







# Annual Report and Accounts 2022/23

For the period 1 April 2022 to 31 March 2023

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**UK Hydrographic Office** Annual Report and Accounts 2022/23

Overview

Performance review

Corporate governance report

Remuneration and staff report

Parliamentary accountability Financial statements and audit report



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## **Highlights**

# An active year with a strong performance

## Highlights of the year



# UK Centre for Seabed Mapping

2022 saw the launch of the UK Centre for Seabed Mapping: an initiative administered by the UKHO that aims to increase the coverage, quality and accessibility of seabed mapping data through collaboration. Comprising over 20 members, this community coordinates the collection, management and access of publicly funded data.

# Supporting Ukraine

To support safe navigation for Ukrainian vessels, the UKHO delivered specialist training and pledged £1.6m worth of hydrographic equipment and software to the State Hydrographic Service of Ukraine. It is hoped this will support safety and security within their ports and home waters amid the nation's ongoing war with Russia.



# Investors in People

This year we were proud to have once again achieved the Investors in People accreditation at 'Silver' level, showing how we are continuing to lead, improve and support our people across the whole organisation.





# Distributor Conference

72 delegates from 36 different organisations joined us in Dubai for our Distributor Conference in September. Together, we discussed the priorities for the future of navigation and shared insights on the challenges and opportunities within our markets.



#### **About us**

# A global centre for hydrographic understanding

The UK Hydrographic Office (UKHO) is a world-leading centre for hydrography, helping to support safe, secure and thriving oceans.

Working with a wide range of organisations, we source, process and publish marine geospatial data from seabed to surface and beyond.

This data is used to serve the needs of a wide range of users including UK defence, government and global shipping. Our portfolio of ADMIRALTY Maritime Data Solutions is relied upon by 90% of large ships trading internationally for safe, efficient and compliant navigation.

As an executive agency of the Ministry of Defence, we deliver a Public Task to fulfil the UK's Safety of Life at Sea (SOLAS) obligations, support national security, advise on policy matters, and represent the UK for hydrography on an international scale. We also provide extensive support to other nations across the globe and are Primary Charting Authority for 63 coastal states. We do this as a trading fund, meaning we operate as a self-funded organisation at no additional cost to the taxpayer.

By bringing together our data and expertise with the wider maritime community, we are committed to promoting hydrography's role in addressing global challenges and ensuring the safe and responsible use of our oceans for generations to come.

## Did you know...

90%

of large ships trading internationally rely on ADMIRALTY Maritime Data Solutions



40%

of the global population live in coastal areas

# 11 billion

tons of seaborne trade are transported worldwide annually

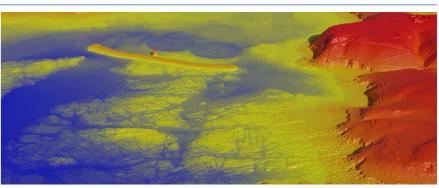
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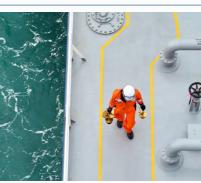
years ago the UKHO was founded to support safety of life at sea



# 53 terabytes

of bathymetric survey data were received and processed in 2022





3 billion

people rely on the oceans for their livelihoods

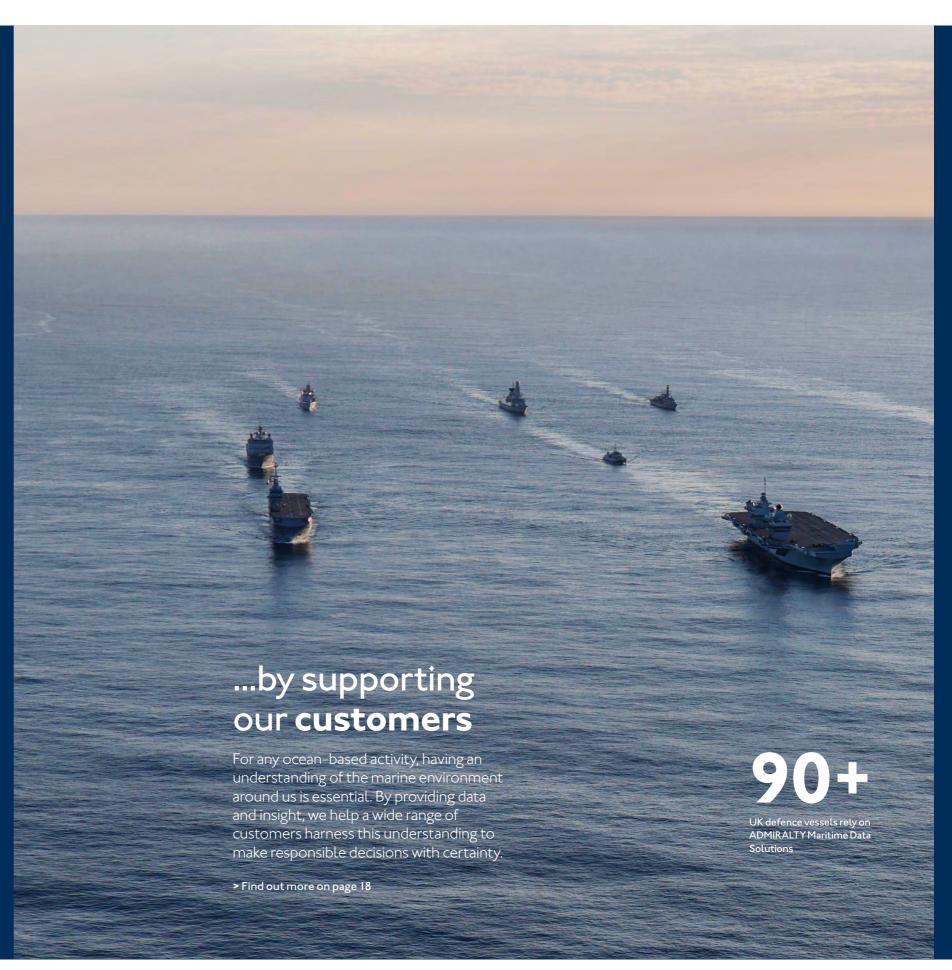
4.3 million

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# Navigating the **future**...

The maritime sector as we know it is undergoing a transformation. From advances in technology, to industry-wide initiatives to decarbonise, we are facing new opportunities and challenges alike. But as the industry evolves, we are evolving with it. Discover how we are innovating and collaborating to help navigate the maritime future.



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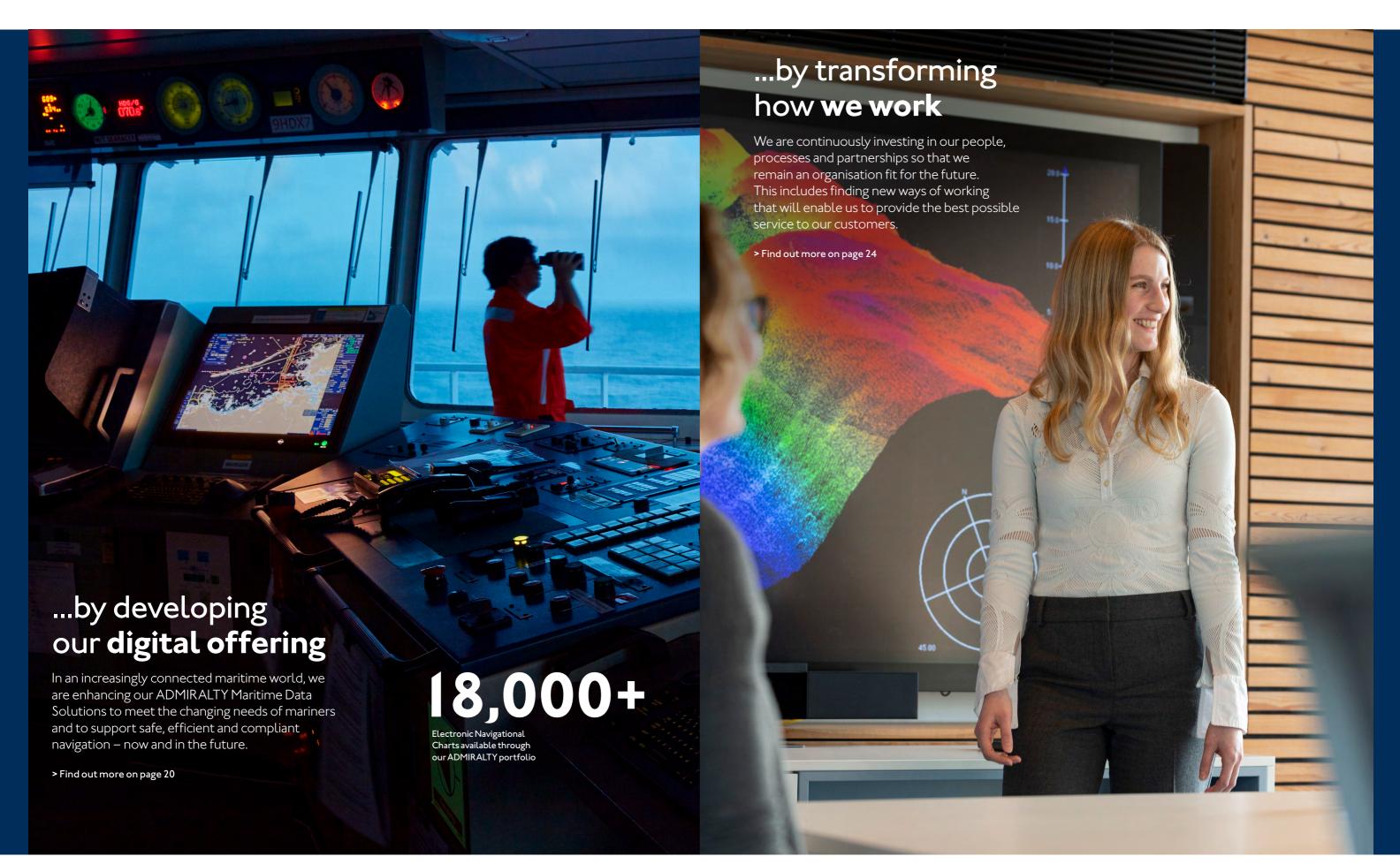
Overview

Performance

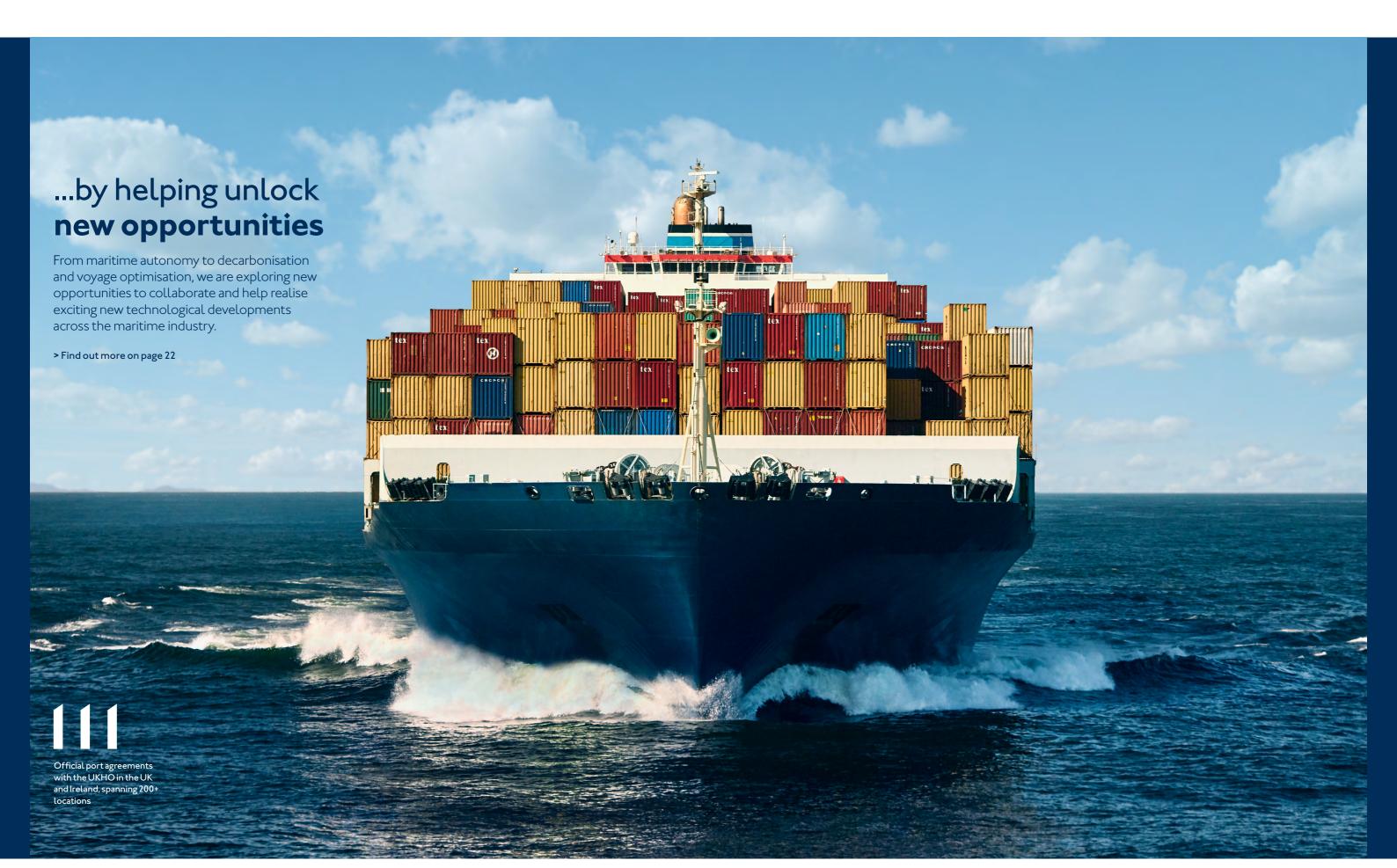
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#### Chair's foreword

# Delivering with a strong sense of purpose



Everything we do serves the larger goal of safety of life at sea.

Marion Leslie Non-Executive Chair

Our purpose at the UKHO is clear. It has shaped our work for the last 228 years, and will continue to guide our future. Everything we do serves the larger goal of safety of life at sea. We live it, too – our performance metrics, product development plans and board meetings are all deeply rooted in safety.

This strong sense of purpose underpins our Defence commitments, as well as our wider obligations under the Safety of Life at Sea (SOLAS) convention, the maritime treaty first drafted in response to the RMS Titanic disaster. SOLAS has a deeper meaning for everyone at the UKHO. As one of the world's largest aggregators of maritime survey data, with an extensive global Primary Charting Authority footprint, we are increasingly serving our purpose in a larger sense.

With international attention turning increasingly to the climate emergency, we find that here, too, we are critical to understanding the problem and developing solutions, through our hydrographic expertise and the accurate maritime information we provide. Whether collecting data to better understand the marine environment, or helping to enable voyage optimisation and decarbonisation initiatives, we are supporting safe, secure and thriving oceans. I am sure this is just the start. We will find ever-more opportunities to put our data to work in the drive towards decarbonisation and net zero.

Of course, sustainability relates to more than the environment. Sustainability in all its forms – environmental, social and governance – has been at the heart of the UKHO throughout its history and continues to be a guiding principle. It informs our responses to the international security agenda, and our core work of supporting national defence. We have supported the war effort in the Ukraine with our maritime insights and hydrographic expertise. We continue to support relief work, following natural disasters, with vital hydrographic data and intelligence. The Royal Navy relies on our navigational products, data and expertise. Sustainability through security - including cyber-security - is a key focus of our investment.

In the field of governance, the UKHO remains at the forefront of the transformation to digital charting, with all the associated regulatory changes, across the maritime industry. Our leadership role here reflects both our heritage and capability, and we take it very seriously. The significant effort we put into global engagement, partnership and collaboration occurs at intergovernmental and commercial levels.

90% of large ships trading internationally rely on our ADMIRALTY brand of maritime data solutions, and we have a responsibility to help the shipping industry remain compliant with evolving global data standards. It was a simpler world when a paper chart was the sole representation of hydrography. We now have a wealth of data at our fingertips, and the responsibility and the challenges associated with managing that data – and representing it with accurate insights – are ever increasing.



We now have a wealth of data at our fingertips, and the responsibility and the challenges associated with managing that data.

Good governance, of course, also applies to the board. I am pleased to report that we have a strong team of directors supporting Peter Sparkes, our Chief Executive, and his staff. My own appointment as Non-Executive Chair was confirmed in May, following nearly a year as interim chair, and six years as a non-executive director at the UKHO before that.

This year we welcomed two new nonexecutives to the board:

Tash (Natasha) Toothill, who until recently was Director of Enterprise Transformation at Lloyds Banking Group, having previously held senior transformation executive roles at Amazon and Visa, now chairs the Remuneration and Nomination Committee.

Paul Boyle, who will take over as Chair of the ARAC replacing Alison Henwood when she steps down in July. Paul is a qualified chartered accountant and has held several senior roles in finance, including with the Financial Services Authority and the Financial Reporting Council.

Paul's auditing expertise will be invaluable to the ARAC, having previously been Chief Internal Auditor for Aviva and President of the Chartered Institute of Internal Auditors.

The UKHO is truly unique, as our recruitment team loves to highlight. There are very few truly commercial organisations within government. Fewer still, I would say, that deliver a healthy and consistent dividend, are global market leaders in their field and manage to balance a 228-year heritage with cutting-edge data science capabilities and innovative working practices.

I have seen the UKHO grow in confidence and ambition. Our assets and capabilities are needed to meet our global challenges and we will continue to put them to work in service of our unique and compelling purpose.



#### **Marion Leslie**

Non-Executive Chair (from 1 May 2022), Interim Non-Executive Chair (from 8 July 2021 to 30 April 2022)

#### **Chief Executive's foreword**

# Laying the foundations for an exciting future

The UK Hydrographic Office and our assured ADMIRALTY products and services have weathered the economic and geopolitical turbulence of the financial year (FY) 2022/23 well. Buoyed by the continued growth in digital Electronic Navigational Chart (ENC) sales and the associated, favourable \$/£ exchange rate, revenue is up by 5% (£189.1m) and our annual profit is £22.0m, 32% greater than forecast. All Key Performance Measures (KPMs) have been achieved and, in most cases, surpassed. The UKHO has delivered fully against the defence programme and has rendered significant financial and non-financial benefits to His Majesty's Government (HMG).

