



UK Hydrographic
Office

A new direction

Annual Report and Accounts 2017/18



ADMIRALTY
Maritime Data Solutions

HCI355



Annual Report and Accounts 2017/18

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Highlights

Turnover

£151.6m

(2016/17: £145.4m)

Profit on ordinary
activities before interest

£29.1m

(2016/17: £34.8m)

Dividend

£19.1m

(2016/17: £10.5m)

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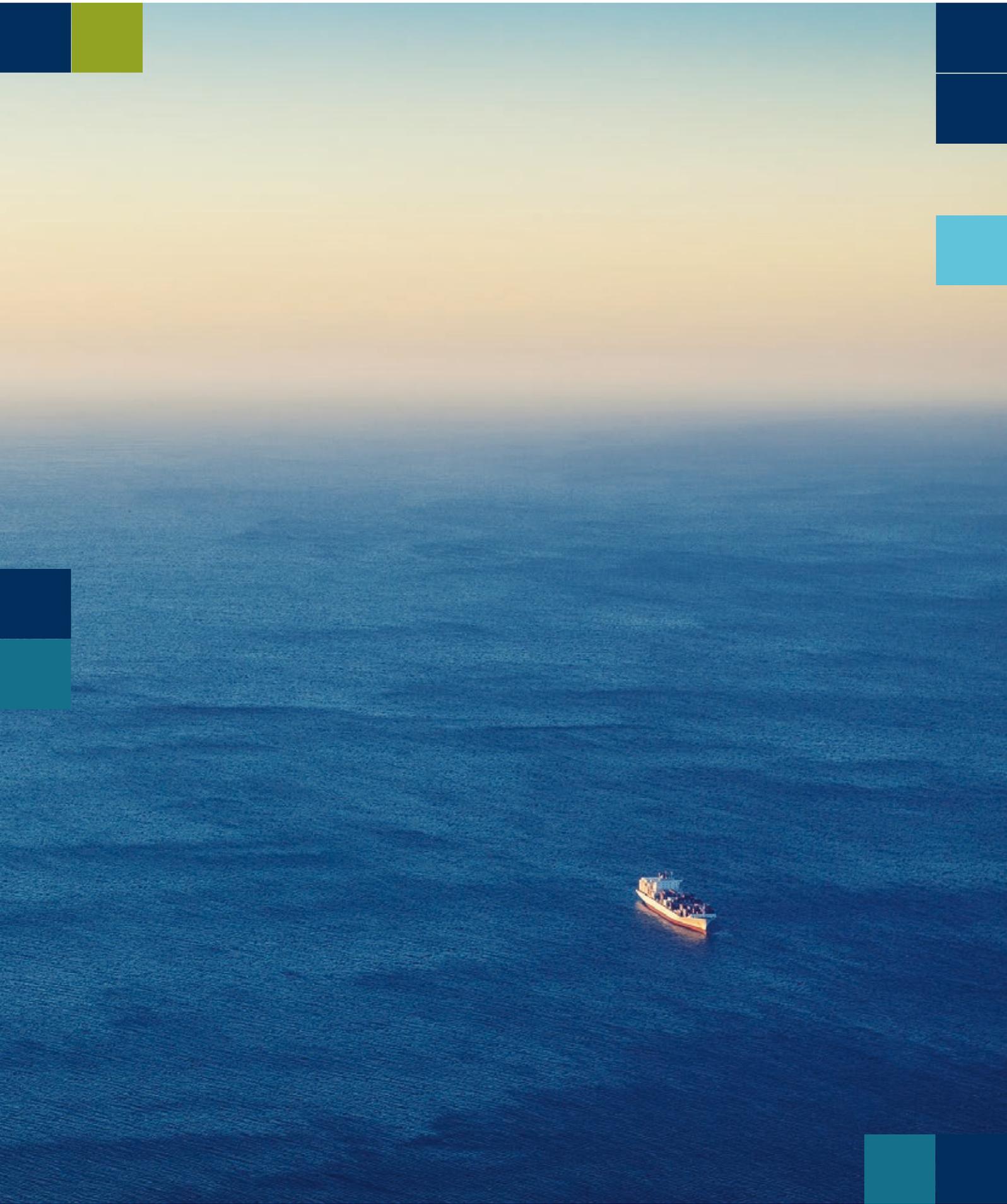
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The UK Hydrographic Office is a world-leading centre for hydrography. We provide marine geospatial data to inform maritime decisions.



We source, process
and provide location-based
information, ranging from
seabed to surface.



We help unlock a
deeper understanding
of the world's oceans.

Chairman's foreword

The marine geospatial opportunity

Look around you. Almost everything you see, whether products or raw materials, is likely to have arrived on a ship. And over 90% of ships trading internationally rely on the charts and digital services made available by the UK Hydrographic Office.

This is our starting place, as the trusted enabler of the safe passage of ships around the world. The value of that role is growing. Global trade, most of which is maritime, is projected to double by 2031 and ships on those ever-busier sea routes will benefit from high-resolution seabed mapping and marine spatial planning. The past 12 months have seen a significant acceleration in the adoption of new technologies across the shipping sector, as well as a marked proliferation in innovation across different aspects of shipping operations.

Supporting and enabling safe passage at sea is the core of what we do, and the transition from traditional paper charts to digital solutions is largely complete. But we do so much more. We are moving from traditional, product-oriented ways of working and opening our minds to new technologies and possibilities, including new uses for the data we hold.

In 2015 we set out our vision to become the world-leading marine geospatial information agency (MGIA) by 2020.

To put that in lay terms, this means expanding our market beyond ships travelling between ports, to governments and companies seeking to unlock the potential of the marine environment.

The scale of the opportunity is compelling. The Gross Value Added (GVA) of the global 'blue economy' is projected to double to US\$3 trillion by 2030. That value exists in infrastructure development, disaster resilience, tourism and trade. It exists in site-specific marine developments such as aquaculture, oil platforms and offshore energy. It exists in climate-change mitigation and in sub-sea energy and communications infrastructure. Maritime boundaries, too, are becoming increasingly important in so many spheres. As a result, government and defence organisations have never needed our work more.

Meanwhile, the need for accurate and comprehensive information about the world's coasts and oceans has never been greater. Almost all of the economic activity in the blue economy is underpinned by marine geospatial data: data on safe shipping routes, deep-sea biodiversity, seabed morphology and movement, bathymetry and other data for particular ports and locations.

According to the Global Wind Energy Council (GWEC), the UK is already a global leader when it comes to the blue economy – wind farms are an area of particular strength. The UKHO has the technical expertise, the infrastructure and the network of global relationships that can support and accelerate this growth.

I have every confidence that, by 2020, we will complete our transformation as an MGIA. We are transforming ourselves into a digital-first, data-centric provider of marine geospatial information services, while continuing to perform our core public tasks – to support the defence of the UK and the safe passage of ships around the world.

As an MGIA, the UKHO will continue to enable governments and companies to make the best strategic decisions in the rapidly developing maritime sphere. We can offer not so much blue sky thinking, one might quip, but blue sea strategy.



Adam Singer
Non-Executive Chair

“

The blue economy is projected to double to US\$3 trillion by 2030.

”



Chief Executive's review

Innovation, diversification and investment

As a government trading fund, the UKHO is a business.

Over the last five years we have grown sales, reduced our costs and increased our productivity; the result is that we are self-funding. In the last financial year, this trend continued: we generated a profit of £29.1m and returned dividends of £19.1m to government.

Our strategy in both the commercial and government sectors is to become a data-centric organisation and to diversify.

Maritime navigation is now primarily digital and demand for paper charts has halved in the last two years. Digital sales continue to grow and now represent 60% of sales and more than half our margin. Whether we deliver our services in digital or paper format, of course, mariner safety is of paramount importance to us.

In the commercial marketplace, we are identifying new customers for ADMIRALTY Maritime Data Solutions – customers who can benefit from our skills in aggregating and analysing disparate data sources.

By exploiting new technologies and automated processing platforms, we can manage a wide range of dynamic data sets for a growing number of maritime applications.

Within government, we are pursuing an integrated and aligned approach. We are one of six core bodies at the centre of the UK's new Geospatial Commission, announced by the Chancellor in November 2017. This group is co-ordinating the availability of location-based data held by public bodies, in the interests of UK economic growth.

Among the highlights of 2017/18:

- › We completed surveying in Montserrat, the Cayman Islands and the British Virgin Islands (BVIs) as part of the Overseas Territories Seabed Mapping Programme. The BVIs were badly affected by Hurricane Irma in September. In response, we produced special-purpose navigational chartlets to allow aid and emergency supplies to be brought in safely
- › We continued to support Small Island Developing States as part of the Commonwealth Marine Economies (CME) Programme, in partnership with the Centre for Environment, Fisheries and Aquaculture Science (Cefas) and the National Oceanography Centre (NOC). The second year of the programme saw us surveying in Belize, Guyana, Jamaica, Tonga and Tuvalu
- › In March 2018, we were recognised as a global leader in hydrography by the Government Office for Science in its 'Foresight Future of the Sea' report
- › As part of our defence role, we published our 200th Submarine Electronic Navigational Chart. We also supported the first entry of HMS Queen Elizabeth into Portsmouth, contributing hydrographic surveying advice and our expertise in data manipulation, analysis and validation.

Underpinning our transformation is our technology and our people. In the last 12 months, we have developed both. We offered 41 new apprenticeships in the past year, in a range of roles including digital, data and technology professions. We invested in software development, data science and marine science skills and in our new data platform. By leveraging big data technology, we can integrate a wide range of data sets and gain new insights. This is transforming the way we develop and deliver products and services.

Across the organisation, we have embraced smarter working and adopted new tools to increase collaboration and connectivity. A key part of this is the construction of our new Taunton headquarters, which will be completed by Spring 2019. The new building is designed to foster a more flexible, open and collaborative culture.

As our transformation gathers pace towards 2020 and beyond, it will underpin our long-term future as an innovative, data-centric marine geospatial information agency.



John Humphrey

Accounting Officer and Chief Executive

“

Our strategy in both the commercial and government sectors is to become a data-centric organisation and to diversify.

”



Strategic review

A geospatial agency

The next phase of our transformation puts us at the heart of the government's drive to better exploit geospatial data to **generate economic growth**.

About us

The UK Hydrographic Office is a leading centre for hydrography, providing marine geospatial data to inform maritime decisions. We work with a wide range of data suppliers and partners to support maritime navigation, safety and security, and marine development around the UK and worldwide.

We make location-based information available through ADMIRALTY Maritime Data Solutions, including our world-leading range of charts, publications and custom data sets. Our use of marine data and technology, combined with our expertise, ensures we continue to innovate and provide a wider range of solutions.

We source, process and provide access to location-based information, ranging from seabed to surface. This enables our partner organisations to make critical maritime decisions – informing the sustainable use and management of the marine environment and supporting the development of the blue economy.

Our vision

By 2020 we will be the world-leading MGI and hydrographic office.

