable health, safety and environment incidents and under budget. Almost 20,000 line kilometres of new high-quality data were acquired from the underexplored Rockall Trough and Mid-North Sea High areas of the UKCS.

In March 2016, having completed an intensive processing programme, we released almost 40,000 line kilometres of new and legacy seismic data published under the Open Government Licence and made the key datasets available for free download. The latest seismic acquisition and processing technologies were used to enhance subsurface imaging to help improve understanding of the geology and potential prospectivity, and release of the raw data will allow this imaging to be further improved over time. So far, the data package has been distributed to more than 340 organisations.

Seismic competition

In March 2016, to stimulate further exploration activity on the UKCS, we launched a £500,000 competition encouraging geoscientists and engineers to develop innovative interpretations and products using the data acquired from the Rockall Basin and Mid-North Sea High areas. More than 60 entries were received from the UK, Europe, Australia and North America. Nine companies received 11 awards in April 2016, varying from £4,000 to £30,000.

£1.3 billion
package of measures to drive investment on the UKCS

including
£20 million
of funding for a seismic acquisition programme in the March 2015 budget

Seismic acquisition programmes

In January 2016, the Prime Minister announced a further £20 million of funding for seismic acquisition on the UKCS. We worked with the industry to determine the locations for this new programme, which focuses on the west of Britain and areas to the east of Orkney. We have consulted with the industry Geophysical Steering Committee and MER UK Exploration Board. We expect the programme to begin in summer 2016.

29th Licensing Round Areas

2015 OGA 2D Seismic Lines

2016 OGA 2D Seismic Lines

UKCS Designated Area

29th Licensing Round and 2016 seismic study areas are proposed and subject to further approvals including Strategic Environmental Assessment.

Funding for visualisation centre

As part of our strategy to increase future exploration on the UKCS, we provided £700,000 of UK Government funding in March 2016 to be invested in the development of a leading 3D visualisation facility, the Ogilvie-Gordon Audiovisualisation Suite at the Lyell Centre in Edinburgh. This will enable the Centre, a joint venture between the British Geological Survey and Heriot-Watt University, to benefit from state-of-the-art equipment to help better interpretation of complex geological and engineering data.

Support for doctoral appointments

During the year, we also committed to awarding up to £750,000 of government funding to support two post-doctoral appointments in Aberdeen, Heriot-Watt and Durham universities. Grant letters were issued in April 2016, awarding £500,000 of government funding over two years. These appointments to Aberdeen University, Durham University and Heriot-Watt University, in the field of geoscience, will contribute towards a long-term investment in UK academic skills in energy-related disciplines.

Well reviews and analysis

In 2015, we completed a rigorous analysis of nearly 100 failed wells drilled in the Moray Firth and Central North Sea between 2003 and 2013, and presented the results at the Exploration Pitfalls Conference and the Oil & Gas UK Conference. The results highlight the opportunity for significant improvement in fundamental technical work and access to data to avoid drilling poor quality prospects.

Offshore licensing rounds

We successfully completed the 28th Offshore Licensing Round in July 2015. The award of a further 41 new licences in addition to the 134 confirmed in late 2014 made this one of the largest rounds in the five decades since the first offshore licences were awarded in 1964 – a total of 175 licences covering 353 blocks.

During the year, preparations began for the 29th Round, which we expect to launch in Summer 2016 and which will primarily target under-explored frontier blocks, leveraging the data from the Rockall Trough and Mid-North Sea High areas gathered during the recent seismic campaign. A novel new approach to exploration licensing was developed by an industry task group under the steerage of the MER UK Exploration Board which will be applied to the 29th Offshore Licensing Round.

Onshore licensing round

In December 2015, we formally offered 159 onshore blocks, incorporated into 93 onshore licences, under the 14th Onshore Licensing Round. This followed a detailed environmental assessment of the proposed blocks under the Conservation of Habitats and Species Regulations 2010, which was subject to public consultation.

Improving asset stewardship

Strategic Priority	Stewarding the development of UK oil and gas resources across the lifecycle, working with industry to optimise efficiency while maintaining high standards of safety and environmental management.

Asset Stewardship Strategy

During the year, we worked with the industry and the MER UK Asset Stewardship Board to commence development of an Asset Stewardship Strategy for the UKCS. This strategy will encourage enhanced stewardship not only in producing assets but also across the full exploration and production lifecycle. The Strategy will achieve this through a framework built on four elements including stewardship plan expectations; industry survey rationalisation; benchmarking; and a structured approach to asset stewardship reviews between the OGA and industry. We expect to publish the strategy in Q3 2016.

Stewardship improvement plans

During the year, we worked with the MER UK Asset Stewardship Board to form a small part-time Asset Stewardship Strategy project team to develop detailed plans to support the Strategy. This team includes a part-time secondee from Nexen UK, which highlights the collaborative spirit between the OGA and the industry.

In the first quarter of 2016, we initiated a series of meetings with directors from operating companies to review stewardship activities across their portfolio of fields on the UKCS. In March 2016, to support the development of clear stewardship plan expectations, we undertook interviews with more than 20 operating companies, trade associations and service companies. In addition an Enhanced Oil Recovery strategy has been developed which will be issued later in 2016.

Fast-tracking consents

During the year we provided more than 800 operational consents and 400 well consents for companies operating on the UKCS. We also introduced a new ‘impact assessment’ process to make sure that the most value-adding requests can be prioritised. For example, we fast-tracked a deposit consent application from a licensee, reducing the time from around eight weeks to just one week. If this work had not been fast-tracked it could have delayed production and extended the project schedule. The licensee is estimated to have saved approximately £32 million as a result.

More than
800
operational consents
and
400
well consents for companies operating on the UKCS

Asset stewardship

Assets include licences, prospects, discoveries and infrastructure at all stages in the upstream oil and gas lifecycle.

Effective stewardship is achieved when assets are in the hands of those with the will, behaviours and resources consistently to do the right things to identify and pursue opportunities that deliver MER UK outcomes.

The OGA uses robust data actively to monitor performance across the oil and gas lifecycle, against clear expectations, agreed plans and commitments.

Driving regional development and protecting critical infrastructure

Strategic Priority	Seeing the big picture and maximising the sum of the parts, helping to make sure that barriers to regional development are removed and critical infrastructure and production hubs are protected.

Regional development strategies

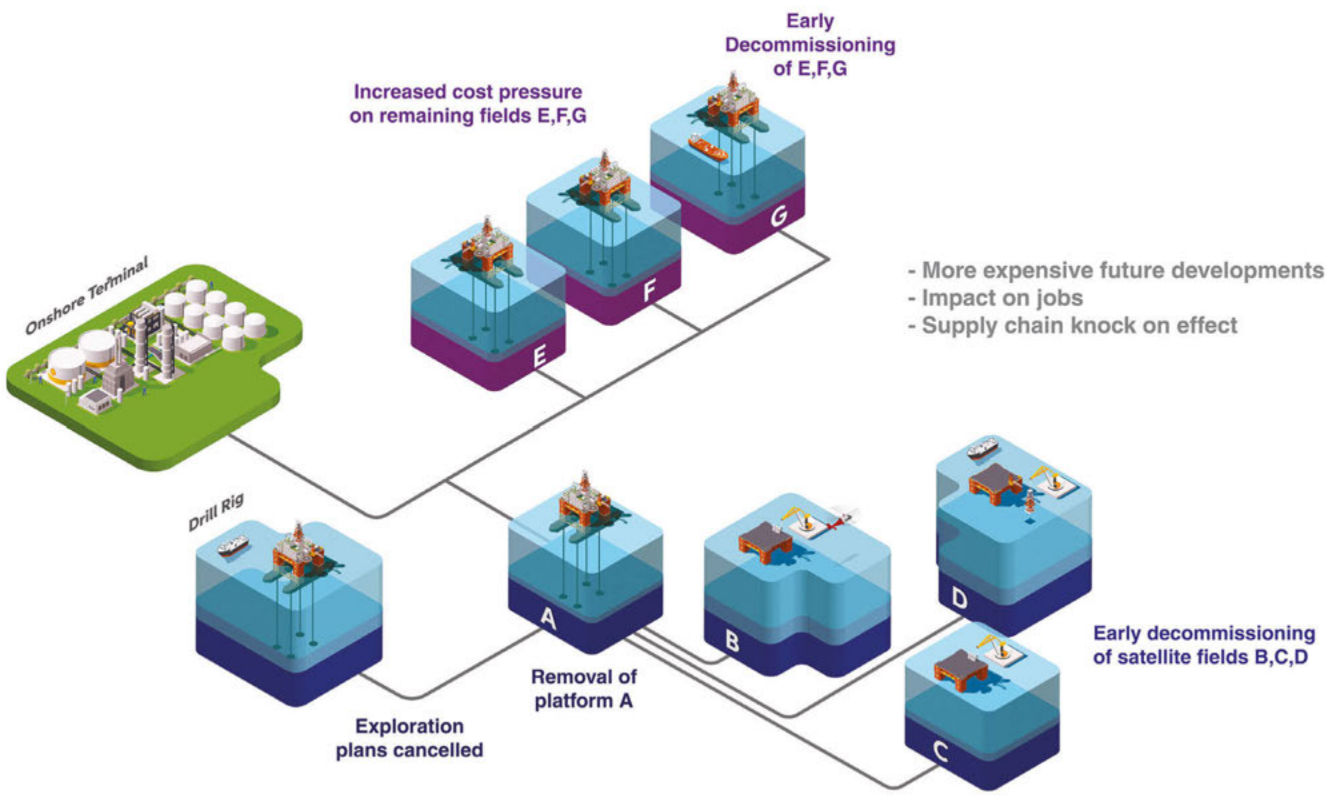
In 2015, we used stewardship data, including information from the annual industry survey, to prepare regional development strategies which will enable us to work with operators to optimise the use of infrastructure and maximise value by integrating exploration, development, production, late-life planning and decommissioning. These strategies are being created with input from the MER UK Regional Development and Infrastructure Board and other key stakeholders.