Our principal customer remains defence and specifically the Royal Navy. Throughout the year, the UKHO's defence team has afforded high-quality support to global maritime operations, an enduring commitment that was recognised this year with the award of a five-year Service Delivery Annex (SDA), by UK Strategic Command (STRATCOM). Relatedly, the UKHO received ministerial approval for the selffunded construction of a new defence facility on site in Taunton, to replace the legacy VIDAL facility. This project is now on target and we hope the facility will be operational during 2025/26.

The UKHO is a global entity and, with the proactive support of our distribution partners, has actively implemented HMG's policy on Ukraine. Following Russia's illegal invasion, ADMIRALTY services were rapidly withdrawn from sanctioned entities and Russian flagged vessels, in some cases preventing them from sailing.

The UKHO Board acknowledge readily that this has come at a considerable cost to our commercial partners, for which we are extremely grateful.

More directly, the UKHO has pledged £1.6m of hydrographic equipment and training to the State Hydrographic Office of Ukraine (£1.3m spent in 2022/23). This support will enable it to continue to fulfil its Safety of Life at Sea (SOLAS) obligations in the Black Sea and facilitate grain exports during this most challenging time. We will continue to support our colleagues in Ukraine for as long as it takes.

The inexorable shift away from paper charting by mariners and towards digital navigation continues, with fewer than I million Standard Nautical Charts (SNCs) sold in 2022/23. Moreover, 94% of those SNCs were printed by ADMIRALTY distributors using the Print on Demand (POD) service. Overall, SNCs accounted for less than 10% of annual revenue, but disproportionately high operating costs.

Responding to this, the UKHO closed its print-to-order facility at Bridgwater, marking the end of 84 years of ADMIRALTY paper chart production in Somerset and, after consultation with the Maritime and Coastguard Agency, announced the intention to withdraw from SNC physical production by the end of 2026. Subsequent to this announcement, a number of our international hydrographic office partners and their national regulators, and some discrete user groups, have advised us that their mariners will remain reliant on the ADMIRALTY SNC service for the foreseeable future and would not be able to make the digital transition by 2026. Honouring a commitment to the International Hydrographic Organization that 'we would leave no one behind', we are currently working with international stakeholders to determine a conditions based approach that better suits their needs and addresses the complex transnational regulatory landscape.

In the interim, the UKHO has committed to providing a paper chart service whilst we pursue viable and official digital alternatives.

The UKHO's development of S-100 navigational services continues apace. Coherent with the development of the ADMIRALTY Digital Delivery Service (ADDS), it is part of our wider Future of Navigation programme. S-100 standards continue to mature, but encouragingly the International Maritime Organization has, this year, approved the use of S-I00-compliant Electronic Chart Display Information Systems (ECDIS) from January 2026, with all new-build ships being mandated to fit S-100 ECDIS capabilities from January 2029. This ambitious target is likely to accelerate adoption within the shipping sector. The UKHO seeks to position itself as a market leader of this new, exciting and demonstrably safer generation of navigational services.

The initial ADDS capability affords 80% of the anticipated functionality and has been implemented successfully by many of our integrator distributors. Impressively, ADDS has reduced the time taken to ingest, assure and distribute partner nations' ENCs from a target of 12 days to a mean of just four minutes - clearly demonstrating the power of automation and artificial intelligence. When combined with related work to rapidly improve the process of ingesting bathymetric survey and generating ENCs for subsequent distribution – 'Ping to ECDIS' - it signposts a step change in the timeliness of safety updates to mariners.

Notwithstanding the UKHO's strong performance in the year, our ambitious Digital Transformation programme is taking longer to enact than planned.



The UKHO seeks to position itself a market leader of this new, exciting and demonstrably safer generation of navigational services.

Essential remedial work to stabilise and ensure the continued availability and security of our technical estate has necessarily taken priority in an increasingly febrile and interconnected maritime sector. The omnipresent cyber risk, from organised crime and hostile states, has affected several partners this year, and has therefore been a key focus for the organisation. This likelihood of a catastrophic attack on the shipping sector will, we judge, increase in the short to medium term.

Our greatest strengths and assets remain our dedicated, highly professional people and our trusted ADMIRALTY brand. In the short term, we have increased staff numbers to generate change capacity and to facilitate the development of the second generation of ENCs, enhance our Digital Sailing Directions offering, and complete the roll out of ADDS, whilst re-engineering our systems and processes. Whilst recruitment has proved challenging in an increasingly competitive labour market, especially when seeking to attract digital skills, a concerted effort by our People team, working in concert with employing managers, has generated over 200 recruitment campaigns in FY 2022/23. We have also improved our retention rate, despite the challenge of public sector pay restraint, with a reduction in the number of staff exiting the business for private sector roles.

In sum, the UKHO has enjoyed another successful year and is laying the foundations for an exciting digital-only future, but capacity and resource challenges will limit the rate of change that we ambitiously seek to enact.



Peter Sparkes
Chief Executive





Our greatest strengths remain our dedicated people and our trusted ADMIRALTY brand.

Peter Sparkes Chief Executive

#### Strategic review

# Fundamental to UK national security

The Royal Navy and all UK defence vessels rely on our products and services for safe navigation to protect our home waters, international trade routes, and the world's oceans.

Our specialist teams work closely with UK maritime forces to provide the best possible view of the marine environment to support tactical operations and planning – from subsea navigation to littoral manoeuvre; this includes bespoke solutions that deliver hydrographic information, ocean environment data and remote sensing to aid environmental intelligence and tactical advantage.

As the UK Government's hydrographic expert, we are responsible for discharging the UK's obligation to provide Safety of Life at Sea (SOLAS). We work across government and with other public bodies to deliver our specialist expertise and advise on policy matters, inform policymaking and unlock greater value from UK geospatial data for transport, trade, international aid, and environmental initiatives.

## WebGIS service developed to support maritime operational planning

In early 2022, the UKHO defence team received a request from defence planners to deliver a web-based service, initially in support of two key defence operations.

Compatible with NATO systems, WebGIS allows users to access a wealth of bespoke marine geospatial data through one browser or geoportal location.

This would greatly enhance maritime situational awareness and operation planning. UKHO web developers used a commercial 'off the shelf' Geographic Information System (GIS) by world-leading GIS software provider ESRI. Working closely with the Royal Navy (RN) and ESRI, they developed and implemented WebGIS, a bespoke UKHO-hosted web browser.

Compatible with NATO systems, WebGIS allows users to access a wealth of bespoke marine geospatial data through one browser or geoportal location. This can be exploited across all UK and global allies' defence operations and extends beyond core navigational services to enable global richer continent information. The web browser displays Electronic Navigational Charts (ENCs) alongside additional geospatial data layers on features of the shoreline, the ocean depth and topography, tides, currents, surface temperature and salinity of the water. When accessed together, in near real-time, within one service, greatly enhanced operational advantage and situational awareness are realised for the safety and security of UK and global defence manoeuvres worldwide.

Prior to COVID-19, most operational planning was undertaken in syndicates using flip charts and paper charts annotated with effects, verbs and ellipses. This section of data was captured prior to deployment, and therefore rapidly fell out of date.

Depending on connectivity, the same data information accessed via WebGIS on land can now be accessed offshore at the same time using the same browser by all staff, including those working remotely. This near real-time marine geospatial data enables safer and more secure defence maritime navigation, allowing all defence vessels to 'plan off the same chart'.

WebGIS was initially used for operational planning by the maritime platforms on task for Atlantic Patrol Task (North). The task force identified key locations that could be used to bring aid ashore from the sea. National Hurricane Centre data was overlaid with additional hydrographic and port data sets via the WebGIS in near real-time to provide situational awareness of hurricane events and the potential to activate Op CARIBBEAN. The planning outputs from this operation continue to be maintained and updated through the system to ensure the UK is ready to respond in the event of hurricane activity in this region.



Find out more about our defence responsibility: https://www.admiralty.co.uk/defence



# Supporting safe navigation

For over 225 years, we have been delivering accurate and up-to-date navigational data to support decision making for safe, compliant and efficient navigation. But as the maritime industry evolves, we know that the needs of seafarers are evolving too.

We are continuing to work directly with customers, partners and the wider maritime community to serve those needs – now and into the future. With more innovative solutions, faster updates and more granular data than ever before, we are ensuring ADMIRALTY Maritime Data Solutions are fit to support navigation today and for generations to come.

# Developing our digital offering

Enhanced connectivity and digital innovation are steering shipping towards a digital future.

With today's mariners increasingly realising the benefits of ECDIS and digital navigation, over recent years we have seen a decline in demand for paper charts. Therefore, in 2022 we announced our intent to withdraw paper chart production within the next decade to allow us to focus on developing our digital services to meet the needs of today's seafarers.

Following this announcement, we have continued to consult widely with those involved in the regulation, production, delivery and use of paper charts. While many mariners are already operating in an increasingly digital environment, we committed to supporting those for whom this is not yet feasible, and will continue to engage with our customers and partners throughout this transitional process.

Meanwhile, we have been investing to improve the information we provide to mariners, and the way in which we deliver it.

To enable more precise and efficient navigation, we've enriched our ADMIRALTY Vector Chart Service (AVCS) with high-density Electronic Navigational Charts (HD ENCs), contoured at one-metre intervals. Equipped with HD ENCs, users have the ability to choose the most appropriate safety contour (relative to the draught of their vessel) to clearly visualise safely navigable areas, particularly in areas of shallow waters.

In response to user feedback, this year we released II additional HD ENCs for ports around the UK and in Overseas Territories, with more being prepared for future release.

We've also been investing in the way we deliver safety-critical updates to mariners. Since launching the beta version of the ADMIRALTY Digital Delivery Service (ADDS) in 2021, we have been working closely with distributors to help build and test the service. With around 120 updates being shared each day across our global data set, ADDS will enable distributors to collect the data from our cloud-based file store and securely deliver it to their customers at sea – reducing the process from a matter of days to as little as four minutes.

Looking ahead, we are continuing to invest in our ADMIRALTY portfolio with exciting new developments on the horizon including a new generation of Digital Sailing Directions and dramatically reducing the amount of time data takes from 'Ping to ECDIS'. By developing solutions in line with the evolving needs of our customers, we want to ensure all users feel supported as we move towards the next generation of navigation together.





# Laying the foundations for S-100

The International Hydrographic Organization's new data standard, S-100, will transform the way users operate in the maritime environment – and the UKHO is excited to be playing a leading role in making these new standards a reality.



The navigational solutions of tomorrow will equip users with even more powerful insight into the marine environment.

The S-100 product specification will bring together a wide range of data sets into a single, coherent framework - from high-density bathymetry that gives a contour-rich picture of the seabed to tidal data for dynamic safety contour adjustment.

Underpinned by the S-100 data standard, the navigational solutions of tomorrow will equip users with even more powerful insight into the marine environment. Enabled by greater connectivity and more dynamic data delivery, these new solutions will help unlock industry-defining benefits – from greater efficiencies to more sustainable operations.

At the sixth International Hydrographic Organization Council Meeting held in October, we presented a white paper setting out the key drivers influencing the shipping industry: decarbonisation and digitalisation.

Focusing on resilience, sustainability, data solutions and collaboration, the white paper outlined what is required for the hydrographic community to meet the evolving needs of the mariner and help shape the next generation of navigational solutions.

As we move closer towards the implementation of S-100 standards, the International Maritime Organization (IMO) has announced new performance standards for ECDIS – meaning S-101 ENCs will be carriage compliant from January 2026.

In anticipation of the next technical generation of ENCs, our teams have been working on a data improvement project to rescheme existing ENCs with the aim of ensuring a more seamless transition to the new standard.

While current ENCs have inconsistent limits that reflect their paper chart origins, the new scheme will use a standardised gridded format in readiness for future S-100 data offerings. By revisiting the features and data capture of existing S-57 data, we are enabling more accurate production of S-101 and minimising the edits required once converted. This process has involved close engagement with other national hydrographic offices, as well as testing in partnership with port authorities.

This project has also presented the opportunity to enrich existing S-57 data; in line with user need, we have added features such as topographical contours and additional bathymetric contours for improved coverage. These data improvements will ensure our customers are well-positioned to benefit from next-generation solutions in line with evolving carriage compliance regulations.

With undeniably transformative benefits to be gained from S-I00 – from enhanced passage planning to voyage optimisation – the UKHO is proud to be at the forefront of this transition.

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Read more about HD ENCs: https://www.admiralty.co.uk/news/new-hdencs-available-admiralty-vector-chart-service **→** F

Find out more about our data improvement project: https://www.admiralty.co.uk/news/rescheming-and-improving-electronic-navigational-chart-data

verview

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# New maritime opportunities

Digitalisation and enhanced communications are changing the face of the maritime landscape.

From advancements in autonomous vessels to increasingly connected ports, we are seeing exciting opportunities for the industry to operate in ways that are more harmonised, optimised and fully digitalised.

As we explore these exciting possibilities of the future, we understand the role data will play in underpinning innovation. The sharing of dynamic, interoperable and timely data will be crucial to realising the full potential of these new opportunities. By making the most of our data provision capabilities and our valued partnerships, we want to help make the maritime technologies of tomorrow a reality.



# Collaborating with ports and harbours

For years, the UKHO has relied on port and harbour authorities to ensure the safety of the UK's international seaborne trade.

These long and established relationships are built upon long-term Port Agreements to enable us to effectively share bathymetric data and navigational information.

Following a pause to UK-wide visits caused by the pandemic, this year we focused on engaging with ports and harbours across the UK and Ireland to see first-hand how they operate, to gain a better understanding of their needs, and to discuss the challenges they may face in the future.

During this time, we visited over 25 different ports – from Cattewater to Cromarty Firth – where we discussed the unique opportunities and needs of ports large and small. We were also pleased to be able to engage with these partners again at the British Ports Association Conference in October 2022, and the UK Harbour Masters' Association's Conference in March 2023.

These visits were hugely insightful and provided valuable feedback from a range of users. For example, in response to comments, we are developing a brandnew Data Upload Portal to overcome difficulties and time involved in sharing survey data with the UKHO. The new portal not only enables the quick and easy sharing of bathymetric and tidal data, but also improves its traceability and governance.

As well as enabling us to understand and address the needs of these users, our engagement with ports and harbours also led to new strategic partnerships. This year saw the signing of two new Memorandums of Understanding (MoUs) with the Port of London Authority and Peel Ports Group, respectively. These MoUs will enable us to collaborate more closely and explore how we can undertake the steps needed to prepare for emerging technologies.

This engagement has proved to be invaluable and timely; with advancements in cloud-based connectivity, coupled with an industry-wide push for more sustainable operations, the ports and harbour sector faces new challenges and opportunities alike. We hope to continue this collaboration and the effective sharing of data in readiness for improved port call optimisation and the introduction of alternative fuels as we move towards a digital future together.

Our engagement with ports and harbours has led to new strategic partnerships.



Find out how we work with ports and harbours: https://www.admiralty.co.uk/share-data/ports-and-harbours

# **Transforming** the way we work

To build our organisation for the future, we want to empower our teams to achieve their potential and deliver the very best service for our customers, every day.

To enable this, we are fostering a culture in which we put our customers first; where we have the tools and technology we need to deliver; and where we can work in line with our values of Together, Responsibility, Excellence and Discovery. By improving our capabilities and ways of working, together we can work as one team to achieve our vision and goals.

#### A culture of customer-centricity

Whether we are fulfilling our Public Task or delivering safety-critical information to commercial vessels, our customers are at the heart of everything we do.

We are striving to build a better understanding of our customer groups and learn from each other.

The past year has seen our organisation working to embed a culture of 'customer-centricity' to ensure we are putting our customers at the forefront of every decision we make. By asking the same questions – in every team, across every division – we are finding new ways to meet the needs of our diverse

To support these ambitions, we have begun a new three-year strategic partnership with the Institute of Customer Service (ICS), giving us the tools to help improve the customer experience and services we provide. This will include benchmarking our current levels of customer-centricity and developing an organisation-wide improvement plan.

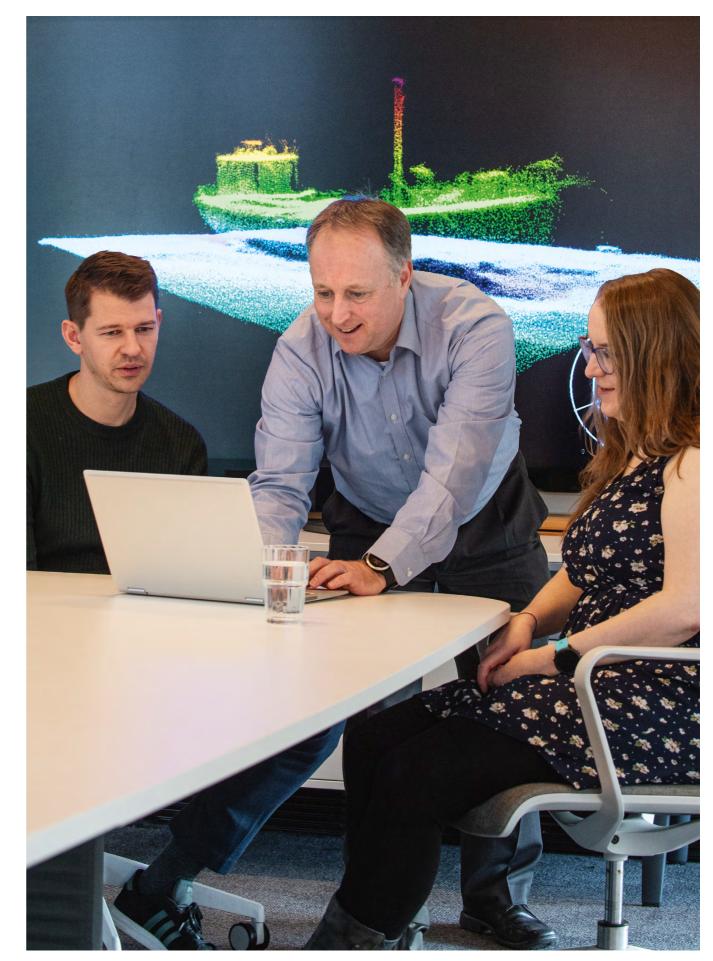
Across the organisation, we have encouraged our people to share their own insight on the customers and users they serve. Through the sharing of videos, spotlight talks and internal events, we are striving to build a better understanding of our customer groups and learn from each other.

We have also been meeting with key customers and stakeholders across defence, commercial shipping and the public sector to strengthen relationships and better understand what they need from us now and in the future. The outcomes of these meetings are directly influencing decisions about how we work and how we will add value for our customers through our products and services.

To engage better with our channel, in September we hosted not only another successful Distributor Conference in Dubai, but also our very first Technical Partner Conference. Attended by 24 delegates from 18 organisations, the event was a valuable opportunity to meet with Original Equipment Manufacturers (OEMs), discuss their challenges and concerns face-to-face, and build mutually beneficial relationships.