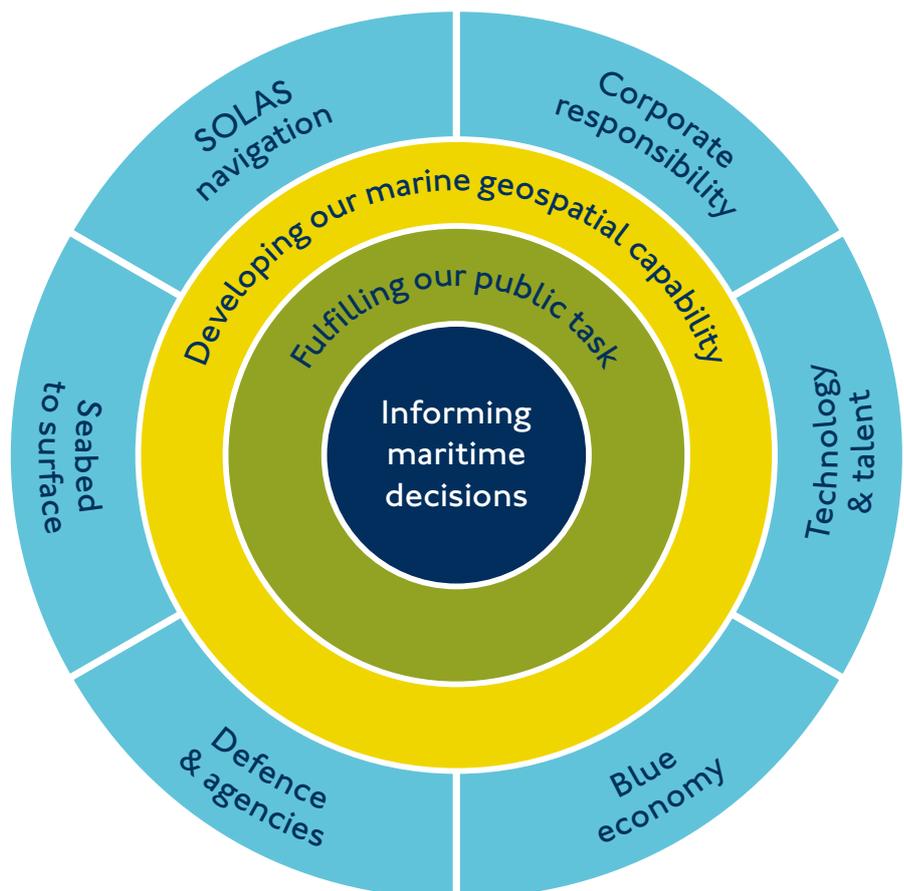
We will empower government, citizens and companies working in the marine domain to make more informed decisions, solve problems and earn value. We will do this by providing data, knowledge, insight and expertise.

We will achieve this while continuing to deliver our defence, security, safety and advisory commitments – to meet our public task on a sustainable basis.

How we work

We hope you enjoy reading our report. This diagram explains how our story unfolds: our purpose, our task, our capability and key themes. For each theme we offer a small case study – spotlights on some of our activities over the last financial year.

- what we do
- why we do what we do
- how we do our work
- our key themes



Our public task

We are the UK government's hydrographic and marine geospatial data experts.

We support the UK government's National Security Strategy (NSS) and discharge the government's obligation to provide hydrographic products and services needed for safe passage in UK waters.

We do the latter on behalf of the Maritime and Coastguard Agency (MCA) under the International Maritime Organization's (IMO) Safety of Life at Sea (SOLAS) Convention. As a trading fund, we fulfil this task at no additional expense to the taxpayer.

Together with other national hydrographic offices and the International Hydrographic Organization (IHO), we work to set and raise global standards of hydrography, cartography and navigation.

Through additional specialist departments such as the Law of the Sea and Her Majesty's Nautical Almanac Office, we support other specialised areas of government.

“

We work to set and raise global standards of hydrography, cartography and navigation.

”

Spotlight on:

Fulfilling our public task

Ensuring the safe arrival of HMS Queen Elizabeth



Providing expertise for HMS Queen Elizabeth's arrival into Portsmouth

To support the safe arrival of the Royal Navy's newest and largest aircraft carrier into Portsmouth, we worked in close collaboration with the Royal Navy, Queen's Harbour Master and the Defence Infrastructure Organisation to provide specialist advice. We validated hydrographic data (collected by HMS Gleaner after initial dredging operations) to ensure accuracy and quality, as well as providing tidal stream predictions and wider marine geospatial expertise.

Strategic review continued

Developing our marine geospatial capability

By exploiting new technologies and automated processing platforms, we are transforming our data handling and analysis capabilities to manage large, wide-ranging and dynamic data sets within the marine industry.

We integrate more traditional data sources, such as bathymetry, with marine pattern-of-life information and other, real-time data sources to provide richer insight into the ever-changing marine environment.

We collect, collate and publish marine geospatial information from a diverse range of expert providers for a wide variety of maritime applications.

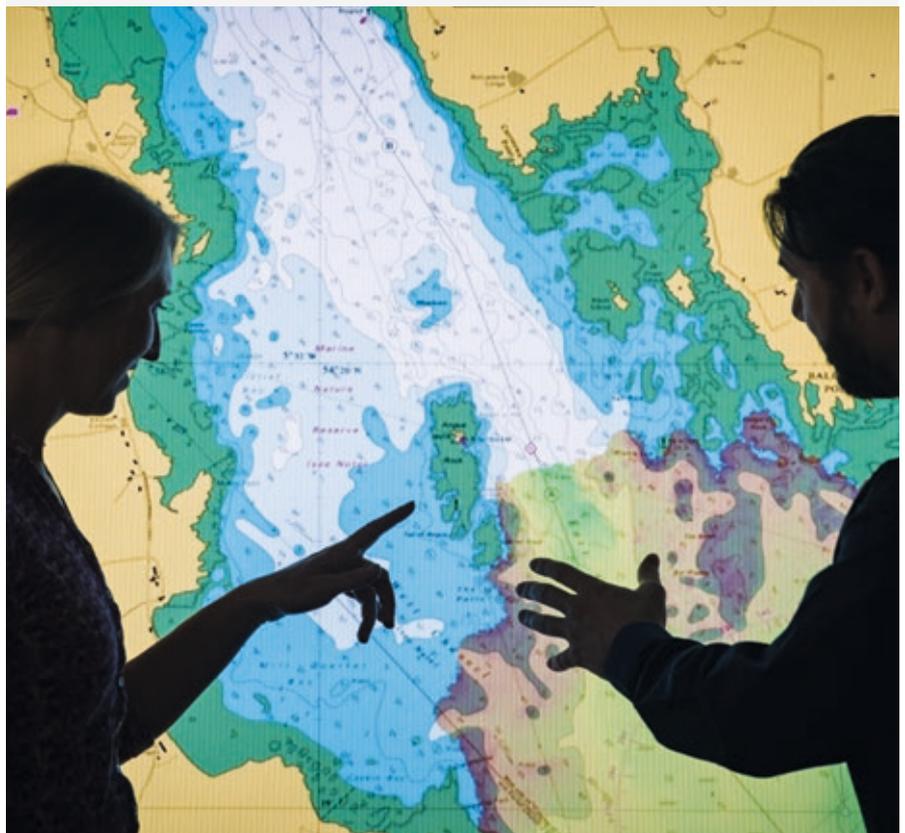
As changes in the marine environment and marine ecosystems are further explored, our data sets continue to grow and be refined.

By leveraging our data-handling expertise, whether in hydrography and oceanography or software development and data science, we are helping to unlock a deeper understanding of the world's oceans.

Spotlight on:

Marine geospatial capability

Cross-government collaboration



Supporting the Geospatial Commission

We are working alongside five other leading geospatial bodies in the UK as part of a newly formed Geospatial Commission. Announced in 2017, the aim of the commission is to drive economic growth by maximising the value of all location-based data in the UK. Recognised for our strength in marine geospatial data, we will collaborate with Ordnance Survey, HM Land Registry, British Geological Survey, Valuation Office Agency and Coal Authority.



Innovative data science techniques allow us to handle complex data in new ways.



Data science

Data science is a relatively new department within the UKHO. Drawing on scientific research, software engineering, data analytics and statistics, the team is proficient in coding, exploiting advanced mathematics and statistics, and using big data technologies such as algorithms and machine learning. Our data scientists are also able to communicate their work effectively to non-technical users.

These innovative data science techniques allow us to handle complex data in new ways. We use them to process and understand objects in a satellite image, derive meaningful information from very large data sets and predict future behaviour from historical data. This makes it possible to create innovative products and services from both new and existing data sets.

Our new data science team is adding ever-greater richness and value to the data solutions we provide. The quality of the team's work is now recognised across government, and it is represented on both the Ministry of Defence (MOD) data science steering group and the Government Data Science Conference's organising committee.

We have become the first geospatial hub in the Government Digital Service's Data Science Accelerator programme, and are deepening our strategic relationships with other MOD data science groups.

MInT

As part of our Marine Information Transformation programme (MInT), we are developing our data platform using Agile, an iterative approach to developing software. The resulting big data capabilities are transforming the way we develop products and services and bring them to market.

Previously, our products – charts and publications – were produced through a fixed production process. That is to say, data entered the system for a specific product, which meant the data could not easily be repurposed for other applications. Our new data platform allows us to integrate multiple data sets for new purposes and applications. Crucially, it also allows our customers to choose bespoke data sets to fulfil their needs, large or small.

The sources of the data we hold range from foreign government hydrographic offices and port authorities to satellite imagery and ships' own Automatic Identification System (AIS) data.

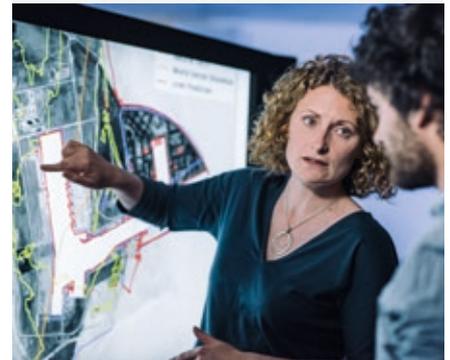
Tidal data sets, for example, are now being integrated into the new data platform. Each observation (up to 19 years' worth of data) is cleansed, reformatted, metatagged and structured so that it can be used for multiple applications and purposes. Tidal data can then be used to inform future predictions.

As MInT develops, data sets from the natural environment, human terrains and navigational infrastructure will all be ingested into the platform. MInT allows us to grow, refine and manage the variety and volume of this data, making it discoverable, and informing better decision-making across the marine world.

Spotlight on:

Marine geospatial capability

Using innovative technology



Automated offshore object detection

To improve our understanding of offshore infrastructure such as oil rigs and wind turbines, and to reduce the risk of collisions, we developed the ability to detect marine objects from open-source satellite imagery. This was achieved using synthetic aperture radar imagery, computer vision techniques in Python and machine learning.

Strategic review continued

Focus on delivery

SOLAS navigation

The core of our commercial organisation is ADMIRALTY Maritime Data Solutions, our world-leading range of charts, publications and custom data sets.

Trusted by mariners for safe, efficient and compliant navigation for more than 200 years, our portfolio is designed to support SOLAS and is found on over 90% of the world's ships trading internationally.