Protecting critical infrastructure

Lower commodity prices during the year highlighted the risk that negative cash flow in producing fields could lead to the premature decommissioning of critical infrastructure. This 'domino effect' has the potential to shut down whole areas of the UKCS, stranding valuable resources.

Throughout the reporting period we have worked with operators and their co-venturers across the UKCS to help facilitate their commercial discussions and assist in the development of area solutions that work for all parties. We initiated constructive dialogue with companies involved in the Theddlethorpe Gas Terminal in Lincolnshire, Sullom Voe Oil Terminal on Shetland and other key infrastructure hubs.

Figure 6: The Domino Effect



Unlocking stranded investment

Across the UKCS there are more than 200 undeveloped discoveries, which are mostly small accumulations, together with a number of larger fields, which are deemed to be 'stranded projects'. We are currently examining innovative approaches that could unlock a number of projects which would stimulate much needed activity for the service sector and enhance future production.

Successful facilitation

During the year, we made more than 30 successful interventions to facilitate new discoveries, extensions of existing fields, unblocking of commercial issues, cost savings and improved plant operations. For example, in late 2015 we brought together all the companies operating in the East of Shetland area to discuss planned shutdowns in 2016 – the first time these operators have got together to co-ordinate planned shutdowns in this way.

Culzean project

Field developments

A number of new projects were approved during the year, including field development plans for the Culzean ultra high-temperature, high-pressure field in the Central North Sea and the Scolty–Crathes development in the Central North Sea.

Improving decommissioning efficiency

Strategic Priority	Achieving the maximum extension of field life and ensuring that decommissioning is executed in a safe, environmentally sound and cost effective manner and that the UK gains competitive advantage.

Decommissioning strategy

During the year, we initiated work with the industry, DECC, HM Treasury and other relevant stakeholders to create a decommissioning strategy for the UKCS. The strategy, which was published in June 2016, focuses on three priority areas:

- **Cost certainty and reduction** in a technically competent, safe and environmentally responsible manner
- **Decommissioning delivery capability** in terms of supply chain expertise and capacity, effectively supported by appropriate business models, contracting arrangements and industry alignment
- **Decommissioning scope, guidance, and stakeholder engagement** by working with DECC and other relevant parties to identify and evaluate opportunities to optimise and define parameters for decommissioning scope, and to improve industry engagement with the organisations that regulate the decommissioning process

Well plugging and abandonment

In 2015, we initiated the SNS well plugging and abandonment initiative, which brought together the eight main operators from the southern gas basin to consider common challenges and share best practice. As a result, there is now clarity on the joint portfolio of approximately 500 SNS wells and agreement for details of all wells to be shared with companies involved in the initiative. Analysis identifies that companies that have completed the decommissioning of six or more wells are in the best position to optimise their approach and deliver potential cost savings of up to 40%.

Cost engineering estimates

Decommissioning is a relatively new activity for the UKCS. The UK Government, through tax relief for decommissioning costs, will pay a significant proportion of the overall cost of decommissioning. All industry stakeholders recognise the opportunity and need to reduce significantly decommissioning costs. In July 2015 and February 2016, the OGA reviewed with DECC industry-prepared UKCS decommissioning plans, risks and engineering cost estimates for all existing UKCS assets to 2050. Analysis of the data highlighted significant uncertainties and the need to strengthen the cost estimating process and accuracy of data through a new survey and dialogue with operators.

The current mid-point cost estimate from the OGA/DECC for UKCS decommissioning to 2050 is £47 billion, with a high case of £65 billion and a low case of £31 billion (all in 2015 prices). An aspirational cost reduction target of >35% from the mid-point has been adopted as the MER target. This figure has been established from the cost reductions achieved in best practice decommissioning programmes and other industries. DECC is the competent authority for approving decommissioning programmes with the OGA accountable, under the MER UK Strategy, for approving cost efficiency programmes, enhancing delivery capability and technology plans.

Leveraging technology and data

Strategic Priority	Ensuring that existing technologies are deployed to their full effect, relevant new technologies are developed and the collection, analysis and sharing of data is used to maximise economic recovery.

Technology strategy

During the year the OGA worked closely with the industry, government and stakeholders, through the Technology Leadership Board and the other MER UK Boards, to develop a technology strategy for the UKCS. The strategy will focus on a number of key themes: well cost reduction, asset integrity, digital technologies and data, and decommissioning. It will encourage and promote the development and deployment of new and existing technologies to reduce costs, improve efficiency and increase competitiveness. It will also seek to position the UKCS as a global centre for expertise for offshore oil and gas, attracting investment and enhancing exports. We expect to publish the strategy in 2016.

Oil and Gas Technology Centre

We were closely involved in the Oil and Gas Technology Centre (OGTC) proposal, which was awarded £180 million of funding through the successful Aberdeen City Region Deal bid in January 2016. We will continue to support the development of the OGTC and other similar initiatives across the UK that aim to support MER UK and deliver a positive impact, such as the New Anglia Local Enterprise Partnership.

Data strategy

The improvement and development of effective data and information management systems is a key objective for the OGA and is vital to improve commercial, operational and technical performance on the UKCS. During the year, we began work with the industry and other relevant stakeholders on the development of new data regulations. Alongside this, work is underway on a data strategy for the UKCS, which will be published in 2016. The strategy will leverage DECC legacy systems and existing industry resources to transform the collection, storage, analysis and publication of UKCS data across the oil and gas lifecycle.

Reducing well costs

The OGA technology team has been supporting the well cost reduction initiative (co-led by Oil & Gas UK and Shell) and has provided technical expertise in well design. An industry workshop was held in January 2016 to challenge design and plans for potential new wells selected by operators. Based on results from this workshop, one operator decided to proceed with drilling a well which had previously been too expensive.

Creating the right conditions

Strategic Priority	Engaging with industry, government and others to create an operating environment and supply chain that supports MER UK, sustaining high levels of skilled employment, economic value and energy security for the UK.

Encouraging collaboration and integrating plans

During the year, we worked with the industry, government and other relevant stakeholders including industry trade associations, trade unions, business organisations and universities leveraging our position to focus collective efforts, prioritise activity and deliver results.

Supporting effective implementation

To support effective implementation, we will continue to work with industry to develop guidance that promotes good practice and clearly outlines obligations. Priority will be given to guidance that facilitates action and will include publications on the OGA functions outlined in the Energy Act and technical guidance to support the delivery of the MER UK Strategy.

Simplifying the landscape

An early priority for the OGA was to work with others to integrate and align the many working groups that exist across the industry. We led work with Oil & Gas UK, DECC, the Department for Business, Innovation and Skills (BIS), HM Treasury and other bodies to rationalise and integrate key working groups and initiatives. As part of this work, the successful PILOT programme and Oil and Gas Industry Council were combined and succeeded by the MER UK Forum which, together with the Oil and Gas Fiscal Forum, form the Oil and Gas Day.

MER UK Forum

The purpose of the MER UK Forum is to support the delivery of MER UK and maximise UK value from the oil and gas industry as a whole. Bringing together government, industry and the OGA, the MER UK Forum provides strategic direction, oversight and support, helping to create alignment, accountability and collective action on key priorities. Six government ministers, industry leaders and representatives of the OGA attended the first meeting of the MER UK Forum, which took place in December 2015. The OGA will publish an annual report on the work of the MER UK Forum.

MER UK boards

The MER UK Forum is focused on seven core work areas and drives delivery through seven boards, which were established and met several times during the year. Led by an industry executive with support from the OGA and Oil & Gas UK each board is expected to deliver tangible and quantifiable results, and communicates progress to the MER UK Forum and to wider industry. During the year, each board developed a clear strategy and focused priorities and plans. They were also an important vehicle for engagement and consultation.

Supporting the supply chain and exports

While the OGA does not regulate the service sector, a strong supply chain is essential to maximise economic recovery and also establish a competitive UK decommissioning industry. With the service sector accounting for around 80% of operating companies' total spend, we understand and value the pivotal role these service companies can play in improving the performance, competitiveness and efficiency of the UKCS. In pursuit of this, the OGA will work collaboratively with a cross section of stakeholders to support a capable and competent service sector, which will be competitive on a global basis while anchoring activities and expertise in the UK.