Elsewhere, we have been engaging widely with the defence navigation community. In October, we joined personnel from the Royal Navy, Royal Fleet Auxiliary and the Defence Equipment and Support Agency for a conference at HMS Collingwood. Here, we met with navigators, trainers, and policymakers to discuss the future of navigation and gather customer feedback on future developments such as next generation Digital Sailing Directions and S-100 data products.

These are just two examples of how we have been putting customer feedback and requirements at the heart of our decisions. By continuing our journey with the Institute of Customer Service and grasping opportunities to engage with our partners, customers and end-users, we hope to continue to instil a culture of customer-centricity across the whole organisation.



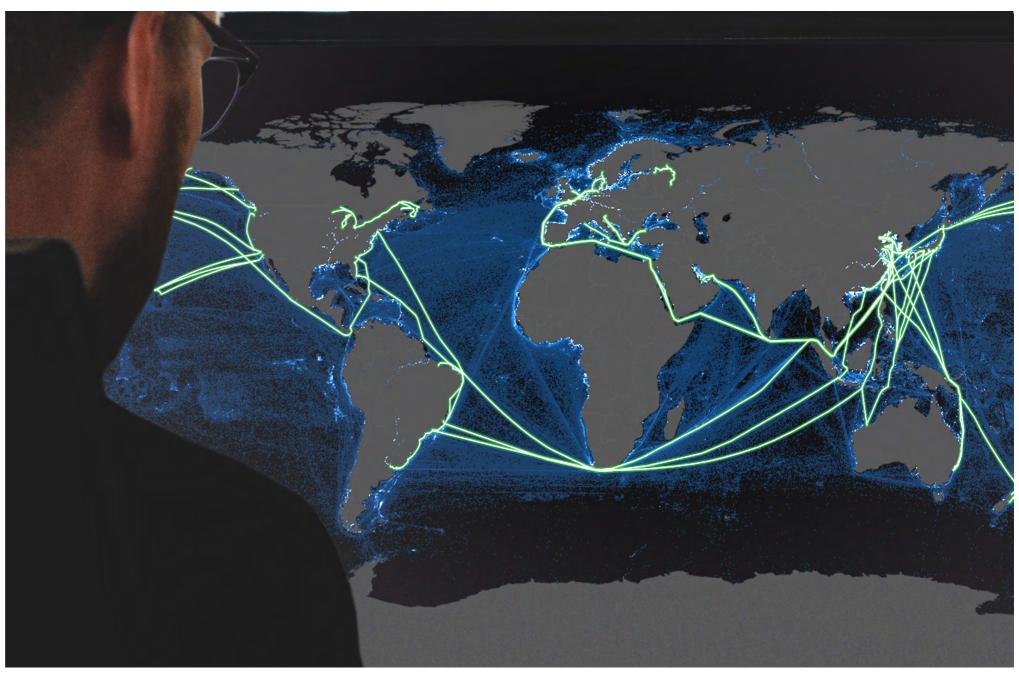
# Supporting maritime decarbonisation

Driven by the urgency of climate change and the growing need for sustainable transport, the maritime industry is rapidly innovating to develop new solutions to reduce its reliance on fossil fuels and its carbon footprint.

As the industry looks at new solutions to help solve these challenges, high-quality marine geospatial data – particularly navigational data – is taking on a new and important role.

From supporting the concept of green shipping corridors, to advancing the development of 'just-in-time' arrivals, the UKHO is helping to unlock the power of marine geospatial data to support maritime decarbonisation.

Recognising that as a government agency and leader in maritime navigation, it is important for us to support our customers' needs to reduce their impact through a reduction of our own. Therefore, in 2022, building on our commitment to be carbon neutral by 2030, we announced our commitment to become Net Zero by 2050. To help us achieve these objectives, we have appointed a Head of Sustainability to help navigate our sustainability roadmap and meet our commitments.



# Exploring the Blue Visby concept

To support sustainability in shipping, the UKHO is collaborating with partners on a ground-breaking multilateral project: the Blue Visby Solution.

With the International Maritime Organization (IMO) seeking to cut annual greenhouse gas emissions from international shipping by at least half by 2050, industry-wide efforts to support decarbonisation are accelerating. One of the biggest sources of operational inefficiency within the shipping industry is that of 'sail fast, then wait' (SFTW), where vessels steam to their destination only to spend days at anchor due to terminal readiness and berth availability.

The Blue Visby Solution (BVS) seeks to address the issue of SFTW by introducing a queuing system for ships bound to the same destination port by synchronising

and optimising the ocean passages of a group of vessels, allocating optimised arrival times, and ensuring an arrival frequency at which the port can handle.

Eradicating SFTW will allow ships to lower their speed, thereby aiming to reduce the carbon footprint of the maritime industry by about 15%, based on figures for 2019.

Our teams have contributed to BVS by helping to develop a proof-of-concept of the Blue Visby 'Blue Line' – a feature determining the start and end points of a BVS optimisation.

By offering our expertise and data, we have been exploring the idea of a continuous line, or arc, which vessels would pass over, rather than aim for. This would enable a vessel to approach a port from any direction, rather than specifically having to plan a route through a specified 'Blue Line', reducing risk to crew and vessels.

The results are exciting; using our ports database, coastline data and information we hold on anchorages, we were able to create a 14 nautical mile 'arc' that vessels will pass over at the end of a voyage, minimising navigational impact and maximising optimisation potential.

From this proof-of-concept, we will work with Blue Visby to take the next step and establish how these arcs can be drawn and displayed on navigational products and back-of-bridge software applications – and ultimately take the concept to sea trial.

By continuing to collaborate with the Blue Visby consortium, and other similar initiatives and organisations across the sector, we hope to be able to reduce greenhouse gas emissions and help achieve our shared decarbonisation goals at sea.



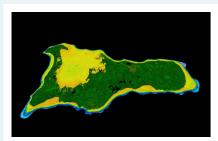
Industry-wide efforts to support decarbonisation are accelerating.



Read more about how we're supporting a greener shipping industry: https://www.admiralty.co.uk/decarbonisation

# Navigating a greener future

We are championing a number of projects across the globe to enable sustainable economic growth, inform environmental initiatives and support the livelihoods of communities.



#### Conducting our first near-carbonneutral surveys

This year we completed our first ever near-carbon-neutral seabed mapping survey in the Cayman Islands. Using airborne lidar data gathering techniques, we captured data on the depth and nature of the seabed while minimising the carbon footprint involved in conducting the survey and offsetting the CO<sub>2</sub> produced. This data will enable the Cayman Islands' government to support safe navigation, inform the management of their marine resources and better understand the impact of climate change.

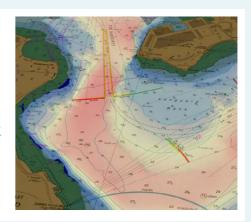


#### **Supporting sustainable** economic growth

number of coastal nations around the globe, we undertake seabed mapping surveys to enable safe navigation and help communities manage their marine resources and environments to support sustainable economic growth. In Belize, we used satellite methodology to efficiently capture data of large areas with no negative impact on ecosystems and marine life. This data has been shared with the Belizean government to support them in a range of environmental and scientific applications.

#### Promoting the importance of seabed mapping data

On behalf of the UK Government, we established the UK Centre for Seabed Mapping (UK CSM) as a UK Government voluntary commitment to the United Nations' Sustainable Development Goals 9 ('industry, innovation and infrastructure') and 14 ('life below water'). As a centre of excellence, the UK CSM coordinates cross-government and industry collaboration to increase the quantity, quality and availability of seabed mapping data anywhere in the world, to inform governments and to support security, prosperity and environmental objectives.



# Delivering training and

#### capacity building We work closely with governments

and hydrographic offices to deliver essential training and capacity building for small nations in the Caribbean, Pacific and South Atlantic regions. Funded under the UK Conflict, Security and Stability Fund and as part of the Overseas Territories Seabed Mapping Programme, we recently supported authorities in Montserrat by helping them improve their compliance with international maritime obligations and by providing equipment and expertise to undertake seabed mapping surveys. This will help support safe navigation, improved trade and sustainable economic growth.



#### Enhancing the collection and sharing of data

We have been engaging with the African Great Lakes and Rivers Working Group to discuss the specific challenges faced in the region related to inland waterways. This year, we met with regional government bodies from Kenya, Malawi, Mozambique, South Africa, Uganda and Zambia to discuss how we can promote better data sharing and collaboration. After these invaluable discussions, the Working Group will now broaden efforts across the region to support better social, economic and environmental outcomes.

#### Sustainability report

We have committed to being carbon neutral by 2030 and we have **Emissions** set a science-aligned Net Zero target of 2050. We are continually improving the data we use to measure and monitor our carbon footprint, ensuring that we make data-driven decisions to drive progress against these targets.

With business returning to pre-pandemic levels, as expected, we have seen an overall increase in our carbon footprint this year. With a greater number of staff in the office compared to previous years, we also saw increases in food waste processing and water consumption. Despite seeing some increases across the footprint, we have continued to progress against our target. Whilst many of our staff have returned to the office this year, our head office building continues to deliver significant reductions in energy consumption. We have also continued to divert 100% of waste from landfill and have seen increases in the quantity of waste recycled.

We are also working to deliver against the Greening Government Commitments (GGC). The GGC comprises a set of actions that the UK Government departments and partner organisations will take to improve the environmental impact of the Government estate and its operations. Our progress against the GGC 2021-2025 framework is set out in our sustainability report.

In the tables below, 2017/18 has been used as the baseline year in line with wider cross-Government reporting. It is also worth noting that whilst 2021/22 figures are displayed, they are not representative of our business-as-usual operations, given the ongoing impact of COVID, and should therefore not be used for comparative purposes.

	2022/23 tCO <sub>2</sub> e	2021/22 tCO <sub>2</sub> e	2017/18 tCO <sub>2</sub> e
Scopes I & 2 (energy)			
Fugitive emissions	37	37	36
Electricity	422	509	1,354
Gas	125	190	644
Total for Scopes I & 2	584	736	2,034
Scope 3 (business travel)	1,040	110	1,011
Total for Scopes 1, 2 & 3b	1,623	846	3,045
	£k	£k	£k
Expenditure on official travel	977	92	-
Expenditure on energy	403	344	546
Total expenditure on energy and travel	1,380	436	546
	'000 km	'000 km	'000 km
Distance travelled by international flights	3,900	278	_

#### Commentary

Our footprint increased in 2022/23 when compared to the previous year, driven primarily by a significant increase in business travel. However, our emissions associated with business travel were in line with our 2017/18 baseline figures.

We have continued to make good progress in reducing our direct emissions from stationary combustion and electricity consumption, achieving a reduction of 23% from 2021/22 levels.

#### Waste

	2022/23 tonnes	,	2017/18 tonnes**
Incinerated	19	14	128
Landfill	0*	0*	54
Reused/recycled	7.8	7.2	
Food waste	2.6	0.7***	
Water (wastewater treatment)	0.93****		
	30	22	183

- \* 100% diverted from landfill
- \*\* Data used is from 2018/19 owing to lack of available data for 2017/18 due to change
- \*\*\* We began capturing food waste following the update to the Greening Government Commitments 2021-2025 framework.
- \*\*\*\* We have begun disclosing the emissions associated with wastewater treatment from 2023. Previous years have not been footprinted.

#### Commentary

Our waste levels have seen a slight increase from last year. This increase is attributed to a larger number of employees returning to our offices, which is particularly noticeable in the increase of food waste as we see our kitchen return to regular use.

Despite this, we have continued to divert 100% of our waste from landfill. Regular waste audits were undertaken by the Defence Infrastructure Organisation while recycling remains a priority for the MOD estate.

This year we have disclosed our emissions associated with wastewater treatment, in accordance with the GGC's commitment B.

#### Water

	2022/23 m <sup>3</sup>	2021/22 m <sup>3</sup>	2017/18 m <sup>3</sup>
Water consumption	3,351	2,388	18,339
	£k	£k	£k
Water supply costs	7	10	73

#### Commentary

This year we have observed a rise in our water consumption of 40% in comparison to 2021/22. This has been driven by a return to working from our offices by many of our colleagues.

Overall, we have seen a significant reduction in our water consumption from the 2017/18 baseline, over delivering on the GGC commitment B. We will continue to look for opportunities to reduce our consumption as part of our ongoing focus on our site strategy. It should be noted that a major construction was undertaken on-site during 2017/18.

#### **Energy**

	2022/23 MkWh	2021/22 MkWh	2017/18 MkWh
Energy consumption			
Electricity	1.99	2.18	4.70
Gas	0.69	1.04	3.00
Total energy consumption	2.68	3.22	7.70
	£k	£k	£k
Energy supply costs	403	344	546

#### Commentary

We have seen our energy consumption continue to fall as we continue to optimise the use and operation of our head office building. This year, we ceased product distribution from our Bridgwater facility, utilising third parties to produce, store and distribute our products. This has led to reduced energy consumption on our premises.

Whilst our energy consumption has been reduced, we have experienced an increase in our energy supply costs. This rise in supply costs is driven by the current energy crisis, which has affected energy costs nationwide.

#### Sustainable procurement

This year, as part of our Net Zero ambition, we have built on our commitment to reduce the impact of our supply chain by undertaking a review of our supply chain and procurement practices. Our next step will be to explore how we can support our suppliers to adopt sustainable practices that align with our sustainability goals. We have the ambition to establish an approach to monitor our progress in sustainable procurement.

Utilising our relationship with suppliers we are also exploring our options for the integration of more sustainable and efficient products and services.

#### Information and Communications Technology (ICT) and digital solutions

As we continue to digitalise our product base, it is important that we ensure our ICT systems are managed responsibly.

We will be using the Greening Government: ICT and Digital Services Strategy to develop our own strategic approach to the sustainable management of our ICT and digital services. Our strategy will align with the MOD's core principles; reduce our environmental footprint; use digital to adapt and evolve; and deliver responsible and assured procurement.

This will allow us to develop and monitor specific decarbonisation efforts in this area.

#### Adapting to climate change

Our adaptation to climate change has manifested in changes to both how we operate our facilities and the products that we produce.

Creating more efficient buildings both reduces our impact on the environment and secures the future of these facilities against changing conditions. In development of our future site strategy, and in line with the GGC, we plan to conduct a climate change risk assessment across our estates and operations to best identify target areas for resilience planning.

#### Nature recovery

The UKHO recognises that degradation of land can have farreaching, negative outcomes for the environment and human systems. We also understand that enhancing soil quality is important not only for encouraging thriving plants, trees and biodiverse habitats, but also for its role in removing carbon from the atmosphere.

Our goal is to adopt smarter decision-making processes that ensure UKHO landscapes are ecologically sound, socially just and economically viable. We can achieve this by harnessing our resources to create a sustainable and self-sufficient ecosystem that supports both the environment and our community. Adopting this approach will enable us to reduce our maintenance costs and nurture habitats that encourage plants, bees and butterflies to thrive.

This year we have continued our consultation with stakeholders and our client base to provide a safe transition from paper products to digital. On a case-by-case basis, we will continue to withdraw elements of our chart portfolio. In reducing the production of paper ADMIRALTY Standard Nautical Charts (SNCs) and Thematic Charts we are lessening our demand on natural resources.

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#### **Performance review**

#### Financial review

Revenues in 2022/23 have increased by £25.Im (+15.3%) to £189.Im. While the transition towards digital navigation and away from paper, which started in 2011/12, continues, the pace of paper product decline has slowed. Overall paper products were level with last year although Standard Nautical Charts declined by 11%. Digital product revenues grew by £23m, but because digital charts are sold in US dollars, £7.5m of this was due to a more favourable exchange rate. Removing the impact of this reduces the real growth to £17.6m (+10.8%), which remains a healthy increase in our core digital navigation charting business. Gross profit rose by £13.5m (+14.9%) to £104.3m. With digital products which bring lower gross margin now dominating our mix, we will need to continue to grow revenues to maintain this level of gross profit.

Operating expenses increased by £18.8m, driven largely by staff costs, +£9.5m. We are having to rely increasingly on contractors to fill scarce roles for technical skills and those contractor rates have increased by 35% compared with 2021/22 and are continuing to grow. Investments in our digital transformation increased costs by a further £3.8m. We saw an increase in travel costs, +£1.0m, as post-COVID travel returns to more normal levels, and relationships, that had to be maintained remotely during the pandemic, are renewed. Software costs continue to grow, +£1.1m, as we become a more digital business and we have also refreshed some of our IT hardware, +£0.4m.

Operating profits declined by £5.3m to £20.2m (-21.1%) in 2022/23, from £25.3m (-16.3% in 2021/22), reflecting the challenge in recruiting technical staff and the investment we are making in our Future of Navigation and Digital Transformation programmes to secure our future.

The previously reported success in our Print on Demand (PoD) service, combined with the ongoing fall in sales of paper products, led to the closure of our last remaining print and fulfilment facility in Bridgwater. The remaining print and fulfilment of paper publications and discs is handled by third parties. This was the end of a long era for the UKHO and marks a turning point in our move towards a fully digital business.

Net profits remain well in excess of our Return on Capital Employed target of 9%. We have declared an ordinary dividend of £12.5m (2021/22:£12.5m) to our sole shareholder, the MOD. In 2021/22 we also paid a special dividend of a further £12.5m. This reflects a decision by our Board and Owner (MOD) to invest cash generated from operating activities back into the business to secure our future.

We generated £36.7m (2021/22: £30.2m) of cash from operating activities which supported investing activity spend of £3.7m and the dividend payments of £12.5m, leaving a net increase in cash at year end of £20.6m.