We offer the most comprehensive range available of SOLAS-compliant digital services, charts and publications. Last year our customers continued to demand digital products over paper charts, in ever greater numbers.

Paper products are still an important part of our range. Last year we produced 559 new editions of Standard Nautical Charts (SNCs), 105 new charts and 72 updated publications. At the same time, we are redesigning and enhancing our paper charts and publications to ensure they continue to meet the evolving needs of the mariner.

We are also moving away from 'print to stock' by developing our Print on Demand (POD) service. This service allows our network of distributors to print ADMIRALTY charts remotely in their offices around the world in order to serve customers' immediate requirements. The result is up-to-date charts that reach the mariner quickly and efficiently.

Since its launch, over one-fifth of all ADMIRALTY SNCs have been printed and delivered via POD, and the number is rising every month.

Now that digital represents 60% of our sales, we are keeping on top of our core SOLAS market by using in-depth analysis to help us generate new insights to support maritime decision-making.

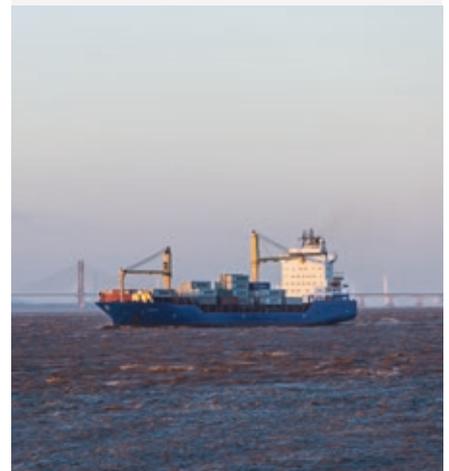
For example, when creating a new edition of our routeing publication, Ocean Passages for the World, we analysed over 8 billion AIS data points, to better understand emerging trade routes driven by shifting global macroeconomic trends.

Elsewhere, we have collaborated to produce new Electronic Navigational Charts (ENCs) of the Dover Strait and Bristol Channel. Their high-density contours allow safer navigation of these areas of shallow water.

Spotlight on:

SOLAS navigation

Improving ship efficiency



Producing ENCs with high-density contours

To support safe navigation and improve efficiency, we worked with partners to produce ENCs with one-metre depth contours of the Bristol Channel. Created using automated processing, these ENCs will help to improve situational awareness when navigating areas of shallow water. Similar ENCs with high-density contours are under development for other key ports and channels, including the Dover Strait.



Enabling our commercial and public-sector customers to make better use of the marine environment.



Seabed to surface

From seabed to coastal to offshore, we provide access to marine location-based information.

In addition to navigational information, we handle a broad range of marine geospatial data, such as the shape, composition and location of both natural and man-made features.

We hold data on the salinity and temperature of water, as well as its movement – including the speed and direction of tides, current and waves. In the last year, we used this data to develop a new UK Tidal application programming interface (API). This API gives software developers access to accurate data from the UK's largest authoritative network of tidal stations, allowing them to build tidal height and time predictions into their own online applications.

Our specialist teams also process information on maritime security, marine life and bioluminescence, maritime limits and boundaries, expected seasonal weather conditions, and more.

All this enables our commercial and public-sector customers to make better use of the constantly changing marine environment for site-specific developments. We are also exploring the value we can bring to sustainable fishing, oil spill recovery and the sub-sea sector in the future.

Spotlight on:

Seabed to surface

Protection of marine mammals



Supporting the Royal Navy with marine mammal data

We process and analyse a wide range of oceanographic data to support our Defence customers, including data on the different species of marine mammals encountered at sea and their behaviour. This data is valuable for mitigating the risk to marine mammals from military sonar operations and reducing other environmental impacts.

Strategic review continued

Blue economy

Our work supports government initiatives to aid growth and prosperity, in the UK and internationally.

We help the UK and other nations meet their international obligations and requirements by improving global standards in safety, hydrography, cartography and navigation. By serving as Primary Charting Authority for 71 nations, we help them to fulfil their obligations under the IMO's conventions and codes, and represent their interests at the IHO.

Safe navigation and accurate marine geospatial information is the foundation of sustainable growth in the blue economy. We are a partner in a number of key government programmes that are enabling this growth, such as the Overseas Territories Seabed Mapping Programme and the CME Programme (in partnership with Cefas and NOC).

Through the Overseas Territories Seabed Mapping Programme, we completed surveying in British Overseas Territories such as Anguilla, the British Virgin Islands, the Cayman Islands, St Helena and Montserrat. We also provided emergency support in the wake of the hurricane season to aid disaster relief.

In the second year of the CME Programme, we have continued to support sustainable development across Small Island Developing States. In the past 12 months, we have collected invaluable marine data across Belize, Guyana, Jamaica and Tonga and completed geodetic work in Tuvalu. We also updated chart coverage in the Caribbean for St Vincent and the Grenadines and Grenada and for the island of Vanuatu in the Pacific; this work will support trade and tourism in these areas.

Marine information and seabed mapping are essential to economic trade and national security. As the marine environment continues to change, we will continue to work collaboratively to deliver safer and more sustainable marine economies in developed and developing nations alike.

Spotlight on:

Blue economy

Emergency response to natural disasters



Supporting relief efforts in the British Virgin Islands

In the aftermath of Hurricane Irma, we produced emergency special-purpose charts of the BVIs. Using satellite imagery and basic soundings, UKHO staff processed data in under 48 hours to create emergency chartlets that enabled aid and medical supplies to be delivered as quickly and safely as possible by sea.



Marine information and seabed mapping are essential to economic trade and national security.



Defence and agencies

All UK Defence vessels, from ships and boats to submarines, rely on our navigational and operational products and services.

We collaborate with the Royal Navy, Royal Marines, British Army and Joint Forces Command in the development and delivery of specialist Defence navigational products. These include charts with Additional Military Layers, such as information on wrecks and other underwater features at depths not required for general shipping.

One of the most public examples of our recent work is providing support to the safe entry of the new aircraft carrier HMS Queen Elizabeth into Portsmouth harbour. (See case study on page 15.)

We also provide support and expertise to our Defence customers through a wide range of oceanographic data. For example, we receive Royal Navy observations and other source data on marine mammals encountered at sea (see case study on page 19). This information can reduce the impact maritime activities can have on dolphins, whales and other marine mammals.

Together with the UK's Statutory Nature Conservation Bodies (SNCBs), we also provide Environmental Protection Guidelines (Maritime) that identify Marine Protected Areas (MPAs) and provide guidance on daily operations and planning of maritime activity to reduce environmental impact. Also tactically significant for Defence customers are observations of bioluminescence, and we hold almost 5,000 individual observations in our database.

Spotlight on:

Defence and agencies

Supporting Royal Navy submariners



200th Submarine ENC produced

In 2018, our chart production teams published our 200th Submarine ENC, for use by the Royal Navy and allied partners. These complex, contour-rich compilations are created by combining both Defence and commercial multibeam survey data into ENCs.

Strategic review continued



We aim to attract, retain and nurture experts in a wide range of careers, from hydrography and data science to software development.



Technology and talent

As a digital-first organisation, we seek talented individuals interested in science, technology, engineering and mathematics, focusing on the marine environment.

We aim to attract, retain and nurture experts in a wide range of careers, from hydrography and data science to software development.

As part of our people programme, we have increased our participation in MOD and wider Civil Service leadership development schemes. We are further developing leadership skills through the Ways of Working programme, while the Investors in People accreditation and People Survey continue to provide our benchmark.

Our Diversity and Inclusion (D&I) initiatives and cultural change programmes are transforming attitudes, and senior staff now consider the impact on D&I of every decision they take. This year, we have appointed an ExCo Diversity Champion and in the autumn of 2017 we launched a new D&I Forum. It is affiliated to a number of new groups, including our Women's Network, Mental Health Awareness Group, Christian Fellowship, and STEM, LGBTQ+ and disability networks.

Spotlight on:

Technology and talent

Investing in talent



Award-winning UKHO apprenticeships

The past year has been a huge success for our UKHO apprentices; Sophie Hodson, Finance Apprentice, won the Bridgwater and Taunton College 'Apprenticeship Champion' Award, while Tara Stone, Procurement Apprentice, won 'Advanced Apprentice of the Year' at the Grow Somerset Talent Awards. We were also recognised by Grow Somerset in the 'New to Apprenticeships' category and we are continuing to invest in talented individuals through our apprenticeship scheme and trainee roles.

Corporate responsibility

We try to behave ethically and responsibly in everything we do, whether as a local employer, UK government agency or global organisation.

As part of our commitment to invest in skills for the future, we offered 41 apprenticeships last year in digital, data and technology professions, as well as in management, finance, HR, marketing and customer services.

We are active within our community. We have 21 UKHO-accredited STEM Ambassadors from around the business who take part in outreach work to encourage young people to consider careers in science, technology, engineering and maths (under the nationally recognised 'STEM Ambassador Scheme').

In the last year, our volunteers have taught young people how to code through various local activities in partnership with Digital Taunton, Code Club South West and the Raspberry Pi Foundation, including free, weekly code clubs. More recently, we have represented the UKHO at STEM events such as the Big Bang Fair, and 'Skirting Science' workshops in local schools.

In the last 12 months, our staff raised more than £12,000 for two local charities that work to support seriously ill children and their families: Molly Olly's Wishes and Torbay Holiday Helpers Network. The total amount was raised from activities co-ordinated by the Charity Committee and run entirely by staff volunteers.

The Charity Committee also co-ordinated the sales of reusable coffee cups to staff. This forms part of our commitment to reducing our impact on the environment through waste reduction and minimising our carbon footprint.

We are also considering our environmental impact in the development of our new office accommodation (see Sustainability Report on page 24).

Spotlight on:

Corporate responsibility

Staff charity initiative



Eco-friendly coffee cups

With an average of 500 coffees sold each week at the UKHO, the Charity Committee organised the sales of reusable bamboo-fibre coffee cups, to reduce the number of disposable cups sent to landfill. A total of 267 cups were sold with profits going to our charity of the year.

Sustainability Report

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

Emissions

	2017/18 tCO ₂ e	2016/17 tCO ₂ e	2015/16 tCO ₂ e
Gross and Net Emissions			
Scopes 1 & 2 (energy)			
Electric	2,488	2,524	3,209
Gas	570	645	583
Total for scopes 1 & 2	3,058	3,169	3,792
Scope 3 (business travel)	81	105	90
Total for scopes 1, 2 & 3	3,139	3,274	3,882
	£k	£k	£k
Expenditure on official travel	781	865	853
Expenditure on energy	542	552	710
Total expenditure on energy and travel	1,323	1,417	1,563

Commentary

We are reducing our emissions year-on-year through the transition from printed paper products to digital products and services, modernising our infrastructure and reducing staff numbers.

Our energy consumption should significantly reduce when our new office is complete, for which we are aiming to achieve a level 'Excellent' BREEAM rating.

Waste

	2017/18 tonnes	2016/17 tonnes	2015/16 tonnes
Reused/recycled/incinerated/energy from waste	242	410	412
Landfill	4	2	5
Reused/recycled	4	4	7
	250	416	424

Commentary

Regular waste audits are undertaken by the Defence Infrastructure Organisation and recycling is a priority.

