United Kingdom
Hydrographic Office

Supporting global maritime decision-making

Annual Report and Accounts 2016/17

HC176

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Hydrographic Office

Annual Report and Accounts
2016/17

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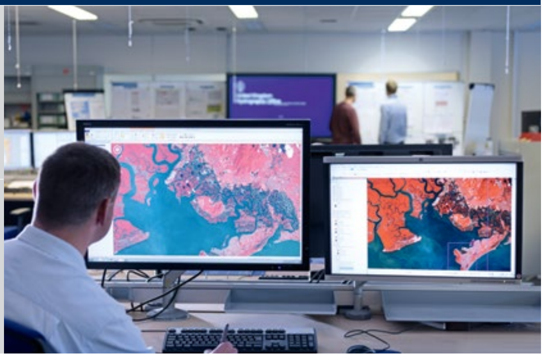
Our vision

To be the world-leading marine geospatial information agency and hydrographic office



Our highlights

Total income

£145.4m

(2015/16: £139.6m)

Profit on ordinary activities before interest

£34.8m

(2015/16: £20.5m)

Government income

£19.7m

(2015/16: £13.2m)

- Launched an 'alpha' version of our new data platform to leverage big data technology and integrate a wide range of data sets
- Strengthened the capability of our people, particularly in software development, marine science and data science disciplines
- Progressed our organisational transformation, enabling us to solve our customers' problems with data-driven solutions
- In challenging market conditions, we achieved our profit target

Contents

Chairman's Statement

> Advancing the scientific understanding of our oceans' environment with a spirit of innovation."

Our overall purpose remains unchanged.

We continue to serve Defence and to help discharge the UK's international obligations for Safety of Life at Sea (SOLAS). We remain in the vanguard of providing global marine information and services to the international maritime sector, helping us to be self-financing and to make a positive financial contribution to the Treasury.

In this respect, 2016/17 has been a pivotal year for the UKHO as, for the first time, we have seen more than 50% of our sales revenue come from our range of digital products. This is quite a moment for a business that for 222 years has used paper to carry information.

As with many other major sellers of information-based products, whether software, financial or entertainment, the UKHO is now firmly in the pantheon of the paperless. However, in common with these other sectors experiencing disruptive change, there is a price to pay.

The availability of readily updatable, easily transmittable, yet intangible digital products usually results in new competition and falling margins and the UKHO has not been immune from this trend. During the year, our revenues have largely been the same as the previous year, but our margins have fallen. Nevertheless, we have maintained a good level of profitability, in major part because of the efforts of our people. They have embraced new ways of working that are improving the quality of our service, made us easier to do business with, and have enabled cost-saving and efficiency improvements. It is a significant achievement by a team that understands the economic ramifications of digital transition.

Despite these commercial pressures, we've continued to make significant investments in talent, technology and our environment:

- On the people side, we have further strengthened our digital capabilities
- In technology, we have developed our new 'big data' platform, enabling us to extract the maximum value from our data
- Work on our new office has started, which will provide a better working environment, will be much more sustainable, and which releases valuable land for housing.

As an organisation, we continue to foster the spirit of innovation that has always set us apart. It is this spirit that has helped us to become a foremost provider of location-based information on the world's oceans, seas and waterways. This characteristic will also help us stay at the forefront of providing the marine geospatial information that is relied upon by so many to inform critical maritime decision-making.

We remain committed to advancing the scientific understanding of our oceans' environment with a spirit of innovation and to raising the standards of hydrography, marine information and decision-making globally. Our collaborative international relationships combined with big data technology and the wide range of scientific expertise based in Taunton all help us play an important role in protecting the marine environment and supporting the blue economies, sustainability and prosperity of the UK and its partners.

In summary, 2016/17 was a year in which we successfully navigated – if I can use such a word – the shift towards a digital life and to maintain our contribution to safety at sea. We achieved this thanks to the unique market-leading position of our products, our reputation as a 'must have' navigational brand and, above all, the efforts of our staff and the contribution they have made to our continuing high performance.

Adam Singer
Chairman

Foreword by the Chief Executive

“Transforming our business model to remain sustainable by developing new capabilities in big data technology and recruiting specialist skill sets.”

Our vision of becoming the world’s leading marine geospatial agency and hydrographic office took a step forward with the internal ‘alpha’ launch of our new data platform. This platform enhances our capabilities, allowing us to leverage big data tools and techniques to integrate our more traditional data sets, such as bathymetry, with marine pattern-of-life information and streaming social media to automatically discover, catalogue, analyse and publish marine geospatial information for a wide variety of applications – not just marine navigation.

We also re-engineered our organisation, moving away from developing products through fixed production lines to a structure that is focused on analysing and understanding data to help solve our customers’ problems. This included modernising our working environment to support more agile and flexible work patterns, and enhancing remote working capability, as well as beginning to redevelop our Taunton site to provide modern, flexible and sustainable offices.

In parallel, while decreasing our overall employee numbers, we invested to strengthen the capability of our people, especially software development, data specialists and marine science disciplines. We have also taken on 27 apprentices in a wide variety of disciplines and were delighted when our new apprenticeship scheme was a finalist in the recent Somerset Apprenticeship Awards.

All of this was achieved in difficult market conditions as the transition of marine navigation from paper to digital products and services accelerated: digital sales grew by a third, while paper declined by a quarter. This change in product mix put a significant strain on our finances, and we lost nearly £9m of commercial margin in a single year.

Nevertheless, through increased productivity and sales, tight cost-control and favourable exchange rates, we achieved our profit target for the year – a great team effort in difficult and challenging circumstances.

The coming year is going to be equally as tough. We will continue to control our costs whilst transforming our business model to remain sustainable by developing new capabilities in big data technology and recruiting specialist skill sets. This will mean we can start delivering innovative solutions that help inform maritime decision-making and that meet our customers’ needs. The year just closed has given us an excellent foundation on which to build.

John Humphrey
Accounting Officer and Chief Executive

Our purpose

We are the UK Government's hydrographic and marine geospatial experts with two key roles: we support the needs of Defence for hydrographic products and services (such as navigational charts, tide tables, etc.); and we discharge the UK's obligation to provide hydrographic products and services needed for safe passage in UK waters. We do the latter on behalf of the Maritime and Coastguard Agency (MCA), under the International Maritime Organization (IMO) Safety of Life at Sea (SOLAS) Convention.

In addition, we represent the UK at the International Hydrographic Organization (IHO), which formulates worldwide standards for hydrography and hydrographic products and services, and we have specialist departments, such as the Law of the Sea and HM Nautical Almanac Office, that support all areas of Government.

Business model

We fund ourselves by collaborating with other national hydrographic offices and marine data suppliers to create a portfolio of worldwide hydrographic products and services for commercial mariners. These are sold through a global network of authorised distributors under the ADMIRALTY brand.

We pay our data suppliers through either the wholesale purchase of data or through a system of royalties on sales. Besides our existing products and services, we look for new opportunities to maximise the value of the data licensed to us for re-use.

ADMIRALTY Maritime Data Solutions are found on more than 90% of ships trading internationally and provide the most comprehensive range of SOLAS-compliant charts, publications and digital services available.

> "We are the UK Government's hydrographic and marine geospatial experts."

Strategy and direction

Starting in July 2010 and ending in 2018, the market for hydrographic products and services has been undergoing a mandatory change from paper-based to digital navigation for ships trading internationally under the SOLAS Convention.

This has not only changed how we produce and deliver products and services but, as with other markets that have 'gone digital' has also reduced the amount and profitability of products and services bought by our customers. The UKHO is responding to this market change and its implications by:

› Reducing our costs to ensure we deliver our core purpose on a sustainable basis

› Building a new data capability to analyse and publish information for our existing customers faster and more efficiently to maintain our competitive edge

› Investing in our subject matter expertise, technical capability and data sources so that we can use our new data platform to create new marine geospatial products and services for new markets.

In short, we are becoming more efficient and skilled with data, and more flexible and entrepreneurial in our business approach.

Creating a sustainable business

We have invested in new products, processes and systems, such as e-books, digital printing and a chart print-on-demand service to increase productivity and sales. As a result, we increased our output of chart new editions from 584 to 711, and digital products and services now account for over 50% of total sales revenue.

At the same time, we continue to reduce costs. Since 2011/12, excluding data royalties, development and transformational expenses and depreciation, our costs have fallen by £18.8m and staff numbers have reduced from 1,113 to 905.

Taken together, our reduction in costs, increased productivity and digital sales growth have allowed us to maintain profitability. We will continue to look for further improvements in all three areas in 2017/18 and beyond.

Building a new data capability

Through a combination of internal training and targeted recruitment, we enhanced our capability in a number of roles from data and digital specialists, to marine and earth scientists. This enables us to add value to our data and to meet our customers' needs faster and more flexibly than ever before.

We adopted Agile software development and have built a digital team of 125 staff organised into programme teams, coordinated centrally for consistency. Our digital team were runners-up with a special commendation in the 2016 Agile Awards.

A key delivery in 2016/17 was the internal launch of our new data platform, proving we can automatically receive, analyse and publish data internally. A key objective in 2017/18 is to use the new platform to deliver a live customer service.

We also sought to improve the quality of our data at source by further developing relationships with other national hydrographic authorities.

Creating new products for new markets

While we remain focused on serving Defence and commercial shipping globally, our other key priority in the coming year is to create added value products for new markets. To this end, in 2017/18, we will form a business development team to identify new opportunities that are in the scope of our marine geospatial expertise, and seek new revenue streams to supply accurate, location-based marine information.

"Seeking new revenue streams to supply accurate, location-based marine information."

Supporting global prosperity and Government initiatives

The UKHO supports Government initiatives designed to protect the armed forces and our citizens, and to aid the development of sustainable marine economic growth and prosperity, domestically as well as worldwide. Programmes in which the UKHO are actively involved include Defence Hydrography, Civil Hydrography, Overseas Territories and Commonwealth Marine Economies Programmes, which support the safeguarding of a safe and secure environment for global maritime economic activity.

Our work also supports the objectives of the Foreign and Commonwealth Office to open international markets, develop infrastructure, investment and trade and to ensure access to resources. In particular, we continue to work with the Centre for Environment, Fisheries and Aquaculture Science and the National Oceanography Centre to deliver the Commonwealth Marine Economies Programme, which seeks to facilitate the sustainable development of ocean resources and create blue economies in Commonwealth Small Island Developing States (SIDS).