#### Delivery against the Corporate Plan

Our corporate planning process is designed to maximise opportunities and mitigate risks and uncertainties identified. Our current Corporate Plan covers the five years from 2021/22 to 2025/26. We set Key Performance Measures (KPMs) that are agreed with our owner MOD. Together these represent achievement of our overall Corporate Plan. In 2022/23, our performance against these measures was:

	Key Performance Measure	Achievement
I. Defence	Achieve each of five elements of a composite index measuring the quality and timeliness of deliveries of the defence programme.	Achieved
2. Safety	External audit to show that our safety management systems are operating satisfactorily or better.	Achieved
3. Financial return	Achieve an average 9% Return on Capital Employed over the last three years.	Exceeded
4. Profitability	Target net profit £17m. Achieved £22.0m (2021/22: £25.4m).	Exceeded
5. Strategic plan	To achieve at least six of nine strategic programme deliverables. We achieved eight.	Exceeded

#### Principal risks and uncertainties

Risk	Category	Impact	Mitigation of risk
There is a risk that digital disruption, M&A activity, and/or changes in their strategy, or our own actions, enable offensive plays by others seeking to disintermediate the UKHO, resulting in potential loss of our market-leading position.	External drivers	Financial	Strategic business intelligence function. Disintermediation wargaming. Developing adjacent markets, e.g. Tidal. Future of Navigation programme. Channel strategy. Technology stabilisation programme.
There is a risk that we are unable to recover quickly enough from a significant critical business event (e.g. cyber-attack, 'black swan' event) due to a lack of business continuity measures resulting in a risk to the existence of our business, financial loss and/or significant reputational damage.	External drivers	Reputational	Crisis leadership cyber exercises. Contract third party to provide back-up permit service. Stabilisation activity, e.g. expandable, cloudbased capability.
There is a risk the transformation portfolio will not deliver the tangible benefits required, due to primarily focusing on reducing technical risk, protecting current revenue streams and failure to deliver at the speed required, resulting in an inability to deliver the required profitability.	Internal transformation	Financial	Dynamically prioritised transformation portfolio.  Deliver target enterprise architecture.  Deliver operating model – customer-centric, digital first, organisationally optimised (affordable) UKHO.
There is a risk we fail to deliver customer- centricity due to not giving customers what they want/need, resulting in potential disintermediation and/or consequent loss of market position.	Internal transformation	Financial	Stabilise priority applications. Future of Navigation programme. Channel strategy.
There is a risk our data supply model undermines our strategy due to contractual arrangements with data suppliers restricting how we use data in our production processes, leading to an inability to adapt/improve our service, resulting in loss of business.	External drivers	Capability & Financial	Transition our UKHO / Foreign Hydrographic Office relationships to support our Future of Navigation programme ambitions.  Define 'good quality data' in the right format to enable automated processing.  Broaden data sources (e.g. crowdsourcing) and analysis (e.g. open-source machine learning).
There is a risk we are not able to recruit and retain people with the skills required, due to a buoyant employment market, government bureaucracy, a slow recruitment approval process and pay constraints, resulting in an inability to deliver corporate objectives.	External drivers	Capability	Improve candidate attraction material. Strategic Workforce Plans. Create a pay case to MOD/HM Treasury.
There is a risk we are unable to transform due to culture, leadership skills and behavioural gaps (commercial, agile and entrepreneurial mindset), resulting in financial and market position loss.	Internal transformation	Capability & Financial	Strategic Workforce Plans. Leadership/line management Development. Empowerment. Psychological safety programmes.
There is a risk UKHO causes or contributes to a maritime accident due to a safety error or delay in our products or services resulting in a loss of life, environmental impact or damage to a property or services	Get the basics right	Financial & Reputational	Improve safety culture. Effective risk-based safety targets and monitoring. Enable PCA surveying in high risk countries.

review governance report starrreport and audit report	Overview	Performance review	Corporate governance report	Remuneration and staff report	Parliamentary accountability Financial statements and audit report
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Risk	Category	Impact	Mitigation of risk
There is a risk we fail to prevent cyber-attack/data breach by an internal/external threat actor either maliciously or accidentally, due to vulnerabilities and a lack of stability in our systems, resulting in reputational damage and/or financial loss/fines.	/external threat basics right Reputational & activities (including responding to the continue to invest the contin		Stabilisation of priority applications to reduce
There is a risk we fail to deliver Defence and/ or SOLAS services, due to a lack of investment in our assets, resulting in an adverse impact on our reputation which may have financial implications.	Get the basics right	Capability, Reputational & Financial	Complete lessons learned activities and apply to EMERIC. Site strategy. Technology stabilisation and service managegment.
There is a risk we fail to deliver Defence and/ or SOLAS services, due to lack of timely maintenance/investment in our technology, resulting in loss of market share.	Get the basics right	Capability	Resourced Stabilisation Plan to lay foundations for future transformation and to underpin our tech estate.  Tech stabilisation of critical services (e.g. AVCS). Migrate services to the cloud and simplify the tech estate.

#### Supplier payment performance

Where invoices are undisputed, the Government aims to observe the Prompt Payment Code and pay 80% of suppliers within five days. We achieved 86.6% (2021/22: 86.3%).

#### Going concern basis

We have prepared a five-year Corporate Plan covering the years from 2021/22 to 2025/26 on a prudent basis. As part of our preparation of our Business Plan for 2023/24 we prepared a high-level forecast to 2032/33. While we continue to see a decline in our paper products, these have been offset by a corresponding growth in digital. We are forecasting a decline in our levels of operating profitability over the coming few years as we further increase our investment in the Future of Navigation and Digital Transformation programmes to achieve greater resilience and deliver business efficiencies. Ultimately, this will ensure a return to greater levels of profitability.

The strategic direction outlined in our Corporate Plan and further developed in more recent strategic reviews sees the business remaining profitable for the foreseeable future and the Board and MOD, our Owner, are confident that the UKHO will remain a viable business.

#### **UKHO Directors' report**

#### **Executive Directors**



Rear Admiral (retired) **Peter Sparkes** Chief Executive



Rear Admiral Rhett Hatcher Director of Data Acquisition, UK National Hydrographer and Deputy Chief Executive



**Cathrine Armour** Chief Customer Officer (up to 30 June 2022)



Lisa Denson Interim Chief Customer Officer (from I July 2022)



**David Tomaney** Chief Data Officer



**Amy Carrillo** Chief People Officer



Terry Makewell Chief Technology Officer



**Stephen Potts** Director of Finance and Corporate Services



**Lucy Shirodkar** Director of Transformation (up to 13 October)



Mark Sautereau Director of Transformation (from 23 October)

#### 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. Board member's register of interests is available at https://www.gov.uk/government/ publications/uk-hydrographic-office-board-members-registerof-interests.

The interests of the Executive Committee and other senior managers are maintained in a register available for inspection at our Taunton office.

#### **Pensions**

Our staff pensions are provided through the Civil Service pension provider, MyCSP. Details are covered in the Remuneration and Staff Report and Accounting Policy Note I of the financial statements

Our financial statements 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 £117k, (2021/22:£103k).

The Comptroller and Auditor General provided no other services to the UKHO in 2022/23.

#### Non-Executive Directors



Marion Leslie Non-Executive Chair (from I May 2022), Interim Non-Executive Chair (from 8 July 2021 to 30 April 2022)



Alison Henwood Non-Executive Director



Tom Loosemore Non-Executive Director



Captain Pat Mowatt Non-Executive Director



Tara Usher Non-Executive Director -MOD Sponsor



Natasha Toothill Non-Executive Director (from 23 May 2022)



Paul Boyle Non-Executive Director (from I March 2023)



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#### Financial instruments

The accounting treatment of financial instruments, policies and associated risks is reported in Accounting Policies Note 1K and Note 17 of the financial statements.

#### Report of protected personal data-related incidents

HM 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 2022/23.

#### Post-reporting period events

Peter Sparkes

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

**Peter Sparkes** 

Chief Executive 13 July 2023

# Statement of Responsibilities of the Chief Executive as Accounting Officer

Under section 4(6) (a) of the Government Trading Funds Act 1973, the UK Hydrographic Office is 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 by HM Treasury on 15 December 2022. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, Statement of Financial Position, 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 Government Financial Reporting Manual (FReM), and in particular to:

- > Observe the Accounts Direction issued by HM 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.
- Confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Reports and Accounts and the judgements required for determining that it is fair, balanced and understandable.

 $\,$  HM Treasury has appointed the Chief Executive as Accounting Officer for the UK Hydrographic Office.

The responsibilities of an Accounting Officer, including responsibility of the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records sand for safeguarding the UKHO's assets, are set out in Managing Public Money and published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that UKHO's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

#### **Governance statement**

The governance statement covers the period from 1 April 2022 to the date the accounts are signed.

Performance

#### Scope of responsibility

As Accounting Officer, I am responsible for signing the Annual Report and Accounts. I maintain a sound system of internal control that supports the achievement of our policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible. This is 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 I April 2022 to 31 March 2023, I have relied on and received advice and assurances from various sources including:

- > Defence Internal Audit.
- Other external assurance partners, e.g. Defence Maritime Regulator, Lloyds (ISO 9001/27001).
- > International Maritime Organization.
- > UKHO internal assurance.
- > The Board and its sub-committees.
- The Directors and senior managers through their annual assurance statements.

Details of this advice are covered further within this report.

#### Ownership and financial structure

Established as a Trading Fund in 1996 in accordance with Statutory Instrument S1 1996/773, we are 100% owned by the Secretary of State for Defence by way of public dividend capital.

Our financial statements, drawn up to 31 March each year, are prepared in accordance with the HM Treasury Accounts Direction of 15 December 2022 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.

#### Minister responsible for the UKHO

The minister responsible for the UKHO is the Minister of State for Defence ('the Minister'). During the financial year the Minister was the Rt Hon. Baroness Goldie.

The Minister approves our Corporate Plan including financial projections covering a five-year period, and our annual Business Plan. There were no Ministerial Directions given to us during the year.

#### **UKHO Board**

The UKHO Board provides the strategic leadership for the UKHO in delivering its objectives. It provides a forum for independent, non-executive support and constructive challenge to UKHO's Chief Executive and their Executive Directors.

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

An external Board Effectiveness Review (BER) was carried out in December 2022.

Overall, the review concluded that the Board and its Committees were operating effectively. The review identified priority areas of focus for the Board, including developing the Board's customer insight and connectivity with staff. The Board subsequently agreed an action plan to address these priorities at their meeting in March 2023. These actions will be reviewed in July 2023. The Board Charter and Terms of Reference for the Board and subcommittees will also be reviewed.

The attendance of Board members at the Board and its subcommittees (during their tenure in office) was:

Board	ARAC	REMNCO
6/6	5/5	4/4
6/6	5/5	4/4
6/6	5/5	3/4
3/6		
6/6	5/5	3/4
5/5	5/5	4/4
5/6	5/5	3/4
4/6		
6/6		
1/1	1/1	
89%	100%	87%
	6/6 6/6 3/6 6/6 5/5 5/6 4/6 6/6	6/6 5/5 6/6 5/5 6/6 5/5 3/6 6/6 5/5 5/5 5/5 5/5 5/6 5/5 4/6 6/6 1/1 1/1

#### Audit and Risk Assurance Committee (ARAC)

The ARAC is a sub-committee of the Board. The role of the ARAC is to support the UKHO Board and Chief Executive, as the Accounting Officer, in monitoring the organisation's corporate governance, control systems and risk management. The ARAC typically meets 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 National Audit Office (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.

Annually, the Chair of the ARAC reports to the Accounting Officer, summarising the activities of the ARAC during the previous year.

This year the Chair highlighted DIA's overall opinion of 'Substantial Assurance', based on the results and weightings of the assessments undertaken in FY 2022/23 and the delivery of associated management actions. This is a welcome maintenance of the assurance given last year and an improvement on the 'Limited Assurance' rating given in 2019/20.

In the opinion of the ARAC, this outcome reflects the continued focus and resolve of senior management. This will need to continue as the UKHO works to deliver on its strategic goals.

The DIA's audit programme this year provided coverage of strategic risk areas including Marketing and Communications, Project EMERIC, and Digital Data and Technology (DDaT) Workforce Resilience, as well as core business processes including Performance Management, Corporate Governance and Decision Making.

I confirm that I recognise the critical requirement for robust controls, effectively communicated and understood throughout

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#### Governance statement continued

the organisation, and will ensure that all remedial actions are promptly and securely addressed.

Further details relating to the areas covered and weaknesses found by DIA are covered under 'The role of internal audit' later in this report.

In concluding her report, the Chair confirmed that in ARAC's opinion, there is no reason why I, as the Accounting Officer, should not provide the assurance required as set out in this Governance Statement.

#### Remuneration and Nomination Committee (REMNCO)

The REMNCO is a sub-committee of the Board. The role of the REMNCO is to advise the UKHO Chair on appointments to the UKHO Board (except for the Chair, whose appointment is the responsibility of the Owner); and to advise the Owner, Chief Executive and the Board on matters including the UKHO pay and reward strategy and on the remuneration for senior UKHO executives, operating within the framework set by Governmentwide and Departmental guidelines and where applicable, those for the Senior Civil Service. The committee comprises four Non-Executive Directors who meet as required. The Chair of the committee reports on its proceedings to the UKHO Board.

#### Safety of Navigation Advisory Committee (SONAC)

The SONAC is an advisory committee that advises and makes recommendations to the UKHO on the delivery and development of navigation products and services to meet maritime users' current and future needs for safe, efficient and effective navigation. It is chaired by a serving Captain in the Royal Navy, a hydrographic specialist and Non-Executive Director, and provides formal feedback to the Safety Board (SB), the Board and ARAC. It includes a range of independent experts from the Royal Navy, the Maritime and Coastguard Agency, the Royal National Lifeboat Institution, Trinity House, Associated British Ports, the Marine Accident Investigation Branch, the UK Chamber of Shipping and the Royal Yachting Association.

#### Executive Leadership Team (ELT)

The purpose of the ELT is to support the Chief Executive in managing the UKHO. It currently comprises Executive Directors who are the persons in senior positions that have authority or responsibility for directing or controlling the major activities of the UKHO.

#### Compliance with the corporate governance code

The Board has assessed itself against HM Treasury's corporate governance code and considers that it complies with the corporate governance code as far as is deemed relevant and practical.

The framework document was last updated in February 2022 and can be found at: www.gov.uk/government/organisations/uk-hydrographic-office/about#our-framework-document.

#### Admiralty Holdings Limited (AHL)

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

#### **UKHO** internal control

As documented above, our governance 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 ended 31 March 2023 and up to the date of approval of this Annual Report and Accounts.

Each year we seek to improve this system of internal control by refining our system of controls using continuous improvement.

We have mapped all assurance sources across the three Lines of defence (following HM Treasury guidance) to provide better insight, identify problem/priority areas, improve the breadth of reporting to the ELT, the ARAC and the Board, and inform the development of the internal audit programme. This assurance heatmap is regularly reviewed and updated.

Executive Committee members and senior managers provide written assurance to 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.

All staff must complete training on information assurance, business resilience, personal data handling, countering fraud, bribery and corruption, equality, diversity and inclusion, conscious and subconscious bias, health and safety, and security.

#### Corporate governance and risk management

Risks and opportunities affect the ability of the UKHO to fulfil its public task at no net cost to the taxpayer. Our approach supports the delivery of our strategic objectives.

The relevant governance structures, which include the ELT, Board and ARAC, are all in place and operating effectively as evidenced by the Board Effectiveness Review and Internal Audit of Corporate Governance which were both conducted this year. Key messages from the Board Effectiveness Review include 'the foundations of the HOB being strong, confirmation that chairing is good, and the relationships between members and the UKHO leadership being effective with a good mix of skills and experience. The degree of clarity and alignment between members on the UKHO's strategic direction, risks and opportunities was found to be particularly encouraging.'

Our risk management policy and process continue to align to the MOD risk management framework which generally follows the guidance as set out in ISO 31000:2018 (Risk Management Guidelines). All employees have access to the business risk management policy and to guidance on identifying and mitigating risk via our intranet. This sets out clear accountabilities and a structured process for identifying, accessing, communicating and managing risk.

Following the 2021/22 assessment of our risk maturity by the Defence Internal Audit (DIA) (which graded us as Level 3 'Implemented in all key areas'), we have taken appropriate action to further develop our overall maturity. We have established and agreed our risk appetite across all areas of the business and linked it to the assurance heatmap. We have risk focal points embedded in each area of the business to promote the risk management agenda and provide local advice and support; this will benefit all areas but will particularly strengthen the risk management of critical projects and programmes. We have also developed a new corporate risk portal to improve the day-to-day active management of risks.

As part of the corporate/business planning process, a full review of all the UKHO's strategic (existential) and corporate (delivery) risks is undertaken during Q4 of the financial year in readiness for the new financial year. Part of this review includes refreshing strategic and corporate risks in line with latest strategic thinking and current market insight regarding our operational environment and commercial markets, together with considering any possible emerging risks. Strategic risks are owned by members of the UKHO Executive Leadership Team (ELT) and remain subject to review and challenge by the wider Executive Leadership, the Board and the ARAC. Trends for all strategic and corporate risks with relevant narrative are also included in the monthly performance report to the ELT and the Board.

To ensure strategic risks are being regularly discussed and managed, the ARAC review them on rotation via 'deep dives' across the year. The deep dives provide an opportunity for the Non-Executive Directors to challenge management on the effectiveness of mitigation activities. Corporate risks are reviewed every three months by the ELT on rotation across the year and, where/if appropriate, will be escalated to the ARAC for further discussion. Strategic and corporate risks are also escalated, as needed, for discussion at the MOD Head Office.

The revised 2023/24 Strategic and Corporate risks can be found on page 34.

#### Financial control

As we have a mature system of financial control, no specific additional control audits were carried out during the year by the Defence Internal Audit (DIA).

Recent audits by the DIA have been:

Auditarea	Year	Opinion
UKHO – Performance Management	2022/23	Substantial
Period End Financial Controls	2019/20	Substantial
Payroll Accounting Controls	2019/20	Substantial
Financial Controls	2017/18	Full

In addition, the UKHO Business Assurance Team carries out an annual audit of payroll. This year's audit returned a full assurance opinion.

Financial authority is delegated from the Chief Executive to senior managers.

A detailed business plan is prepared annually which includes the annual budget which in turn is derived from our strategy contained within our Corporate Plan. This ensures our activities are directly aligned with our short-term financial plans and our long-term financial objectives. Spend against annual budget is monitored monthly, with budget holders, by the ELT and by the Board at every meeting.

The ELT also reviews a range of Key Performance Measures, both financial and non-financial, each month. 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. Our Head of Procurement receives her commercial delegation directly from the MOD's Director Commercial and is responsible to the MOD for the UKHO's commercial decisions.

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, the balance of USD asset and USD liabilities every two weeks, and any excess USD cash held is sold at the spot rate on the day of transaction. We do not use derivatives such as currency options or forward currency exchange contracts to manage our exchange rate risk.

#### Improving quality

The UKHO continues to be certified to ISO 9001:2015 (Quality Management) and ISO 27001:2013 (IT Security Management) standards. During 2022/23 we successfully passed all ISO surveillance audits for ISO 9001 and ISO 27001. Lloyd's Register, our certification body, reported only one minor nonconformity during these visits; no further nonconformities were raised.

#### The role of internal audit

In accordance with the corporate governance code, the Board is supported by the ARAC and an internal audit service which provides independent, objective assurance on corporate governance, risk management and control activities.