Water

	2017/18 m ³	2016/17 m ³	2015/16 m ³
Water consumption	14,070	14,390	14,415
	£k	£k	£k
Water supply costs	56	55	55

Commentary

While we have seen a small reduction in water consumption through reduced staff numbers, the challenges of maintaining an ageing infrastructure of old buildings, together with the additional water consumption during the new office build, mean that any significant reduction will come after we move into our new office in 2019.

Energy

	2017/18 MkWh	2016/17 MkWh	2015/16 MkWh
Energy consumption			
Renewable electricity	4.70	4.84	6.12
Gas	3.00	3.40	3.62
Total energy consumption	7.70	8.24	9.74
	£k	£k	£k
Total energy expenditure	542	552	710

Commentary

The switch to digital printing and vacating some of our old buildings have reduced our energy consumption.

Sustainability procurement commentary

Analysis is undertaken for relevant contracts and sustainability targets are agreed with suppliers. We have adopted simple incentive initiatives where appropriate.

We try to ensure that our approved suppliers reflect our sustainability goals in the contracts we agree with them.

Performance review

Financial review

Our transition to a digital business reached a milestone this year: most of our gross margin is now earned from digital products. Sales of digital products were 26% up on 2016/17.

Paper chart sales continue to decline, but the rate of decline has slowed. Sales fell by £7m over the year, compared to a fall of £16m in 2016/17; however, the trend is still clear.

In anticipation of this transition to less profitable digital products, we set a five-year target to reduce costs, and 2017/18 was the final year of that programme. We have reduced costs by over £20m, or 26%. This reduction of our cost base has allowed us to not only maintain but also grow our operating profit.

From 2018/19 we have adopted a new measure: Human Capital Value Added. This will focus on increasing efficiency, growing new revenue streams as well as controlling costs.

Profit on ordinary activities this year was £29.1m (2016/17: £34.8m), allowing us to pay dividends of £19.1m (2016/17: £10.5m) to our sole shareholder, the MOD.

	Financial statements note	2017/18 £k	2016/17 £k
Income	2	151,650	145,371
Cost of sales	2	(58,316)	(48,396)
Gross profit	2	93,334	96,975
Staff costs	3A	(40,231)	(41,893)
Other costs		(14,384)	(15,317)
Depreciation	3B	(9,595)	(4,996)
Profit on ordinary activities before interest		29,124	34,769
Cash generated from operating activities	17	46,485	42,838

Performance review continued

Principal risks and uncertainties

Risk	Impact	Mitigation of risk
A safety error in our products or services contributes to a maritime incident which causes significant loss of life, environmental impact or damage to property or services.	Financial and reputational loss	Production and charting processes are designed to minimise risk. Continuous improvement and simplification of these processes.
Failure to adapt, diversify and stay relevant to our customers in the face of a declining traditional market, new market demands and potential new market entrants with new business models, resulting in a loss of revenue.	Financial loss and potential change in status	Improve efficiency of our business. Establish a business development team to explore new markets. Increase our awareness of wider technology and data market trends.
Failure to meet customer demands due to a loss of key data supply relationships or an inability to source the new data and necessary terms resulting in damage to our business model and loss of revenue.	Financial and reputational loss	Develop and implement our data sourcing and supply strategy and build strong relationships with current and future data suppliers.
Failure to recruit and retain people with the right leadership, technical and business skills and diversity of thought to support our transformation and beyond, resulting in a failure to make the necessary changes and build the necessary new capabilities to achieve our vision.	Financial loss and inability to remain a sustainable business	Seek freedoms to offer market rates for scarce skills and experience. Improve our marketing of the range of leading-edge technical work we offer to attract people to these exciting roles.
Failure to provide the leadership and organisational culture needed to inspire and engage our staff, resulting in reduced productivity, lower levels of commitment and ultimately a failure to achieve our vision.	Output and capability	Deliver the Ways of Working programme. Engage with our staff regularly to help them better understand our vision and the behaviours we need of them to make our vision possible.
A cyber-attack on our IT networks causes a compromise of our data or the inability for us to deliver products and services to our customers, resulting in damage to our business model and loss of revenue and reputation.	Output, capability and reputational loss	Ensure systems and controls are in place to mitigate risk of attack. Maintain ISO27001 accreditation.

Our corporate planning process identifies key performance measures (KPM) that are agreed with our owner. Together these represent achievement of our overall corporate plan. In 2017/18, our performance against these measures was:

	Key performance measure	Achievement
1. Defence	Achieve a score of 95 for a composite index measuring the quality and timeliness of deliveries of the Defence programme	Exceeded
2. Safety	Achieve a score of 98 for a composite index measuring timeliness and quality in issuing Notices to Mariners (NMs) and Electronic Chart updates	Exceeded
3. Financial return	Achieve an average 9% Return on Capital over the last five years	Exceeded
4. Cost reduction	Achieve a 5% reduction in costs excluding Defence	Exceeded
5. Strategic plan	To achieve at least 70% of 21 strategic plan programme deliverables. These measures of achievement together provide a balanced score card reflecting our overall programme delivery	Exceeded

Supplier and payment policy

Where invoices are undisputed, the government aims to observe the Prompt Payment Code and pay 80% of suppliers within five days. We achieved 79.4% (2016/17: 83.3%).

UKHO Directors' report

Executive Directors



John Humphrey
Chief Executive



Rear Admiral Tim Lowe
National Hydrographer
and Deputy Chief Executive



Peter Davis
Director of Corporate Services



David Tomaney
Director of Operations



Damian Bowler
Chief Customer Officer

Non-Executive Directors



Adam Singer
Non-Executive Chairman



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



Tom Loosemore
Non-Executive Director
(from September 2017)



Captain Gary Hesling
Captain HM
and Hydrographer of the Navy



Marion Leslie
Non-Executive Director



Alison Henwood
Non-Executive Director

UKHO Directors' report continued

Conflicts of interest

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

Report of protected personal data-related incidents

Government is committed to Parliament and the public to safeguard personal information. As part of this commitment, all Government departments and agencies publish details of unauthorised disclosure of personal data. The UKHO had no reported incidents of such in 2017/18.

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 K within Note 1 of the financial statements.

Auditor

Our accounts are audited by the Comptroller and Auditor General of the National Audit Office (NAO) in accordance with section 4(6) of the Government Trading Funds Act 1973. The cost of performing the statutory audit was £73k (2016/17: £70k). The Comptroller and Auditor General provided no other audit services to the UKHO in 2017/18.

Financial instruments

The accounting treatment of financial instruments, policies and associated risks is reported in Accounting Policy W and Note 14 of the financial statements.

Post-reporting period events

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



John Humphrey

Accounting Officer and Chief Executive
05 July 2018

Statement of Responsibilities of the Chief Executive as Accounting Officer

Under section 4(6) (a) of the Government Trading Funds Act 1973 we are required to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued on 19 December 2017. The accounts are prepared on an accruals basis and must give a true and fair view of the Trading Fund and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

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

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

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

Governance statement

Scope of responsibility

As Accounting Officer, I 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, in accordance with the responsibilities assigned to me in Managing Public Money.

To form an opinion on our system of internal control for the period 1 April 2017 to 31 March 2018, I have received advice and assurances from various sources including:

- › Internal and external auditors
- › The Board and sub-committees
- › The Directors and senior managers through their annual assurance statements.

We follow MOD best practice and have created a new Internal Controls Assurance Framework (ICAF). This involves documenting all key processes, identified risks and mitigating controls. During 2018/19, we will be implementing the MOD's Control Self-assessment Process to better embed the Framework and provide valuable management information to support the maintenance of our controls and help focus our assurance activity on areas of weakness.

Ownership and financial structure

Established as a Trading Fund in 1996 in accordance with Statutory Instrument SI 996/773, we are 100% owned by the Secretary of State for Defence by way of public dividend capital.

Our accounts, drawn up to 31 March each year, are prepared in accordance with the HM Treasury direction of 19 December 2017 as per section 4(6) (a) of the Government Trading Funds Act 1973.

Status and governance framework

Our governance structure is defined in our Framework Document which, together with our Public Task Statement, can be found at: www.gov.uk/government/organisations/uk-hydrographic-office/about#our-framework-document. Our Framework Document was updated in January 2015.

Minister and UKHO Owner's Council

The Minister of State for Defence ('the Minister') assists the Secretary of State for Defence. Our Minister is The Rt Hon. The Earl Howe.

The Minister approves our Corporate Plan and financial projections covering a five-year period. The Minister chairs our Owner's Council, comprised of the Minister and key stakeholders, including Defence, the MCA and representatives of the shipping industry, to review our performance and to approve, if necessary, major investments. There were no Ministerial Directions given to us during the year.

UKHO Board

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

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

- › Greater focus on strategic aims and risks
- › Better preparatory briefings to encourage wider debate
- › Improved signposting of decisions from Board topics
- › More advanced planning of Board agendas
- › More non-executive engagement.

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

The attendance of individual members of the board and their sub-committees (during their tenure in office) was:

	Board	ARAC	REMNCO
John Humphrey	6/7		
Adam Singer	7/7		
Peter Davis	6/7		
Tim Lowe	6/7		
Heather Tayler	5/7	4/4	3/3
Marion Leslie	6/7	4/4	3/3
Alison Henwood	6/7	4/4	3/3
Tom Loosemore	5/6		
Gary Hesling	5/5	3/3	3/3
Matthew Syrett	2/2	1/1	
Average attendance	87%	100%	100%

Audit and Risk Assurance Committee (ARAC)

The ARAC is a sub-committee of the Board. It provides guidance and independent assurance on the system of internal control, risk management and internal audit. Meeting four times a year, its membership consists of four Non-Executive Directors, one of whom chairs the committee. Invited members of the Executive Committee, the NAO and our appointed internal auditors, Defence Internal Audit (DIA), attend its quarterly meetings as required. The Chair of the ARAC reports to the Board.

Annually, the Chair of the ARAC reports to the Accounting Officer summarising the activities of the ARAC during the previous year and confirming that, in his or her opinion, there is no reason why the Accounting Officer should not sign the governance statement.

Remuneration and Nomination Committee (REMNCO)

The REMNCO is a sub-committee of the Board and works within MOD and other Government guidelines to advise the Board on remuneration for the Executive Directors, where relevant, and on succession planning. The committee comprises four Non-Executive Directors who meet as required. The Chair of the committee reports on its proceedings to the Accounting Officer and the Chair of the UKHO Board.

Safety of Navigation Advisory Committee (SONAC)

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

The Chair of SONAC reports to the ARAC and Board.

Compliance with the corporate governance code

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

Admiralty Holdings Limited (AHL)

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

The 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 ending 31 March 2018 and on the date of approval of the Annual Report and Accounts.

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

Corporate governance and risk management

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

- › Performance reports
- › Maintenance of effective controls in relation to the delivery of business objectives
- › Security (physical and data)
- › Financial propriety and fraud prevention
- › General conduct of business
- › Management of internal audit recommendations
- › Identification of contingent liabilities
- › Compliance with staff reporting requirements, including the provision of appropriate business skill capabilities.