During the year, we began work with the industry to develop new commercial, alliance and campaign models, improve project execution and encourage standardisation. We expect to publish a supply chain strategy for the UKCS during 2016.

Engaging with other regulators

The OGA has had several meetings with oil and gas regulators from around the world, including the Irish Petroleum Affairs Division, the Norwegian Petroleum Directorate and the US Bureau of Ocean Energy Management, Regulation and Enforcement. The OGA will continue to contact other regulators to inform its approach and share and learn from best practice.

In addition, the OGA has led a new initiative to bring together the leaders of a number of regulators and official bodies that support the UKCS to look at best practice and avoid the introduction of too many new initiatives. These groups include Scottish Enterprise, DECC, BIS and also the Health and Safety Executive, with whom the OGA has a formal Memorandum of Understanding.

Creating a competitive cost base

We welcomed the formation of the Oil & Gas UK Efficiency Task Force in September 2015 and worked closely with the trade association and its member companies to encourage increased efficiency across the UKCS. We will continue to take an active role to support the industry's efforts to increase efficiency.

Improving commercial behaviours

During the year we worked with the industry to encourage and facilitate improved commercial behaviours and recognise significant opportunities for culture change remain on the UKCS. We were pleased to support the Scottish Government's Energy Jobs Task Force with a unique cross-industry workshop in May 2015.

The event brought together large and small operators and service companies, offshore staff, trade unions, journalists, trade associations, academics, DECC, HM Treasury, the OGA and other regulators and government bodies in a dialogue about creating the right culture and behaviours to deliver MER UK. In 2016 we will establish a framework, using leading indicators, to assess companies' commercial behaviour.

Creating clear policies and guidance

During the year, we led the development of policy and guidance on a range of offshore and onshore operational practices, while continuing to provide high-level oil and gas policy advice to DECC. For example, we developed new guidelines for operators of pipeline infrastructure and a suite of new operational consent templates to standardise applications and improve efficiency for licensees and the OGA.

Moving forward, as we implement the MER UK Strategy, the new powers contained within the Energy Act and the new secondary legislation to support the role of the OGA, we will develop new guidance and processes.

Promoting investment and new sources of capital

The OGA has a role to promote the success of the UKCS by attracting new and diverse sources of long-term capital funding, supporting for example infrastructure assets, late-life assets and companies specialising in decommissioning. To achieve this, we work with other government departments to promote investment in the UKCS through a compelling investment proposition and meetings with a range of investors.

Communicating with stakeholders

Throughout the year we engaged widely with UK and Scottish Ministers, parliamentarians and officials on a range of topics relevant to the UK oil and gas industry and work of the OGA.

In December 2015, our Chairman and Chief Executive gave evidence to the House of Commons' Energy and Climate Committee and the Scottish Parliament Energy and Tourism Select Committee. Our Chief Executive presented to the Scottish Parliament Cross Party Group on Oil and Gas in September 2015 and to the UK All Party Parliamentary Group on Oil and Gas in January 2016.

Our Chief Executive and other senior members of the OGA team presented at a wide range of national and international conferences and events during the year. For example, we attended the Offshore Europe Conference in September, publishing our Call to Action: Six Months On Report, hosting MER UK seminars that were led by the OGA and giving keynote speeches during the event. We also attended the Offshore Technology Conference in Houston, Texas, holding positive discussions with operators and investors.

OGA MER UK Awards

In November 2015, we held the inaugural MER UK Awards as part of the Oil & Gas UK Annual Awards event. We were delighted to have a very strong field with many great examples of companies pioneering new, more collaborative ways of working. We hope that recognising and sharing the positive behaviours of the award winners will encourage other companies to adopt these good practices and drive cultural change across the UKCS.

2015 award winners:

- Centrica
- Dong Energy
- Nexen Petroleum UK Ltd
- Northern North Sea Operational Gas Group
- Total E&P UK Ltd

Aberdeen City Region Deal

We worked closely with Scottish Enterprise, Opportunity North East and others to support the successful Aberdeen City Region Deal bid, which secured £250 million of funding for the city, including £180 million to support the creation of a new Oil and Gas Technology Centre.

Developing people, processes and systems

Strategic Priority	Creating a diverse, high-performing team and great place to work, where employees are supported to develop their capability, in an organisation with simple processes and systems.

Health, safety, security and environment

Our goal is to provide a safe and supportive work environment. During the year under review, there were no reportable incidents affecting OGA staff under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013). Performance is regularly monitored by the Board.

Recruitment

We moved quickly to establish the OGA as a strong and effective authority, building on the existing strength of the team to develop the capability and capacity of the organisation to support the delivery of the MER UK Strategy. Advertised in April 2015, the new leadership roles attracted significant interest and led to the appointment of a high-calibre and diverse leadership team by July 2015.

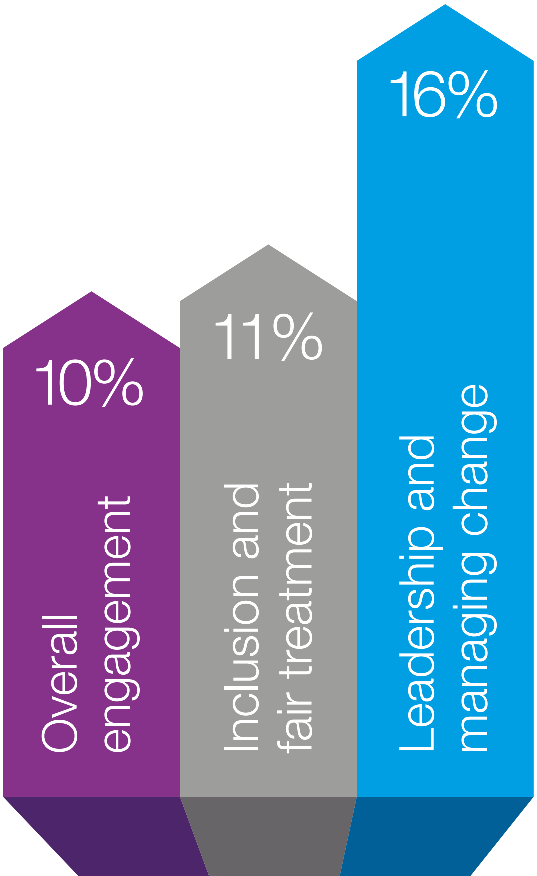
Recruitment continued throughout the year and, by March 2016, the majority of roles across the organisation were filled. We have been fortunate to attract and retain people from a range of backgrounds and with broad experience. In November 2015, we shared with industry secondment opportunities at the OGA and four industry secondees subsequently joined. At the end of March 2016, the OGA had a total of 144 employees including contractors and staff on loan and secondments.

Employee engagement and communication

Our first employee survey since becoming an Executive Agency took place in October 2015 and the results highlighted improvements in many areas against the results for the 2014 survey undertaken by DECC. Overall engagement increased by 10%, inclusion and fair treatment rose by 11%, and leadership and managing change improved by 16%, which was particularly encouraging during this transition phase in the OGA's development. Areas for continued focus include pay and benefits, and learning and development.

The leadership team discussed the results of the survey with employees and put in place a People Plan. We will continue to hold bi-monthly team briefings and engage employees through a range of internal communication activities, including an annual all-employee off-site event and a new standalone intranet, which will be delivered in 2016.

Improved employee engagement



Employee diversity

We are committed to promoting equality and valuing diversity and a priority, as we have established the OGA, has been to develop a diverse organisation. All employees are encouraged to consider doing additional training on disability awareness to ensure that there is greater overall awareness and support within the OGA. The statistics shown below in table 1 summarise the diversity within the organisation.

Table 1: Employee diversity statistics

%	Males	Females
Gender	69	31

%	Full Time	Part Time
Working Pattern	93	7

%	Not Disabled	Declared Disabled	Unknown	Prefer Not to Say
Disability	68	3	26	3

%	White	Non-White	Unknown	Prefer Not to Say
Ethnicity	50	9	39	2

%	Below 20	21–30	31–40	41–50	51–60	61 and over
Age	1	11	28	20	28	12

%	Heterosexual/Straight	LGBT	Unknown	Prefer Not to Say
Sexual Orientation	59	2	35	4

%	No Religion	Buddhist	Christian	Hindu	Jewish	Muslim	Sikh	Other	Unknown	Prefer Not to Say
Religion and Belief	24	0	34	1	1	2	1	1	33	3

Learning and development

A comprehensive new approach to learning and development was created during the year and first outputs have been shared with staff. This will help us attract and retain high calibre people to the OGA, and to best position the OGA to achieve its priorities and plans. We are committed to creating a culture that supports individual and organisational capability and stimulates better cross-industry co-operation and capability sharing in the UKCS.