During 2022/23, the Defence Internal Audit (DIA) provided this service to the UKHO and carried out a programme of audits to Public Sector Internal Audit Standards. The ARAC approved the plan of work for the year, ensuring that it was risk-based and struck a balance between providing assurance over core business processes and areas of strategic risk.

The findings from individual audits were reported to the ARAC which also maintains oversight of the management actions which need to be implemented to address any shortcomings. The ELT also monitors outstanding actions via the monthly performance report to ensure timely completion.

#### Governance statement continued

The DIA's opinion on the work completed during 2022/23 provides a substantial assurance audit opinion based on the results and weighting of the assignments undertaken in the year and the delivery of associated management actions.

The DIA's audit programme this year has provided coverage of strategic risk areas including Marketing and Communications, Project EMERIC, and Digital Data and Technology (DDaT) Workforce Resilience, as well as core business processes including Performance Management, Corporate Governance and Decision Making.

The DIA found that governance forums were operating as intended and that an effective scrutiny and approval process was in place for the Marketing and Communication (MarComms) and the DDaT Contractor budget. Further, they found that UKHO have implemented specific and clearly defined key performance measures (KPM) and key performance indicators (KPI) to assess and monitor performance. Targeted actions have also been undertaken to address DDaT workforce resilience challenges.

While the DIA concluded that the internal controls reviewed were operating effectively, they did identify some areas requiring management attention. These relate to the agreement, approval, and finalisation of key documents; internal assurance of the achievement of KPI; and the formal capture of risks using the UKHO standard template.

Improvement has been made in the monitoring of completion of agreed management actions, although there remain opportunities to improve timeliness of delivery.

I am satisfied that management are focused on making the required improvements and that timely and consistent delivery of agreed management actions should help to ensure improvements are embedded.

The UKHO management understands the true value of external objective scrutiny. We do not shy away from encouraging the DIA to look at areas of the business where we know, or suspect, improvements can be made. We believe this is an important element of embedding our core values which include building a culture of taking responsibility while striving to achieve excellence.

#### Fraud and whistleblowing

We always seek to conduct our business honestly and with integrity. However, it is acknowledged that all organisations face the risk of their activities going wrong from time to time, or of unknowingly harbouring malpractice. We have a zero-tolerance approach to fraud. Our staff have easy access to advice on the UKHO's intranet on what to do if they suspect fraudulent activity, which includes the protection they receive if they report their suspicions.

Any staff member having a genuine concern about an issue of impropriety or malpractice is encouraged to raise it. Several avenues are open to them. In a majority of instances, the most appropriate place for a worker to raise concerns will be with their line manager or a more senior manager; in other cases, a concern may be reported to the UKHO Fraud Focal Point, the Chair of the ARAC or the Chair of the Board, or directly to the Fraud Defence team at the MOD.

UKHO has been running a speak-up campaign over the course of the last 2-years and we have seen a growing confidence in people speaking up which is helping to surface non-inclusive behaviours so that UKHO can deal with them.

#### Cyber security

Geopolitics continues to impact the cybersecurity threat landscape, in particular the conflict between Russia and Ukraine, and the UKHO remains alert to this threat. At the same time the capabilities of threat actors continue to improve, and novel, hybrid and appearing threats are emerging at a rapid rate. To counter these threats the UKHO cyber defence is aligned with National Cyber Security Centre guidance, MOD security policy and industry best practice, as appropriate. This year we have also placed a greater emphasis on improving our cyber resilience capability.

The UK Hydrographic Office continues to maintain a ISO 27001 certification and operate a compliant Information Security Management System (ISMS). We have also been audited by the Defence Digital Cyber Resilience programme against the MOD Cyber Compliance Framework Maturity Model. Overall, we were assessed as having a good level of cyber security and resilience maturity.

In addition, to our ISO 27001 certification, and as a requirement of the UKHO being an MOD organisation, our information systems are formally accredited by the Cyber Defence and Risk (CyDR) Directorate. Accreditation is defined as a formal, independent assessment of technology or service against its Information Assurance (IA) requirements, resulting in the acceptance of residual risk in the context of the business requirements and information risk appetite.

#### **Business continuity**

In FY22/23, we recruited a full-time Business Continuity Manager who has helped us in developing our crisis management response and how we manage and communicate with our key stakeholders in the event of a cyber attack. As part of this work, we have run several cyber crises exercises with external support and published a crisis leadership response plan and a crisis communications plan. Furthermore, we have aligned our crisis management processes to the recently published ISO 22361 with the expectation that we will certify to this standard next year.

Regarding mandatory training, over 90% of staff are up to date with their mandatory business continuity training and we are also working with our Learning & Development Team to produce bespoke training for all staff who have a crisis management role.

#### Information Assurance (IA)

In the last 12 months we have recruited a second Information Assurance and Data Protection Advisor to strengthen our capability in this area. Information assurance risks are reviewed and managed through the Information Assurance Governance Board (IAGB) which is chaired by the Senior Information Risk Owner (SIRO) and the output from these meetings is communicated to the Executive Leadership Team and the ARAC. We operate a robust internal audit programme and deliver IA training and awareness across the organisation. Employees and contractors undertake the Civil Service 'Responsible for Information' training regularly and third parties bidding for new contracts are subject to a cyber risk assessment under the Defence Cyber Protection Partnership.

#### Conclusion

I have carefully considered the governance and control issues noted above, and the plans to address them. After taking this, the report from the ARAC Chair, and all the other evidence provided with regard to the production of the annual governance statement into consideration, I conclude that the organisation's overall governance, risk management and internal control structures are effective.

Peter Sparkes Chief Executive 13 July 2023

Peter Sparkes

**UK Hydrographic Office** Annual Report and Accounts 2022/23

#### Overview

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#### Remuneration and staff report

#### Directors' remuneration policy

'Executive Directors' is interpreted to mean persons in senior positions having authority or responsibility for directing or controlling the major activities of the organisation. Executive Directors are also all members of the UKHO's Executive Leadership Team (ELT), which supports the Chief Executive in managing the UKHO.

Executive Directors are usually employed as Senior Civil Servants (SCS) subject to SCS terms and conditions. Their bonus arrangements fall under SCS rules rather than the UKHO's performance-award system. In addition, the National Hydrographer is typically a Naval Officer and their remuneration is set and paid by the Royal Navy. Executive Directors may also be engaged as off-payroll contractors, inside IR35. Off-payroll contractors do not receive benefits in kind, performance awards or pensions.

The Non-Executive Directors are not UKHO employees and, apart from two who are Government employees, are paid a fee for their services.

#### 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 under which appointments may be made otherwise.

The Executive Directors covered by this report, with the exception of those employed as off-payroll contractors, hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Executive Directors employed as off-payroll contractors hold appointments that are open-ended and which can be terminated, without compensation, on five days' notice.

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

The Chief Executive has delegated authority for recruitment up to, but not including, SCS. The duration of contracts and notice periods are in accordance with the Civil Service Management Code and business needs. The appointments of Non-Executive Directors are in accordance with MOD guidelines and The Office of the Commissioner for Public Appointments Code of Practice.

#### **Executive Directors' remuneration**

#### Salary entitlements

The table on page 45 provides details of the remuneration and pension interests of the executive members of the UKHO Board and other Executive Directors. Full year equivalent (FYE) amounts are shown in brackets within the table.

'Salary' includes gross salary; recruitment and retention 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 taxable. No benefits in kind were provided during the year (2021/22: £nil).

#### Performance awards

Performance awards are based on performance assessed in the appraisal process. Performance awards relate to the year in which they become payable to the individual. The performance awards reported in 2022/23 relate to performance in 2021/22 and the comparative performance awards reported for 2021/22 relate to 2020/21.

#### **Pensions**

Executive Directors who are employed under SCS or UKHO terms are members of the Civil Service Pension Schemes. Full details of the pension schemes are provided later in this note.

The pension figures quoted for Executive Directors show pension earned in the Principal Civil Service Pension Scheme (PCSPS) or Civil Servants and Others Pension Scheme (alpha) – as appropriate. Where the Executive Director has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.

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

#### Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations

2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 3 March 2023.

HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures

#### 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) and uses common market valuation factors for the start and end of the period.

#### Remuneration details

Subject to audit

2022/23	Contract Terms	Notes	Salary Band £k	Performance Awards £k	Termination Payment £k	Total £k	Pension Benefit (Note 3) £k
Peter Sparkes – Chief Executive	SCS		130 –135	_	_	130 –135	52
David Tomaney – Chief Data Officer	SCS		80 – 85	5 – 10	-	90 – 95	33
Terry Makewell – Chief Technology Officer	SCS		110 – 115	_	-	110 – 115	43
Cathrine Armour – Chief Customer Officer (up to I July 2022, last day of employment was 22 July)	SCS		30-35 (100 – 105)	-	-	30-35 (100 – 105)	19
Lisa Denson – Interim Chief Customer Officer (from 1 July 2022)	SCS		75 - 80			75 - 80	22
Stephen Potts – Director of Finance and Corporate Services	SCS		90 – 95	0 - 5	_	95 – 100	36
Amy Carrillo – Chief People Officer	SCS		75 – 80	0 – 5	-	80 – 85	30
Mark Sautereau – Director of Transformation (from 23 October)	Off Payroll	1	125 – 130 (275 – 280)	-	_	125 – 130 (275 – 280)	
Lucy Shirodkar – Director of Transformation (up to 13 October)	Off Payroll	1	110 - 115 (230 - 235)	-	-	110 - 115 (230 - 235)	
Rear Admiral Rhett Hatcher – National Hydrographer - Director of Data Acquisition, UK National Hydrographer and Deputy Chief Executive	Royal Navy	2	135 – 140	-	-	135-140	

				Performance	Termination	F	ension Benefit
	Contract		Salary Band	Awards	Payment	Total	(Note 2)
2021/22	Terms	Notes	£k	£k	£k	£k	£k
Rear Admiral (Retired) Peter Sparkes – Chief Executive	SCS		125 –130	-	-	125 –130	34
David Tomaney – Chief Data Officer	SCS		80 – 85	5 – 10	_	85 – 90	32
Terry Makewell – Chief Technology Officer	SCS		105 – 110	5 – 10	_	115 – 120	46
Cathrine Armour – Chief Customer Officer	SCS		100 – 105	_	_	105 – 110	40
Stephen Potts – Director of Finance and Corporate Services	SCS		90 – 95	-	_	90 – 95	35
Amy Carrillo – Head of People	SCS		70 – 75	0 – 5	_	70 – 75	29
Lucy Shirodkar – Director of Transformation (from 5 January 2022)	Off Payroll	I	40 – 45 (205 – 210)	-	_	40 – 45 (205 – 210)	
Rear Admiral Rhett Hatcher – National Hydrographer (from 1 July 2021) & Director Data Acquisition and Defence	Royal Navy		120 – 125	-	-	120 – 125	

#### Notes

Numbers in brackets in the tables above denote annual full-time equivalent.

- Mark Sautereau was appointed as Director of Transformation on 23 October 2022. Mark is a contractor and not a civil servant. Mark replaced Lucy Shirodkar who was Director of Transformation between 5 January 2022 and 13 October 2022; she also was a contractor and not a civil servant.
- $2. \ \ Rear \ Admiral \ Rhett \ Hatcher's \ salary \ band \ is \ \pounds 125k \pounds 130k. \ In \ addition \ he \ received \ allowances \ that \ took \ his \ total \ salary \ to \ the \ band \ \pounds 135k \ to \ \pounds 140k.$
- 3. The value of Pension Benefit disclosed 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 during the year. 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. For serving naval staff on loan to the UKHO, pension and CETV figures are not disclosed.

#### Remuneration and staff report continued

#### Pension benefits

(This section has been subject to audit.)

	Accrued benefits *		Real increase in benefits		CETV	CETV	CETV
	Pension (Note a) £k	Lump sum £k	Pension (Note a) £k	Lump sum £k	31/03/2023 £k	31/03/2022 £k	Real increase £
Peter Sparkes	5 – 10	Note b	2.5 – 5	Note b	69	26	32
David Tomaney	20 – 25	Note b	0 – 2.5	Note b	386	339	23
Stephen Potts	5 – 10	Note b	0 – 2.5	Note b	90	63	17
Terry Makewell	20 – 25	Note b	2.5 – 5	Note b	285	244	21
Cathrine Armour	10 – 15	Note b	0 – 2.5	Note b	130	115	12
Amy Carrillo	10 – 15	Note b	0 – 2.5	Note b	159	132	14
Lisa Denson	20 – 25	Note b	0 – 2.5	Note b	326	309	13

<sup>\*</sup> As at 31 March 2023.

#### Notes

- a. Pension is as at pension age.
- b. No automatic lump sum payable as member is in the premium/nuvos/alpha scheme.

#### Fees paid to Non-Executive Directors (NEDs)

(Subject to audit)

NEDs are appointed for an initial term of three years, which can be extended by mutual agreement and subject to satisfactory performance, normally for a further three years. NED contracts are not pensionable and there is no compensation for early termination.

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.

NEDs and their fees as at 31 March 2023 were:

			2022/23	2021/22
Appointed	Current term end date	Notes	£k	£k
l January 2015	30 April 2025		25 – 30	25 – 30
26 January 2017	26 July 2023		15 – 20	15 – 20
I September 2017	31 July 2024		15 – 20	15 – 20
23 May 2022	22 May 2025		15 – 20	
I March 2023	31 August 2026		0 – 5 (15 – 20)	
I December 2019		1	-	_
6 July 2021		2	-	_
	I January 2015 26 January 2017 I September 2017 23 May 2022 I March 2023 I December 2019	I January 2015 30 April 2025 26 January 2017 26 July 2023 I September 2017 31 July 2024 23 May 2022 22 May 2025 I March 2023 31 August 2026 I December 2019	I January 2015 30 April 2025 26 January 2017 26 July 2023 I September 2017 31 July 2024 23 May 2022 22 May 2025 I March 2023 31 August 2026 I December 2019	Appointed         Current term end date         Notes         £k           I January 2015         30 April 2025         25 – 30           26 January 2017         26 July 2023         15 – 20           I September 2017         31 July 2024         15 – 20           23 May 2022         22 May 2025         15 – 20           I March 2023         31 August 2026         0 – 5 (15 – 20)           I December 2019         I         –

#### Notes:

- Numbers in brackets in the tables above denote annual full-time equivalent. The following NEDs do not receive separate remuneration for their role:
- 1. Tara Usher is an MOD SCS representing our Owner and does not have a contracted end date.
- 2. Captain Pat Mowatt is a serving Royal Navy Officer.

#### Fair Pay Report

(This section has been subject to audit.)

Reporting bodies are required to disclose:

- the relationship between the remuneration of the highestpaid Director (HPD) in their organisation and the median remuneration of the organisation's workforce and,
- 2. the year-on-year percentage movement in the remuneration of the HPD and the average year-on-year percentage movement of all UKHO employees, excluding the HPD, and,
- 3. for the members of staff who are in the 25th percentile, the median and the 75th percentile, the total pay and benefits and the salary element of this and the ratio of the total pay to that of the total pay of the HPD.

The Director of Transformation position was held by Lucy Shirodkar until 13 October 2022 and then by Mark Sautereau from 23 October 2022, both contractors on interim contracts. Their pay exceeded that of the highest paid permanent Director. However, this is not a comparable figure as their pay includes a premium to reflect not receiving the same benefits and rights as an employee. We have, therefore, used the remuneration of the highest paid permanent Director as this provides a better basis of comparison. However, we have also shown the ratios of total pay to that of the current Director of Transformation, Mark Sautereau, which fell in the band £275k to £280k, in the table opposite.

2022/27

For our pay remit year I August 2022 – 31 July 2023, the Civil Service Pay Remit Guidance stated: "Departments are able to make average pay awards up to 2%. Departments also have additional flexibility to pay up to a further 1% where they can demonstrate targeting of the pay award to address specific priorities in their workforce and pay strategies." Our salary pay award was a 3% average award, with various percentage increases across our different grade pay ranges.

The average salaries of our staff have increased by 7.0%, well above the pay award. Our transformation into a digital business is driving a change in our skills mix. Digital, Data and Technology skills (DDaT) are driving up average salary costs.

Performance

review

Performance pay and bonuses are a combination of the Team Performance Award which is linked to our delivery of our Key Performance Measures and individual bonus payments awarded to staff for specific evidence of performance excellence. The all-staff award makes up most of these bonuses and the year-on-year movement in this payment was 11.1% in 2022/23 (2021/22: -9.3%). This increase reflects the higher level of achievement of our performance targets in 2022/23 which resulted in a payment of £882 per full-time employee (FTE) (2021/22: £788).

	2022/23	2021/22
Highest paid Director (HPD) – % change in:		
Salary and allowances <sup>1</sup>	7.8%	4.1%
Performance pay and bonuses payable <sup>1</sup>	0%	0%
All UKHO employees excluding HPD		
Salary and allowances <sup>2</sup>	7.0%	(0.1%)
Performance pay and bonuses payable <sup>2</sup>	11.1%	(9.3%)
Band of highest paid Director's remuneration $(£'000)^3$	135-140	125-130

	25th percentile M		Median pay	1edian pay 75t		
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
	£000	£000	£000	£000	£000	£000
Total pay and benefits	29.0	27.6	35.3	34.1	44.8	43.3
Salary element of above	27.8	27.0	34.4	33.3	43.9	42.5
Ratio to HPD	4.7:1	4.6:1	3.9:1	3.7:1	3.1:1	2.9:1
Ratio to Director of Transformation	9.6:1	7.5:1	7.9:1	6.0:1	6.2:1	4.8:1

#### Notes

- $I. \ \ HPD\ \%\ change\ is\ calculated\ based\ on\ the\ mid-point\ of\ the\ salary\ band\ this\ year\ and\ last\ year.\ The\ HPD\ did\ not\ receive\ any\ Performance\ pay\ or\ bonuses.$
- 2. The average year-on-year percentage movement of all UKHO employees is calculated as the total for all employees as at 31 March on an annualised basis, excluding the highest paid Director, divided by the FTE number of employees.
- $3. \ \ The \ HPD \ in \ 2022/23 \ was \ Rear \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ Admiral \ Rhett \ Hatcher, in \ 2021/22 \ the \ HPD \ was \ Peter \ Sparkes \ HPD \ was \ Peter \ NPD \ Was \ Peter \ N$

#### Our staff

# **Staff numbers (averages over the year)**Subject to audit

	2022/23	2021/22
Civil servants	881	838
Agency staff	60	29
Service personnel	3	5
Total staff numbers	944	872

#### Staff turnover

Staff turnover in 2022/23 was 10.7% (2021/22: 11.6%). Staff turnover is calculated as number of leavers divided by average staff numbers in the year.