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

We have governance structures, processes and activities in place to manage our risks. Our risk management policy is aligned to the MOD risk management framework. Corporate risks are owned by divisional heads and are subject to review and challenge by the Executive Committee, the Board and the ARAC. Corporate risks can be found on page 26.

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

Financial control

We have a mature system of financial control. This was evidenced this year by DIA giving a full assurance opinion in their audit of financial controls.

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

Spend against detailed plans are monitored monthly with budget holders, by our Executive Committee and by the Board at every meeting. These plans collectively form the annual budget which in turn is derived directly from our Corporate Plan. This ensures our activities are directly aligned with our short-term financial plans and our long term financial objectives.

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

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

Exchange rate risk

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

Improving quality

UKHO successfully transitioned to new ISO9001:2015 standard in December 2016, and this standard and our quality management system continues to underpin our approach to quality and our customers. We have revised our change delivery governance to an Agile Delivery Governance framework which is aligned to our current ways of working and our approach of guide, trust and verify. We continue to monitor performance against our corporate plan through a monthly performance dashboard with detailed feedback and measurement against key financial, staff and production targets. Additional effort is going into development of more detailed performance measures within teams.

Governance statement continued

Special payments

No special payments were made during the year (2016/17: £0).

The role of internal audit

The ARAC approves the internal audit programme each year. The internal audit for 2017/18 was contracted out to DIA. DIA carried out independent checks on the control process on my behalf. In line with Public Sector Internal Audit Standards, DIA also carried out a programme of risk-based audits. It submitted regular reports, including its opinion on the adequacy and effectiveness of our internal control. It made findings, which are agreed with management, which then form the basis of improvement actions. Where appropriate, the Executive Committee monitors outstanding improvement actions to ensure they are implemented.

DIA's opinion on the work completed during 2017/18 was that there were largely adequate and effective internal controls in operation and therefore an overall opinion of 'Substantial Assurance' was given.

They went on to comment that 'UKHO management has continued to build the Trading Fund's control environment and has demonstrated an on-going commitment to internal control. Our follow-up audits confirmed that management had implemented all the agreed actions and the initiative to develop their Internal Controls Assurance Framework has progressed well. While the overall picture is positive, our work this year has identified opportunities to strengthen the control environment still further in areas such as workforce planning, royalties and data costs.'

Fraud and Whistleblowing

We have a zero-tolerance approach to fraud. Our staff have easy access to advice on what to do if they suspect fraudulent activity which includes the protection they receive if they report their suspicions. We have had two instances of fraud during the year, both relating to false reporting of attendance time with an intent to take flexi-time off over and above that rightfully earned. Both cases have been subject to our disciplinary processes.

Cyber security

This year has seen a relentless rise of cyber-related crime with criminals seeking ever more sophisticated methods to monetise their criminal activities. While the UKHO was not a victim of the recent WannaCry ransomware attack, it was a very real reminder of the need to maintain our defences. Earlier this year we successfully achieved ISO27001 certification for our Information Security Management System, and this was followed up with a successful surveillance audit in November. This certification covers all aspects of information security right across the organisation and provides firm evidence of our commitment to protect our valuable information assets.

Business continuity

We continue to operate an effective business continuity management (BCM) system in accordance with the requirements of ISO 22301. Our BCM processes have been subject to two external reviews as part of our ISO 27001 certification process and on both occasions were found to be satisfactory with no non-conformities or observations raised.

In June 2017, we invoked our crisis management plan in response to the loss of our data centre which happened as a result of the air conditioning units failing due to extreme hot weather conditions. The dedication of our technology staff ensured an early resolution to this incident with the data centre fully operational again within five hours. The subsequent post-incident report identified several recommendations that have since been implemented.

Information Assurance (IA)

This year we have achieved level 3 of the IA Assessment Framework following an independent assessment by the MOD's Defence Assurance and Information Services team. Achievement of level 3 is mandated by the Cabinet Office and shows that all critical areas of the business are subject to a robust IA regime and that overall awareness has increased, leading to a measured improvement in information risk behaviours at all levels of the organisation, including third-party suppliers. Together with the achievement of ISO27001 certification, this provides us with a strong framework for implementing the EU's General Data Protection Regulation (GDPR), which came into force in May 2018.

New Office

The move into our new offices early in 2019 raises a number of potential risks to our operations. To mitigate these risks, activities supporting the move are subject to significant and regular scrutiny by the programme board, Executive Committee and the Board. In addition, aspects of the transition have been subject to internal audit. We have used advisors to help plan and design the space to best support the cultural changes that we hope to achieve and we have a range of communications and opportunities for our staff to engage and provide their input into decisions concerning their future working environment.



John Humphrey
Accounting Officer and Chief Executive
05 July 2018

Remuneration and staff report

Remuneration policy

Of the three Executive Directors employed during the year, two are Senior Civil Servants (SCS), one 1* and one 2* grade, and are subject to SCS terms and conditions. Their bonus arrangements fall under SCS rules rather than our performance-award system. The third Director is on secondment from the Royal Navy. His remuneration is set and paid by the Royal Navy.

'Executive Directors' is interpreted to mean persons in senior positions having authority or responsibility for directing or controlling the major activities of the organisation. As additional disclosure, the details of the emoluments and the pensions of the Chief Operating Officer and the Chief Customer Officer are also disclosed. While they are not formally members of the Board, they participate in meetings and exercise influence on the decisions made. They are also subject to SCS terms and conditions.

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

John Humphrey was appointed Chief Commercial Officer and Deputy Chief Executive (Corporate) on a permanent SCS contract from 1 April 2014. John was appointed Chief Executive from 1 February 2015.

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

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

All other employees have their pay determined by us in accordance with Government policy and consultation with the MOD and HM Treasury before negotiation with employee representatives.

The outcome of negotiations is reported back to HM Treasury through the annual outturn statement.

A corporate performance reward is payable to all staff (except SCS) if we meet our KPMs 1 to 4 and at least 70% of KPMs. Partial achievement of KPM5 will result in a proportionate reduction of the bonus available.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Civil Service Commission specifies when appointments may be made otherwise.

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

Our Directors

Salary entitlements

(This section has been subject to audit)

The table on page 34 provides details of the remuneration and pension interests of the executive members of the UKHO Board.

Salary

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

Benefits in kind

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

Bonuses

Bonuses are based on performance assessed in the appraisal process. Bonuses relate to the year in which they become payable to the individual. The bonuses reported in 2017/18 relate to performance in 2017/18 and the comparative bonuses reported for 2016/17 relate to 2016/17.

Remuneration and staff report continued

Remuneration details

(This section has been subject to audit)

2017/18	Notes	Salary Band £k	Performance Awards £k	Total £k	Pension Benefit £k
John Humphrey	1	115 – 120	0	115 – 120	46
Rear Admiral Tim Lowe	2	120 – 125	0	120 – 125	–
Peter Davis	1	65 – 70	0	65 – 70	12
David Tomaney	1	75 – 80	0 – 5	75 – 80	28
Damian Bowler	1	85 – 90	10 – 15	95 – 100	33

2016/17	Notes	Salary Band £k	Performance Awards £k	Total £k	Pension Benefit £k
John Humphrey	1	115 – 120	0	115 – 120	46
Rear Admiral Tim Lowe	2	120 – 125	0	120 – 125	–
Peter Davis		65 – 70	0	65 – 70	20

Notes

- John Humphrey, Peter Davis, David Tomaney and Damian Bowler are members of, and contribute to, a Civil Service pension scheme. The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. This is an estimate of the assumed value of the increase in pension that will be payable on retirement to the individual and has not been paid in the year.
- Rear Admiral Tim Lowe is a serving Royal Navy Officer on loan to the UKHO. While Royal Navy charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service Pension and CETV figures are not disclosed.

Pension benefits

(This section has been subject to audit)

	Accrued benefits*		Real increase in benefits		CETV		CETV
	Pension (Note a) £k	Lump sum (Note a) £k	Pension (Note a) £k	Lump sum £k	31/03/2018 £k	31/03/2017 £k	Real increase £k
John Humphrey	30 – 35	Note b	2.5 – 5	Note b	420	371	26
Peter Davis	40 – 45	Note b	0 – 2.5	Note b	655	614	2
David Tomaney	10 – 15	Note b	0 – 2.5	Note b	182	156	15
Damian Bowler	15 – 20	Note b	0 – 2.5	Note b	189	164	13

* As at 31 March 2018

Notes

- Pension and lump sums are as at pension age.
- No automatic lump sum payable as member is in the premium/nuvos scheme.

Fees paid to Non-Executive Directors (NEDs)

(This section has been subject to audit)

Our NEDs are not civil servants and contracts may be terminated at one month's notice by either party or on dissolution of the Board, except in the case of gross misconduct when termination is immediate. The initial term is three years and may be extended by mutual agreement normally for one, or at most two, further terms. NED contracts are not pensionable and there is no compensation for early termination. NEDs and their fees as at 31 March 2018 were:

	Notes	2017/18 £k	2016/17 £k
Adam Singer	1	25 – 30	25 – 30
Alison Henwood	2	15 – 20	0 – 5
(from 26 Jan 17)			(15 – 20)*
Marion Leslie	3	15 – 20	15 – 20
Tom Loosemore	4	10 – 15	0
(from 1 Sept 17)		(15 – 20)*	
Barry Wootton	5	0	5 – 10
(to 3 Jul 16)			(15 – 20)*
Heather Tayler	6	0	0
Captain Gary Hesling	6	0	0
(from 1 Sept 17)			
Captain Matthew Syrett	6	0	0
(to 31 Aug 17)			

* Full year equivalent

1. Adam Singer, Chairman, was appointed on 3 May 2014. This contract has been extended for a further three years.
2. Alison Henwood was appointed on 26 January 2017.
3. Marion Leslie was appointed on 1 January 2015. This contract has been extended for a further three years.
4. Tom Loosemore was appointed on 1 September 2017.
5. Barry Wootton stepped down on 3 July 2016.
6. Heather Tayler is an MOD SCS representing our owner. Captain Gary Hesling and Captain Matthew Syrett are serving Royal Navy Officers. Captain Hesling relieved Captain Syrett on 1 September 2017. These NEDs do not receive separate remuneration for their roles.

Fair Pay Report

(This section has been subject to audit)

	2017/18 £k	2016/17 £k
Band of highest paid Director's remuneration (£'000)	120 – 125	120 – 125
Median of all UKHO employees	31.0	31.5
Ratio	4.0	3.8

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The banded remuneration of the highest-paid director in UKHO in the financial year 2017-18 was £120k to 125k (2016-17, £120k to 125k). This was 4.0 times (2016-17, 3.8) the median remuneration of the workforce, which was £31.0k (2017-18, £31.5k).

