

Annual Accounts

for the year ended 31 March 2002

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Foreword to the accounts

Status

Ordnance Survey is a government department founded in 1791, operating under legislation that dates back to 1841. It is responsible for the official, definitive surveying and topographical mapping of Great Britain. In 1990 Ordnance Survey was established as an Executive Agency and with effect from 1 April 1999 Ordnance Survey attained Trading Fund status under the provisions of the Government Trading Funds Act 1973, as amended.

The holder of the combined post of Director General and Chief Executive is also the Accounting Officer. During 2001–02 the Secretary of State for the Department for Transport, Local Government and the Regions (DTLR) had ministerial responsibility for Ordnance Survey.

Aim and strategic objectives

Ordnance Survey aims to satisfy the national interest and customer need for accurate and readily available geospatial data and maps of the whole of Great Britain in the most effective and efficient way. This aim is pursued through a set of strategic objectives that cover all aspects of maintaining the National Topographic Database sufficiently up to date and of suitable quality to meet the current and future data, graphic and information needs of a wide range of customers. The strategic objectives include the delivery of national interest services and activities as defined in a formal agreement with government and the provision of national coverage of medium- and small-scale maps.

Further details of the aims, objectives, accountability and responsibility are contained in Ordnance Survey's

Framework Document published in April 1999.

Management Board

There are two corporate boards in the Ordnance Survey senior management structure. These are:

- **The Strategy Board** – responsible for determining the long-term strategy of Ordnance Survey and oversight of the successful discharge of the remit assigned to Ordnance Survey by Ministers. Until December 2001 the Strategy Board comprised the Chief Executive, Director of Business Change, Head of Strategy and Non-Executive Directors. From January 2002 the Board was extended to include all Ordnance Survey Directors and Non-Executive Directors.
- **The Operating Board** – responsible for all operational matters within Ordnance Survey at a corporate level and for implementation of the strategy agreed by the Strategy Board and comprising all Ordnance Survey Directors and the Head of Strategy.

At 31 March 2002 the Strategy Board comprised

Vanessa Lawrence

Chief Executive

David Willey

Director of Business Change and Deputy Chief Executive

Duncan Shiell

Head of Strategy

Steve Erskine

Director of Graphic Brands

James Brayshaw

Director of Digital Brands (from 1 November 2001)

Neil Ackroyd

Director of Data Collection and Management (from 4 September 2001)

Bryan Nanson

Director of Staff Development and Corporate Services

Ed Parsons

Chief Technology Officer (from 5 June 2001)

Gwynneth Flower

Non-Executive Director

Lynn Mathieson

Non-Executive Director

Piers White

Non-Executive Director (from October 2001)

The Non-Executive Directors are appointed by the Secretary of State. Their remuneration and terms of appointment are agreed at the time of their appointment, which is normally for two years with the option for this to be extended for a further two years. In October 2001 Piers White replaced Michael Pattison, who had served four years as a Non-Executive Director.

The Operating Board

In addition to the Ordnance Survey directors on the Strategy Board as detailed above, the following directors served on the Ordnance Survey Operating Board during 2001–02:

Stephen Gapper

Acting Director of Digital Brands (to 31 October 2001)

Nick Land

Director of Market Development (to 30 November 2001)

Ian Logan

Director of Data Collection and Management (to 30 April 2001)

Graham Little

Acting Director of Data Collection and Management (from 30 April 2001 to 3 September 2001)

Audit Committee at 31 March 2002

Gwynneth Flower, Lynn Mathieson, Piers White and David Willey were members of the Ordnance Survey Audit Committee at 31 March 2002.

Auditor

The Auditor is Sir John Bourn, Comptroller and Auditor General.

Business activities

Ordnance Survey delivers its remit of maintaining the National Topographic Database (NTD) of Great Britain and providing national coverage of medium- and small-scale maps to government, business and consumer markets. Surveying and mapping activity that ensures consistent national standards but does not have an immediate commercial justification is funded by an agreement with central government (the National Interest Mapping Services Agreement – NIMSA). Data graphics and information services are mainly directed to the government and business markets, while the consumer market is concentrated on medium- and small-scale maps. Increasingly some medium-scale data products serve both the business and consumer markets. Ordnance Survey encourages the growth of a licensed partner community designed to add value to data taken from the NTD.

On 30 March 2001 Ordnance Survey acquired a 40% share in PointX Ltd, a joint venture company set up to develop and market a points of interest database covering Great

Britain. The aim of PointX Ltd is to lead the points of interest market by delivering the most comprehensive, current and consistent national data. On 20 November 2001 Ordnance Survey increased its share to 50% (see Note 7).

Business objectives 2001–02

Details of the non-financial business targets for 2001–02 are contained in the Annual Report.

Financial objectives

The Government Trading Funds Act 1973 lays upon the Minister responsible for each fund the financial objectives of:

- managing the revenue of the funded operations so that the revenue of the fund consists primarily of receipts in respect of goods and services provided in the course of the funded operations, and is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the revenue account; and
- achieving such further financial objectives as the Treasury may from time to time, by Minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

The longer-term financial objective of Ordnance Survey is:

- to achieve an average annual return on capital employed

(ROCE) on the surplus on ordinary activities before interest of at least 9% of net assets employed over the period 1 April 1999 to 31 March 2004.

The additional financial target for 2001–02 set by the Secretary of State for Transport, Local Government and the Regions is:

- to raise income of £85.6 million through sales, licensing and other activities, excluding Government funding towards the NIMSA.

Results for the year

The deficit for the year is £6 452 000, which was transferred from the general reserve as shown in Note 13.