#### Staff costs Subject to audit

	2022/23 £k	2021/22 £k
Salaries, wages, etc.	34,865	31,528
Social security costs	3,771	3,225
Pension costs	8,778	8,011
Apprentice levy	144	140
Agency staff costs	7,919	2,898
Service personnel costs	713	975
Staff costs capitalised within intangible assets	(1,762)	(1,809)
Total staff costs	54,428	44,968

The costs of full-time Government officials are borne by their parent departments.

Service personnel are included in employee numbers above. However, they are on loan to us and we are charged a capitation rate. We carry no pension liability for service personnel.

#### Agency staff

Agency staff are individual temporary workers engaged to cover business-as-usual or service delivery activities, mainly under short-term arrangements.

#### Remuneration and staff report continued

#### Consultancy

It does not make economic sense for the UKHO to maintain all the specialist skills needed permanently in-house, and access to some level of private sector expertise is consequently of enduring value. We therefore contract short term, both for independent advice and for specialist skills, where these skills are not available among our permanent workforce.

During the year, the UKHO spent £2,599k on consultancy (2021/22:£173k). The year-on-year increase is driven, primarily, by support in reviewing our strategy and business and operating models. Other significant spend has been on developing our sustainability expertise and plans and preparatory work prior to launching a project in 2023/24 to replace our Enterprise Resource Planning (ERP) business systems.

#### Staff composition

2022/23

(Number of staff at 31 March)

Number of persons of each sex who were Executive Directors at year end	6	2
Number of persons of each sex who were senior managers at year end*	80	32
Total number of persons who were employed at the year end	595	349
2021/22	Male	Female
Number of persons of each sex who were Executive Directors at year end	4	3
Number of persons of each sex who were senior managers at year end*	51	22
Total number of persons who were employed at the year end	597	310

<sup>\*</sup> Senior managers have been defined as anyone of a UKHO band C or above.

#### Diversity and inclusion

We are committed to improving all forms of diversity. Our work around psychological safety has been key to enable greater diversity of thought and ensure everyone feels included and supported. Our overall People Survey scores for both inclusion and fair treatment and discrimination and bullying have all improved from 2020.

As the organisation has grown this year, we have ensured that we have focused on improving the diversity in our recruitment. Our online recruitment system enables applications to be anonymised and as a Disability Confident employer, we continue to use the guaranteed interview scheme. The use of a gender decoder algorithm is used in all adverts, and we ensure applications are reviewed by gender diverse recruitment panels.

Our diversity and inclusion networks continue to grow. A neuro inclusion affinity group has recently been set up to bust myths and challenge assumption, to create and celebrate an increased awareness of the benefits and strengths that neurodiversity can bring in the workplace; support neurodivergent colleagues by creating a community to empower, recognise, listen to and support people to be themselves at work, so they feel included, happy and are productive; and support the neurotypical by facilitating allyship and two-way understanding with neurodivergent colleagues and encouraging people to work in partnership to achieve the best outcomes for everyone.

#### Sickness absence

Female

The average number of days lost through sickness in 2022/23 was 5.18, 12.4% of this was due to coronavirus, and when taken away the average sick days lost would be 4.53 (2021/22: 4.86).

Psychological disorders remain the main reason for absence (29% of all absences (2021/22: 29%)). Our strategy to tackle this is covered below.

#### Communication and engagement

The Civil Service People Survey is our key benchmark for assessing staff engagement levels. The results help us to gather feedback from our people and benchmark our performance. It helps us recognise what we do well and areas for improvement. It also helps us to evaluate the impact of the changes we are continually making to ultimately make the UKHO a better place in which to work.

The 2022 overall Engagement Index was 66%, down 3 percentage points (pp) compared to 2021 and up 1pp difference from the Civil Service 2021 Engagement Index Score. Eight of the nine thematic areas dropped by either 1pp or 2pp. Leadership and Managing Change saw the greatest drop, down –4pp, compared to 2021

Senior managers have been encouraged to work with their teams to study and understand their results, to build staff-led action plans and to prioritise and agree just one team action to focus on improving together.

Building on our established corporate-wide communication and engagement and engagement approach (including Spotlight Talks, 'Shaping our Future' sessions, ELT Q&A and the monthly 'golden thread' cascade from ELT to senior managers to all staff), we are focusing on developing how we engage senior managers in corporate strategy and how we support them to engage their teams so that corporate strategy is brought to life at team and individual levels. Based on feedback, we are refreshing our monthly Senior Manager Forum, which is part of our engagement approach. This forms part of a wider strategy for senior leader engagement.

During 2022/23 we have also made significant progress in developing how we communicate with our colleagues, to help maximise reach and impact. Part of this has been focusing on digital content capability, including establishing in-house videomaking expertise within the Internal Communications team.

Looking ahead to 2023/24, baselining current employee experience and consciously designing enhanced experiences for employees across a range of daily touchpoints which they have, will be a key focus as part of our People Strategy.

#### Health, safety and welfare

Health, safety and welfare is a key priority for the UKHO and we maintain a number of policies to support this.

We track health and safety incidents, including any reported near misses. Our health and safety record shows the following health and safety incidents.

	2022/23	2021/22
RIDDOR reportable (incidents reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations)	-	_
Incidents (health and safety incidents, from minor injuries not requiring first aid, up to incidents just below the RIDDOR threshold)	8	7
Near misses (health and safety incidents not resulting in any injury)	16	16

Of the incidents reported in 2022/23, 0 required hospital treatment (2021/22: 0).

#### Wellbeing

We include the People Survey in our business plan success measures. Compared to 2021, in 2022 bullying and harassment results increased by 1% year on year; health and wellbeing dropped slightly, with an increase in the stress indicator of 1%; and a fall of 2% in results for inclusion and fair treatment. We believe a greater emphasis on prioritisation of business activity in Business Plan 23/24 may positively influence these results in the People Survey 2023.

We continue to ensure that wellbeing is actively supported. Our ongoing focus is ensuring colleagues across the business have the right support, guidance, training and equipment in place, so that they can continue to work as safely as possible, within a supportive environment.

Key interventions include:

- Continuing to promote the use of our Employee Assistance Programme and counselling services.
- Continuing collaboration with our Mental Health Awareness Group to promote mental health awareness and awareness of our mental health first aider trained 'Peer Supporters'.
- Further mental health training for managers across the business.
- Supporting line managers in having regular wellbeing conversations through structured and regular 1:1's.
- Continued support for the Headspace app. Headspace is a science-backed mental health programme. It allows you to learn the essentials of meditation and mindfulness at anytime, anywhere via your mobile phone. Support includes guided meditations, animations, articles, and videos. If you are short on time you can access bite-sized minis, exercises to add extra mindfulness to your day and hundreds of meditations on everything from stress to sleep.
- Occupational Health referrals for staff with longerterm absence.

# $\label{thm:continuous} Embedding\,smarter\,working\,practices\,to\,support\,a\,more\,flexible\,workforce$

We have continued to look at how we can move our smarter working journey forward because if we do not continue to fully adopt and embrace smarter working, it poses a risk to our ability to be competitive in the recruitment market as well as our ability to retain existing staff. We continue to develop an innovative and responsive organisation, fit to enable our strategy by continuously adapting and improving our smarter working practices.

In December 2022, we were assessed as part of the MOD, against the Smarter Working Maturity Matrix, by the Government Property Agency (GPA). As a result of the assessment, the MOD was rated overall at 'Established'; however, the GPA wanted to acknowledge the significant impact that the teams at the UKHO have had in transforming the way we work to embrace new and modern ways of working, which in turn are helping to modernise the Civil Service. In recognition of this, we have been awarded a 'Mature' Smarter Working status.

They particularly noted the combination of the spaces we provide, the technology we have deployed and the culture we have started to embed to empower choice and flexibility for our people. Smarter working is not just for the benefit of the Civil Service of today, but it establishes a new attractive benchmark for our future workforce and our workplace experiences.

#### Psychological safety and speaking-up

Having a psychologically safe working environment, where everyone can feel able to contribute their best every day, is a key consideration for increased engagement and innovation. We have continued building on the theme of psychological safety across the organisation and have built an 'Introduction to Psychological Safety' workshop into our orientation for all new starters. In addition, we have continued to make psychological safety sessions available to all staff and managers and have started to broaden the theme with sessions planned on Inclusion Safety, Learner Safety, Challenger Safety and Contributor Safety, running throughout the year. In September we ran a 'Speak-Up' campaign across the organisation which included news articles, Ted Talks, blogs, Dilemma workshops, a psychological safety resource hub on our new Learning Management System and a themed ELT Q&A. A series of 'It's OK to' digital posters were also displayed in central points to encourage the behaviours that support the development of a safe and empowered culture.

Facilitated psychological safety team retrospectives have been offered to support teams to identify their existing levels of psychological safety and work together to agree ways that it can be improved. The feedback from these sessions has been that they have been very beneficial. A member of staff said:

"The sessions were very interactive with a focus on encouraging us to speak up. Once one member of the team started to speak up, others followed, and it became easier to see why people reacted in the way they do, which made it easier to be more understanding of those reactions. Overall, it was impressive the way the team were prepared to express their vulnerabilities in front of their colleagues."

#### Remuneration and staff report continued

#### Senior Leadership Team (SLT) development

Identified as critical change agents for our transformation, our Senior Leadership Team meets each month to discuss and progress work on the business operating model. There is increased focus on collaborative working, and role modelling our values and organisational design principles in the way we work with each other, and our teams.

Data from the 2022 Civil Service People Engagement Survey and our Investors in People Accreditation Report has been used to further inform areas of focus for our Senior Leadership Team.

We are continuing to build learning on psychological safety, having quality conversations, and managing and leading change. Every senior leader has a personal coach or is attending group sessions to work on areas that they have identified to enable them to successfully deliver their leadership role.

We are gaining a greater understanding of our senior leadership talent through having structured conversations using the 9-box grid talent tool and will use this knowledge and understanding to create individualised development plans to best meet the needs of each of our senior leaders, enabling us grow our internal talent and create succession plans for our future Executive Leadership Team.

Employer pension contribution rates are as follows:

	2022/23	2021/22
Scheme and annual salary bands to which rates apply	%	%
PCSPS – Band I–£23,000 and under	26.6	26.6
PCSPS – Band 2–£23,001 to £45,500	27.1	27.1
PCSPS – Band 3–£45,501 to £77,000	27.9	27.9
PCSPS – Band 4–£77,001 and over	30.3	30.3

#### Civil Service pensions

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

These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on I April 2012 switched into alpha sometime between I June 2015 and 1 February 2022. Since the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values shown in this report – see below). All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for Directors show pension earned in PCSPS or alpha – as appropriate. Where the Director has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a defined contribution (money purchase) pension with an employer contribution (partnership pension account).

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

The partnership pension account is an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). 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 65 or State Pension Age for members of alpha. (The pension figures quoted for Directors show pension earned in PCSPS or alpha – as appropriate. Where the Director has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes but note that part of that pension may be payable from different ages.)

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

#### Off-payroll engagements

Off-payroll engagements as at 31 March for more than £245 per day and that last for more than six months are as follows:

	2022/23	2021/22
No. of existing engagements as at 31 March	75	32
Of which		
No. that have existed for less than one year	50	22
No. that have existed for between one and two years	20	5
No. that have existed for between two and three years	4	3
No. that have existed for between three and four years	0	I
No. that have existed for four or more years	1	1

65	27
63	26
2	
-	-
_	-
-	_
	63

review		
Board members and/or senior officials with significant financial responsibility, during the year	2022/23	2021/22
No. of off-payroll engagements or Board members, and/or senior officials with significant financial responsibility during the financial year	0	l
No. of individuals that have been deemed 'Board members, and/or senior officials with significant financial responsibility'	15	14

during the financial year

#### Civil Service exit packages

(This section has been subject to audit.)

		Total number of exit packages by cost band			
Exit package cost band	2022/23	2021/22			
<£10,000	_	_			
£10,000 - £25,000	7	_			
£25,000 – £50,000	5	_			
£50,000 - £100,000	1	_			
Total number of exit packages	13	_			
Total cost (£k)	338	-			

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme.

Exit costs are accounted for in the year of departure and include lump sums and any 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.

All other costs in the table above for both years relate to staff leaving under the Voluntary Early Release Scheme terms.

There were no compulsory redundancies in either 2022/23 or 2021/22. No ex-gratia costs were paid.

**Peter Sparkes** Chief Executive

13 July 2023

Peter Sparkes

#### Parliamentary accountability and audit report

The 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 53.

More information on our Parliamentary accountability is published in our Framework Document, this can be found at: www.gov.uk/government/organisations/uk-hydrographic-office/about#our-framework-document.

#### Statement of Parliamentary Supply

(This section has been 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**

(This section has been 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. Our revenue, analysed by our operating segments, can be found in Note 2 page 66.

#### Losses and special payments

(This section has been subject to audit.)

	2022/23 £k	2021/22 £k
Unrecoverable trade receivables	_	-
Special payments	7	_
Realised foreign exchange (gain)	(2,062)	(643)

#### Long-term expenditure trends

We continue to follow the strategic direction set in our Corporate Plan for the period 2021 to 2026. The focus of which is to maintain our strength in navigation by investing in the development of the next generation of navigational products, S-100, and to develop new revenue streams in adjacent markets. We have since identified a need, in addition, to invest in stabilising some of our core delivery systems and remove some legacy systems. The need to prioritise this work, together with development of next-generation digital products will result in increased and slightly longer-term investment between now and 2028 of about £40m (£37m in the Corporate Plan 2021-2026). To support this level of investment, we see staff numbers increasing to about 1,050 by March 2024 and then staying at this level until 2026 when efficiencies realised by the investments start to be felt. In addition, the challenge to recruit and retain technical staff is causing an increased reliance on high-cost contractors. Greater numbers and a high mix of contractors is likely to push our staff costs up to a peak of £71m p.a. by 2024/25 from the current levels of £56m before seeing them decline again. As a result of these factors, we see levels of profitability falling between 2023/24 and 2026/27. After this time, benefits from investments will increase efficiency, staff numbers will fall, and profits will slowly return to between £15m and £20m a year.

#### Remote contingent liabilities

(This section has been subject to audit.)

#### Error in our products and services

The Government ultimately carries the risk in the event that an error in our products and services contributes to an incident at sea. All of our safety and quality systems are focused on mitigating this risk. We carry professional indemnity insurance to cover the first £50m of any claim. Any liability beyond this is considered to be underwritten by our parent department, the MOD, and ultimately HM Treasury, who have noted this risk in their register of remote contingent liabilities.

Peter Sparkes Chief Executive 13 July 2023

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

#### Opinion on financial statements

I certify that I have audited the financial statements of the UK Hydrographic Office for the year ended 31 March 2023 under the Government Trading Funds Act 1973.

The financial statements comprise: the UK Hydrographic Office's

- > Statement of Financial Position as at 31 March 2023:
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- > the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- y give a true and fair view of the state of the UK Hydrographic Office's affairs as at 31 March 2023 and its retained profit for the year then ended; and
- have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

#### Opinion on regularity

In my opinion, in all material respects, the income and expenditure 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.

#### **Basis for opinions**

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. Iam independent of the UK Hydrographic Office in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern

In auditing the financial statements, I have concluded that the UK Hydrographic Office's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the UK Hydrographic Office's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

#### Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

#### Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973.

In my opinion, based on the work undertaken in the course of the audit

- the parts of the Parliamentary Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973;
- > the information given in the Performance Review and Parliamentary Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

#### Matters on which I report by exception

In the light of the knowledge and understanding of the UK Hydrographic Office and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Review and Parliamentary Accountability Report.

**UK Hydrographic Office** Annual Report and Accounts 2022/23

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

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 by the UK Hydrographic Office or returns adequate for my audit have not been received from branches not visited by my staff; or
- > Thave not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Parliamentary Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- > the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Responsibilities of the Chief Executive as Accounting Officer the Accounting Officer is responsible for:

- > maintaining proper accounting records;
- > providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the UK Hydrographic Office from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error:
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973;
- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- > assessing the UK Hydrographic Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of noncompliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

#### Identifying and assessing potential risks related to noncompliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the UK Hydrographic Office's accounting policies, key performance indicators and performance incentives.
- inquired of management, the UK Hydrographic Office's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the UK Hydrographic Office's policies and procedures on:
- identifying, evaluating and complying with laws and regulations;
- ightarrow detecting and responding to the risks of fraud; and
- > the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the UK Hydrographic Office's controls relating to the UK Hydrographic Office's compliance with the Government Trading Funds Act 1973, Managing Public Money, The Hydrographic Office Trading Fund Order 1996, Public Records Act, Data Protection Act, the Privacy and Electronic Information Regulations and the Infrastructure for Spatial Information in the European Community Regulations 2009 (INSPIRE):
- > inquired of management, the UK Hydrographic Office's head of internal audit and those charged with governance whether:
- they were aware of any instances of non-compliance with laws and regulations;
- they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the engagement team and the relevant internal specialists, including IT auditors, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the the UK Hydrographic Office for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

Performance

review

Corporate governance report

I obtained an understanding of the UK Hydrographic Office's framework of authority and other legal and regulatory frameworks in which the UK Hydrographic Office operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the UK Hydrographic Office. The key laws and regulations I considered in this context included Government Trading Funds Act 1973, Managing Public Money, The Hydrographic Office Trading Fund Order 1996, Public Records Act, Data Protection Act, the Privacy and Electronic Information Regulations and the Infrastructure for Spatial Information in the European Community Regulations 2009 (INSPIRE), employment law, pensions legislation and tax legislation.

In addition, I considered:

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- the results of analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- > reviews of internal audit reports.

#### Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Assurance
   Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board; and internal audit reports;
- > in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- considered whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.

#### Report

I have no observations to make on these financial statements.

#### **Gareth Davies**

Comptroller and Auditor General 17 July 2023

#### **National Audit Office**

157-197 Buckingham Palace Road Victoria, London SWIW 9SP

## **Statement of comprehensive income**

For the year ended 31 March 2023

	NI.	2022/23	2021/22
	Note	£k	£k
Income	2	189,127	163,995
Cost of sales		(84,840)	(73,198)
Gross margin		104,287	90,797
Operating expenses		(84,082)	(65,485)
Operating profit		20,205	25,312
Exceptional items	3	(338)	
Profit on ordinary activities before interest and after exceptionals		19,867	25,312
Interest receivable and similar income	4	2,164	62
Profit before taxation	т		
		22,031	25,374
Taxation	5	_	_
Dividends	6	(12,500)	(25,000)
Retained profit/(loss) for the financial year		9,531	374
Other comprehensive income			
Revaluation of non-current assets	7 & 8	3,041	3,427
Tetradadon on non Cananadosco	, 40	3,0 11	5,127
Total comprehensive profit/(loss)		12,572	3,801

The notes on pages 60–75 form part of these accounts.