Remuneration ranged from £17,167 to £120,000-£125,000 (2016-17, £16,711 to £120,000-£125,000). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Our staff

Staff numbers

(This section has been subject to audit)

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

	2017/18	2016/17
Civil servants	843	853
Agency staff	40	46
Service personnel	6	6
Total staff numbers	889	905

Staff costs

(This section has been subject to audit)

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

	2017/18 £k	2016/17 £k
Salaries, wages etc	29,439	28,976
Social security costs	2,949	2,910
Pension costs	5,712	5,680
Apprentice levy	128	0
Agency staff costs	1,825	3,403
Service personnel costs	911	924
Staff costs capitalised within intangible assets	(733)	0
Total staff costs	40,231	41,893

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

Service personnel 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.

Remuneration and staff report continued

Staff composition

2017/18	Male	Female
Number of persons of each sex who were Directors at year end*	5	0
Number of persons of each sex who were senior managers at year end**	43	16
Total number of persons who were employed at the year end	602	272
2016/17	Male	Female
Number of persons of each sex who were Directors at year end*	3	0
Number of persons of each sex who were senior managers at year end**	40	14
Total number of persons who were employed at the year end	605	283

* Includes Hydrographic Office Board (UKHO Board) Executive members only

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

We are committed to improving all forms of diversity. The Chief Executive and his ExCo team all have personal objectives supporting improved diversity and we see this as an integral part of our future success as an innovative and forward-looking organisation.

Some of the actions that we have implemented include:

- › Launching a Diversity and Inclusion forum and affiliated networks such as a Women's Network, Mental Health Awareness Group, Christian Fellowship, STEM, LGBTQ+ and Disability Group.
- › The use of Gender Decoder algorithm for all adverts and insist on gender diverse panels in order to improve diversity in our recruitment.
- › Inclusion of an Equality Analysis in Exco papers, change charters and in our Agile governance framework.
- › Commitment to a Mental Health Strategy and Implementation plan.

Despite these actions, improving gender diversity will continue to be a challenge, the technical skills we will increasingly need are skills that traditionally are underrepresented by females.

Sickness absence

The average number of days lost through sickness in 2017/18 was 7.1 (2016/17: 6.7).

Pension

For 2017/18, the applicable employer contribution pension rates were:

Scheme and annual salary bands to which rates apply	%
PCSPS – Band 1 – £23,000 and under	20.0
PCSPS – Band 2 – £23,001 to £45,500	20.9
PCSPS – Band 3 – £45,501 to £76,000	22.1
PCSPS – Band 4 – £76,001 and over	24.5

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and we are unable to identify our share of the underlying assets and liabilities. The Government Actuary's Department valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (<https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>).

For 2017/18, employers' contributions of £5,712k were payable to the PCSPS (2016/17: £5,680k). The scheme's actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017/18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Included within employer contributions of £1.1k (2016/17: £1.3k), representing 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement.

Employees can opt for a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £35.5k (2016/17: £38.3k) were paid to stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay.

Contributions due to the partnership pension providers at 31 March 2018 were £6.6k (2016/17: £4.1k). There were no prepaid contributions at that date.

Staff engagement

Each year we hold staff events to reflect our performance during the previous year and to focus on the next five years set out in our Corporate Plan. There are monthly team talks to update staff on progress. In addition, regular updates are published on our intranet, as are regular articles by the Chief Executive and other members of the senior management team. The intranet also hosts a Yammer feed where employees can raise or take part in discussions.

Staff are encouraged to complete the Civil Service People Survey each year and results are reported to the Board. This survey gives us an annual measure of employee engagement. Senior managers work with staff to understand the outcomes from the survey and to make improvements.

Trade unions are actively encouraged to contribute to studies and other reviews and are represented at the Board. Formal consultations on a wide range of issues are conducted through the Whitley Committee.

People are key to our success and the UKHO regularly monitors performance and creates personal development plans linked directly to the organisation's objectives. A number of professional frameworks help monitor and track development, and our new apprenticeship programme is nurturing our own talent.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis 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 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 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

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

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

Cash Equivalent Transfer Values (CETV)

This 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 pension benefits they have accrued in their former scheme.

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

Real increase in CETV

This is the element of the increase in accrued pension funded by the employer. It excludes increases due to inflation and contributions paid by the Directors. It is worked out using common market valuation factors for the start and end of the period.

Remuneration and staff report continued

Off-payroll engagements

Off-payroll engagements as of 31 March 2018 for more than £245 per day and that last for more than six months are as follows:

No. of existing engagements as of 31 March 2018	34
Of which ...	
No. that have existed for less than one year	27
No. that have existed for between one and two years	3
No. that have existed for between two and three years	3
No. that have existed for between three and four years	1
No. that have existed for four or more years	0

No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018

Of which ...	
No. assessed as caught by IR35	13
No. assessed as not caught by IR35	1
No. engaged directly and/or on the UKHO payroll	0
No. of engagements reassessed for consistency/assurance purposes during the year	0
No. of engagements that saw a change to IR35 status following the consistency review	0

Board members and/or senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018

No. of off-payroll engagements or Board members, and/or, senior officials with significant financial responsibility, during the financial year	0
No. of individuals that have been deemed 'Board members, and/or, senior officials with significant financial responsibility', during the financial year.	13

Civil Service exit packages

(This section has been subject to audit)

Exit package cost band	Total number of exit packages by cost band	
	2017/18	2016/17
< £10,000	0	1
£10,000 – £25,000	1	1
£25,000 – £50,000	0	0
£50,000 – £100,000	3	3
£100,000 – £150,000	0	0
Total number of exit packages	4	5
Total cost (£k)	192	212

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 annual compensation payments which are paid each year until they retire. Where we have agreed early retirements, the additional costs are met by us and not by the PCSPS.

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

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

There was no compulsory redundancy in either 2017/18 or 2016/17. No ex-gratia costs were paid.



John Humphrey
Accounting Officer and Chief Executive
05 July 2018

Parliamentary accountability

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 40.

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 income from sales, analysed by our operating segments, can be found in note 2 page 50.

Regularity of expenditure

(This section has been subject to audit)

There were unrecoverable trade receivables of £41k (2016/17: £13.4k) and unrecoverable overpayments to staff of £0.5k (2016/17: £0.4k). There were no fruitless payments to be written off.

There were no realised foreign exchange losses in year (2016/17: £676K).

Long-term expenditure trends

This was the final year of a five-year programme to reduce staff and other operating costs by a targeted 5% per annum. For the coming period, we have adopted a new KPM: Human Capital Value Added. This measure focuses on productivity through a combination of maintaining margin, reducing cost and increasing sales.

Remote contingent liabilities

Error in our charts

The Government ultimately carries the risk in the event that an error in our products causes an incident at sea. All our safety and quality systems are focused on mitigating this risk. We carry Professional Indemnity insurance to cover the first £50m of any claim. Any liability beyond this is considered to be under-written by our parent department, the MOD.

Leaving the European Union

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU. We have made an initial assessment of the potential impact and do not currently believe that it will have a material impact on our operations. We will continue to monitor negotiations and reassess regularly.

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 2018 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and Statement of Cash Flows; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- › the financial statements give a true and fair view of the state of the UK Hydrographic Office's affairs as at 31 March 2018 and of its retained profit for the year then ended; and
- › the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued there under.

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 of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 2016. I am independent of the UK Hydrographic Office in accordance with the ethical requirements that are relevant to my audit and 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.

Responsibilities of the Chief Executive as Accounting Officer for the financial statements

As explained more fully in the Statement of Responsibilities of the Chief Executive as Accounting Officer, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- › identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- › obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UK Hydrographic Office's internal control.
- › evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- › conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UK Hydrographic Office's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- › evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that 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.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, 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, 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 parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973;
- › in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- › the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- › adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff;
- › the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns;
- › I have not received all of the information and explanations I require for my audit; or
- › the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas CE Morse

Comptroller and Auditor General
18 July 2018

National Audit Office

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

Statement of comprehensive income

For the year ending 31 March 2018

	Note	2017/18 £k	2016/17 £k
Income	2	151,650	145,371
Materials and other external charges		(7,460)	(7,322)
Staff costs	3A	(40,231)	(41,893)
Depreciation and impairment	3B	(9,595)	(4,996)
Other operating charges	3C	(65,240)	(56,391)
Profit on ordinary activities before interest		29,124	34,769
Exceptional items	4	(473)	(952)
Profit on ordinary activities before interest and after exceptionals		28,651	33,817
Interest receivable and similar income	5	420	314
Profit for the year		29,071	34,131
Dividend	6	(19,062)	(10,521)
Retained profit/(loss) for the financial year		10,009	23,610
Other comprehensive income			
Revaluation of non-current assets	7A & B	10,168	283
Total comprehensive income		20,177	23,893

The notes on pages 46 to 61 form part of these accounts.

Statement of financial position

For the year ending 31 March 2018

	Note	2017/18 £k	2016/17 £k
Non-current assets:			
Property, plant and equipment (PPE)	7A	33,023	21,555
Intangible assets	7B	8,627	1,679
Total non-current assets		41,650	23,234
Current assets:			
Inventories	8	1,278	1,962
Trade and other current receivables	9	40,091	40,678
Cash and cash equivalents	10	102,203	90,093
Total current assets		143,572	132,733
Total assets		185,222	155,967
Current liabilities:			
Trade and other current payables	11	(80,530)	(70,936)
Provisions	12	(3,359)	(3,680)
Total current liabilities		(83,889)	(74,616)
Non-current assets plus net current assets		101,333	81,351
Non-current liabilities:			
Provisions	12	(15)	(210)
Total non-current liabilities		(15)	(210)
Assets less liabilities		101,318	81,141
Taxpayers' equity:			
Public dividend capital		13,267	13,267
Revaluation reserve		16,491	9,882
Profit and loss account		71,560	57,992
Total taxpayers' equity		101,318	81,141

The notes on pages 46 to 61 form part of these accounts.



John Humphrey

Accounting Officer and Chief Executive
05 July 2018

Statement of changes in taxpayers' equity

For the year ending 31 March 2018

	Note	Profit and Loss Reserve £k	Revaluation Reserve £k	Public Dividend Capital £k	Total Reserves £k
Balance at 31/03/16		34,382	9,599	13,267	57,248
Changes in equity for 2016/17:					
Other comprehensive income					
Revaluation of non-current assets					
Property, plant and equipment (PPE)	7A		483		483
Intangible assets	7B		1,069		1,069
Depreciation – revaluation PPE	7A		(335)		(335)
Amortisation – revaluation intangibles	7B		(934)		(934)
Total other comprehensive income			283		283
Net income for the period		34,131			34,131
Total recognised income and expense for the period		34,131	283		34,414
Dividend	6	(10,521)			(10,521)
Balance at 31/03/17		57,992	9,882	13,267	81,141
Changes in equity for 2017/18:					
Other comprehensive income					
Revaluation of non-current assets					
Property, plant and equipment (PPE)	7A		1,219		1,219
Intangible assets	7B		(1,474)		(1,474)
Depreciation – revaluation PPE	7A		(725)		(725)
Amortisation – revaluation intangibles	7B		11,148		11,148
Reversal of PPE revaluation surplus due to impairment		3,559	(3,559)		0
Total other comprehensive income		3,559	6,609		10,168
Net income for the period		29,071			29,071
Total recognised income and expense for the period		32,630	6,609		39,239
Dividend		(19,062)			(19,062)
Balance at 31/03/18		71,560	16,491	13,267	101,318

The notes on pages 46 to 61 form part of these accounts.