We also help the UK, Crown Dependencies, British Overseas Territories and other states build resilience to meet the economic and environmental challenges they might face. We do this by helping them develop a greater understanding of hydrography, in disaster modelling, and supporting them to prepare, mitigate, respond and recover from natural and man-made disasters.

Supporting the UK economy and safe navigation

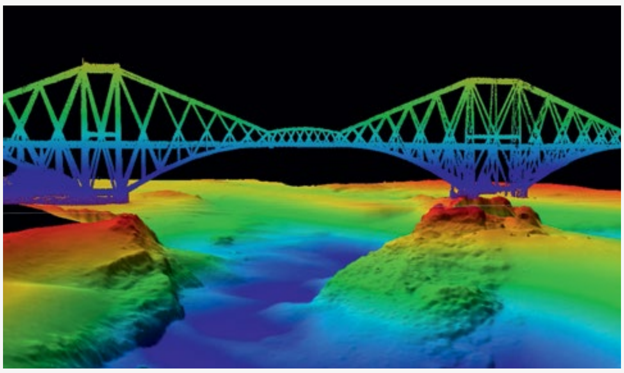
National offshore energy database

We collaborated with government departments including the Oil and Gas Authority, Crown Estates and Health and Safety Executive to create an offshore energy database containing information on the surface and subsurface infrastructure around the UK coast.

Ensuring safe navigation for aircraft carrier HMS Queen Elizabeth

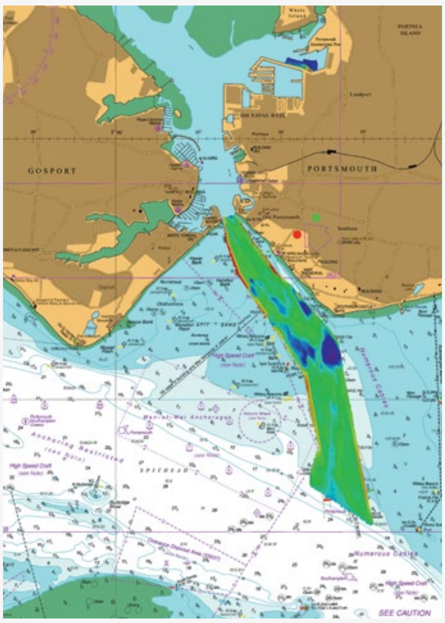
Transit of Rosyth dockyard and the Firth of Forth

Surveying and validation of an extensive range of hydrographic data, to ensure safe transit from the dockyard and under the Firth of Forth bridges.



Portsmouth approach channel and entrance

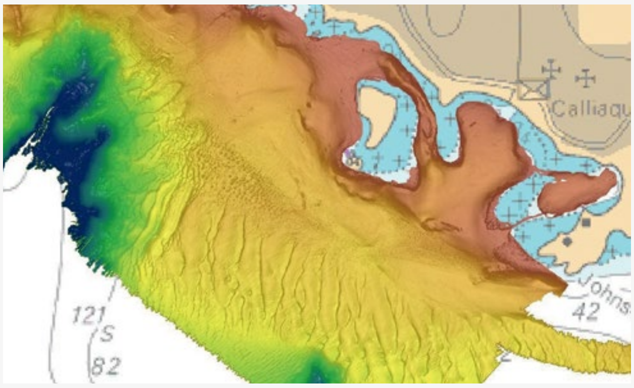
UKHO provided specialist hydrographic support to the survey launch HMS Gleaner, and geodetic expertise to the Defence Infrastructure Organisation in the placing of navigational marks.



Helping manage the marine environment

St. Vincent & the Grenadines

Bathymetric survey work, conducted by UKHO in St. Vincent & the Grenadines island chain aided coastal resilience to climate change. Forming the basis for seabed habitat maps, the work enables areas of seabed to be sustainably managed and protected. Updating chart coverage will also enable more visits and larger ships to access the region.



"Hydrography is a fundamental building block for any management, development or exploitation in the marine environment."

David Robin
Director for Maritime Administration, St. Vincent & the Grenadines, May 2016

Enabling economic diversification

Vanuatu

Vanuatu is a Pacific island nation in the South Pacific Ocean. The UKHO was commissioned by the local government to gather marine geospatial data to open Tanna Island to cruise tourism, helping diversify the island's economy and building its resilience to future economic shocks.

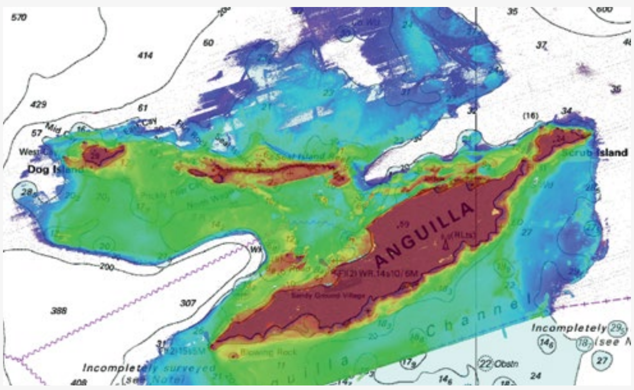
"The blue economy is of vital importance for the future prosperity of Vanuatu."

Yvon Basil
Acting Director General, Ministry of Foreign Affairs, International Cooperation and External Trade , November 2016

Reducing risk, creating sustainability

Anguilla

The UKHO conducted essential hydrographic surveying to ensure that Anguilla's waters are charted to modern standards, enabling cargo and cruise ships to navigate with greater confidence and reducing risk and liability. Hydrographic data also informs the sustainable use of Anguilla's valuable marine resources and helps promote the island's blue economy.



Supporting the blue economy

Tuvalu

We recently published a special purpose chart, developed by our specialist Law of the Sea experts, to help the Tuvaluan coastguard to police and protect marine resources including fish stocks (fishing licences account for around 70% of their GDP), energy and minerals, and to inform search and rescue (SAR) coordination.

Supporting international compliance and capacity building

We help the UK and other nations meet their international obligations and requirements by improving global standards in safety, hydrography, cartography and navigation. By serving as Primary Charting Authority for 71 states, we help them to carry out their various treaty obligations, including the IMO's SOLAS Convention, and represent their interests at the International Hydrographic Organization and the relevant international bodies.

We also offer support and training to other nations to improve their hydrographic and cartographic skills and capability by delivering and supplementing the successful IHO capacity building programme (funded by the Nippon Foundation) with additional UKHO bursary funds. Since its inception, this IHO capacity building programme delivered by the UKHO has trained more than 900 people from 111 countries.

Developing our staff and our culture

Achieving our strategy and vision needs an inclusive, confident and empowered organisation, staffed by the right number of people with the appropriate skills, experience and attitudes.

To meet our workforce requirements, we have invested in functional training, management and leadership skills, individual performance management and continuous professional development for our existing staff. We also invested to attract, develop and retain new staff where necessary to strengthen our capability, including utilising new talent acquisition avenues such as apprenticeships.

To ensure we have the right culture, built on the Civil Service Code and the Civil Service Leadership Statement, we put in place a plan that focuses on our culture and ways of working. This includes improving our communication and leadership capabilities with a new leadership development scheme. We are committed to making our workforce representative of our community and we have appointed an Executive Director to champion diversity as well as ensuring that all our Executive Directors also have a personal diversity objective.

During the year, UKHO was accredited to the new Investors in People standard.

Other highlights from 2016/17

We extended our business-to-business automatic trading capabilities, introduced new digital print technology and relaxed the rules around our existing distributed print-on-demand service. Our goal was to make ourselves easier to do business with and to reduce inventory and other costs in our distribution network.

Our Ocean Environment team, working with Navy Command and UK nature conservation bodies, were joint winners of the MoD's Sanctuary Environmental Project Award for a system designed to reduce the impact of naval activity on the marine environment.

We secured Government approval and local planning permission to redevelop our Taunton site to create a new office and release land for housing. The first phase of demolition and groundworks was completed on time and in budget by the end of March 2017.

Performance review

Financial review

Our mix of income changed substantially this year with paper product sales falling by nearly £20m. This was offset by growth in digital sales of nearly £17m and a further £6m coming from project funding for surveying the waters of Small Island Developing States. This change in mix led to a reduction in margin from 75% to 67%.

The change in gross profitability between paper and digital products and services was anticipated and over the last 4 years we have reduced controllable costs by 24.4%. For the reporting period, all other operating charges, excluding depreciation, fell by 19.5%, including staff costs that reduced 7.7%. Our average cost per head rose because our workforce includes a greater proportion of staff in marine and earth science, data science and digital specialisms.

Tight cost control over the last four years has allowed us to maintain a sustainable level of profitability. Profit on Ordinary Activities this year was £34.8m (20015/16: £20.5m, £34.1m before impairment adjustment), allowing us to pay dividends of £11.0m to the MoD.

	Financial statements note	2016/17 £k	2015/16 £k
Income	2	145,371	139,598
Cost of Sales	2	(48,396)	(35,321)
Gross Profit	2	96,975	104,277
Staff Costs	3A	(41,893)	(45,388)
Other Costs		(15,317)	(17,840)
Depreciation (Note 1)	3B	(4,996)	(6,884)
Profit on ordinary activities		34,769	34,165
Cash Generated from operating activities	20	42,838	48,327

Note 1 – Depreciation in 2015/16 included £13,641k building impairment. This has been removed in the table above to aid year-on-year comparison.

Principal risks and uncertainties

Risk	Impact	Mitigation of risk
A UKHO error contributes to an incident at sea.	Loss of life or property and an associated financial and reputational loss.	Systems and processes are being updated to reflect a new safety case and are continually improved to minimise risk.
We fail to engage our staff in our vision, mission and transformation.	We fail to deliver our vision.	A cultural change programme has been introduced alongside better staff communication. Our goal is an inspired, empowered and confident workforce.
We don't attract and retain the skilled people we need to deliver our plans.	Inability to remain a viable business.	UKHO has a skills acquisition strategy that encompasses internships, apprenticeships and career development frameworks.
We don't manage and protect our information assets properly, including failing to meet the threat of cyber-attack.	Loss of access to, or integrity of, the information we need to deliver our products and services, along with possible financial and reputational damage.	We are continuing to modernise our IT estate, working practices and systems, including how we utilise Cloud-based systems, and we recently implemented ISO27001: Information Security Management.