Management system

During the year, we established the first phase of a management system to help us run the organisation and deliver plans as efficiently as possible. The system enables us to capture and share a broad range of corporate information from policies and guidance to performance reporting to internal and external communications. We will continue to enhance our management system during 2016.

Information systems and management

The Chief Information Officer was recruited in December 2015. The OGA Information and Data Strategy was drafted and contains six themes:

- **Data governance and regulation**
  including regulations to support the Energy Act 2016
- **Analysis insight and understanding**
  how we collect and analyse data
- **Data quality management**
  how we intend to improve data quality
- **Unified data storage and access**
  the OGA approach to unifying data access and collaborative platforms
- **Data Management Authority and Collaboration**
  including the OGA Information Management Forum
- **Enhanced Operational Data Management**
  building the OGA Data Management Capability

The OGA Information Management Forum was established, and two work streams developed, with a range of other opportunities being evaluated. The publication of OGA seismic data in 2016 was a notable success with over 6,000 downloads from the Oil & Gas UK Common Data Access (CDA) Data Store. Significant improvements were made in the OGA Geographic Information System capability, with a range of high quality geological, and geophysical maps and Geographic Information System (GIS) products being published, providing greater transparency to OGA data, especially for the 14th Onshore Licensing Round and OGA seismic programme.

Financial commentary

The OGA was established as an executive agency of DECC on 1 April 2015 with operational independence and a plan to become a government company by Autumn 2016. These accounts are therefore the first set of accounts for the OGA.

During the first six months of the financial year 2015–16 the OGA was funded mainly by DECC, with a smaller amount (£1.1 million) of funding raised from fees and charges. Funding from DECC was provided for administration, programme and capital expenditure. In October 2015, following a public consultation led by DECC, an industry levy to fund the OGA was introduced with the annual levy apportioned between pre-production (11%) and in-production (89%) licence holders, based on an assessment of the costs that the OGA occurs in relation to each group. The apportionment, which will apply again in 2016–17, will be monitored and where necessary updated as part of an annual consultation process.

The levy of £10.034 million for the six months of 2015–16 was collected in full. There are no outstanding amounts owing. The OGA's expenditure against the levy collected was £8.231 million, resulting in £1.803 million refundable to industry, as shown in the table below:

Table 2: Levy expenditure	£m
Levy collected	10.034
Expenditure funded by the levy	8.231
Unspent levy refundable to industry	**1.803**

The OGA is very aware of the current difficulties facing the industry. These challenges combined with historically low levels of investment require a fully competent and well-resourced regulator. We are conscious that as a regulator funded by industry we need to deliver value for money.

The largest costs (60%) incurred by the OGA in 2015–16 were on staff expenditure. The OGA's plan is to employ a headcount of 168 by March 2017, which is within the published headcount cap of 179. During the year 2015–16, the average number of staff was 111 with expenditure of £9.2 million.

The other group of costs incurred in 2015–16 relate to 'back-office' costs. These costs included:

- **Accommodation costs:** During 2015–16 the OGA moved into two new offices. Our Aberdeen HQ is based at AB1 Buildings, Huntly Street, and our London office moved to 21 Bloomsbury Street. Both moves were undertaken within the planned budget and provide office accommodation in accordance with the Government Property Unit standards, including the 2018 target for the ratio of desks to staff.
- **IT:** The OGA in 2015–16 began to overhaul and develop its industry facing IT infrastructure with significant projects planned including developing and improving data management applications and enhancing data surveys. During 2016–17 the OGA is planning to refresh its financial and HR systems in readiness for when the OGA becomes a government company.

Furthermore becoming an independent government company in 2016 will be an important part of the OGA's establishment as an independent regulator. Throughout 2015–16 the OGA developed its communications, corporate and legal operational capacity. The OGA has designed and implemented a robust governance framework with appropriate policies, as well as systems to support regulatory decision-making.

The OGA has established operating segments to reflect its regulatory remit and during the year staff were gradually recruited or transferred to these segments to increase the OGA's operational ability to deliver. As a result the expenditure incurred in 2015–16 reflects only part year costs. For each operating segment the combined expenditure on administration and programme activities was:

Table 3: Administration and programme combined expenditure

Operating segment	£m
Exploration and Production	5.5
Licensing and Legal	1.7
Technology, Decommissioning and Supply Chain	2.8
Policy, Performance and Economics	1.1
Board	0.3
Executive, Finance, HR and Change	2.7
Office accommodation	1.3

Capital expenditure amounted to £1.9 million in the year, which included expenditure on IT hardware, the purchase and development of software, and fit out costs for the two new offices.

Finally during 2015–16 the OGA spent £20.2 million on programme costs. This category of expenditure included contracting for third-party expertise and services relating to seismic surveys, exploration studies, regional hub evaluations, field support studies, and funds to support the transformation of access to and improvements in the quality of data management to support MER UK.

The most significant expenditure within programme costs included the UK Government-funded seismic survey programme in the Rockall and Mid-North Sea High, which totalled £17.8 million in the year.

Dr Andy Samuel
Accounting Officer
8 July 2016

Sullom Voe Oil Terminal, Shetland

Accountability Report

Board and leadership

Board of Directors

Sir Patrick Brown Non-Executive Chairman

Sir Patrick Brown held various positions in the Department for Transport and the Department of the Environment, becoming Second Permanent Secretary and Chief Executive of the Property Services Agency in 1990. He was Permanent Secretary of the Department for Transport from 1991 to 1997. He is currently a director of Camelot UK Lotteries Ltd.

Mary Hardy Non-Executive Director and Audit and Risk Committee Chair

Mary Hardy is a chartered accountant and former partner at Ernst and Young with 20 years' experience as Director of Internal Audit for Diageo, Transport for London and the London Olympics. She is currently a Non-Executive Director on the Board of the Royal Navy and chairs its audit committee. She is a non-executive member of both the Ministry of Defence and the HM Treasury Audit Committees. Mary is also a Trustee and chair of the Audit and Risk Committee at the Chartered Accountants Benevolent Association.

Frances Morris-Jones Non-Executive Director and Senior Independent Director

Frances Morris-Jones has over 30 years' experience in the energy sector, largely in international oil and gas. She is currently a member of the Standards Policy and Strategy Committee of BSI Group and a Governor of the University of Portsmouth, where she sits on the Audit and Quality Committee and Ethics Committee. She is also a Trustee of Anti-Slavery International and of Public Concern at Work, and is an independent Consulting Director at Lyndon Energy.

Robert Armour Non-Executive Director

Robert Armour is a solicitor with 30 years' experience in the energy sector, starting in private practice before becoming General Counsel at Scottish Nuclear and British Energy Group plc. He is currently Non-Executive Director of Albion Community Power plc and The Nuclear Liabilities Fund and Deputy Chair of NuGeneration Limited.

Stephen Speed DECC Sponsor Director

Stephen Speed is Director of Energy Development at DECC. He was Acting Director General of DECC's Consumers and Households Group from 2013–2014. Formerly Chief Executive of the Insolvency Service.

Dr Andy Samuel Chief Executive

Dr Andy Samuel joined the OGA as Chief Executive in January 2015. He previously held senior positions within the oil and gas industry, including 20 years with BG Group – the last two as MD, Europe Exploration and Production.

Philip Lloyd Interim Chief Financial Officer

Philip Lloyd is a qualified accountant and Fellow of CIMA. He has held a broad range of finance leadership roles in the public sector and has been the Chair of the Finance, Audit and Risk Committee for both a community interest company and for a charity. Philip won Accountancy Age's Finance Director of the Year award in 2003, and the NAO/PwC award for the best annual accounts in 2004.

Senior leadership team

Hedvig Ljungerud Director, Policy, Performance and Economics

Hedvig Ljungerud is responsible for the development of the OGA's policy, performance and economics teams. She joined the OGA in June 2015 from HMRC having held a series of senior policy and strategy roles in government.

Gunther Newcombe Director, Exploration and Production

Gunther Newcombe is responsible for the OGA's Exploration and Production agenda. He joined the OGA in June 2015 after a long and diverse career in the oil and gas industry, holding a number of exploration, operational and business leadership roles.

Stuart Payne Director, HR and Change

Stuart Payne leads the OGA's People, HR and Change activities. Stuart joined the OGA in January 2015 having held a variety of HR leadership positions in the oil and gas industry in the UK and overseas.

Dr Angela Seeney Director, Technology, Supply Chain and Decommissioning

Dr Angela Seeney leads the OGA's work on Technology, Supply Chain and Decommissioning as well as the Information Services covering IM and IT. She joined the OGA in June 2015 following a varied career in the oil and gas industry, holding leadership roles in both upstream and downstream sectors.

Simon Toole Director, Licensing and Legal

Simon Toole is responsible for oil and gas licensing and regulation. Simon has worked in government energy departments since 1983 and has been seconded to the oil and gas industry on two occasions. He holds a BSc in Geophysical Science and an MSc in Petroleum Engineering.

Directors' Report

Executive members of the Board who served during the year

Dr Andy Samuel	Chief Executive, was appointed in January 2015.
John Ogden	Held the position of Chief Financial Officer from March 2015 to April 2016.
Philip Lloyd	Appointed as Interim Chief Financial Officer in April 2016.