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## Statement of financial position

As at 31 March 2023

	Note	2022/23 £k	2021/22 £k
Non-current assets:	.,,,,,	2.0	
Property, plant and equipment	7	46,816	46,022
Intangible assets	8	19,991	16,032
Total non-current assets		66,807	62,054
Current assets:			
Inventories	9	1,179	1,206
Trade and other receivables	10	52,751	44,563
Cash and cash equivalents	11 & 12	123,322	102,741
Total current assets		177,252	148,510
Total assets		244,059	210,564
Current liabilities:			
Trade and other payables	13	(107,230)	(86,918)
Provisions	14	(865)	(1,128)
Total current liabilities		(108,095)	(88,046)
Total assets less current liabilities		135,964	122.518
Non-current liabilities:			
Trade and other payables	13	(7,470)	(6,596)
Total non-current liabilities		(7,470)	(6,596)
Assets less liabilities		128,494	115,922
Taxpayers' equity:			
Public dividend capital	15	13,267	13,267
Revaluation reserve	16	13,789	11,271
Profit and loss account		101,438	91,384
Total taxpayers' equity		128,494	115,922

The notes on pages 60-75 form part of these accounts.

**Peter Sparkes**Chief Executive

13 July 2023

#### Statement of cash flows

For the year ended 31 March 2023

		2022/23	2021/22
	Note	£k	£k
Net cash flow from operating activities	21	36,734	30,210
Cash flows from investing activities			
Interest received	4	2,164	62
Purchase of property, plant and equipment	7	(657)	(105)
Purchase of intangible assets	8	(5,160)	(3,972)
Net cash outflow from investing activities		(3,653)	(4,015)
Cash flows from financing activities			
Dividend paid	6	(12,500)	(25,000)
Net cash outflow from financing activities		(12,500)	(25,000)
Net financing			
Net increase in cash and cash equivalents in the period		20,581	1,195
Cash and cash equivalents at beginning of year		102,741	101,546
Cash and cash equivalents at end of year	11 & 12	123,322	102,741

The notes on pages 60-75 form part of these accounts.

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# Statement of changes in taxpayers' equity

For the year ended 31 March 2023

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	Note	Profit and Loss Reserve £k	Revaluation Reserve £k	Public Dividend Capital £k	Total Reserves £k
Balance at 1 April 2022		91,385	11,270	13,267	115,922
Other Comprehensive Income					
Revaluation of property, plant and equipment (PPE)	7		1,569		1,569
Revaluation of intangible assets	8		1,472		1,472
Transfer between reserves profit/loss		522	(522)		_
Total other comprehensive income		522	2,519	_	3,041
Net income for the period		22,031			22,031
Total recognised income and expense for the period		22,553	2,519		25,072
Dividend	6	(12,500)			(12,500)
Balance at 31 March 2023		101,438	13,789	13,267	128,494
Balance at 1 April 2021		90,766	8,088	13,267	112,121
Other Comprehensive Income					_
Revaluation of property, plant and equipment (PPE)	7		2,693		2,693
Revaluation of intangible assets	16		734		734
Transfer between reserves profit/loss	16	245	(245)		_
Total other comprehensive income		245	3,182	-	3,427
Net income for the period		25,374			25,374
Total recognised income and expense for the period		25,619	3,182	-	28,801
Dividend	6	(25,000)			(25,000)
Balance at 31 March 2022		91,385	11,270	13,267	115,922

The notes on pages 60-75 form part of these accounts.

**UK Hydrographic Office** Annual Report and Accounts 2022/23

#### Notes to the accounts

#### 1. Accounting policies

#### A. Basis of accounting

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 15 December 2022 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973 and the Government Financial Reporting Manual (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 in the UK.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the circumstances of the UKHO for giving a true and fair view has been selected. The policies adopted are described below and have been applied consistently in dealing with items that are considered material to the accounts.

All figures within the financial statements and associated notes are in British pounds rounded to the nearest thousand (£k).

#### B. Accounting convention

These financial statements have been prepared on an accruals basis under the historical cost convention, modified by the revaluation of intangible assets and property, plant and equipment assets.

#### C. Going concern

We have prepared a five-year Corporate Plan covering the years from 2021/22 to 2025/26 on a prudent basis. As part of our preparation of our Business Plan for 2023/24 we prepared a high-level forecast to 2027/28. While we continue to see a decline in our paper products, these have been offset by a corresponding growth in digital. We are forecasting a decline in our levels of profitability over the coming few years as we further increase our investment in our back-end systems in order to achieve greater resilience and deliver business efficiencies, and this, combined with the development of second generation navigational products, will ensure a return to greater levels of profitability.

The strategic direction outlined in our Corporate Plan and further developed in more recent strategic reviews sees the business remaining profitable for the foreseeable future and the Board and MOD, our Owner, are confident that the UKHO will remain a viable business.

#### D. Basis of consolidation

Admiralty Holdings Limited is 100% owned by the Secretary of State for Defence. He has delegated its management to the UKHO. Admiralty Holdings Limited, in turn has nine wholly owned subsidiary companies. Admiralty Holdings Limited last traded in 2014/15 and the subsidiary companies have never traded. The assets and liabilities of these companies are immaterial to these financial statements. On this basis, none of the companies have been consolidated. The UKHO also operates the International Centre for Electronic Navigational Charts (IC-ENC). IC-ENC has 48 member nations that collaborate on the quality control and distribution of ENCs. The substance of these arrangements is such that the UKHO does not have control over the activities of IC-ENC members and their activities are

therefore not consolidated. These financial statements therefore only cover the UKHO.

#### E. Changes in accounting policies and disclosures

During 2022/23 IFRS 16 – Leases came into effect. Our policy in respect of this standard is detailed in Note I below

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

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There is one IFRS that has been issued by the International Accounting Standards Board (IASB) that will become effective for financial statements after this reporting period.

#### The following have not been adopted early:

#### IFRS 17: Insurance Contracts

The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts. It sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts.

HM Treasury is consulting on the public sector interpretation of this standard and it expects public sector implementation to be from 2025/26. The UKHO will consider whether, through contractual arrangements or custom and practice, our activities insure other bodies against specific risks.

New transaction streams or arrangements will be monitored against the criteria of IFRS 17 to ensure all liabilities are appropriately recognised if applicable.

## G. Property, plant and equipment non-current assets

#### Recognition

For furniture, plant and machinery, new acquisitions are capitalised where the cost exceeds £5,000. In respect of all other asset classes, new additions and improvements are capitalised where the value of discrete items exceeds £1,000. Assets are recognised initially at cost, which comprises purchase price, construction costs, after deducting for any discounts or rebates and any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended.

#### Valuation

After initial recognition, building and plant and machinery assets are expressed at their fair value through professional valuation and/or the application of indices to revalue the asset to Depreciated Replacement Cost (DRC). Indices are provided by the Value Office Agency for land and buildings and by Defence Economics for plant and equipment. Buildings are subject to a quinquennial revaluation by external valuers in accordance with IAS 16 as interpreted by the FReM. The next quinquennial valuation is due in 2023/24.

Furniture and fittings and information technology assets are retained at historical cost owing to their short-term economic life. Assets under construction are not subject to indexation.

Assets which are not held for their service potential are valued in accordance with IFRS 5 – Non–Current Assets Held for Sale and Discontinued Operations or IAS 40 – Investment Property, depending on whether the asset is actively held for sale.

Assets which are surplus are valued in accordance with IFRS 13 – Fair Value. The UKHO interprets surplus to mean that the assets are no longer required and there is no clear plan to bring them back into service.

#### Depreciation, impairment, and review of estimated useful life

Freehold land is not depreciated. Depreciation on other assets is calculated to write off the original cost or revalued amount, over their estimated useful lives. Assets are depreciated on a straight-line basis as over the following periods:

- > Buildings not exceeding 100 years.
- > Plant and equipment between 3 and 20 years.
- > Furniture and fittings over 10 years.
- > Information technology assets between 2 and 5 years.

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.

All property, plant and equipment non-current assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses in excess of any amounts held in the revaluation reserve in respect of the asset being impaired, are recognised immediately in the Statement of Comprehensive Income.

#### H. Intangible non-current assets

#### Recognition

Intangible assets are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to the UKHO and where the cost of the asset can be measured reliably.

#### Software licences

We capitalise software assets as an intangible asset where we contract with a third party to develop software for our use and, as a result, we own the intellectual property in that asset. Software that we develop internally is capitalised as Developed Software.

#### **Developed Software**

Research costs are charged to the Statement of Comprehensive Income in the period in which they are incurred.

Development costs are capitalised in accordance with IAS 38 – Intangible Assets (as adapted in the FReM).

Specifically, databases and other software that are established for the internal use of management (such as payroll or HR systems) are not recognised as intangibles.**Valuation** 

The UKHO's capitalisation threshold is £5,000. Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the

point that it is capable of operating in the manner intended by management.

Software licences are retained at historical cost owing to their short-term economic life.

Subsequently, developed software is revalued using indices to revalue the intangible asset to DRC or, if the asset is income generating, to value in use if lower than DRC. We have calculated our own index for internally generated software assets to reflect the average cost per hour of resource charged to software development time each year. Intangible Assets Under Construction are not subject to indexation where the costs capitalised during the period of construction are deemed to reflect fair value.

Intangible assets held for sale are measured at the lower of their carrying amount or 'fair value less costs to sell'.

#### Amortisation, impairment and review of estimated useful life

Intangible assets are amortised on a straight-line basis over their useful economic lives, from the date economic benefit starts to be derived.

Software licences are amortised over the useful economic lives of between 2 and 10 years. Developed software assets are amortised over the useful economic lives of between 5 and 25 years.

All intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses in excess of any amounts held in the revaluation reserve in respect of the asset being impaired, 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. Useful lives are reviewed on a regular basis to ensure they remain appropriate.

#### I. Leases

In addition to assets that are clearly leased, in accordance with IFRS 16, the UKHO will recognise leased assets specified, explicitly or implicitly, within contracts as long as:

- > The asset is physically distinct, or we have the right to receive substantially all the capacity of the asset.
- > The contract is for more than 12 months.
- The value of the asset is greater than £5,000 for PPE assets or greater than £1,000 for all other asset classes.

We have elected to not apply IFRS16 to intangible assets.

The property lease we had, in respect of a print facility in Bridgwater, expired on 14 January 2023.

We have completed a review of contracts that UKHO holds and have concluded there is no material impact for 2022/23.

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#### Notes to the accounts continued

#### J. Hydrographic data

In carrying out our business, we utilise raw hydrographic data provided by the MOD, the Maritime and Coastguard Agency, and foreign governments and private companies. This data is owned by these third parties and we pay a royalty or data cost to use it. Accordingly, we do not carry the value of the data on our Statement of Financial Position, charging all costs of acquiring and maintaining the data to the Statement of Comprehensive Income as incurred.

#### K. Inventories and work in progress

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

#### L. Financial instruments

We account for financial instruments in accordance with IFRS 7, IFRS 9 and IAS 39.

#### Trade and other receivables

All receivables, including trade and VAT receivables, staff loans and advances 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.

#### 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 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.

#### M. Cash and cash equivalents

Cash and cash equivalents comprise cash held at bank and

The UKHO holds cash due to the members of IC-ENC in a UKHO bank account. The UKHO does not have full control over the use of this cash, nor does it have the right to the future economic benefits from this cash. This cash is therefore not recognised as an asset, but it is disclosed in Note 11 of these financial statements.

#### N. Short-term investments

Surplus cash is held in interest-bearing accounts and invested for specific periods between 3 and 12 months to ensure cash availability meets the demands of the business.

#### O. 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 31 March 2023.

#### P. Capital and reserves

#### Public dividend capital

Public dividend capital represents the capital invested by the Ministry of Defence in the UKHO on becoming a Trading Fund on I April 1996. Public dividend capital is not an equity instrument as defined in IAS 32 - Financial Instruments.

#### Profit and loss reserve

The profit and loss reserve represents the cumulative retained net income (after dividends) since the UKHO became a Trading Fund.

#### Revaluation reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments to assets. Increases arising on revaluation are taken to the revaluation reserve. A revaluation decrease is charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to the income statement.

#### Q. Foreign currencies

Assets and liabilities denominated in a foreign currency are translated into sterling at the rate of exchange ruling as at 31 March 2023. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Statement of Comprehensive Income.

#### R. Revenue

All revenue is recognised in accordance with IFRS 15. Revenue is recognised when a performance obligation included within a contract with a customer is satisfied, at the transaction price allocated to that performance obligation.

#### Performance obligations

The table below sets out, for each revenue stream, when performance obligations are typically satisfied, the significant payment terms, and the nature of the goods or services which the UKHO supplies. All revenue streams usually have a contract of a duration of one year or less, and therefore the transaction price allocated to remaining performance obligations is not disclosed, applying the practical expedient in IFRS 15.121

Revenue stream Description of income stream		Performance obligation	Payment terms		
Paper charts and publications	Charts and other publications provided on paper	Delivery of the product to the customer and any updates over the period between the delivery and the publication of a new edition of that product	Payment is made in arrears on satisfaction of the initial performance obligation. A portion of this payment is in advance of satisfaction of the performance obligation to provide updates		
Digital licensing (charts and publications)	Charts and other publications provided digitally as a service for a period of time	Provision of the digital product and any updates over the period of the licence	Payment is made in arrears on satisfaction of the initial performance obligation		
Licensing revenue	Licences sold for the use of UKHO data	Provide data and updates to the data as they arise during the licence period	Payment in arrears on satisfaction of performance obligation		
MOD services	Overarching contract for the delivery of goods and services to MOD	Delivery of the product or service to the customer	Payment in arrears on satisfaction of performance obligation		
UK Government surveying contracts	Contracts held with UK Government to carry out hydrographic surveys	Delivery of the product or service to the customer	Payment in arrears on satisfaction of performance obligation		

Revenue, which is stated net of any VAT, is from the provision of hydrographic and marine geospatial services.

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 inventory following the release of new editions and a 1% credit allowance in relation to inventory cleanses.

#### Notes to the accounts continued

#### Contract balances

Contract assets (accrued revenue) primarily relate to the UKHO's right to consideration for work completed but not yet billed at the reporting date.

Contract liabilities, reported under IFRS 15, are disclosed separately in the note for trade payables and other liabilities. Contract liabilities are recognised on receipt of cash for services and derecognised at the point of provision of those services. Contract liabilities (deferred revenue) primarily relate to the consideration received from customers in advance of transferring a good or service.

- Paper products are sold with an implied performance obligation for the purchaser to receive updates for the period between purchase and the publication of the new edition of that product. The revenue that relates to the cost of providing the update service is deferred over the average new edition frequency of 7 years.
- 2. Digitally delivered products are sold for between 3- and 12-month periods. For expediency, the deferred revenue is calculated, for new purchases, over the life of the licence plus the month within which the licence was purchased. If that product is then renewed, the revenue is deferred over the period of the licence as all renewals start on the first day of each month.

#### S. Operating segments

The operating segments are reported based on financial information provided to the UKHO's Executive Leadership Team. ELT is considered to be the Chief Operating Decision Maker (CODM) and is responsible for allocating resources and assessing the performance of the operating segments.

Three segments have been identified by the UKHO and discrete financial information, consisting of revenue with cost of sales and gross margin, for these segments is provided to the CODM. All operating segments derive their revenue from the provision of hydrographic and marine geospatial services.

ELT evaluates performance of the segments based on segment revenue and gross margin.

#### T. Royalties and data costs

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

#### U. Salaries, wages and employment-related payments

Short-term benefits – salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. Where material, performance pay and annual leave earned but not taken by the year-end are recognised on an accruals basis in the financial statements.

#### V. Retirement benefit costs

Our staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multiemployer defined benefit scheme. 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 44–51). Our staff may have benefits accrued in one of five statutory based defined benefit schemes: alpha, classic, premium, classic plus, and nuvos. From 1 April 2022 all staff were transferred to the alpha scheme, a career average defined benefits scheme. Pensions for future retirees will be paid from both their accrued benefits in their previous schemes and the alpha scheme. Classic, premium, classic plus and nuvos are now closed to both new and existing members.

New entrants after I April 2015 may choose between membership of alpha or joining a money purchase stakeholder pension agreement with a significant employer contribution (partnership pension account).

#### W. Taxation

#### Corporation Tax

The UKHO, as a Trading Fund, is exempt from Corporation Tax and consequently the requirements to account for current and deferred Corporation Tax are not relevant.

#### **\/Δ**Τ

The UKHO is registered for VAT. Costs are included net of recoverable VAT. Income from services provided to third parties is included within operating income, net of related VAT. Where it arises, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

# X. Critical accounting judgements and key sources of estimation uncertainty

The preparation of these financial statements requires the UKHO to make judgements, estimates and assumptions in respect of a range of activities that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts and liabilities within the next financial year are addressed below.

# Valuation of non-current intangible and property, plant and equipment assets

Certain non-current intangible and property, plant and equipment assets are expressed at their fair value or at DRC. This requires the application of estimates and judgements. Land and property assets are revalued at least every five years from the anniversary of their initial recognition in accordance with FReM requirements. Between valuations, the UKHO updates asset values through the application of indices. The selection and application of indices represents a key judgement, and there is a risk that this could result in different values in the intervening years compared to a full valuation if these had been undertaken each year.

The useful lives of assets are based on an estimated out-of service date or the estimated period of use, which is subject to change. The useful lives are reviewed annually.

In addition to considering the valuation of non-current intangible and property, plant and equipment assets, the UKHO considers more broadly whether there are any indications of impairments to the carrying amounts of the UKHO's assets. Where such an indication exists, the UKHO makes a judgement as to the impairment required to bring the asset to the value it considers it should be held at.

It was reported in the 2018/19 report that, following the completion and occupation of our new office building in January 2019, most of our older existing buildings would be demolished and the surplus land sold. Since then, plans have been approved to rebuild another of our facilities utilising about half of the available land. Further discussions are ongoing with the MOD about possible uses of the remaining land. As such, options to sell the land are on hold. However, the demolition of the old offices is complete, the remaining impairment, which stood at £2.1m at the end of 2020/21, has been reduced to £0.9m to reflect the estimated costs of landscaping and refencing the site perimeter which will be completed once the final site strategy has been agreed.

This surplus land was last valued in June 2019 when it was valued at £3.65m. In March 2023, we had a professional indicative valuation done. This indicates that any further impairment is not likely to be material. Therefore, with the next full quinquennial valuation due at the end of 2023/24, no further adjustments have been made.