Statement of cash flows

For the year ending 31 March 2018

	Note	2017/18 £k	2016/17 £k
Net cash flow from operating activities	17	46,485	42,838
Cash flows from investing activities			
Interest received		419	304
Purchase of property, plant and equipment	7A	(17,077)	(4,423)
Purchase of intangible assets	7B	(766)	0
Proceeds from disposal		0	925
Net cash outflow from investing activities		(17,424)	(3,194)
Cash flows from financing activities			
Dividend paid	6	(16,951)	(10,997)
Net cash outflow from financing activities		(16,951)	(10,997)
Net financing			
Net increase in cash and cash equivalents in the period		12,110	28,647
Cash and cash equivalents at beginning of year	10	90,093	61,446
Cash and cash equivalents at end of year		102,203	90,093

The notes on pages 46 to 61 form part of these accounts.

Notes to the accounts

I. Accounting policies

A. Basis of accounting

The financial statements have been prepared in accordance with the 2017/18 FReM issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

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

We operate as a Trading Fund within the MOD in accordance with Statutory Instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 19 December 2017 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973.

B. Accounting convention

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

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

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

The UKHO operates IC-ENC on behalf of the 42-member hydrographic offices and it is operated on a not-for-profit basis.

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

We do not consolidate the accounts of IC-ENC as UKHO does not exercise control over its operations.

D. Estimation techniques

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

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

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

All assets have been reviewed to determine if they will be transferred into the new building. Where it has been determined that they will not be, they have been impaired.

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

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

E. Exceptional items

Exceptional items are those significant items which individually, or if of a similar type in aggregate, are separately disclosed by virtue of their size or incidence to enable a full understanding of our financial performance. Business restructurings are considered exceptional in nature (as detailed in Note 4).

F. Income

Income represents the value of invoiced sales, net of VAT, at the point of physical delivery or, in the case of service agreements (e.g. sales of digital products), it is realised equally over the licence period. Exceptionally, they may be accrued, but income is recognised where work is complete and there is certainty of future payment. Segmental reporting is provided in Note 2 of the Accounts in accordance with IFRS 8 Operating Segments.

G. Provision for sales credits

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

H. Non-current assets valuation

Intangible assets

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

Development expenditure

Internal development expenditure is capitalised only if it meets the recognition criteria of IAS 38 Intangible Assets. Where the criteria are not met the expenditure is recognised in the Statement of Comprehensive Income. Where the recognition criteria are met, intangible assets are recorded at cost and capitalised and amortised on a straight-line basis over their useful economic lives, from the date economic benefit starts to be derived. We have reassessed the useful economic lives of our development software assets. As a result, the net book value of these assets has been increased to £7,378k.

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

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

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

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

All intangible assets in Note 7B are owned by the UKHO. All development expenditure has been revalued as at 31 March 2018 through the application of appropriate indices.

Property, plant and equipment

Land and buildings were professionally valued at 31 March 2013 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and buildings were valued at depreciated replacement cost of the estate, with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a market value has been provided. The valuation of our land and buildings has been postponed to 2019 to allow completion of our new offices. As an interim measure we arranged for a desktop valuation to be carried out. This suggested that the current value of land is understated by £1.4m while the value of those buildings that will be retained after next year are overstated, also by £1.4m. We have adjusted for this valuation. A full valuation, which will include the new office will be carried out in March 2019.

Assets have been revalued as at 31 March 2018 during the year through the application of appropriate indices:

- › Plant and machinery – the Office for National Statistics index 2924 (industrial and commercial machinery and services equipment)
- › Computers – (including software licences and furniture and fittings) – are retained at historic cost due to their short-term economic life.

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

All property, plant and equipment assets in Note 7A are owned by the UKHO.

H1. Depreciation and amortisation

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

Buildings	not exceeding 100 years
Plant and equipment	between 1 and 20 years
Furniture and fittings	over 3 years
Information Technology assets (including capitalised software and licences)	between 2 and 5 years

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

H2. Non-current assets held for sale

IFRS 5 Non-current assets held for sale and discontinued operations sets out the requirements for the classification, measurement and presentation of non-current assets held for sale.

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

I. Inventories and work in progress

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

J. Hydrographic data

In carrying out our business, we utilise raw hydrographic data provided by the MOD, the MCA, 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 value the data on our Statement of Financial Position, but charge all costs of acquiring and maintaining the data to the Statement of Comprehensive Income as they are incurred.

K. Pensions

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

Details of rates and amounts of contributions during the year are given in the Remuneration and staff report (pages 33 to 38).

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

Notes to the accounts continued

New entrants after 1 April 2015 may choose between membership of alpha or joining a money purchase stakeholder pension agreement with a significant employer contribution (partnership pension account).

L. Insurance

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

M. Development transformation activities

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

N. Foreign currencies

Assets and liabilities denominated in a foreign currency are translated into sterling at the rate of exchange ruling as at 31 March 2018. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Statement of Comprehensive Income.

O. Going concern

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

P. 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.

Q. Treatment of leases

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

R. Provisions

Provisions for liabilities and charges have been established under the criteria of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at 31 March 2018.

The rate advised by HM Treasury is used to discount provisions to current prices – the short-term rate for financial year 2017/18 being 2.42%. (2016/17: 2.7%). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Income.

Early retirement costs

We provide in full for the cost of meeting pensions up to the normal retirement age in respect of early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 2017/18: 0.10% (2016/17: 0.24%). Pensions payable after the normal retirement age are met by the Civil Service pension arrangement. However, any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by us. Redundancies are provided for in full.

Provision for bad and doubtful debts

We provide for bad and doubtful debts based on payment history, external credit reference reports and financial information.

S. Cash and cash equivalents

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

T. Reserves

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

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

U. Taxation

Corporation Tax

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

VAT

We are VAT registered and all business VAT is recoverable.

V. Treatment of finance leases as a lessor

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

W. Financial instruments

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

Trade and other receivables

All receivables, including trade and VAT receivables, staff loans and advances are classified as loans and receivables, and are initially recognised at fair value (plus transaction costs) and subsequently at their amortised cost. Discounting is relevant to those receivables and loans which carry a nil or a subsidised rate of interest. However, our receivables that are due within one year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

Trade and other payables

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

Cash and cash equivalents

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

X. Investments

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

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

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

The following have not been adopted early by us:

IFRS 9 Financial instruments

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

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

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

This standard is not expected to have a material impact on the financial statements.

IFRS 15 Revenue recognition

The IASB has amended IFRS 15 to clarify the guidance on identifying performance obligations, licences of IP and principal versus agent. The amendments also provide additional practical expedients on transition. This will be effective from 1 January 2018.

This standard is not expected to have a material impact on the financial statements.

IFRS 16 Leases

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

UKHO have only one property lease in respect of the print facility in Bridgwater. The current annual rental charge is £97K. The likely impact on assets and liabilities will be £315K and £218K respectively.

Notes to the accounts continued

2. Operating segments

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

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

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

	Commercial 2017/18 £k	Defence 2017/18 £k	Other government 2017/18 £k	Total 2017/18 £k	Commercial 2016/17 £k	Defence 2016/17 £k	Other government 2016/17 £k	Total 2016/17 £k
Income	133,169	13,118	5,363	151,650	125,653	13,729	5,989	145,371
Cost of sales	(51,148)	(3,108)	(4,060)	(58,316)	(40,715)	(2,720)	(4,961)	(48,396)
Gross profit	82,021	10,010	1,303	93,334	84,938	11,009	1,028	96,975
Margin %				62%				67%

Commercial sales include sales of paper charts, paper publications, digital products and data licensing.

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

Information about major customers

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

	Commercial 2017/18 £k	Defence 2017/18 £k	Other government 2017/18 £k	Total 2017/18 £k	Commercial 2016/17 £k	Defence 2016/17 £k	Other government 2016/17 £k	Total 2016/17 £k
Customer 1	19,875	0	0	19,875	23,330	0	0	23,330
Customer 2	16,164	0	0	16,164	15,325	0	0	15,325

Sales revenue by geographical market

	2017/18 £k	2016/17 £k
Europe, Middle East & Africa	111,291	102,669
Asia Pacific	31,950	33,317
North America	8,071	8,998
Central & Latin America	338	387
Total revenue	151,650	145,371

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

3. Profit on ordinary activities before interest

Profit on ordinary activities before interest of £29.1m (2016/17: £34.8m) is stated after charging:

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

	2017/18 £k	2016/17 £k
Salaries, wages etc	29,439	28,976
Social security costs	2,949	2,910
Pension costs	5,712	5,680
Apprentice levy	128	0
Agency staff costs	1,825	3,403
Service personnel costs	911	924
Staff costs capitalised within intangible assets	(733)	0
A. Total staff costs	40,231	41,893
	2017/18 £k	2016/17 £k
Depreciation/amortisation—owned assets	6,004	5,699
Loss/(Profit) on disposal of fixed assets	32	(703)
Impairment adjustments	3,559	0
B. Depreciation and impairment	9,595	4,996
Data costs	36,375	30,079
Royalties	4,061	4,279
Development transformation activities	1,975	1,740
Utilities and other estates operating costs	2,965	3,255
Materials and services	11,228	9,264
Computing and office machines	5,798	4,851
Travel, training and entertainment expenses	2,534	2,538
Auditor's remuneration (Note a)	220	147
Professional fees	81	233
Office machinery operating leases	3	5
C. Other operating charges	65,240	56,391

Notes

a. The NAO audit fee for external audit is £73k (2016/17: £70k).

Notes to the accounts continued

4. Exceptional items

	2017/18 £k	2016/17 £k
Voluntary early release scheme	193	778
Early retirement	280	174
Total exceptionals	473	952

5. Interest receivable and similar income

This relates to interest receivable from commercial banks – high interest account, short-term investments for varying periods of between 3 and 12 months. Interest received and receivable has arisen from financial assets classified as loans and loan receivables. These are primarily short-term investments held at fixed interest rates.

	2017/18 £k	2016/17 £k
Interest receivable and similar income	420	314

6. Dividends

	2017/18 £k	2016/17 £k
Ordinary dividend	8,632	6,521
Special dividend	10,430	4,000
Total dividend	19,062	10,521

Special dividends are declared and paid in the same year.