Key performance measures

Our corporate planning process identifies key performance measures (KPM) that are agreed with our owner. Together these represent achievement of our overall corporate plan. In 2016/17, our performance against these measures was:

	Key performance measure	Achievement
1. Defence	Achieve a score of 95 for a composite index measuring the quality and timeliness of deliveries of the Defence programme	Exceeded
2. Safety	Achieve a score of 98 for a composite index measuring timeliness and quality in issuing NMs and electronic chart updates	Exceeded
3. Financial return	Achieve an average 9% Return on Capital over the last five years	Exceeded
4. Cost reduction	Achieve a 5% reduction in costs	Exceeded
5. Strategic plan	To achieve at least 70% of 19 strategic plan programme deliverables and at least 80% of 24 non-programme deliverables. These 43 measures of achievement together provide a balanced score card reflecting our overall programme delivery	Exceeded

Supplier and payment policy

Where invoices are undisputed, Government aims to observe the Prompt Payment Code and pay 80% of suppliers within five days. We achieved 83.3% (2015/16: 94.1%).

Sustainability Report

We are committed to reducing our environmental impact. This includes recycling most of our waste where possible, investing in energy efficient buildings and equipment, and minimising unnecessary energy use, water consumption and travel.

In accordance with Financial Reporting Manual (FReM), we performed as follows in key environmental areas:

Emissions

	2016/17 tCO_2e	2015/16 tCO_2e	2014/15 tCO_2e
Gross emissions for scopes 1 & 2 (energy)			
Electricity	2,524	3,209	3,500
Gas	274	583	756
Total gross emissions for scopes 1 & 2	2,798	3,792	4,256
Gross emissions scope 3 (business travel)	105	90	101
Total gross emissions for scopes 1, 2 & 3	2,903	3,882	4,357
Net emissions for scopes 1 & 2	2,798	3,792	4,256
Net emissions for scope 3	105	90	101
	£k	£k	£k
Expenditure on official business travel	865	853	1,021
Expenditure on energy	512	710	781
Total expenditure on energy and business travel	1,377	1,563	1,802

tCO_2e: Tonnes of CO_2 equivalent

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

Commentary

We are reducing our emissions year-on-year as we transition from printed paper products and services to digital ones, modernise buildings and our IT estate and reduce staff numbers.

Our main direct impact is from our energy consumption, which should significantly reduce when our new office, built to BREEAM standards, is completed in 2019.

Waste

	2016/17 tonnes	2015/16 tonnes	2014/15 tonnes
Reused/recycled Incinerated/energy from waste	410	412	416
Landfill	2	5	26
Reused/recycled	4	7	6
	416	424	448

Commentary

Our waste continues to fall and the volume going to landfill was just 0.5% (2015/16: 1.2%). Regular waste audits are undertaken by Defence Infrastructure Organisation and recycling is a priority.

Water

	2016/17 m^3	2015/16 m^3	2014/15 m^3
Water consumption	14,390	14,415	11,735
	£k	£k	£k
Water supply costs	55	55	48

Commentary

Water consumption should have decreased through reduced staff numbers, fewer buildings and the move to digital print. We are investigating why this has not occurred.

Energy

	2016/17 MKWh	2015/16 MKWh	2014/15 MKWh
Energy consumption			
Renewable electricity	4.84	6.12	6.69
Gas	1.44	3.62	3.98
Total energy consumption	6.28	9.74	10.67
	£k	£k	£k
Total energy expenditure	512	710	781

Commentary

The switch to digital printing and vacating some of our old offices has reduced our energy consumption.

Sustainability procurement commentary

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

In terms of indirect impact, we try to ensure that our approved suppliers reflect our sustainability goals in the contracts we agree with them.

UKHO Directors' report

Executive Directors

John Humphrey
Chief Executive

Rear Admiral Tim Lowe
National Hydrographer
and Deputy Chief Executive

Peter Davis
Director of Corporate Services

Non-Executive Directors

Adam Singer
Non-Executive Chairman

Heather Tayler
Non-Executive Director
(MoD Director Finance Strategy)

Captain Matthew Syrett RN
Hydrographer of the Navy and
Non-Executive Director

Marion Leslie
Non-Executive Director

Alison Henwood
Non-Executive Director

UKHO Owner's Council	UKHO Board	Audit Committee	Remuneration Committee	Membership
●	●			Adam Singer (Chairman)
●	●	*		John Humphrey (Chief Executive)
	●			Rear Admiral Tim Lowe CBE (UKHO National Hydrographer and Deputy Chief Executive)
*	●	*		Peter Davis OBE (Director of Corporate Services) from 11 April 2016
	○	○	○	Barry Wootton (Non-Executive Director) to 2 July 2016
	●	●		Alison Henwood (Non-Executive Director) from 26 January 2017
	●	●		Marion Leslie (Non-Executive Director)
●	●	●	●	Heather Tayler (Director Finance Strategy, Non-Executive Director, Owner's representative)
	●	●		Captain Matthew Syrett RN (Captain HM and Hydrographer of the Navy, Non-Executive Director) from 14 November 2016
	○	○		Captain David Robertson RN (Captain HM and Hydrographer of the Navy, Non-Executive Director) to 14 November 2016
	*			Helen Stevens (Trades Union Representative)
●				The Rt Hon. the Earl Howe, Minister of State for the Ministry of Defence from July 2016
○				The Rt Hon. Julian Brazier MP (Chairman) Parliamentary Under Secretary of State and Minister for Reserves to July 2016
●				Louise Tulett (DG Finance)
○				Mark Preston (DG Head Office and Commissioning Services) to April 2016
●				Julie Taylor (DG Head Office and Commissioning Services) from April 2016
○				Rear Admiral James Morse (Assistant Chief of Naval Staff, (Capability) May 2016
●				Rear Admiral Paul Bennett CB OBE (Assistant Chief of Naval Staff, Capability) May 2016
●				Major General James Hockenhull (Director Cyber, Intelligence and information Integration)
●				Sir Alan Massey KCB CBE (Chief Executive, Maritime and Coastguard Agency)
●				Michael Everard CBE (External Advisor Commercial Shipping)

● Serving ○ Resigned * Invited Attendee

Conflicts of interest

Members of the Board, the Executive Committee and their direct reports must declare conflicts of interest with current or potential customers and suppliers. No conflicts of interest were reported during the year. We maintain a register of interests which can be inspected at our Taunton office.

Report of protected personal data-related incidents

Government is committed to Parliament and the public to safeguard personal information. As part of this commitment, all Government departments and agencies publish details of unauthorised disclosure of personal data. The UKHO had no reported incidents of such in 2016/17.

Pensions

Our staff pensions are provided through the Civil Service pension provider, MyCSP. Details are covered in the Remuneration Report and Accounting Policy Note K within Note 1 of the Financial Statements.

Auditor

Our accounts are audited by the Comptroller and Auditor General of the National Audit Office (NAO) in accordance with section 4(6) of the Government Trading Funds Act 1973. The cost of performing the statutory audit was £70k (2015/16: £67k).

The Comptroller and Auditor General provided no other audit services to the UKHO in 2016/17.

Financial instruments

The accounting treatment of financial instruments, policies and associated risks are reported in Accounting Policy W and Note 17 of the Financial Statements.

Post reporting period events

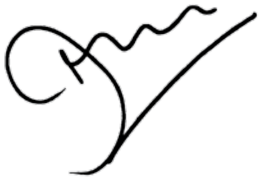
There have been no events after the reporting period requiring adjustments to the financial statements.

Directors' declaration

The Directors declare that when this report was approved:

- There was no relevant audit information of which the auditor was unaware
- They had taken all required steps as Directors to make themselves aware of any relevant audit information.

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



John Humphrey
Accounting Officer and Chief Executive
29 June 2017

Statement of Responsibilities of the Chief Executive as Accounting Officer

Under section 4(6)(a) of the Government Trading Funds Act 1973 we are required to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued on 19 December 2016. The accounts are prepared on an accruals basis and must give a true and fair view of the Trading Fund and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

› Ensure all relevant audit information has been made available to the auditors

› Observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements to apply suitable accounting policies on a consistent basis

› Make judgements and estimates on a reasonable basis

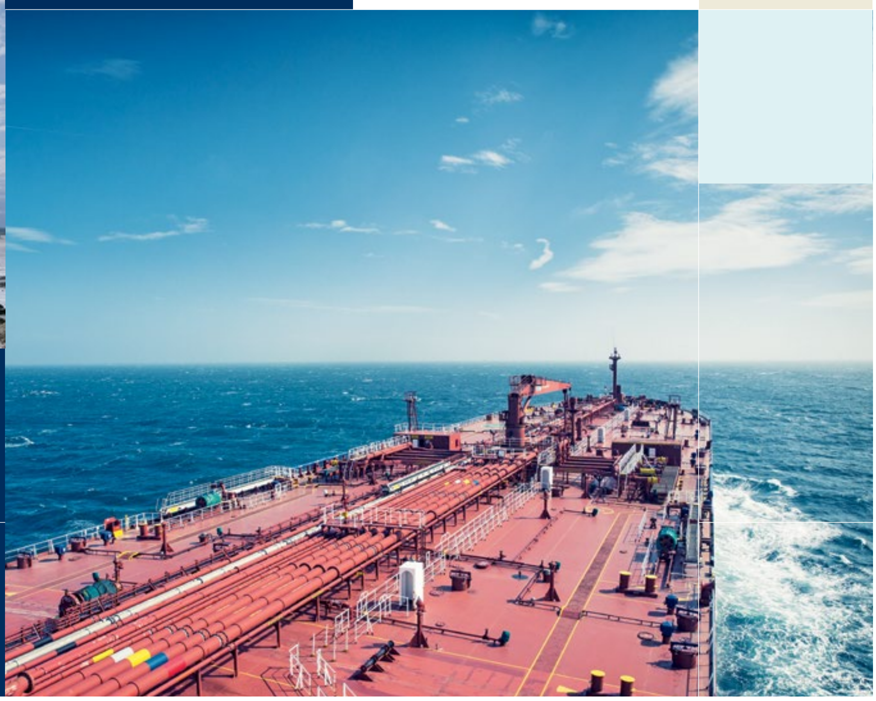
› State whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements

› Prepare the accounts on a going concern basis.

The Accounting Officer is required to confirm that, as far as he or she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer is required to confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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



Governance statement

Scope of responsibility

As Accounting Officer, I must maintain sound system of internal control that supports the achievement of our policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

To form an opinion on our system of internal control for the period 1 April 2016 to 31 March 2017, I have received advice and assurances from various sources including:

› Internal and external auditors

› The Board and sub-committees

› The Directors and senior managers through their annual assurance statements.

We follow MoD best practice and have begun in 2016/17 to create a new Internal Controls Assurance Framework (ICAF). This involves documenting all key processes, identified risks and mitigating controls and, so far, covers key finance processes. Our ICAF will provide valuable information regarding our internal controls and help focus our assurance activity on areas of weakness.