#### Estimation of deferred revenue

Per note IR, our paper charts have two performance obligations: the delivery of the product to the customer and our obligation to provide an update service for those products until the next new edition is published. Revenue relating to the first obligation is recognised on delivery of the product to the customer. Revenue relating to the second obligation is deferred over the average time between the original and new editions. As there is no market value for the update service we provide, we have used the percentage of the total cost of paper chart production that relates to the cost of providing the update service as a proxy to estimate the percentage of revenue that should be deferred in relation to the second obligation. This revenue is deferred over the average new edition frequency, currently seven years. The timing of new editions is highly variable and unpredictable and therefore the average period over which revenue could be deferred is also subject to variation.

Our sales of paper charts have been declining since 2011. In line with many hydrographic offices, we are actively considering the implications and timing of the withdrawal of paper charts in order to focus attention and resources on the benefits that digital products afford the users of our products. This decision will ultimately impact on our current revenue deferral policy. At the balance sheet date and the date of approval of these accounts the timing of this withdrawal is uncertain. In order to help readers understand the potential impact, the variance from the seven-year deferral used in the accounts is:

	Deferral	Impact on revenue and profits
8 Years	£12.3m	-£2.0m
7 Years	£10.3m	_
6 Years	£8.2m	+£2.1m
5 Years	£6.5m	+£3.8m
4 Years	£4.9m	+£5.4m
3 Years	£3.5m	+£6.8m
2 Years	£2.2m	+£8.1m

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#### 2. Operating segments

The UKHO has three reportable business segments, and these are disclosed to enable the users of these financial statements to evaluate the nature and financial effects of UKHO's business activities.

All operating segments derive their revenue from the provision of hydrographic and marine geospatial services.

	Commercial 2022/23 £k	Defence 2022/23 £k	Other government 2022/23 £k	Total 2022/23 £k	Commercial 2021/22 £k	Defence 2021/22 £k	Other government 2021/22 £k	Total 2021/22 £k
Revenue unadjusted	174,396	13,820	911	189,127	149,860	12,690	1,445	163,995
Cost of sales	(81,251)	(2,643)	(946)	(84,840)	(68,719)	(3,286)	(1,193)	(73,198)
Gross profit	93,145	11,177	(35)	104,287	81,141	9,404	252	90,797
Operating expense				(84,082)				(65,485)
Exceptional items				(338)				
Interest receivable and similar income				2,164				62
Total per financial statements				22,031				25,374

Overhead costs, assets and liabilities are not included in the financial information provided to review the performance of operating segments and are therefore not disclosed.

#### Information about major customers

Revenues from two customer exceeded 10% of the UKHO's total revenues in 2022/23:

	Commercial 2022/23 £k	Defence 2022/23 £k	Other government 2022/23 £k	Total 2022/23 £k	Commercial 2021/22 £k	Defence 2021/22 £k	Other government 2021/22 £k	Total 2021/22 £k
Customer I	26,064			26,064	18,760			18,760
Customer 2	25,570			25,570	19,465			19,465
Customer 3	24,804			24,804	19,722			19,722

#### Revenue by geographical market

Total revenue	189,127	163,995
Central & Latin America	177	240
North America	2,219	3,117
Asia Pacific	51,945	44,629
Europe, Middle East & Africa	134,786	116,009
	£k	£k
	2022/23	2021/22

Revenue has been attributed to geographical markets based on the location of the customer supplied.

#### Timing of revenue recognition

	2022/23	2021/22
	£k	£k
Products transferred at a point in time	32,245	30,652
Products and services transferred over time	156,882	133,343
Total revenue	189,127	163,995

#### 3. Profit on ordinary activities before interest

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Profit on ordinary activities before interest is stated after charging the following:

	2022/23 £k	2021/22 £k
Salaries, wages, etc.	34,865	31,528
Social security costs	3,771	3,225
Apprentice levy	144	140
Pension costs	8,778	8,011
Agency staff costs	7,919	2,898
Service personnel costs	713	975
Staff costs capitalised within intangible assets	(1,762)	(1,809)
A. Total staff costs	54,428	44,968
Voluntary early release	338	_
Depreciation	1,434	2,101
Amortisation software	72	123
Amortisation Development Software	2,499	2,650
Loss/(gain) on disposal of fixed assets	103	350
Realised foreign exchange loss(gain)	(2,062)	(643)
Unrealised foreign exchange (gain)loss	1,158	(614)
Auditors' remuneration	117	103
Development and transformational activities	8,771	4,541

#### 4. Interest receivable and similar income

This relates to interest receivable from a commercial bank's high interest accounts and short-term investments for varying periods of between 3 and 12 months.

	2022/23	2021/22
	£k	£k
Interest receivable and similar income	2,164	62

#### 5. Taxation

 $The \, UKHO, as \, a \, trading \, fund, is \, exempt \, from \, Corporation \, Tax \, and \, consequently \, no \, current \, or \, deferred \, tax \, is \, accounted \, for.$ 

#### 6. Dividends

Total dividends	12,500	25,000
Special dividend	-	12,500
Ordinary dividend	12,500	12,500
	2022/23 £k	2021/22 £k

Special dividends are declared and paid in the same year.

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#### Notes to the accounts continued

#### 7. Property, plant and equipment

	Freehold land £k	Buildings £k	Plant & machinery	Furniture & fittings	Information technology £k	Assets under construction £k	Total £k
Cost or valuation:	£K	EK	EK	EK	EK	EK	EK
At I April 2022	9,696	37,234	1,799	784	4,697	_	54,210
Additions	-,	,	.,		7	650	657
Disposals			(1,229)				(1,229)
Revaluation	(827)	2,548	74				1,795
At 31 March 2023	8,869	39,782	644	784	4,704	650	55,433
At I April 2022		2,691	1,483	253	3,761	_	8,188
Charged	_	957	92	77	308		1,434
Disposals	_		(1,231)				(1,231)
Revaluation	_	184	42				226
At 31 March 2023	-	3,832	386	330	4,069	-	8,617
At 31 March 2023	8,869	35,950	258	454	635	650	46,816
	2,222						10,010
At I April 2021	8,240	35,970	2,567	784	5,169	_	52,730
Additions	_	_	_	_	104	_	104
Disposals	_	_	(847)	_	(576)	_	(1,423)
Revaluation	1,456	1,264	79	_	_	_	2,799
At 31 March 2022	9,696	37,234	1,799	784	4,697		54,210
At I April 2021	_	1,734	1,424	176	3,718	_	7,052
Charged	_	896	509	77	619	_	2,101
Disposals	_	_	(497)	_	(576)	_	(1,073)
Revaluation	_	61	47	_	_	_	108
At 31 March 2022	-	2,691	1,483	253	3,761	_	8,188
Net book value:							
At 31 March 2022	9,696	34,543	316	531	936	_	46,022

All tangible non-current assets are owned by the UKHO.

A professional valuation was carried out on 27 February 2019 by James McLearon BSc from the Valuation Office Agency (VOA). The next valuation of land and buildings will be in 2024.

#### 8. Intangible assets

or meangible assets				
	Software licences	Development Software	Assets under construction	Total
	£k	£k	£k	£k
Cost or valuation:				
At I April 2022	536	33,469	4,661	38,666
Additions		267	4,893	5,160
Reclassification		1,035	(1,035)	_
Disposals	(536)	(15)	_	(551)
Revaluation		4,162	_	4,162
At 31 March 2023	-	38,918	8,519	47,437
Amortisation:				
At I April 2022	363	22,271	_	22,634
Charged	72	2,499	_	2,571
Disposals	(435)	(14)	_	(449)
Revaluation	_	2,690	_	2,690
At 31 March 2023	-	27,446	-	27,446
Net book value:				
At 31 March 2023	-	11,472	8,519	19,991
Cost or valuation:				
At I April 2021	536	30,806	1,718	33,060
Additions	_	476	3,495	3,971
Reclassification	_	552	(552)	_
Disposals	-	(208)	_	(208)
Revaluation	_	1,843	_	1,843
At 31 March 2022	536	33,469	4,661	38,666
Amortisation:				
At I April 2021	240	18,717	_	18,957
Charged	123	2,650	_	2,773
Disposals	_	(207)	_	(207)
Revaluation	-	1,111	_	1,111
At 31 March 2022	363	22,271	_	22,634
Net book value:				
At 31 March 2022	173	11,198	4,661	16,032

All intangible non-current assets are owned by the UKHO.

#### Notes to the accounts continued

#### Analysis of intangible non-current assets

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

Project	Description	Carrying value 31/03/2023 £k	Remaining amortisation period (months)
Hydrographic Database and Chart Production Tools (HDB)	Production system for holding data and compiling charts	4,349	84
Fleet Manager	Fleet Manager is our integrated digital catalogue, product viewer and passage planning aid for organising, updating and consolidating all paper and digital information needed for planning safe voyages while simplifying essential tasks	2,400	24
Various delivery capabilities	Systems for the support of efficient data delivery to our customers	3,254	12-96

#### 9. Inventories

Total inventories	1,179	1,206
Materials	418	399
Finished inventories	761	807
	2022/23 £k	2021/22 £k
	2022/23	2021/22

#### 10. Trade and other current receivables

	2022/23 £k	2021/22 £k
Falling due within one year		
Trade receivables	30,834	26,894
Prepayments	19,290	16,396
Contract assets – accrued income	2,590	1,215
Net investments and finance leases	20	12
Other receivables	17	46
Total receivables	52,751	44,563

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#### 11. Cash and cash equivalents

	2022/23	2021/22
Notes	£k	£k
Balance I April	102,741	101,546
Net change in cash and cash equivalent balances	20,581	1,195
Balance 31 March	123,322	102,741
The following halances at 31 March were hold at:		
The following balances at 31 March were held at:		
		2021/22
	2022/23	Trading fund
	£k	£k
Commercial banks – short-term investments 12	75,000	23,864
Commercial banks – instant access accounts	48,322	78,877
Cash and cash equivalents	123,322	102,741

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

Commercial banks – instant access, high-interest account earns interest at 0.5%. Short-term investments earn at 0.15% interest and are made for varying periods of between 3 and 12 months.

The UKHO holds £17,092k (£15,512k 2021/22) in cash on behalf of the members of IC-ENC. This cash represents income due to IC-ENC members. It is not an asset of the UKHO and is not included in the note above.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2023.

#### 12. Short-term investments

			Interest receivable on	
		Amount invested	maturity	
Investment date	Term	£k	£k	Maturity date
20/10/2022	6	30,000	642	20/04/2023
20/12/2022	6	10,000	214	19/06/2023
20/10/2022	12	20,000	1,034	20/10/2023
03/01/2023	9	10,000	355	03/10/2023
03/01/2023	6	5	109	03/07/2023

We have £75m currently invested in short-term fixed bonds. If funds are required before the maturity date there would be a loss of predicted interest.

#### 13. Trade and other payables

Total non-current liabilities	7,470	6,596
Contract liabilities - deferred income	7,470	6,596
Non-current liabilities		
Total payables	107,230	86,918
Other taxation and social security	861	955
Trade payables	35,014	22,533
Proposed dividend	12,500	12,500
Contract liabilities - deferred income	46,655	42,561
Accruals	12,200	8,369
	2022/23 £k	2021/22 £k

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#### 14. Provisions

Total liabilities at 31 March 2023	865	1,129
Total current liabilities	865	1,129
Applied	(1,129)	(1,530)
Charged to operating cost	865	1,129
Opening balance at 1 April 2022	1,129	1,530
	2022/23	2021/22

#### Analysis of expected timing of cash flows at 31 March 2023

Sales credits	2023/24	2023 <b>865</b>
Sales credits	-	865

#### Analysis of expected timing of cash flows at 31 March 2022

, .		
		Balance March
	2022/23	2022
Sales credits	1,129	1,129
15. Public dividend capital		
	2022/23	2021/22
	£k	£k
Public dividend capital	13,267	13,267

Public dividend capital represents capital invested by the MOD in the UKHO becoming a trading fund.

#### 16. Revaluation reserve

Land	Buildings	Plant and machinery	Developed Software	Total
6,691	3,460	148	971	11,270
(827)	2,364	32	1,472	3,041
			(522)	(522)
5,864	5,824	180	1,921	13,789
5,235	2,256	115	482	8,088
1,456	1,204	33	734	3,427
			(245)	(245)
6,691	3,460	148	971	11,270
	6,691 (827) <b>5,864</b> 5,235 1,456	6,691     3,460       (827)     2,364       5,864     5,824       5,235     2,256       1,456     1,204	Land         Buildings         machinery           6,691         3,460         148           (827)         2,364         32           5,864         5,824         180           5,235         2,256         115           1,456         1,204         33	Land         Buildings         machinery         Software           6,691         3,460         148         971           (827)         2,364         32         1,472           (522)         5,864         5,824         180         1,921           5,235         2,256         115         482           1,456         1,204         33         734           (245)

#### 17. Financial instruments

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The UKHO's financial instruments comprise cash deposits and other items such as trade receivables, trade payables and provisions. The main purpose of these financial instruments is to finance the UKHO's operations.

The UKHO has limited powers to borrow or invest surplus funds. The main risks arising from the UKHO's financial instruments are foreign exchange, credit and liquidity risks. The UKHO's policies for managing these risks are set to achieve compliance with the regulatory framework including the rules contained within Managing Public Money.

#### Foreign exchange risk

The UKHO receives significant income in US dollars (USD) from the sale of digital products and makes significant USD payments to data owners in respect of those products. In order to manage this foreign exchange risk, the UKHO policy is to create a natural hedge by balancing USD assets and USD liabilities. We review the balance of USD assets and USD liabilities every two weeks and any excess USD cash held is sold at the spot rate on the day of transaction. We do not use any derivatives such as forward currency exchange contracts.

#### **Credit risk**

The UKHO is subject to some credit risk. The carrying amount of trade receivables, which is net of impairment losses (bad debt provision), contract assets and the amount of cash and cash receivables represents the UKHO's maximum exposure to credit risk.

Trade and other receivables consist of a large number of diverse government and non-government customers spread over a diverse geographical area. For trade receivables, the UKHO measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The UKHO's assessment is that credit risk in relation to sales to government customers is extremely low as the probability of default is insignificant; therefore the provision for expected credit losses is immaterial in respect of receivables from these customers. For all non-government commercial customers, the UKHO assesses expected credit losses, however this is not considered material to the financial statements.

The UKHO manages the credit risk on trade receivables through the application of a credit control policy and credit insurance.

The COVID-19 pandemic has caused significant economic disruption and uncertainty. We have been working closely with our channel and our trade credit insurers to evaluate the impact of any increased risk of default. To date we have not seen any discernible impact in payments and have not suffered any significant payment defaults.

For contract assets the expected credit loss provision is immaterial as the probability of default is insignificant.

26,860

The following table provides details of trade receivables beyond the due date and impairments made:

#### Trade receivables beyond the due date

Net total receivables

		Overdue	Overdue	Overdue	Overdue	
	Not overdue	0-3 months	3-6 months	6-12 months	Over 12 months	Total
2022/23	£k	£k	£k	£k	£k	£k
Receivables – not impaired	30,787	2	_	_	45	30,834
Bad debt provision		_	_	_	_	_
Net total receivables	30,787	2	-	-	45	30,834
		Overdue	Overdue	Overdue	Overdue	
	Not overdue	0-3 months	3-6 months	6-12 months	Over 12 months	Total
2021/22	£k	£k	£k	£k	£k	£k
Receivables – not impaired	26,860	_	31	5	_	26,896
Bad debt provision		_	_	_	_	_

31

26,896

The credit risk on cash and cash equivalents is managed by a Treasury policy that requires cash deposits and investments to be held by suitably creditworthy commercial banks. The maximum exposure to credit risk is limited to the carrying value of cash and cash equivalents in the Statement of Financial Position as at the reporting date. Based on historical experience and no defaults, the credit quality of financial assets that are neither past due or impaired is considered to be very high.

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#### Liquidity risk

Liquidity risk is the risk that the UKHO may not be able to settle or meet its obligations on time or at a reasonable price. The UKHO's finance department is responsible for management of liquidity risk, which includes funding, settlements, related processes and policies. The UKHO manages liquidity risk by maintaining adequate reserves and monitoring actual cash flow against forecast.

The table below sets out the UKHO's financial liabilities.

	2022/23	2021/22
	£k	£k
Financial liabilities		
Trade and other payables	114,700	90,556

#### Fair values

We are subject to some credit risk. The carrying amount of receivables, net of impairment losses (doubtful debt provision), represents the current value of all our financial instruments and is considered to equate to fair value at 31 March 2022.

#### 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 I to the financial statements.

#### 18. Commitments under leases

#### **Operating leases**

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

	2022/23	2021/22
	£k	£k
Property		
Due within one year	_	73
Due after one year but within five years	_	-
Total	-	73
Plant and machinery		
Due within one year	_	_
Due after one year but within five years	-	_
Total	-	-
Totalleases	-	73

The property lease relates to a five-year lease on a print facility in Bridgwater.

#### 19. Capital commitments

Capital expenditure that has been contracted for, but has not been provided in these accounts.

Total capital commitments	1,879	434
Intangible assets	1,011	250
Property, plant and equipment	868	184
	£k	£k
	2022/23	2021/22

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#### 20. Other financial commitments

Non-cancellable contracts not already on the balance sheet which are not leases, PFI contracts, or other service concession arrangements.

Total	11,846	16,264
Due after one year but within five years	5,795	10,267
Due within one year	6,051	5,997
	2022/23 £k	2021/22 £k

Material contracts included above largely relate to software maintenance and support contracts with the largest contracted commitment being £2.8m (2021/22: £4.0m). There is also a contract for total facilities management with a commitment of £1.5m (2021/22: £3.0m).

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

	2022/23	2021/22
	£k	£k
Profit on ordinary activities before interest and after exceptionals	19,867	25,312
Depreciation and amortisation	4,005	4,874
Loss on sale and disposal of non-current assets	100	351
Decrease in inventories	27	(27)
(Increase)/Decrease in receivables	(8,188)	(4,782)
(Decrease)/Increase in payables	21,187	4,883
(Decrease) in provisions	(264)	(401)
Net cash inflow from operating activities	36,734	30,210

#### 22. Contingent liabilities

The Government ultimately carries the risk in the event that an error in our products and services causes an incident at sea. All of our safety and quality systems are focused on mitigating this risk. We carry professional indemnity insurance for the first £50m of any claim and any liabilities beyond this are considered to be underwritten by our parent department, the MOD.

#### 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 Foreign, Commonwealth and Development Office. 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.

No other events have occurred subsequent to the financial year-end that require disclosure in these financial statements.



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