Non-Executive members of the Board who served during the year

Sir Patrick Brown	Appointed as Non-Executive Chairman in March 2015.
Stephen Speed	Joined in April 2015 as DECC Sponsor Director.
Mary Hardy	Appointed as Non-Executive Director in November 2015.
Frances Morris-Jones	Appointed as Non-Executive Director in October 2015.
Robert Armour	Appointed as Non-Executive Director in October 2015.

Other significant interests held by Executive and Non-Executive members

None

Governance Report

During 2015–16, a robust governance structure was created in preparation for the OGA to become a government company. Clear structures are in place to deliver transparent and effective decision-making and a robust control and risk environment.

Board of Directors

The OGA Board of Directors (Board) was created in April 2015, when the OGA became an Executive Agency of DECC, and reached its full complement in November 2015.

The Board comprises a Non-Executive Chairman, three independent Non-Executive Directors, the DECC Sponsor Director and two Executive Directors, (the Chief Executive and the Chief Financial Officer). It provides strategic leadership to the OGA within a framework of prudent and effective controls.

The Board is responsible to the Secretary of State for Energy and Climate Change for the performance of the OGA and operates in accordance with the terms of the Framework Document agreed between the OGA and DECC when the OGA became an Executive Agency. The DECC Permanent Secretary, in his role as Principal Accounting Officer (PAO), has designated the OGA Chief Executive as the OGA Accounting Officer (AO).

The OGA will, in due course, become a government-owned limited company. In order to ensure a smooth transition, the Framework Document made provision for the Board to operate from the outset as though it had collective responsibility for the strategic direction of the OGA and its long-term success.

Chaired by Sir Patrick Brown, the Board met on 11 occasions in 2015–16. At each meeting the Board received reports from the Chief Executive and reviewed the performance of the OGA. Risk management was reviewed on a regular basis.

Audit and Risk Committee

The Audit and Risk Committee was formed in December 2015 and is chaired by Mary Hardy. The primary purpose of the OGA Audit and Risk Committee is to support the Accounting Officer and the Board in providing oversight of the financial reporting process, the audit process, the system of internal controls, identification and management of significant risks and compliance with laws and regulations. The Audit and Risk Committee met twice in 2015–16.

This year the Committee's work included:

- Recommending the Committee's terms of reference for approval by the Board
- Reviewing financial statements and year end accounting timetable
- Reviewing risk management framework and strategy
- Reviewing progress of 2015–16 internal audit activity and 2016–17 audit plan

Nominations Committee

The Nominations Committee was formed when the full Board first met, in April 2015, when draft terms of reference were agreed. The Committee has not yet met formally. It will meet when the OGA has been vested as a government-owned limited company.

Remuneration Committee

The Remuneration Committee was formed in December 2015 and is chaired by Sir Patrick Brown, the Board Chairman. The Committee met on two occasions in 2015–16.

This year the Committee's work included:

- Recommending the Committee's terms of reference for approval by the Board
- Reviewing and approving the 2016–17 employees' performance plan
- Reviewing and approving OGA's exemption requests from central government remuneration controls
- Reviewing and approving the new approach to individual performance management for all OGA employees

Board appointments

New Board members received an induction to the OGA, including a programme of meetings with key stakeholders, to support their understanding of issues brought before the Board. Members have been briefed on their own roles, including propriety matters, and on the work of the OGA more broadly.

Board appointments have been made for varied terms.

All Board members are required to declare any personal or business interest which may influence their judgement in performing their functions or obligations (or which may be perceived to do so by a reasonable member of the public).

These interests include (without limitation) personal direct and indirect pecuniary interests and any such interests of close family members and/or of people living in the same household as the Board member. The OGA seeks updates on this information at the start of each Board meeting and on the appointment of new members, updating the record accordingly.

Where a Board member has a specific conflict of interest, they will not take part in any related discussion at Board or other meetings.

Table 4: Board Committee membership

Board Member [1]	Board of Directors	Audit and Risk Committee	Remuneration Committee
Number of meetings between 1 April 2015 and 31 March 2016	**11**	**2**	**2**
Sir Patrick Brown	10	1	2
Mary Hardy	5	2	2
Frances Morris-Jones	6	2	2
Robert Armour	6	2	2
Stephen Speed	11	2	2
Dr Andy Samuel	11	2	2
John Ogden	11	2	0

[1] Attendance reported from date of appointment

Governance Framework

Our governance system is designed to reduce the risk of failing to meet the targets and priorities set out in our Corporate Plan 2016–21. It keeps this risk to a level with which the Board is comfortable, but does not eliminate it completely.

Risk Management Framework

During 2015–16 the OGA established a risk management framework consistent with current best practice in identifying, assessing, treating, monitoring and reporting risks and opportunities. The effectiveness of the OGA's risk management framework is reviewed by the Audit and Risk Committee and the Board receives an update on the OGA's strategic risk profile each quarter.

The OGA maintains a risk register comprising its top risks, including those identified and escalated from within the OGA and those identified directly by the OGA leadership team or by a Board committee. Specific risks that are captured in the consolidated OGA risk register have a named Board or leadership team risk owner. All risks have mitigation measures in place to reduce them to an acceptable level. Material changes to the risks, including any new or escalated threats, are reviewed quarterly by the OGA leadership team.

The Chief Executive, supported by the Board and the leadership team, is responsible for maintaining an effective risk management framework. The OGA leadership team is responsible for implementing the framework and the OGA governance manager is responsible for embedding and leading the risk management process on a day-to-day basis, to promote a strong culture of risk awareness.

Corporate Governance Code

We recognise the value of good corporate governance and comply with the principles of the Civil Service Corporate Governance Code. However, as a non-ministerial government department and an independent national regulatory authority, some sections are not applicable. For example, the code requires boards to be chaired by the lead minister, whereas the OGA Board has a non-executive Chairman.

Internal Audit Annual Report

The Head of Internal Audit (HIA), Government Internal Audit Agency, provides an annual report on the OGA's systems of governance, risk management and control, based on the work undertaken during the year.

Overall, the annual report found that the OGA had made good progress in developing appropriate and proportionate governance, financial and shared service arrangements that align with best practice for establishing a government company. The organisation managed its limited resources to take forward this work by effectively prioritising the most important aspects that needed to be established within the organisation. While some policies, processes and supporting documentation are still in development, this is mitigated by the OGA continuing to use current DECC policies and processes during its development phase. Some actions were proposed to improve the level of control though the HIA was satisfied with the progress made so far by the OGA.

The overall opinion was “moderate”, or “satisfactory”, noting that the adequacy and effectiveness of the framework of governance, risk management and control could be further enhanced in some areas.

The Accounting Officer's review of effectiveness

As the Accounting Officer, I am responsible for reviewing the effectiveness of our governance. My review is based on the work of our internal auditors and the directors and managers who are responsible for developing and maintaining our governance framework. I also take into account the comments of the external auditors.

During 2015–16, we undertook the following work:

- Established the Board of Directors and its sub-committees
- Appointed three independent Non-Executive Directors
- Created and implemented a Risk Management Framework
- The Audit and Risk Committee and the Board reviewed our strategic risks
- Designed and implemented the necessary financial and other internal controls in preparation for becoming a Government Company
- Appointed the Government Internal Audit Agency as our internal auditor and developed and implemented the 2015–16 audit plan
- Worked collaboratively with the National Audit Office on the OGA's 2015–16 external audit

I am satisfied that the OGA's governance, risk management and internal controls are proportionate, effective and in line with HM Treasury guidance. No significant control issues emerged during the year and we continue to manage our risks to an acceptable level.

Dr Andy Samuel
Accounting Officer
8 July 2016

Remuneration and Staff Report

Remuneration Policy

Currently all OGA employees are members of the Civil Service.

The remuneration policy for senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- Regional and local variations in labour markets and their effects on recruitment and retention of staff
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services
- The funds available to departments as set out in the Government's departmental expenditure limits
- The Government's inflation target

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

Performance and Reward

The Senior Civil Service (SCS) pay system includes relative performance assessments. Individuals are assessed as being in the Top, Achieving or Low Group for their pay band. All individuals in the Top Group receive a non-consolidated performance related award to reflect their in-year performance against objectives. These awards vary in amount within an overall cost envelope set by the Senior Salaries Review Body and approved by the Government.