7A. Property, plant and equipment

	Freehold land £k	Buildings £k	Plant & machinery £k	Furniture & fittings £k	Information technology £k	Assets under construction £k	Total £k
Cost or valuation:							
At 1 April 2016	8,881	24,123	7,529	240	5,919	1,461	48,153
Additions	0	0	499	0	24	3,900	4,423
Reclassification	0	0	1,399	0	0	(1,399)	0
Disposals	0	(2,748)	(6,259)	0	(1,057)	0	(10,064)
Revaluation	0	470	13	0	0	0	483
At 31 March 2017	8,881	21,845	3,181	240	4,886	3,962	42,995
At 1 April 2017	8,881	21,845	3,181	240	4,886	3,962	42,995
Additions	0	0	1	0	2,037	15,039	17,077
Reclassification	0	0	0	0	172	(172)	0
Disposals	0	(950)	(281)	0	(335)	0	(1,566)
Revaluation	1,532	(501)	188	0	0	0	1,219
Impairment	(3,500)	(59)	0	0	0	0	(3,559)
At 31 March 2018	6,913	20,335	3,089	240	6,760	18,829	56,166
Depreciation:							
At 1 April 2016	0	17,181	7,100	103	4,063	0	28,447
Charged	0	1,444	356	10	691	0	2,501
Disposals	0	(2,600)	(6,227)	0	(1,016)	0	(9,843)
Revaluation	0	325	10	0	0	0	335
At 31 March 2017	0	16,350	1,239	113	3,738	0	21,440
At 1 April 2017	0	16,350	1,239	113	3,738	0	21,440
Charged	0	1,150	370	96	896	0	2,512
Disposals	0	(950)	(262)	1	(323)	0	(1,534)
Revaluation	0	661	64	0	0	0	725
At 31 March 2018	0	17,211	1,411	210	4,311	0	23,143
Net book value:							
At 31 March 2018	6,913	3,124	1,678	30	2,449	18,829	33,023
At 31 March 2017	8,881	5,495	1,942	127	1,148	3,962	21,555

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

Assets Under Construction relates to building of new offices at Admiralty Way, estimated completion is January 2019.

Impairment: In 2019/20 most of our existing buildings will be demolished and the surplus land sold. The estimated value of the land we will sell is £3.5m. However, the estimated cost of asbestos removal and demolition is also £3.5m. We have therefore impaired our land by £3.5m.

Notes to the accounts continued

7B. Intangible non-current assets

	Software licences £k	Development software £k	Assets under construction £k	Total £k
Cost or valuation:				
At 1 April 2016	16,029	32,403	537	48,969
Reclassification	537	0	(537)	0
Revaluation	0	1,069	0	1,069
At 31 March 2017	16,566	33,472	0	50,038
At 1 April 2017	16,566	33,472	0	50,038
Additions	0	0	766	766
Reclassification	(7,436)	7,436	0	0
Disposals	(2,673)	(9,424)	0	(12,097)
Revaluation	0	(1,474)	0	(1,474)
At 31 March 2018	6,457	30,010	766	37,233
Amortisation:				
At 1 April 2016	15,880	28,347	0	44,227
Charged	129	3,069	0	3,198
Revaluation	0	934	0	934
At 31 March 2017	16,009	32,350	0	48,359
At 1 April 2017	16,009	32,350	0	48,359
Charged	74	3,418	0	3,492
Reclassification	(7,436)	7,436	0	0
Disposals	(2,673)	(9,424)	0	(12,097)
Revaluation	0	(11,148)	0	(11,148)
At 31 March 2018	5,974	22,632	0	28,606
Net book value:				
At 31 March 2018	483	7,378	766	8,627
At 31 March 2017	557	1,122	0	1,679

All intangible assets are owned by the UKHO.

7C. Analysis of intangible non-current assets

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

Project	Description	Carrying value 31/03/2018 £k	Remaining amortisation period (months)
Hydrographic Database and Chart Production Tools (HDB)	Production system for holding data and compiling charts	4,409	60
e-Navigator	Admiralty e-Navigator is our integrated digital catalogue, product viewer and passage planning aid for organising, updating and consolidating all paper information need for planning safe voyages while simplifying essential tasks	2,571	24
Digital Licensing	System used to generate digital licensing keys to unlock data on board vessels in line with what they have purchased	295	84
Source Data Receipt and Assessment (SDRA)	System used to ingest data and track where it is within our processes and decisions made regarding its use within our products	103	24

8. Inventories

	2017/18 £k	2016/17 £k
Finished inventories	1,015	1,602
Materials	263	360
Total inventories	1,278	1,962

9. Trade and other current receivables

	2017/18 £k	2016/17 £k
Trade receivables	25,598	25,887
Prepayments and accrued income	14,451	14,764
Net investments & finance leases	16	21
Other receivables	26	6
Total receivables	40,091	40,678
Analysis of total receivables		
Other central government bodies	2,642	3,744
Bodies external to government	37,449	36,934
Total receivables	40,091	40,678

Notes to the accounts continued

10. Cash and cash equivalents

	2017/18 £k	2016/17 £k
Balance 1 April	90,093	61,446
Net change in cash and cash equivalent balances	12,110	28,647
Balance 31 March	102,203	90,093

The following balances at 31 March were held at:

	2017/18 £k	2016/17 £k
Commercial banks – short-term investments	20,000	20,000
Commercial banks – instant access, high interest	74,347	64,185
Third-party assets	7,856	5,908
Net cash and cash equivalents	102,203	90,093

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

Commercial banks – instant access, high-interest account earns interest at 0.15%. Short-term investments earn at 0.65% and are made for varying periods of between 3 and 12 months.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2018 exchange rates.

Third-party assets

We hold third-party monies of £7.9m (2016/17: £5.9m). This relates to monies held on behalf of IC-ENC. We operate IC-ENC on behalf of the 42 member states. The accounts recognise the total liability to IC-ENC members together with the cash held on their behalf.

11. Trade and other current payables

	2017/18 £k	2016/17 £k
Accruals and other deferred income	44,058	40,107
Proposed dividend	8,630	6,521
Trade payables	26,649	23,568
Other taxation and social security	1,186	727
Other payables	7	13
Total payables	80,530	70,936
Analysis of total payables		
Other central government bodies	12,080	11,579
Bodies external to government	68,450	59,357
Total payables	80,530	70,936

12. Provisions

	Balance at 1 April 2016 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2017 £k
Current liabilities						
Sales credits	4,558	3,618	0	(4,558)	0	3,618
Rationalisation	117	0	0	(114)	59	62
Legal	65	(65)	0	0	0	0
Total current liabilities	4,740	3,553	0	(4,672)	59	3,680
Non-current liabilities						
Rationalisation	108	0	0	0	(59)	49
Royalties	167	0	0	(6)	0	161
Total non-current liabilities	275	0	0	(6)	(59)	210
Total liabilities at 31 March 2017	5,015	3,553	0	(4,678)	0	3,890
	Balance at 1 April 2017 £k	Charged to operating cost £k	Unwinding of discount £k	Applied £k	Reclassification £k	Balance at 31 March 2018 £k
Current liabilities						
Sales credits	3,618	3,326	0	(3,618)	0	3,326
Rationalisation	62	0	0	(62)	33	33
Total current liabilities	3,680	3,326	0	(3,680)	33	3,359
Non-current liabilities						
Rationalisation	48	0	0	0	(33)	15
Royalties	161	0	0	(161)	0	0
Total non-current liabilities	209	0	0	(161)	(33)	15
Total liabilities at 31 March 2018	3,889	3,326	0	(3,841)	0	3,374

Notes to the accounts continued

Analysis of expected timing of cash flows at 31 March 2017

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

Analysis of expected timing of cash flows at 31 March 2018

	2018/19 £k	2019/20 £k	2020/21 2021/22 £k	Balance at 31 March 2018 £k
Sales credits	3,326	–	–	3,326
Rationalisation	33	15	0	48
Total	3,359	15	0	3,374

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

Sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by ADMIRALTY Chart Agents. The provision represents a 5% credit allowance for returns of stock following release of new editions and a 1% credit allowance in relation to stock cleanses. It is anticipated that the provision will be fully applied during 2018/19.

Rationalisation

This reflects the outstanding liability for early retirements arising from a restructuring exercise undertaken in 2007. The provision has been discounted at 0.10% and will be fully applied by 2019/20.

13. Public dividend capital

	2017/18 £k	2016/17 £k
Public dividend capital	13,267	13,267

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

14. Financial instruments

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

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The current value of all our financial instruments is considered to equate to fair value at 31 March 2018.

Financial instruments

IFRS 7 Financial instruments, disclosures, requires us to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the credit risks to which we are exposed and how these risks are managed. For each type of credit risk arising from financial instruments, we are also required to provide summary quantitative data about our exposure to the credit risk at the reporting date. At 31 March 2018, we had no material risks arising from our financial instruments that arise in the course of normal business operational activities.

We are subject to some credit risk. The carrying amount of receivables, net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other receivables consist of a large number of diverse customers spread over a diverse geographical area.

UKHO credit management history has been good with virtually no bad debts in the past decade. However, we are seeing indications that some of our distributors might be struggling in the increasingly competitive market and we cannot rely on past very low levels of bad debts as a reliable indicator of future trends. Based on a combination of payment history, credit reference reports and financial information, we have made a bad debt provision of £417k.

All outstanding financial assets which remain within their credit terms at 31 March 2018, primarily relate to established customers whose credit worthiness has been subject to regular review and gives no cause for concern regarding full future settlement. The table below provides details of receivables beyond the due date and impairments made.

Significant accounting policies

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

Notes to the accounts continued

Receivables beyond the due date

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

2017/18	Not overdue £k	Overdue 0–3 months £k	Overdue 3–6 months £k	Overdue 6–12 months £k	Overdue Over 12 months £k	Total £k
Receivables – not impaired	23,200	2,727	60	13	15	26,015
Gross receivables total	23,200	2,727	60	13	15	26,015
Bad debt provision	(340)	(77)	0	0	0	(417)
Net total receivables	22,860	2,650	60	13	15	25,598

	2017/18 £k	2016/17 £k
Financial assets		
Loans and receivables (including cash and cash equivalents)	143,151	130,771
Financial liabilities		
Other financial liabilities	73,525	70,936

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

15. Commitments under leases

Operating leases

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

	2017/18 £k	2016/17 £k
Property		
Due within one year	97	0
Due after one year but within five years	194	0
Total	291	0
Plant and equipment		
Due within one year	59	63
Due after one year but within five years	0	0
Total	59	63
Total leases	350	63

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

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

16. Capital commitments

	2017/18 £k	2016/17 £k
Capital expenditure that has been contracted for, but has not been provided for in these accounts		
Property, plant and equipment	17,816	891
Total capital commitments	17,816	891

The majority of commitments relate to the new office under construction.

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

Reconciliation of Trading Fund profit	2017/18 £k	2016/17 £k
Profit on ordinary activities before interest and after exceptionals	28,651	33,817
Interest, unwinding of the discount and movement on provision for early retirements and rationalisation	0	10
Depreciation & Amortisation	6,004	5,699
Impairment	3,559	0
Loss/(Profit) on sale and disposal of non-current assets	32	(703)
Decrease in inventories	684	167
Decrease/(Increase) in receivables	587	(6,393)
Increase in payables (excluding dividend)	7,484	11,366
Decrease in provisions	(516)	(1,125)
Net cash inflow from operating activities	46,485	42,838

18. Contingent liabilities

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

19. Losses and special payments

There were unrecoverable trade receivables of £41k (2016/17: £13.4k). There were unrecoverable overpayments to staff of £0.5k (2016/17: £0.4k).

There were no write-offs in respect of fruitless payments (2016/17: £0).

20. Related party transactions

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

Other related parties

We have had various material transactions with other Government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, PCSPS and HMRC employer's and employee's income tax and National Insurance. All transactions are carried out on standard contract terms.

21. Events after the reporting period

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



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