Ownership and financial structure

We are 100% owned by the Secretary of State for Defence by way of public dividend capital. We were established as a Trading Fund in 1996 in accordance with statutory instrument SI1996/773.

Our accounts, drawn up to 31 March each year, are prepared in accordance with the HM Treasury direction of 19 December 2016 as per section 4(6) (a) of the Government Trading Funds Act 1973.

Status and governance framework

Our governance structure is defined in our Framework Document, which together with our Public Task Statement, can be found at: www.gov.uk/government/organisations/uk-hydrographic-office/about#our-framework-document

Our Framework Document was updated in January 2015.

Minister and UKHO Owner's Council

The Minister of State for Defence ('the Minister') assists the Secretary of State for Defence in discharging his responsibilities regarding our strategy and plans. Each year, the Minister approves our Corporate Plan and financial projections covering a five-year period.

The Minister chairs our Owner's Council, comprised of the Minister and key stakeholders, including Defence, the Maritime and Coastguard Agency and representatives of the shipping industry, to review our performance and to approve, if necessary, specific major investments.

There were no Ministerial Directions given to us during the year.

UKHO Board

Our Board provides the strategic leadership to help us deliver our objectives. It is a forum for independent, non-executive support and constructive challenge to the Chief Executive and his Executive Directors.

An independent review of the Board was completed during the period covered by this report. This highlighted the following areas of improvement for the coming year:

› Greater focus on strategic aims and risks

› Better preparatory briefings to encourage wider debate

› Improved signposting of decisions from Board topics

› More advanced planning of Board agendas

› More non-executive engagement.

The quality of management information provided to the Board is reviewed regularly. The UKHO Board is satisfied that the information provided is fit for purpose.

During 2016/17, the Board met eight times and the average attendance was 92%. The attendance of individual members (during their tenure in office) was:

	Attendance
John Humphrey	8/8
Adam Singer	8/8
Peter Davis	7/8
Tim Lowe	7/8
Heather Tayler	7/8
Marion Leslie	7/8
Matthew Syrett	4/4
Alison Henwood	3/3
David Robertson	4/4
Barry Wootton	1/2

Audit and Risk Assurance Committee (ARAC)

The ARAC is a sub-committee of the Board. It provides guidance and independent assurance on the system of internal control, risk management and internal audit.

Meeting four times a year, its membership consists of four Non-Executive Directors, one of whom chairs the committee.

Invited members of the Executive Committee, the NAO and our appointed internal auditors, Defence Internal Audit (DIA), attend its quarterly meetings as required.

The Chair of the ARAC reports to the Board.

Remuneration and Nomination Committee (REMNCO)

The REMNCO is a sub-committee of the Board and works within MoD and other Government guidelines to advise the Board on remuneration for the executive Directors, where relevant, and on succession planning.

The committee comprises three Non-Executive Directors who meet as required. The Chair of the committee reports on its proceedings to the Accounting Officer and the Chair of the UKHO Board.

Safety of Navigation Advisory Committee (SONAC)

SONAC is an advisory committee that advises the Board on product and other safety matters. It is chaired by the Hydrographer to the Navy. It includes a range of independent experts from the Royal Navy, the Maritime and Coastguard Agency, the Royal National Lifeboat Institute, Trinity House, Associated British Ports, the Marine Accident Investigation Branch, the Chamber of Shipping and the Royal Yachting Association.

The Chair of SONAC reports to the ARAC and Board.

Compliance with the corporate governance code

The Board has assessed itself using the NAO checklist on its code of good practice.

The Board complies with all aspects of the corporate governance code as far as is deemed relevant and practical.

Admiralty Holdings Limited (AHL)

AHL is a private limited company. It was established in 2002/03 to exploit commercial opportunities. The Secretary of State for Defence, who owns 100% of AHL, has delegated its management to the UKHO. AHL is currently dormant.

The UKHO internal control

As documented above, our governance structure supports a system of internal control designed to cost-effectively manage risk to an acceptable level in line with our status and our corporate risk appetite. This system of internal control was in operation throughout the year ending 31 March 2017 and on the date of approval of the Annual Report and Accounts.

Each year we seek to improve this system of internal control by:

› Extending their scope

› Refining our system of controls using continuous improvement. (DIA have assessed us at level 2 of the Continuous Improvement Maturity Model).

Corporate governance and risk management

Executive Committee members and senior managers provide written assurance to me as the Accounting Officer on the integrity and accuracy of:

› Performance reports

› Maintenance of effective controls in relation to the delivery of business objectives

› Security (physical and data)

› Financial propriety and fraud prevention

› General conduct of business

› Management of internal audit recommendations

› Identification of contingent liabilities

› Compliance with staff reporting requirements, including the provision of appropriate business skill capabilities.

Staff must complete training on information assurance and business resilience, on countering fraud, bribery and corruption, and on contract awareness, equality, diversity, conscious and subconscious bias and security.

We have risk management governance structures, processes and activities in place to manage our risks. Our risk management policy is aligned to the MoD risk management framework. Corporate risks are owned by divisional heads and are subject to review and challenge by the Executive Committee, the Board and the ARAC.

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

Financial control

Financial control is maintained by cascading detailed plans that support the corporate plan. These form the basis of the annual budget from which delegated authority is derived. They make the linkage between our short-term financial plans and our long-term financial objectives.

The Executive Committee reviews financial performance against budgets and forecasts monthly. The Board reviews financial performance at each meeting. Budget holders carry out monthly reviews of revenues and spending in their areas of responsibility.

The Executive Committee reviews a range of KPMs, both financial and non-financial, monthly. These measures give the Board confidence that all aspects of the business are being scrutinised and provide a framework for early intervention when required. This ensures that management scrutinises the assumptions underlying all major programmes and projects to ensure that they remain valid. All major programmes are subject to normal management disciplines.

We operate our commercial function in accordance with relevant, Government procurement and regulatory requirements. Management regularly reviews its commercial strategy to ensure that procurement accountabilities are clearly defined.

Exchange rate risk

As digital charts are sold in US Dollars (USD), an increasing proportion of our sales are made in USD. As the related data costs are also in USD, we have a natural hedge. We review USD holdings quarterly against forecast requirements. Any excess is sold at the spot rate on the day of transaction. We do not use derivatives such as interest rate swaps or forward currency exchange contracts.

Improving quality

We successfully transitioned from ISO9001:2008 standard to the new ISO9001:2015 standard, achieving certification against the new standard in December 2016, and this is now woven into our Quality Management System. We monitor performance against our corporate plan through a monthly performance dashboard with detailed feedback and measurement against our 'Strategic Themes'. In addition, the ExCo Assurance report issued quarterly is a high-level summary of all 'assurance related issues.'

Special payments

No special payments were made during the year. (2015/16: £0).

The role of internal audit

The ARAC approves the internal audit programme each year. The internal audit for 2016/17 was contracted out to Defence Internal Audit (DIA). DIA carried out independent checks on the control process on my behalf. In line with Public Sector Internal Audit Standards, DIA also carried out a programme of risk based audits. It submitted regular reports, including its opinion on the adequacy and effectiveness of our internal control. It made findings, which are agreed with management, which then form the basis of improvement actions. Where appropriate, the Executive Committee monitors outstanding improvement actions to ensure they are implemented.

DIA's opinion for 2016/17 is that the UKHO's internal controls provide 'Substantial Assurance'. They went on to comment that "UKHO management has continued to build the Trading Fund's control environment and has demonstrated an ongoing commitment to internal control. While the overall picture is positive, our work this year has identified opportunities to strengthen the control environment still further, particularly regarding corporate risk management and procurement".

Many of DIA's findings have already been addressed. Key risks are on page 11.

Fraud

We have a zero-tolerance approach to fraud. Our staff have easy access to advice on what to do if they suspect fraudulent activity which includes the protection they receive if they come forward with their suspicions.

We have had two instances of fraud during the year, both relating to false reporting of attendance time with an intent to take flexi-time off over and above that rightfully earned. One member of staff has been dismissed and the other is being taken through our disciplinary processes.

Cyber Security

This year has seen the continuing rise of cyber related crime with criminals seeking ever more sophisticated methods to monetise their nefarious cyber activities. Whilst the UKHO was not a victim of the recent WannaCry ransomware attack it was a very real reminder of the need to maintain our defences.

UKHO has successfully achieved ISO27001 certification for our Information Security Management System and covers all aspects of information security right across the organisation. It is evidence that we take information security seriously and that it is hardwired into all aspects of our business.

Business Continuity

We operate an effective business continuity management (BCM) system in accordance with ISO 22301.

We ensure that our BCM documentation remains up to date, that staff members are trained and that our plans are tested. Progress against our BCM programme is reported regularly to ARAC; key activities this year included:

› A refresh of our business impact analysis data to confirm our critical activities and their supporting resources

› A review of the physical business continuity threats to our organisation

› Further testing of the IT applications at our off-site disaster recovery centre

› Updating all of our crisis management business continuity plans.

In January, we invoked our crisis management plan in response to an unexpected loss of our mains water. The swift response to this incident ensured an early resolution and demonstrated the effectiveness of our crisis planning.

Information Assurance (IA)

We have made further progress this year embedding IA processes across the organisation and have further matured our IA processes and risk controls. Our self-assessment process indicates that we are operating at maturity level 3 of the Government's IA Maturity Model, although this is yet to be confirmed by the MoD's Defence Assurance and Information Services (DAIS). Contributing factors include:

› Our embedded IA governance structure, with the strong engagement from senior managers

› A well-structured culture change programme in which a wide range of change activities across the organisation has continued to affect behaviours and raise awareness of information risk

› All critical systems being subjected to IA accreditation

› Our third-party supply chain subjected to IA risk assessments

› Formal review of our technical assurance processes to verify their effectiveness with ISO27001:2013

› Engaging with key IA stakeholders so that IA is built in rather than bolted on

› Our IT security procedures conform to Cabinet Office and MoD instructions and mandatory safeguards for sensitive data.

John Humphrey
Accounting Officer and Chief Executive
29 June 2017

Remuneration and staff report

Remuneration policy

Of the three Executive Directors employed during the year, two are Senior Civil Servants (SCS) and subject to SCS terms and conditions. Their bonus arrangements fall under SCS rules rather than our performance-award system. The third Director is on secondment from the Royal Navy (RN). He has his remuneration set and paid by the RN. The Non-Executive Directors are not our employees but, apart from two who are employed by the MoD, they are paid a fee for their services.