Further information about the performance and reward arrangements for Senior Civil Servants can be found at www.civilservice.gov.uk/recruitment/working/pay-and-reward/scs-pay

Civil Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org. Early termination other than misconduct would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Table 5: Salary and Pension Entitlements for Executive Members of the OGA Board (This information is subject to audit)

Member	Salary 2015-2016 (£'000)	Bonus Payment 2015-2016 (£'000)	Pension Benefits 2015-2016 (to nearest £1,000)	Total 2015-2016 (£'000)	Accrued pension at pension age at 31/03/2016 and related lump sum (£'000)	Real increase in pension and related lump sum at pension age (£'000)	CETV at 31/03/2016 (£'000)	CETV at 31/03/2015 (£'000)	Real increase in CETV (£'000)
Dr Andy Samuel	**280-285**	**50**	**–**	**330-335**	**–**	**–**	**–**	**–**	**–**
John Ogden (from June 2015)	**70-75** (full time equivalent 80-85)	**–**	**28**	**95-100** (full time equivalent 105-110)	**28**	**2**	**19**	**–**	**13**

Notes

The bonus figure relates to the performance period 1 April 2015 to 31 March 2016 and was paid in June 2016. John Ogden joined the OGA on 1 June 2015. John was the Interim Finance Lead from 4 March 2015 to 31 May 2015.

Table 6: Non-Executive Chairman and Directors' fees (This information is subject to audit)

	End date of contract	Fees 2015–2016
Sir Patrick Brown Non-Executive Chairman	15 March 2017	£100,000 (2.5 days per week)
Mary Hardy Non-Executive Director	1 November 2018	£10,416 (£25,000 per annum)
Frances Morris-Jones Non-Executive Director	19 October 2018	£5,000 (£20,000 per annum)
Robert Armour Non-Executive Director	19 October 2017	£11,666 (£20,000 per annum)

Notes

The information relates only to the OGA Board Members, Non-Executive Directors and those covered by the Government's Disclosure of Senior Salaries Agenda.

'Salary' includes gross salary, recruitment and retention allowances and any other allowance that is subject to UK taxation.

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation's workforce. The banded remuneration for the OGA in the financial year 2015–16 was £16,000 to £332,500. The banded remuneration of the highest paid Director for the OGA in the financial year 2015–16 was £330,000 to £335,000, this was 6.4 times the median remuneration of the workforce, which was £51,996. In 2015–16, no employees received remuneration in excess of the banded remuneration of the highest-paid Director. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

No senior management or Non-Executive Board members were in receipt of benefits in kind for the financial year 2015–16.

Compensation for Loss of Office

No senior managers have received compensation for loss of office in the financial year 2015–16

The Cash Equivalent Transfer Value

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 purchasing 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 pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 civil servants may be in one of five defined benefit schemes: either a final salary scheme (classic, premium or classic plus); or a whole career average scheme (nuvos or alpha). The statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under the above schemes are increased annually in line with Pensions Increase Legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). The new career average pension scheme, alpha, was introduced on 1 April 2015. The majority of classic, premium, classic plus and nuvos members transferred into the new scheme.

Employee contributions are salary-related and range between 3.8% and 8.05% of pensionable earnings for classic (or where in classic and transferred into alpha) and 4.6% and 8.05% for premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos and alpha a member builds up a pension based on the pensionable earnings during the 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. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/pensions

Table 7: Staff Costs (This information is subject to audit)

2015–16 Employment Type	Permanently employed staff £'000	All other contracted staff £'000	Total £'000
Wages and salaries	6,316	1,230	7,546
Social security costs	651	–	651
Other pension costs	1,149	–	1,149
Sub Total	8,116	1,230	9,346
Less recoveries in respect of outward secondments	(182)	–	(182)
Total net costs	**7,934**	**1,230**	**9,164**

Notes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which the Oil and Gas Authority is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2015-16, there were £1.07m employer's contributions payable to the PCSPS. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £73k were paid to an appointed stakeholder pension provider. Employer contributions are age-related in ranges 3% to 12.5% up to 30 September 2015 and 8% to 14.75% from 1 October 2015 of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings.

In 2015-16 nil persons retired early on ill-health grounds. The total additional accrued pension liabilities in the year amounted to £nil.

Table 8: Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

2015–16 Employment Type	Total
Permanently employed staff	88.47
All other contracted staff	22.63
Staff engaged on capital projects	–
Total	**111.10**

Sickness absence data

The OGA is committed to supporting the physical and mental health of its people. There is a comprehensive attendance management policy in place. We also have an occupational health provision and employee assistance provider in place. The average number of working days lost due to sickness absence was 1.1 days for 2015–16.

Staff policies

The OGA is committed to ensuring equality of opportunity for all disabled staff. As part of the OGA's job application process candidates who have a disability who apply for a post in the OGA (under the Guaranteed Interview Scheme) will automatically be put forward to the interview stage provided they satisfy the minimum criteria. The OGA makes this clear in its job adverts and application forms. The OGA promotes external vacancies in a range of diversity media.

The OGA uses an independent, confidential occupational health service. Individuals are asked for their consent to a referral to the OGA's medical adviser for an assessment of individual fitness for work or to help the OGA consider reasonable adjustments to support them in the workplace in accordance with our duty under the Equality Act 2010. In addition, to help ensure that staff have the best opportunity to continue their employment the OGA also provides a dedicated information and counselling support service through our Employee Assistance Programme.

All staff are encouraged to consider doing additional training on disability awareness to ensure that there is greater overall awareness and support within the OGA.

Table 9: Spend on consultancy and temporary staff in 2015–16

Consultancy	£280,362
Temporary staff	£1,358,982
Total	£1,639,344

Review of tax arrangements of public sector appointees

The OGA implemented new tax assurance arrangements following the HM Treasury's review of tax arrangements of public sector appointees. A model payment of tax clause was incorporated into our standard terms and conditions. The OGA confirmed with the Crown Commercial Service that their resourcing frameworks, from which we source all our contractors, met the new tax requirements. For 2015–2016 we undertook a risk based more in-depth review of tax assurance for certain individuals based upon the cost, length and nature of the contract. We sought further specific assurance for those identified as high-risk.

Table 10: Off-payroll engagements as of 31 March 2016

Off-payroll engagements for more than £220 per day and that last for longer than six months	
Number of existing engagements as of 31 March 2016	10
Number that have existed for less than one year at time of reporting	8
Number that have existed for between one and two years at time of reporting	2
Number that have existed for between two or more at time of reporting	0

Table 11: Off-payroll engagements between 1 April 2015 and 31 March 2016

All new off-payroll engagements, or those that reached six months, in duration, for more than £220 per day and that last for longer than six months.	
Number of new engagements of more than £220 per day that last for longer than six months, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	11
Number of the above which include contractual clauses via the relevant CCS Framework giving the OGA the right to request assurance in relation to income tax and National Insurance obligations	11
Number for whom risk assessment has been requested	10
Number for whom assurance has been requested following identification as high risk	3
Number for whom assurance has been received to date	3
Number for whom assurance has not been received	0
Number that have been terminated as a result of assurance not being received	0

Other than that noted above in table 11 there were no off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2015 and 31 March 2016.

Table 12: Exit packages (This information is subject to audit)

Reporting of Civil Service and other compensation schemes - exit packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	–	–	–
£10,000 – £25,000	–	–	–
£25,000 – £50,000	–	1	1
£50,000 – £100,000	–	–	–
£100,000 – £150,000	–	–	–
£150,000 – £200,000	–	–	–
Total number of exit packages	–	**1**	**1**
Total cost	–	**£38,981**	**£38,981**

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. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the Civil Service pension scheme.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed us to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and our use of resources during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OGA and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the accounting officer must comply with the requirements of the Government Financial Reporting Manual. In particular, they must:

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

The OGA's Chief Executive is designated as our Accounting Officer. The responsibilities of our Accounting Officer, including responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding our assets, are set out in Managing Public Money, published by HM Treasury.

The Accounting Officer and directors have taken all necessary steps to obtain all relevant audit information and bring it to the attention of the Department's auditors. They are not aware of any missing audit information or of any relevant information not brought before the auditors.

Dr Andy Samuel
Accounting Officer
8 July 2016

Audit Certificate

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the OGA for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity: and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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 OGA's affairs as at 31 March 2016 and of the total net expenditure for the year then ended
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000
- 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
- the financial statements and the parts of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns
- I have not received all of the information and explanations I require for my audit
- 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

Alba Floating Storage Unit

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

2015–16	Note/Primary Statement Reference	£'000
Income		
Income from sale of goods and services	4	(9,322)
Total operating income		**(9,322)**
Expenditure		
Staff costs	5	9,164
Seismic costs	6.1	17,803
Other operating costs	6.1	5,962
Depreciation and amortisation charges	6.3	128
Provision expense	6.4	190
Total operating expenditure		**33,247**
Net operating expenditure		**23,925**
Loss on transfer by absorption	3	710
Total net expenditure		**24,635**
Other comprehensive net expenditure		
Net (gain) on revaluation of property, plant and equipment	7	(16)
Total comprehensive net expenditure for the year ended 31 March 2016		**24,619**

Statement of Financial Position
as at 31 March 2016

2015–16	Note/Primary Statement Reference	£'000
Non-current assets:		
Property, plant and equipment	7	1,686
Intangible assets	8	197
Total non-current assets		**1,883**
Current assets:		
Trade and other receivables	9	380
Cash and cash equivalents	1.12	–
Total current assets		**380**
Total assets		**2,263**
Current liabilities:		
Payables	10	(5,213)
Provisions	11	(157)
Total current liabilities		**(5,370)**
Total assets less current liabilities		**(3,107)**
Non-current liabilities:		
Payables	10	(284)
Provisions	11	(19)
Total non-current liabilities		**(303)**
Total assets less total liabilities		**(3,410)**
Taxpayers' equity and other reserves:		
General Fund	SoCTE	(3,426)
Revaluation Reserve	7	16
Total equity		**(3,410)**

The notes on pages 62 to 74 form part of these accounts.
The financial statements on pages 58 to 74 were signed by:

Dr Andy Samuel
Accounting Officer
8 July 2016

Statement of Cash Flows for the year ended 31 March 2016

2015–16	Note/Primary Statement Reference	£'000
Cash flows from operating activities		
Net operating expenditure	SoCNE	(23,925)
Adjustments for non-cash transactions		414
(Increase) in trade and other receivables	9	(380)
Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		140
Decrease in trade and other payables	10	5,497
Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(1,790)
Use of provisions	11	(14)
Net cash outflow from operating activities		**(20,058)**
Cash flows from investing activities		
Purchase of property, plant and equipment	7	(784)
Purchase of intangible assets	8	(225)
Net cash outflow from investing activities		**(1,009)**
Cash flows from financing activities		
Funding from core department	SoCTE	21,067
Net financing		**21,067**
Net increase/(decrease) in cash and cash equivalents in the period		–
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period		–

Adjustments for non-cash transactions included a credit of £46k which represents transfers of laptops, monitors and docking stations from DECC to the OGA.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

2015-16	Note/Primary Statement Reference	General Fund £'000	Revaluation Reserve £'000	Total £'000
Balance at 1 April 2015		–	–	–
Transfers under absorption accounting	3	(710)	–	(710)
Funding from core department		21,067	–	21,067
Notional costs	6.2	142	–	142
Net operating expenditure for the year	SoCNE	(23,925)	–	(23,925)
Revaluation of property, plant and equipment	7	–	16	16
Balance at 31 March 2016		**(3,426)**	**16**	**(3,410)**

Notes to the Financial Statements

1. Accounting Policies

1.1 Statement of accounting policies

The Accounts of the OGA and supporting notes have been prepared in accordance with the 2015–16 Government Financial Reporting Manual (FReM) issued by HM Treasury and are in accordance with the accounts direction issued by the Secretary of State for Energy and Climate Change. 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 OGA for the purpose of giving a true and fair view has been selected. The particular policies adopted by the OGA are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.2 Accounting conventions

These accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, and intangible assets.

1.3 Grant in Aid

Grant in Aid financing represents funding received from the OGA's controlling parties, DECC and HM Treasury. The receipts are treated as a financing transaction and are credited directly to the general reserve in the Statement of Financial Position and not through the Statement of Comprehensive Net Expenditure.

1.4 Income

Income represents the amounts, exclusive of VAT, arising from the operating activities of the OGA. Income is recognised when contractual obligations have been performed, the income can be measured reliably and it is probable that the economic benefits will flow to the OGA.

(i) Fees and Charges

Licensing fees and charges income is received mainly through the assignment and relinquishment of petroleum licences. Other income is received in relation to development plans, decommissioning, and well consents. This income is credited to the Statement of Comprehensive Net Expenditure.

(ii) Industry Levy

The OGA is primarily funded by an industry levy. The legal basis for the OGA to charge a levy was introduced by the Infrastructure Act 2015, which states that regulations must be brought forward every year to set the levy rate. Regulations were laid in Parliament to set the levy rate for the six-month period 1 October 2015 to 31 March 2016 and the levy income raised has been credited to the Statement of Comprehensive Net Expenditure. The underspend in 2015-16 against the levy will be refunded to industry.

1.5 Going concern

The OGA was established as an Executive Agency by DECC on 1 April 2015 and the Energy Act 2016 (which received Royal Assent in May 2016) creates the legislative framework to establish the OGA as a government company. As in Note 1.4 above legislative powers enable the Secretary of State to impose a levy on persons holding licences for the exploitation of petroleum, providing funding to deliver operations. Following the Energy Act receiving Royal Assent, the intention is that the OGA will become a government company in 2016 with the powers to impose a levy on persons holding licences for the exploration of petroleum. The OGA will cease to be an Executive Agency. However on the basis that all of its functions will transfer to the government company, in accordance with the requirements of the FReM, it is appropriate to prepare these accounts on a going concern basis.

1.6 Research and development

Expenditure on research is charged to the Statement of Comprehensive Net Expenditure in the year in which it is incurred.

Development expenditure is capitalised as an internally generated intangible asset only if all of the following criteria are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits
- the development cost of the asset can be measured reliably

1.7 Property, plant and equipment

Assets are capitalised as property, plant and equipment if they are intended for use on a continuing basis and their original purchase cost on an individual or grouped basis is £5,000 or more. Assets in the course of construction are valued at cost.

In accordance with the 2015–16 FReM tangible non-current assets are carried at either current value in existing use or fair value at the reporting date.

1.8 Intangible assets

Intangible assets are non-monetary assets without physical substance which are capable of sale separately from the rest of the OGA's business, or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow, or services will be provided, to the OGA, where the cost of the asset can be measured reliably and where the cost is at least £5,000.

Intangible assets held by the OGA are software licences. Intangible assets are stated at cost less accumulated amortisation and net of accumulated impairment losses as a proxy for fair value. The cost of intangible assets comprises the purchase cost and any directly attributable costs incidental to their acquisition. Intangible assets are capitalised where expenditure of £5,000 or more is incurred.

1.9 Depreciation and amortisation

Depreciation is provided on a straight line basis in order to write-off the valuation of assets less the estimated residual value of each asset over its expected useful life or lease period if shorter. The base useful lives of assets, which are reviewed regularly, are as follows:

Depreciation

Furniture, fixtures and fittings	2 to 10 years
Information technology	2 to 10 years

Amortisation

Software licences	5 years or economic life

A full month's depreciation is provided in the month when the asset is available for use. Intangible assets currently held have an economic life of three years and have been amortised on this basis. Amortisation of intangible assets is charged to the Statement of Comprehensive Net Expenditure on a straight-line basis when the assets are available for use.

1.10 Revaluation

In accordance with the FReM, property, plant and equipment is carried at fair value. Revaluations are performed with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

1.11 Impairment

At each reporting date the OGA reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

1.12 Cash and cash equivalents

The OGA does not have its own bank account. Receipts and payments relating to the OGA's transactions pass through the DECC bank account.

The OGA therefore records these transactions in the primary statements as either funding from the core department or funding from the levy, depending on whether the transaction was incurred in the first six months or the last six months. In 2016–17 the OGA will have its own bank account following vesting of the OGA as a government company.

1.13 Financial liabilities

Financial liabilities, including trade and other payables, are initially measured at fair value net of transaction costs.

1.14 Pensions

Past and present employees of the OGA are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded. The OGA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes the OGA recognises the contributions payable for the year.

1.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease, are also spread on a straight-line basis over the lease term.

1.16 Employee benefits

Under IAS 19 for employee benefits all staff costs must be recorded as an expense as the organisation is obligated to pay them. This includes the cost of any untaken leave as at the reporting date.

1.17 Corporate taxation

For the period of these accounts the OGA is an Executive Agency of DECC and benefits from DECC crown exemptions.

1.18 Value Added Tax (VAT)

The OGA has trading activities where VAT is charged at the prevailing rate and where related input VAT costs are recoverable. Input VAT is also recovered on certain contracted-out services. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to fixed assets. Where output tax is charged or input tax is recoverable the amounts are stated net of VAT.

1.19 Provisions

Provisions are recognised when the OGA has a present obligation (legal or constructive) as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle that obligation.

Where the time value of money is material the OGA discounts the provision to its present value using the discount rates stipulated by HM Treasury. The discount rates in 2015–16 were: -1.55% for short term, -1.00% for medium term and -0.80% for long term.

1.20 Transfer by absorption

In accordance with FReM 4.2.9, the creation of the OGA as an Executive Agency of DECC is a transfer of function within a departmental boundary and is accounted for as a transfer by absorption. The recorded amounts of net assets of the transferring function are brought into the financial statements of the OGA from 1 April 2015. The net asset/liability carrying value is recorded as a non-operating gain/loss from the transfer of function through net expenditure with DECC recording symmetrical entries. Additional disclosure relating to the transfer of function is provided in Note 3.

1.21 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The results form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

2. Statement of operating costs by operating segment

The reporting segments below are those reported to the Board and which the Board uses to manage budgets, direct resources and staff to activities that the OGA carries out. Information for the segments is reported to the Board on a monthly basis.

	Offshore Exploration and Production	Licensing and Legal	Technology and Project	Seismic & Other Geo-scientific Surveys	Policy, Performance and Economics	Board	Executive, Finance, HR and Change	Office Accomm-odation	Non-Attributable Income	**Total**
2015-16	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Expenditure	5,516	1,677	2,894	17,803	1,057	299	2,736	1,265	–	**33,247**
Income	–	(7)	(64)	–	–	–	–	–	(9,251)	**(9,322)**
Net Operating Expenditure	**5,516**	**1,670**	**2,830**	**17,803**	**1,057**	**299**	**2,736**	**1,265**	**(9,251)**	**23,925**

Income allocated to operating segments is not reported regularly to the Board, and 99% of income is shown in the non-attributable income column.