John Humphrey was appointed Chief Commercial Officer and Deputy Chief Executive (Corporate) on a permanent SCS contract from 1 April 2014. John was appointed Chief Executive from 1 February 2016.

Peter Davis was appointed to the new post of Director of Corporate Services on 11 April 2016, on a temporary two-year assignment from the MoD.

Rear Admiral Tim Lowe was appointed National Hydrographer and Deputy Chief Executive (Hydrography) on 11 August 2015.

All other employees have their pay determined by us in accordance with Government policy. The Chief Executive has the delegated power to set terms and conditions of employment, including pay, for all employees other than SCS appointments. However, this delegation is not unfettered and must be in-line with Government policy in consultation with the MoD and HM Treasury before negotiation with employee representatives.

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

A corporate performance reward is payable to all staff (except SCS) if we meet our KPM 1 to 4. Partial achievement of KPM5 will result in a proportionate reduction of the bonus available.

Service contracts

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

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

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

The appointments of Non-Executive Directors are in accordance with MoD guidelines and the Office of the Commissioner for Public Appointments Code of Practice.

Our Directors

Salary entitlements

(This section has been subject to audit)

The table on page 23 provides details of the remuneration and pension interests of the executive members of the UKHO Board.

Salary

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

Benefits in kind

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

Bonuses

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

The bonuses reported in 2016/17 relate to performance in 2015/16 and the comparative bonuses reported for 2015/16 relate to performance in 2014/15.

Remuneration details

(This section has been subject to audit.)

2016/17	Notes	Salary Band £k	Performance Awards £k	Total £k	Pension Benefit (Note 5) £k
John Humphrey	5	115–120	0	115–120	45–47.5
Rear Admiral Tim Lowe	3	120–125	0	120–125	0
Peter Davis	5	65–70	0	65–70	25–30

2015/16	Notes	Salary Band £k	Performance Awards £k	Total £k	Pension Benefit (Note 5) £k
John Humphrey	5	115–120	0	115–120	45–47.5
Rear Admiral Tim Lowe	3	80–85	0	80–85	0
(from 11 August 15)		(110–115)*			
Andrew Millard	5	75–80	0	75–80	20–25
Rear Admiral Tom Karsten	4	25–30	0	25–30	0
(up to 12 June 15)		(110–115)*			
Ian Moncrieff CBE	2	0	15–20	15–20	0

* denotes full year equivalent

Notes

1. Salaries are reviewed annually on 1 April in line with provisions applying to special appointments outside the standard Civil Service performance-related pay scheme. The Office of Public Service centrally determines the annual increases for these special appointments.
2. Ian Moncrieff CBE left under VERS (Voluntary early release scheme) terms on 31 January 2015. He received a bonus payment in 2015/16 based on performance in 2014/15.
3. Rear Admiral Tim Lowe is a serving RN Officer on loan to the UKHO. Whilst RN charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service. Pension and CETV figures are not disclosed.
4. Rear Admiral Tom Karsten was a serving RN Officer on loan to the UKHO. Whilst RN charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service. Pension and CETV figures are not disclosed.
5. John Humphrey, Peter Davis and Andrew Millard are members of, and contribute to, a Civil Service pension scheme. The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. This is an estimate of the assumed value of the increase in pension that will be payable on retirement to the individual and has not been paid in the year.

Pension benefits

(This section has been subject to audit.)

	Accrued benefits *		Real increase in benefits		CETV	CETV	CETV
	Pension Note a £k	Lump sum Note a £k	Pension Note a £k	Lump sum £k	31/03/2017 £k	31/03/2016 £k	Real increase £k
John Humphrey	25–30	Note b	2.5–5	Note b	371	330	25
Peter Davis	35–40	Note b	0–2.5	Note b	614	580	7

* As at 31 March 2017

Notes

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

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

None of the above are members of partnership pension schemes.

Fees paid to Non-Executive Directors (NEDs)

(This section has been subject to audit)

NEDs are not civil servants and contracts may be terminated at one month's notice by either party or on dissolution of the Board, except in the case of gross misconduct when termination is immediate. Their initial term is three years and may be extended by mutual agreement normally for one, or at most two, further terms. NED contracts are not pensionable and there is no compensation for early termination. Current NEDs and their fees as at 31 March 2017 were:

	Notes	2016/17 £k	2015/16 £k
Adam Singer	1	25–30	25–30
(From 3 May 14)			
Alison Henwood	3	0–5	0
(From 26 January 17)		(15–20)*	
Barry Wootton	2	5–10	15–20
(to 3 July 16)		(15–20)*	
Gareth Lewis		0	5–10
(to 19 October 15)			(15–20)*
Marion Leslie	4	15–20	15–20
Captain Matthew Syrett	5	0	0
Heather Tayler	5	0	0

* Full year equivalent

1. Adam Singer, Chairman, was appointed on a three-year contract that started 3 May 2014. This contract has been extended for a further three years ending 25 May 2020.
2. Barry Wootton was appointed on a three-year contract that started 3 July 2006. This had been extended for two three-year periods and further extended exceptionally by one year which ended 3 July 2016.
3. Alison Henwood was appointed on a three-year contract that started 26 January 2017.
4. Marion Leslie was appointed on a three-year contract commencing 1 January 2015 which will end 31 December 2017.
5. Captain Matthew Syrett is a serving RN Officer. His appointment began 14 November 2016 as part of his responsibilities as Hydrographer of the Navy. Heather Tayler is a MoD SCS representing our owner. Neither receive separate remuneration for their roles.

No Non-Executive Directors are in receipt of partnership pension benefits.

Fair Pay Report

(This section has been subject to audit)

	Note	2016/17 £k	2015/16 £k
Band of highest paid director's remuneration (£'000)	1	120–125	115–120
Median of all UKHO employees	2	31.5	29.7
Ratio		3.8	3.9
Range of staff remuneration (FTE)		16.8–71.6	16.4–105.0

Notes

1. Remuneration includes salary, non-consolidated performance related pay, benefits in kind as well as severance payments. Total remuneration does not include employer pension contributions and the cash equivalent transfer value of pensions.
2. The median remuneration refers to Civil Servant staff and does not include agency staff costs.

Our staff

Staff numbers

(This section has been subject to audit)

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

	2016/17	2015/16
Total civil servants	853	906
Agency staff	46	71
Service personnel	6	6
Total staff numbers	905	983

Staff costs

(This section has been subject to audit)

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

	2016/17 £k	2015/16 £k
Salaries, wages etc.	28,976	30,408
Social security costs	2,910	2,341
Pension costs	5,680	5,973
Agency staff costs	3,403	5,742
Service personnel costs	924	924
Total staff costs	41,893	45,388

No staff costs were capitalised.

Members of the Owner's Council receive no remuneration for their services. The costs of full-time government officials are borne by their parent departments.

Service personnel who have posts within the UKHO are included in employee numbers above. However, they are on loan to us and we are charged a capitation rate rather than actual costs. We carry no pension liability for service personnel.

Staff composition

	Male	Female
Gender of each director of the UKHO at year end *	5	3
Gender of each senior manager of the UKHO at year end **	40	14
Total number of persons who were employed at the year end	605	283

* Includes Hydrographic Office Board (UKHO Board) members only

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

Sickness absence

The average number of days lost through sickness in 2016/17 was 6.7 (2015/16: 7.3).

Pension

For 2016/17, the applicable employer contribution pension rates were:

Scheme and annual salary bands to which rates apply	%
PCSPS – Band 1–£22,500 and under	20
PCSPS – Band 2–£22,501 to £45,000	20.9
PCSPS – Band 3–£45,001 to £76,000	22.1
PCSPS – Band £76,001and over	24.5

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

For 2016/17, employers' contributions of £5,630k were payable to the PCSPS (2015/16: £5,939k) at one of four rates in the range 20% to 24.5% of pensionable pay, based on salary bands (2015/16: 20% to 24.5%). The scheme's actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016/17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £38.3k (2015/16: £33.8k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1.3k, representing 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2017 were £4.1k. There were no prepaid contributions at that date.

Employee involvement

Each year we hold an all-staff conference to reflect our performance during the previous year and to focus on the next five years set out in our Corporate Plan. There are monthly team talks to update staff on progress and current matters of importance. In addition, regular updates are published on our intranet, as is the organisation's blog where regular articles by the Chief Executive and other members of the senior management team are posted. The intranet also hosts an employee forum where topics of general interest can be raised.

Our staff complete the Civil Service People Survey each year and results are reported to the Board. This survey gives us an annual measure of employee engagement.

Trade unions are actively encouraged to contribute to studies and other reviews and are represented at the Board. Formal consultations on a wide range of issues are conducted through the Whitley Committee, which meets several times a year and is chaired by the Chief Executive.

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

Civil Service pensions

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

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

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 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; benefits for service before 1 October 2002 are calculated broadly in the same way as for the classic scheme, and benefits for service from October 2002 are calculated as for the premium scheme. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership.

At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the Pensions (Increase) legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases, members may opt to give up (commute) a pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% 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 higher of either 65 or the state pension age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes; however, note that part of that pension may be payable from different ages.)

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV payment can be made by a pension scheme, or as part of an arrangement to secure pension benefits in another pension scheme, or when a 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 benefit in any other Civil Service pension to which the member has transferred. They also include any additional pension benefit accrued if the member has opted to buy additional pension benefits. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. They 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 or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It uses common market valuation factors for the start and end of the period.

Off-payroll engagements

Off-payroll engagements as of 31 March 2017 for more than £220 per day and that last for more than six months are as follows:

Number of existing engagements as of 31 March 2017	**21**
Of which...	
Number that have existed for less than one year	10
Number that have existed for between one and two years	4
Number that have existed for between two and three years	3
Number that have existed for between three and four years	1
Number that have existed for four or more years	3

We have received assurance that all 21 individuals outlined above are paying the correct amount of tax.

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months are as follows:

Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	**15**
Number of the above bound by contract to confirm, if asked, that Income Tax and National Insurance obligations are being met	15
Number from whom confirmation has been requested	15
Of which...	
Number from whom confirmation has been received	14
Number from whom confirmation has not been received	1
Number that have been terminated as a result of confirmation not being received	1

Board members and/or senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017	
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	0
Number of individuals that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year. This figure includes both off-payroll and on-payroll engagements.	10

Civil Service exit packages

(This section has been subject to audit)

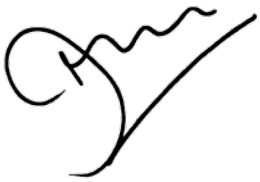
Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
< £10,000	0	0	1	3	1	3
£10,000–£25,000	0	0	1	31	1	31
£25,000–£50,000	0	0	0	28	0	28
£50,000–£100,000	0	0	3	23	3	23
£100,000–£150,000	0	0	0	0	0	0
Total number of exit packages	0	0	5	85	5	85
Total cost (£k)	0	0	212	3,306	212	3,306

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

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

The total cost in the table above for both years relate to staff leaving under the Voluntary Early Release Scheme terms.