Purpose of Operating Segments

Offshore Exploration and Production: revitalises exploration, drives regional development, protects critical infrastructure and improves asset stewardship.

Licensing and Legal: involves the licensing and stewardship of offshore and onshore oil and gas exploration and production.

Technology and Project: involves the leverage of technology and data to improve efficiency in the UKCS.

Seismic and other Geo-scientific Surveys: promotes investment in exploration by providing new seismic data in frontier and under explored areas.

3. Transfer by absorption

The transfer of functions from the core Department to the OGA from 1 April 2015 is a transfer within a departmental boundary and has been accounted for using Absorption Accounting. The balances that transferred to the OGA are recorded below.

Statement of Financial Position as at 1 April 2015

Non-current assets:	£'000
Property, plant and equipment	93
Total non-current assets	**93**
Current assets:	
Trade and other receivables	140
Total current assets	**140**
Total assets	**233**
Current liabilities:	
Trade and other payables	(943)
Total current liabilities	**(943)**
Total assets less total liabilities	**(710)**
Taxpayers' equity and other reserves:	
General Fund	(710)
Total equity	**(710)**

4. Income

In 2015–16 the OGA received income from fees and charges for the full year, and a levy on industry for six months (October to March). In addition for the first six months of 2015–16, the OGA received funding directly from its core department. The tables below detail the amount of income received from the levy and from fees and charges, as well as the expenditure funded by the levy. Table b shows the underspent levy of £1.803 million in 2015–16 which is refundable to industry.

2015–16	£'000
a) Income	
Income from the levy	8,231
Income from fees and charges	1,091
Total income from the levy, fees and charges	**9,322**

b) Reconciliation of levy collected and levy income recognised	
Levy collected	10,034
Income from the levy (matched by expenditure funded by the levy)	8,231
Underspent levy refundable to industry	**1,803**

5. Staff costs

2015–16	**Permanently employed staff** £'000	**All other contracted staff** £'000	**Total** £'000
Wages and salaries	6,316	1,230	7,546
Social security costs	651	–	651
Other pension costs	1,149	–	1,149
Sub Total	8,116	1,230	9,346
Less recoveries in respect of outward secondments	(182)	–	(182)
Total net costs	**7,934**	**1,230**	**9,164**

6. Other expenditure

2015–16	**SoCNE Reference**	£'000
Seismic	6.1	17,803
Legal, professional and consultancy	6.2	3,074
Accommodation	6.2	918
Outsourcing	6.2	708
Personnel related	6.2	490
Travel and subsistence	6.2	347
Office services	6.2	103
Training	6.2	70
Subscriptions	6.2	52
IT expenditure	6.2	47
Other	6.2	11
Non-cash items		
Depreciation	6.3	100
Amortisation	6.3	28
Auditors' remuneration and expenses	6.2	46
Notional overheads – shared services	6.2	96
Provision provided for in year	6.4	190
		24,083

The OGA has disclosed the full cost of its activities including notional costs as well as those actually incurred.

The notional costs incurred include the National Audit Office's remuneration and expenses, and the OGA's usage of the Shared Service Centre, which has been paid for by DECC.

7. Property, plant and equipment

2015–16	IT Equipment £'000	Furniture and Fittings £'000	Total £'000
Cost or valuation at 1 April 2015	–	–	–
Prior year transfer absorption gain	128	–	128
Additions	359	1,272	1,631
Transfers	78	–	78
Revaluations	–	16	16
At 31 March 2016	**565**	**1,288**	**1,853**
Depreciation at 1 April 2015	–	–	–
Prior year transfer absorption gain	35	–	35
Charged in year	44	56	100
Transfer	32	–	32
At 31 March 2016	**111**	**56**	**167**
Carrying value at 31 March 2016	454	1,232	1,686
Asset financing:			
Owned	454	1,232	1,686
Carrying value at 31 March 2016	**454**	**1,232**	**1,686**

The OGA moved into two new offices 48 Huntly Street, Aberdeen and 21 Bloomsbury Street, London in 2015–16. Both offices required new fit-outs and new furniture. The OGA has capitalised related IT installation costs and professional fees.

Revaluations: The OGA notionally paid £1 to OFWAT, who formerly occupied the OGA's floor space in 21 Bloomsbury Street, for office equipment classified as donated assets. The OGA brought back into economic use the donated assets, at a revaluation of £16k.

Transfers: Laptops, monitors and docking stations which were purchased by the core Department in March 2014 for the OGA, were transferred to the OGA in 2015–16.

8. Intangible assets

2015–16	Software Licences £'000	Total £'000
Cost or valuation at 1 April 2015	–	–
Additions	225	225
At 31 March 2016	**225**	**225**
Amortisation at 1 April 2015		
Charged in year	28	28
At 31 March 2016	**28**	**28**
Carrying value at 31 March 2016	197	197
Asset financing:		
Owned	197	197
Carrying value at 31 March 2016	**197**	**197**

Software Licences: The OGA intangible assets additions comprise purchases of 23 SAP Business Objects licences and 19 ArcGIS licences in 2015–16.

SAP Business Objects is a tool which allows the OGA to view, sort and analyse business intelligence data. ArcGIS is a geographic information system for working with maps and geographic information.

9. Receivables

2015–16	£'000
VAT receivable	71
Trade and other receivables	172
Prepayments	137
Total receivables as at 31 March 2016	**380**

Prepayments includes balance with DECC for IT running costs	20

10. Trade payables and other current liabilities

2015–16	£'000
Amounts falling due within one year;	
Levy underspend – refundable to industry	1,803
Other accruals	1,961
Taxation and social security	427
Trade payables	1,022
Total current payables as at 31 March 2016	**5,213**
Amounts falling due after one year;	
Accruals	284
Total non-current payables as at 31 March 2016	**284**
Total trade payables and other current liabilities as at 31 March 2016	**5,497**

11. Provisions for liabilities and charges

2015–16	Dilapidations £'000	Onerous Contract £'000	Total £'000
Balance at 1 April 2015	–	–	–
Provided in the year	57	130	187
Provisions utilised in the year	–	(14)	(14)
Unwinding of discount	2	1	3
Balance at 31 March 2016	**59**	**117**	**176**

2015–16	Dilapidations £'000	Onerous Contract £'000	Total £'000
Analysis of expected timing of discounted flows			
Not later than one year	40	117	157
Later than five years	19	–	19
Balance at 31 March 2016	**59**	**117**	**176**

Dilapidations: This provision relates to 21 Bloomsbury Street, 48 Huntly Street and also Kings Building, which the OGA vacated.

Onerous Contract: The OGA moved from Kings Building to 21 Bloomsbury Street on 21 March 2016 in order to occupy long term premises for its London office and accommodate its planned growth in headcount. However the lease on Kings Building did not expire until 26 June 2016, and as the OGA did not occupy Kings Building after 21 March, but continued to pay rent for the property, this created an onerous contract.

12. Operating lease commitments

Total future minimum lease payments under operating leases are given in the table below.

2015–16	£'000
Obligations under operating leases for the following period comprises	
Buildings	
Not later than one year	725
Later than one year and not later than five years	3,018
Later than five years	2,183
	5,926

Office equipment used by the OGA is recharged by the core department.

13. Capital commitments

The OGA does not have any capital commitments.

14. Other financial commitments

The OGA has entered into non-cancellable contracts (which are not leases or PFI (and other service concession arrangement) contracts), for hosting, applications support and software for the UK Energy Portal and for HR recruitment costs. The total payments to which the OGA is committed are as follows:

2015–16	£'000
Not later than one year	342
Later than one year and not later than five years	–
Later than five years	–
	342

15. Related party transactions

The OGA is an Executive Agency of DECC which continues to provide a consolidated Annual Report and Accounts for the core department. The accounts incorporate executive agencies, including the OGA, which are classified within its consolidation boundary.

Any transactions that the OGA carries out within the DECC consolidation boundary are considered a related party transaction.

The OGA received grant in aid during the year from DECC.

A number of laptops, monitors, docking stations and associated equipment were transferred by DECC to the OGA at the start of the year. These assets are included in the PPE note, and in the Statement of Comprehensive Net Expenditure, as part of the transfer by absorption.

As well as DECC the OGA had material transactions with other government departments and bodies. These included purchases from the Natural Environment Research Council, the Department of Culture Media and Sport, and Aberdeen City Council.

16. Events after the reporting period date

In accordance with the requirements of IAS 10, the impact of events since the closing date of the Statement of Financial Position and up to the date on which the accounts are authorised are considered, The Accounting Officer authorised these financial statements for issue on the date of the Comptroller and Auditor General signature. There have been no events since 31 March 2016 that would affect the financial statements.

Oil & Gas Authority

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