There was no compulsory redundancy in either 2016/17 or 2015/16. No ex-gratia costs were paid.



John Humphrey
Accounting Officer and Chief Executive
29 June 2017

Parliamentary accountability

The UKHO Chief Executive is personally responsible for the performance and management of the Trading Fund. Our Annual Report and Accounts are subject to audit by the Comptroller and Auditor General, who heads the National Audit Office and is responsible for scrutinising public spending and safeguarding the interests of taxpayers on behalf of Parliament. The audit certificate is presented on page 29.

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

Our Framework Document was updated in 2015; this can be found at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/392992/20150106_UKHO_Framework_Document.pdf

Statement of Parliamentary Supply

(subject to audit)

As a trading fund agency, we do not have a Statement of Parliamentary Supply.

Public spending and administration budgets

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

Pricing and Charges

(subject to audit)

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

Regularity of expenditure

(subject to audit)

There were unrecoverable trade receivables of £13.4k (2015/16: £1k) and unrecoverable overpayments to staff of £0.4k (2015/16: Nil). There were no fruitless payments to be written off.

Long-term expenditure trends

2017/18 will be the final year of a five year programme to reduce staff costs and other operating charges by a targeted 5% per annum. After four years we have reduced these costs by 24.4%.

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

Remote contingent liabilities

Error in our charts

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

Leaving the European Union

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

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

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

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of UK Hydrographic Office (UKHO) for the year ended 31 March 2017 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures described in those reports as having been audited.

Respective responsibilities of UKHO, the Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

› The financial statements give a true and fair view of the state of UKHO's affairs as at 31 March 2017 and of its profit for the year then ended

› The financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

› The parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973

› The information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

› the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or

› I have not received all of the information and explanations I require for my audit; or

› the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
19 July 2017

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

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

Financial statements

Statement of comprehensive income

For the year ending 31 March 2017

	Note	2016/17 £k	2015/16 £k
Income	4	145,371	139,598
Materials and other external charges		(7,322)	(6,766)
Staff costs	3A	(41,893)	(45,388)
Depreciation and impairment	3B	(4,996)	(20,525)
Other operating charges	3C	(56,391)	(46,395)
Profit on ordinary activities before interest		34,769	20,524
Exceptional items	5	(952)	(3,733)
Profit on ordinary activities before interest and after exceptionals		33,817	16,791
Interest receivable and similar income	6	314	489
Interest payable and similar charges	7	0	(7)
Profit for the year		34,131	17,273
Dividend	8	(10,521)	(48,997)
Retained profit/(loss) for the financial year		**23,610**	(31,724)
Other comprehensive income			
Revaluation of non-current assets	9A & B	283	1,196
Total comprehensive income		**23,893**	(30,528)

The notes on pages 34 to 49 form part of these accounts.

Statement of financial position

For the year ending 31 March 2017

	Note	2016/17 £k	2015/16 £k
Non-current assets:			
Property, plant & equipment	9A	21,555	19,706
Intangible assets	9B	1,679	4,742
Total non-current assets		23,234	24,448
Investment	10	0	0
Current assets:			
Inventories	11	1,962	2,129
Trade and other current receivables	12	40,678	34,285
Cash and cash equivalents	13	90,093	61,446
Total current assets		132,733	97,860
Total assets		155,967	122,308
Current liabilities:			
Trade and other current payables	14	(70,936)	(60,045)
Provisions	15	(3,680)	(4,740)
Total current liabilities		(74,616)	(64,785)
Non-current assets plus net current assets		81,351	57,523
Non-current liabilities:			
Provisions	15	(210)	(275)
Total non-current liabilities		(210)	(275)
Assets less liabilities		**81,141**	57,248
Taxpayers' equity:			
Public dividend capital		13,267	13,267
Revaluation reserve		9,882	9,599
Profit and loss account		57,992	34,382
Total taxpayers' equity		**81,141**	57,248

The notes on pages 34 to 49 form part of these accounts.

John Humphrey
Accounting Officer and Chief Executive
29 June 2017

Statement of changes in taxpayers' equity

For the year ending 31 March 2017

	Note	Profit and Loss Reserve £k	Revaluation Reserve £k	Public Dividend Capital £k	Total Reserves £k
Balance at 1/04/15		52,783	21,727	13,267	87,777
Changes in equity for 2015/16:					
Other comprehensive income					
Revaluation of non current assets					
Property, plant & equipment (PPE)	9A		1,737		1,737
Intangible assets	9B		1,004		1,004
Depreciation – revaluation PPE	9A		(783)		(783)
Amortisation – revaluation Intangibles	9B		(762)		(762)
Realisation of revaluation surplus					
Property, plant & equipment		13,324	(13,324)		0
Intangible assets		0	0		0
Total other comprehensive income		13,324	(12,128)		1,196
Net income for the period		17,272			17,272
Total Recognised income and expense for the period		30,596	(12,128)		18,468
Dividend	8	(48,997)			(48,997)
Balance at 31/03/16		34,382	9,599	13,267	57,248
Changes in equity for 2016/17:					
Other comprehensive income					
Revaluation of non-current assets					
Property, plant & equipment	9A		483		483
Intangible assets	9B		1,069		1,069
Depreciation – revaluation PPE	9A		(335)		(335)
Amortisation – revaluation Intangibles	9B		(934)		(934)
Total other comprehensive income			283		283
Net income for the period		34,131			34,131
Total recognised income and expense for the period		34,131	283		34,414
Dividend	8	(10,521)			(10,521)
Balance at 31/03/17		**57,992**	**9,882**	**13,267**	**81,141**

The notes on pages 34 to 49 form part of these accounts.

Statement of cash flows

For the year ending 31 March 2017

	Note	2016/17 £k	2015/16 £k
Net cash flow from operating activities	20	42,838	48,327
Cash flows from investing activities			
Investments	10	0	13
Interest received	6	304	489
Purchase of property, plant and equipment	9A	(4,423)	(1,388)
Purchase of intangible assets	9B	0	(537)
Proceeds from disposal		925	0.0
Net cash outflow from investing activities		(3,194)	(1,423)
Cash flows from financing activities			
Dividend paid		(10,997)	(53,419)
Dividend from Subsidiary	10	0	13
Net cash outflow from financing activities		(10,997)	(53,406)
Net financing			
Net increase in cash and cash equivalents in the period		28,647	(6,502)
Cash and cash equivalents at beginning of year	13	61,446	67,948
Cash and cash equivalents at end of year		**90,093**	61,446

The notes on pages 34 to 49 form part of these accounts.

Notes to the accounts

1. Accounting policies

A. Basis of accounting

The financial statements have been prepared in accordance with the 2016/17 FReM issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

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

We operate as a Trading Fund within the MoD in accordance with statutory instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 19 December 2016 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973.

B. Accounting convention

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

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

IC-ENC is an international collaboration to quality control and distribute ENCs. The UKHO operates IC-ENC on behalf of the 41-member hydrographic offices and it is operated on a not-for-profit basis. We recognise the total liability to IC-ENC members together with the cash held on their behalf.

D. Estimation techniques

To achieve consistency across MoD the index used to revalue buildings is a MoD generated index, based on the BiS Output Price Index for new construction work, public non-housing.

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

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

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

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

E. Exceptional items

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

F. Income

Income represents the value of invoiced sales, net of VAT, at the point of physical delivery or, in the case of service agreements (e.g. sales of digital products), it is realised equally over the licence period. Exceptionally, they may be accrued but income is recognised where work is complete and there is certainty of future payment.

Segmental reporting is provided in Note 2 of the Accounts in accordance with IFRS 8 Operating Segments.

G. Provision for sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by ADMIRALTY Chart Agents. The provision represents a 5% credit allowance for returns of stock following release of new editions and a 1% credit allowance in relation to stock cleanses.

H. Non-current assets valuation

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

Intangible assets

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

Development expenditure

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

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

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

Specifically, databases and other software that are established for the internal use of management within the reporting entity (such as payroll or HR systems) will not be recognised as intangibles. For internally generated software (including databases and websites) to be recognised as assets, these intangibles must either generate economic benefits or deliver services direct to the customer such that use of the intangible by the customer replaces, reduces or otherwise negates the need for manual performance of that service.

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

All development expenditure has been revalued as at 31 March 2017 through the application of appropriate indices: Intangible Assets, Development Costs, and IT COMMS. These are published annually by Defence Analytical Services and Advice.

Property, plant and equipment

Land and buildings were professionally valued at 31 March 2013 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and buildings were valued at depreciated replacement cost of the estate, with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a market value has been provided. Assets have been revalued as at 31 March 2017 during the year through the application of appropriate indices:

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

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

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

H1. Depreciation and amortisation

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

Buildings	not exceeding 100 years
Plant & Equipment	between 1 and 20 years
Furniture & Fittings	over 25 years
Information Technology assets (including capitalised software and licences)	between 2 and 5 Years

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

H2. Non-current assets held for sale

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

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

I. Inventories and work in progress

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

J. Hydrographic data

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

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

K. Pensions

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

Details of rates and amounts of contributions during the year are given in the Remuneration and staff report (pages 22 to 27).

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

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

Notes to the accounts continued

L. Insurance

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

M. Development and transformation activities

All expenditure on development transformation activities of non-commercial products is charged to the Statement of Comprehensive Income.

Development transformation of commercial products is similarly written off until such time as all the requirements of accounting standards are met. These are laid down in IAS 38 Intangible Assets as adapted by the FReM. Amortisation of these costs commences with the commercial production of the product. The costs are amortised on a straight-line basis over the products' commercial lives.

N. Foreign currencies

Assets and liabilities denominated in a foreign currency are translated into sterling at the rate of exchange ruling as at 31 March 2017. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Statement of Comprehensive Income. Assets and liabilities are translated at the rate ruling at 31 March 2017; exchange differences arising are recognised in reserves.

O. Going concern

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

P. Royalties

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

Q. Treatment of leases

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

R. Provisions

Provisions for liabilities and charges have been established under the criteria of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the 31 March 2017.

The rate advised by HM Treasury is used to discount provisions to current prices – the short-term rate for financial year 2016/17 being (2.7%) (2015/16: (1.55%)). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Income.

Early retirement costs

We provide in full for the cost of meeting pensions up to the normal retirement age in respect of early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 2016/17: 0.24% (2015/16: 1.37%). Pensions payable after the normal retirement age are met by the Civil Service pension arrangement. However, any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by us. Redundancies are provided for in full.

Provision for bad and doubtful debts

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

S. Cash and cash equivalents

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

T. Reserves

The revaluation reserve reflects the unrealised and realised elements of the cumulative balance of revaluation and indexation adjustments on non-current assets. The profit and loss reserve represents the balance of the taxpayer's equity.

U. Taxation

Corporation tax

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

VAT

We are VAT registered and all business VAT is recoverable.

V. Treatment of finance leases as a lessor

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

W. Financial instruments

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

Trade and other receivables

All receivables, including trade and VAT receivables, staff loans and advances are classified as loans and receivables, and are initially recognised at fair value (plus transaction costs) and subsequently at their amortised cost. Discounting is relevant to those receivables and loans which carry a nil or a subsidised rate of interest. However, our receivables that are due within one year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts. Loan investments to AHL are classed as financial assets and, where appropriate, are subject to annual impairment tests together with an impairment review if there are indicators of impairment. It tests if events or changes in circumstances indicate that the carrying values may not be recoverable.

Trade and other payables

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

Cash and cash equivalents

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

X. Investments

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

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

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, require disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards board (IASB) that are effective for financial statements after this reporting period.

The following have not been adopted early by us:

IFRS 9 Financial instruments

A new standard intended to replace all the requirements of IAS 39.

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

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

IFRS 15 Revenue recognition

The IASB has amended IFRS 15 to clarify the guidance on identifying performance obligations, licences of IP and principal versus agent. The amendments also provide additional practical expedients on transition. This will be effective from 1 January 2019.

IFRS 16 Leases

The new standard requires lessees to recognise nearly all leases on the balance sheet, which will reflect their right to use an asset for a period of time and the associated liability for payments. The lessor's accounting model largely remains unchanged. This will be effective from 1 January 2018.

A number of minor amendments to the 2016/17 FReM were published in December 2016. None of these are considered to have a material impact on the financial statements of the UKHO.

Notes to the accounts continued

2. Operating segments

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

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

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

	Note	Commercial 2016/17 £k	Defence 2016/17 £k	Other government 2016/17 £k	Total 2016/17 £k	Commercial 2015/16 £k	Defence 2015/16 £k	Other government 2015/16 £k	Total 2015/16 £k
Income	4	125,653	13,729	5,989	145,371	126,420	13,178	0	139,598
Cost of sales		(40,715)	(2,720)	(4,961)	(48,396)	(32,521)	(2,800)	0	(35,321)
Gross profit		84,938	11,009	1,028	96,975	93,899	10,378	0	104,277
Margin %					67%				75%
Overheads					(62,206)				(83,753)
Profit on ordinary activities before interest					34,769				20,524
Exceptional items	5				(952)				(3,733)
Profit on ordinary activities before interest and after exceptionals					33,817				16,791
Interest payable	7				0				(7)
Interest receivable	6				314				489
Net profit					34,131				17,273
Dividend					(10,521)				(48,997)
Retained profit/(loss) for the financial year					23,610				(31,724)

Commercial sales include sales of paper charts, paper publications, digital products and data licensing. These have not been shown separately on the grounds of commercial sensitivity.

Overhead costs, assets and liabilities are not routinely allocated to segments for internal reporting.

Defence excludes sales of commercial products; these are included in their respective segments.

Information about major customers

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

	Commercial 2016/17 £k	Defence 2016/17 £k	Other government 2016/17 £k	Total 2016/17 £k	Commercial 2015/16 £k	Defence 2015/16 £k	Other government 2015/16 £k	Total 2015/16 £k
Customer 1	23,330	0	0	23,330	27,588	0	0	27,588
Customer 2	15,325	0	0	15,325	17,493	0	0	17,493

Sales Revenue by geographical market

	2016/17 £k	2015/16 £k
Europe, Middle East & Africa	102,669	93,541
Asia Pacific	33,317	35,851
North America	8,998	9,738
Central & Latin America	387	468
Total revenue	145,371	139,598

Revenues have been attributed to Geographical markets based on the location of the customer supplied.

3. Profit on ordinary activities before interest

Profit on ordinary activities before interest of £34.8m (2015/16: £20.5m) is stated after charging.

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

	2016/17 £k	2015/16 £k
Salaries, wages etc	28,976	30,408
Social security costs	2,910	2,341
Pension costs	5,680	5,973
Agency staff costs	3,403	5,742
Service personnel costs	924	924
A. Total staff costs	41,893	45,388

	2016/17 £k	2015/16 £k
Depreciation/amortisation-owned assets	5,699	6,861
(Profit)/Loss on disposal of fixed assets	(703)	23
Impairment adjustments	0	13,641
B. Depreciation and impairment	4,996	20,525
Data costs	27,394	21,260
Royalties	6,964	6,011
Development & transformation activities	1,740	2,934
Utilities and other estates operating costs	3,255	3,678
Materials and services	9,264	5,289
Computing and office machines	4,851	4,406
Travel, training and entertainment expenses	2,538	2,640
Auditor's remuneration (Note a)	147	139
Professional fees	233	37
Office machinery operating leases	5	1
C. Other operating charges	56,391	46,395

Notes

a. The NAO audit fee for external audit is £70k (2015/16: £67k).

Approval has been given for the building of new offices at Admiralty Way. The plans are to demolish and replace 14 of the current 17 buildings in two phases. The first phase is complete; six buildings have been demolished and a new car park built to allow closure of the existing car park. Work on the new building will start in 2017/18 with estimated completion by March 2019, when the remaining buildings will be demolished. These buildings were impaired last year by £13,641k to reflect the estimated value in use for their remaining life.

Notes to the accounts continued

4. Income

	2016/17 £k	2015/16 £k
Commercial sales	125,653	126,420
Sales to MoD	13,729	13,178
Other Government	5,989	0
Total income	145,371	139,598

5. Exceptional items

	2016/17 £k	2015/16 £k
Voluntary early release scheme	778	3,756
Early retirement	174	(39)
Trading fund rationalisation	0	16
Total exceptionals	952	3,733

6. Interest receivable and similar income

This relates to interest receivable from commercial banks – high interest account, short-term investments for varying periods of between three and 12 months. Interest received and receivable has arisen from financial assets classified as loans and loan receivables. These are primarily short-term investments held at fixed interest rates.

	2016/17 £k	2015/16 £k
Interest receivable and similar income	314	489

7. Interest payable and similar charges

	Note	2016/17 £k	2015/16 £k
Unwinding of the discount and movement on provision for early retirements and rationalisation	15	0	7
Total interest payable and similar charges		0	7

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

8. Dividends

	2016/17 £k	2015/16 £k
Ordinary dividend	6,521	6,997
Special dividend	4,000	42,000
Total dividend	10,521	48,997

Special dividends are declared and paid in the same year.

9A. Property, plant and equipment

	Freehold land £k	Buildings £k	Plant & machinery £k	Furniture & fittings £k	Information technology £k	Assets under construction £k	Total £k
Cost or valuation:							
At 1 April 2015	8,884	36,138	7,213	240	11,163	369	64,007
Additions	0	0	105	0	22	1,261	1,388
Reclassification	0	0	107	0	62	(169)	0
Disposals	0	0	(10)	0	(5,330)	0	(5,340)
Revaluation	(3)	1,626	114	0	0	0	1,737
Adjustment	0	0	0	0	2	0	2
Impairment	0	(13,641)	0	0	0	0	(13,641)
At 31 March 2016	8,881	24,123	7,529	240	5,919	1,461	48,153
At 1 April 2016	8,881	24,123	7,529	240	5,919	1,461	48,153
Additions	0	0	499	0	24	3,900	4,423
Reclassification	0	0	1,399	0	0	(1,399)	0
Disposals	0	(2,748)	(6,259)	0	(1,057)	0	(10,064)
Revaluation	0	470	13	0	0	0	483
At 31 March 2017	8,881	21,845	3,181	240	4,886	3,962	42,995
Depreciation:							
At 1 April 2015	0	15,130	6,321	93	8,496	0	30,040
Charged	0	1,368	688	10	876	0	2,942
Disposals	0	0	(9)	0	(5,309)	0	(5,318)
Revaluation	0	683	100	0	0	0	783
At 31 March 2016	0	17,181	7,100	103	4,063	0	28,447
At 1 April 2016	0	17,181	7,100	103	4,063	0	28,447
Charged	0	1,444	356	10	691	0	2,501
Disposals	0	(2,600)	(6,227)	0	(1,016)	0	(9,843)
Revaluation	0	325	10	0	0	0	335
At 31 March 2017	0	16,350	1,239	113	3,738	0	21,440
Net book value:							
At 31 March 2017	**8,881**	**5,495**	**1,942**	**127**	**1,148**	**3,962**	**21,555**
At 31 March 2016	8,881	6,942	429	137	1,856	1,461	19,706

All property, plant and equipment are owned by UKHO.

Notes to the accounts continued

9B. Intangible non-current assets

	Software licences £k	Development software £k	Assets under construction £k	Total £k
Cost or valuation:				
At 1 April 2015	16,029	31,398	0	47,427
Additions	0	0	537	537
Revaluation	0	1,005	0	1,005
At 31 March 2016	16,029	32,403	537	48,969
At 1 April 2016	16,029	32,403	537	48,969
Reclassification	537	0	(537)	0
Revaluation	0	1,069	0	1,069
At 31 March 2017	16,566	33,472	0	50,038
Amortisation:				
At 1 April 2015	15,714	23,815	0	39,529
Charged	166	3,769	0	3,935
Revaluation	0	763	0	763
At 31 March 2016	15,880	28,347	0	44,227
At 1 April 2016	15,880	28,347	0	44,227
Charged	129	3,069	0	3,198
Revaluation	0	934	0	934
At 31 March 2017	16,009	32,350	0	48,359
Net book value:				
At 31 March 2017	**557**	**1,122**	**0**	**1,679**
At 31 March 2016	149	4,056	537	4,742

All intangible assets are owned by the UKHO.

9C. Analysis of intangible non-current assets

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

Project	Description	Carrying value 31/03/2017 £k	Remaining amortisation period (months)
Maritime data project	The development of global, digital, vector based data and service capability.	630	24
ADMIRALTY Vector Chart Service (AVCS)	AVCS brings together Electronic Navigational Charts (ENCs) from national hydrographic offices around the world and new ENC coverage produced by UKHO in co-operation with foreign governments to provide comprehensive, official, worldwide coverage.	364	24
		994	

10. Investments

	2016/17 £k	2015/16 £k
Analysis of loans		
1 April	0	13
Movement in year	0	(13)
Net book value 31 March	0	0

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

11. Inventories

	2016/17 £k	2015/16 £k
Finished inventories	1,602	1,622
Materials	360	452
Work in progress	0	55
Total inventories	1,962	2,129

12. Trade and other current receivables

	2016/17 £k	2015/16 £k
Trade receivables	25,887	24,185
Prepayments and accrued income	14,764	10,058
Net investments & finance leases	21	11
Other receivables	6	31
Total receivables	40,678	34,285
Analysis of total receivables		
Other central government bodies	3,744	2,964
Bodies external to government	36,934	31,321
Total receivables	40,678	34,285

Notes to the accounts continued

13. Cash and cash equivalents

	2016/17 £k	2015/16 £k
Balance 1 April	61,446	67,948
Net change in cash and cash equivalent balances	28,647	(6,502)
Balance 31 March	90,093	61,446

The following balances at 31 March were held at:

	2016/17 £k	2015/16 £k
Commercial banks – short-term investments	20,000	0
Commercial banks – instant access, high interest	64,185	57,460
Third party assets	5,908	3,986
Net cash and cash equivalents	90,093	61,446

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

Commercial banks – instant access, high-interest account earns interest between 0.4% and 0.5%. Short-term investments earn between 0.65% and 1.05% and are made for varying periods of between three and 12 months.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2017 exchange rates.

Third-party assets

We hold third-party monies of £5.9m (2015/16: £4.0m). This relates to monies held on behalf of IC-ENC. We operate IC-ENC on behalf of the 40 member states. The accounts recognise the total liability to IC-ENC members together with the cash held on their behalf.

14. Trade and other current payables

	2016/17 £k	2015/16 £k
Accruals and other deferred income	40,107	37,800
Proposed dividend	6,521	6,997
Trade payables	23,568	14,330
Other taxation and social security	727	918
Other payables	13	0
Total payables	70,936	60,045
Analysis of total payables		
Other central government bodies	11,579	9,107
Bodies external to government	59,357	50,938
Total payables	70,936	60,045

15. Provisions

	Balance at 1 April 2015 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2016 £k
Current liabilities						
Sales credits	4,127	5,378	0	(4,947)	0	4,558
Rationalisation	173	0	2	(175)	117	117
Early retirement	9	0	0	(9)	0	0
Legal	65	0	0	0	0	65
Total current liabilities	4,374	5,378	2	(5,131)	117	4,740
Non-current liabilities						
Rationalisation	222	0	3	0	(117)	108
Early retirement	0	0	0	0	0	0
Royalties	165	0	2	0	0	167
Total non-current liabilities	387	0	5	0	(117)	275
Total liabilities at 31 March 2016	4,761	5,378	7	(5,131)	0	5,015

	Balance at 1 April 2016 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2017 £k
Current liabilities						
Sales credits	4,558	3,618	0	(4,558)	0	3,618
Rationalisation	117	0	0	(114)	59	62
Legal	65	(65)	0	0	0	0
Total current liabilities	4,740	3,553	0	(4,672)	59	3,680
Non-current liabilities						
Rationalisation	108	0	0	0	(59)	49
Royalties	167	0	0	(6)	0	161
Total non-current liabilities	275	0	0	(6)	(59)	210
Total liabilities at 31 March 2017	5,015	3,553	0	(4,678)	0	3,890

(a) The provision for rationalisation and early retirement have been recategorised between current and non-current liabilities for 31 March 2017.

Notes to the accounts continued

Analysis of expected timing of cash flows at 31 March 2016

	2016/17 £k	2017/18 £k	2018/19 2019/20 £k	Balance at 31 March 2016 £k
Sales credits	4,558	0	0	4,558
Rationalisation	117	108	–	225
Royalties		167	0	167
Legal	65	0	0	65
Total	4,740	275	–	5,015

Analysis of expected timing of cash flows at 31 March 2017

	2017/18 £k	2018/19 £k	2019/20 2020-21 £k	Balance at 31 March 2017 £k
Sales credits	3,618	0	0	3,618
Rationalisation	62	49	0	111
Royalties	0	161	0	161
Total	3,680	210	0	3,890

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

Sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by ADMIRALTY Chart Agents. The provision represents a 5% credit allowance for returns of stock following release of new editions and a 1% credit allowance in relation to stock cleanses. It is anticipated that the provision will be fully applied during 2017/18.

Rationalisation

This reflects the outstanding liability for early retirements arising from a restructuring exercise undertaken in 2007. The provision has been discounted at 0.24% and will be fully applied by 2019/20.

Early retirement

The provision has been fully applied in 2015/16.

Legal

This provision has been fully written back in 2016/17.

Royalties

These royalties have been reclassified from an accrual into a provision. These amounts refer to bilateral agreements with other hydrographic offices that are not yet finalised that will probably result in a legal obligation to pay future royalties. The provision has been discounted at (2.7%).

16. Public dividend capital

	2016/17 £k	2015/16 £k
Public dividend capital	13,267	13,267

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

17. Financial instruments

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

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The current value of all our financial instruments is considered to equate to fair value at the 31 March 2017.

Financial instruments

IFRS 7 Financial instruments, disclosures, requires us to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the credit risks to which we are exposed and how these risks are managed. For each type of credit risk arising from financial instruments, we are also required to provide summary quantitative data about our exposure to the credit risk at the reporting date. At 31 March 2017, we had no material risks arising from our financial instruments that arise in the course of normal business operational activities.

We are subject to some credit risk. The carrying amount of receivables, net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other receivables consist of a large number of diverse customers spread over a diverse geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable, including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. All outstanding financial assets which remain within their credit terms at 31 March 2017 primarily relate to established customers whose credit worthiness has been subject to regular review and gives no cause for concern regarding full future settlement. The table below provides details of receivables beyond the due date and impairments made.

Significant accounting policies

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

Notes to the accounts continued

Receivables beyond the due date

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

2016/17	Not overdue £k	Overdue 0–3 months £k	Overdue 3–6 months £k	Overdue 6-12 months £k	Overdue Over 12 months £k	Total £k
Receivables – not impaired	22,795	3,037	29	12	14	25,887
Receivables – impaired	0	0	0	0	0	0
Gross receivables total	22,795	3,037	29	12	14	25,887
Bad debt provision	0	0	0	0	0	0
Net total receivables	22,795	3,037	29	12	14	25,887

	2016/17 £k	2015/16 £k
Financial assets		
Loans and receivables (including cash and cash equivalents)	130,771	95,731
Financial liabilities		
Other financial liabilities	70,936	58,844

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

18. Commitments under leases

Operating leases

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

	2016/17 £k	2015/16 £k
Plant and equipment		
Due within one year	63	84
Due after one year but within five years	0	63
Total leases	63	147

The plant and equipment lease relates to a five-year contract with Canon for a site-wide printing and copying system, the contract expires in January 2018.

19. Capital commitments

	2016/17 £k	2015/16 £k
Capital expenditure that has been contracted for, but has not been provided for in these accounts		
Property, plant and equipment	891	303
Intangible assets	0	0
Total capital commitments	891	303

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

Reconciliation of Trading Fund profit	2016/17 £k	2015/16 £k
Profit on ordinary activities before interest and after exceptionals	33,817	16,791
Interest, unwinding of the discount and movement on provision for early retirements and rationalisation	10	(7)
Depreciation & Amortisation	5,699	6,861
Impairment	0	13,641
(Profit)/Loss on sale and disposal of non-current assets	(703)	22
Decrease in inventories	167	288
(Increase) in receivables	(6,393)	(5,712)
Increase in payables	11,366	16,190
(Decrease)/increase in provisions	(1,125)	253
Net cash inflow from operating activities	42,838	48,327

21. Contingent liabilities

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

22. Losses and special payments

There were unrecoverable trade receivables of £13.4k(2015/16: £1k). There were unrecoverable overpayments to staff of £0.4k (2015/16: £0). There were no write-offs in respect of fruitless payments (2015/16: £0).

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

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

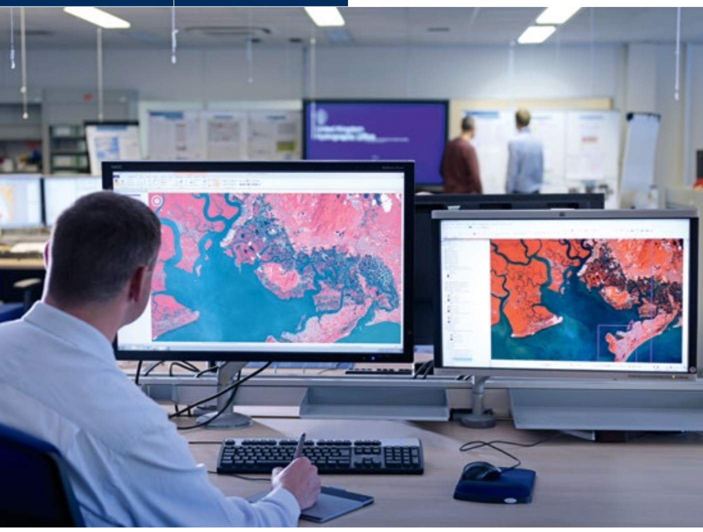
Other related parties

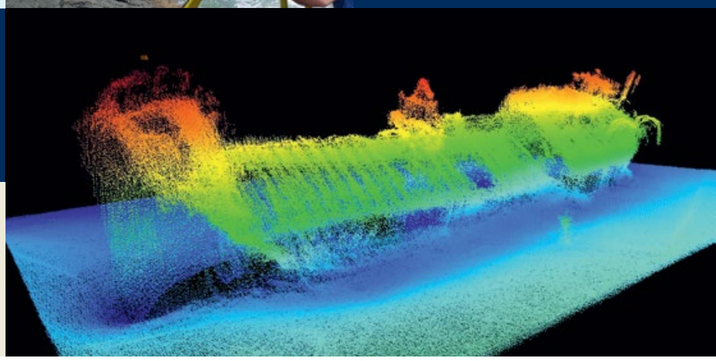
We have had various material transactions with other Government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, PCSPS and HMRC employer's and employee's income tax and national insurance.

All transactions are carried out on standard contract terms.

24. Events after the reporting period

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





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