Details of the achievement of the financial target is shown in Note 20. Further details are contained in the Annual Report.

Research and development

Ordnance Survey continues to undertake a diverse programme of market-led research covering both product development and process improvement, focused on addressing the current and future needs of the business. A further significant increase in research investment over the last year has enabled the implementation of a forward-looking, blue-sky research and innovation strategy addressing a fundamental research agenda in information science, centred around future users and uses of location-based information. It addresses novel means of data collection, storage,

maintenance and delivery of location-based information and services to new user communities using new channels. Greater emphasis is being placed on innovation and the exploitation of intellectual capital developed through this research and innovation strategy.

Ordnance Survey's Virtual Research Unit continues to develop partnerships with the academic community, other national mapping agencies and research departments in commercial organisations using expertise across the world in delivering its research agenda.

Research in Ordnance Survey is supported by a proactive technology tracking programme that ensures threats and opportunities to the business are identified and helps to establish research priorities.

Creditor payment policy

Ordnance Survey adheres to the Better Payment Practice Code. In 2001–02, 97.8% (99.1% in 2000–01) of all approved invoices were paid by Ordnance Survey within the contractual conditions, or within 30 days of receipt of a valid invoice.

Employment of people with disabilities

As part of the Ordnance Survey Diversity Plan, directors support policies for giving full and fair consideration to applications for employment made by people with disabilities, having regard to their particular aptitudes and abilities. There is also support for continuing the employment of employees who

have become temporarily or permanently disabled during the period when they were employed by Ordnance Survey, and for the training, career development and promotion of people with disabilities. Ordnance Survey is registered with the Employment Service as an employer who is *Positive About Disabled People*.

Employee involvement

Internal communications are continuously monitored for the effectiveness of existing business communication channels, and the effectiveness of the communications of others in Ordnance Survey, through local and business structured feedback channels on behalf of all employees. Guidance, advice, information and internal consultancy are available wherever and whenever it is required and standards are set for business communication activity to maximise the effect and focus of communication across the business.

Primary communication channels are under continuous review and development, concentrating specifically this year on maximising the potential e-delivery of business information in many formats. These include continuing development of the Intranet, promotion and development of video conferencing and plasma screen technology, and increasing use of the internal newscaster software. In addition to improving the currency of information, these developments result in cost savings and environmental benefits, including a reduction in the need for travel and the production of paper copies.

There has been a structured training programme across the business to improve face-to-face communication, briefing and leadership skills, together with a business-wide endeavour to ensure that all employees are part of the communication experience and that all contributions are appreciated and considered.

Ordnance Survey continues to be recognised as an Investor in People (IIP), the national quality standard for effective investment in the training and development of staff and will be applying in 2002 for its fourth Charter Mark. Ordnance Survey's quality systems have been developed to EFQM principles.

The Ordnance Survey Departmental Whitley Council provides for regular consultations with employees' representatives.

Events since the end of the financial year

There have been no significant events since the end of the financial year that would affect the results for the year or the balance sheet at year end.

Accounts

The Directors present the accounts for the year ended 31 March 2002.



Vanessa V Lawrence
Director General and Chief Executive
28 June 2002

Statement of Agency's and Chief Executive's responsibilities

Under Section 4(6) of the Government Trading Funds Act 1973 the Treasury has directed Ordnance Survey to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction that is reproduced at the end of these accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses, and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Agency will continue in operation.

The Treasury has appointed the Chief Executive of Ordnance Survey as the Accounting Officer for the Agency. Her relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Framework Document, and in the Accounting Officers' Memorandum issued by the Treasury and published in *Government Accounting* (The Stationery Office).

Statement on internal control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives set by Ordnance Survey's Ministers, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of Ordnance Survey policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2002 and up to the date of the approval of the annual report and accounts, and accords with Treasury guidance.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. Ordnance Survey has established the following processes:

- A Strategy Board that meets monthly to consider the plans and strategic direction of Ordnance Survey (the Board includes three Non-Executive Directors) and an Operating Board that includes all the Directors of Ordnance Survey and which meets weekly. Risk management has been an item on all departmental management team agendas from April 2001.
- Periodic reports from the Chairman of the Audit Committee, to the Boards, concerning internal control.
- Regular reports by Internal Audit, to standards defined in the Government Internal Audit Manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of Ordnance Survey's system of internal control together with recommendations for improvement.
- A strategic risk and control assessment was carried out in 2001–02.
- Regular reports from managers on the steps they are taking to manage business critical risks in their areas

of responsibility, including progress reports on key projects.

- A regular programme of facilitated workshops to identify and keep up to date the record of risks facing the organisation.
- A programme of risk awareness training.
- Established key performance indicators.
- Maintenance of an organisation-wide risk register system with registers being maintained at Board and departmental management team level.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Ordnance Survey who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.



Vanessa V Lawrence
Director General and Chief Executive
28 June 2002

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 55 to 70 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 58 to 60.

Respective responsibilities of Ordnance Survey, the Chief Executive and Auditor

As described on page 48, Ordnance Survey and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. Ordnance Survey and the Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all

the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 49 reflects the Agency's compliance with Treasury's guidance *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except that the scope of my work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by Ordnance Survey and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered

necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

However, the evidence available to me was limited because £2.2 million of the £23.832 million tangible fixed assets appropriated to the Trading Fund on 1 April 1999 comprises the stated value of the database management system for the National Topographic Database for which no adequate accounting records exist. The database management system was developed by Ordnance Survey in 1994. At that time Ordnance Survey's accounting policy was to charge the costs of software development as an expense in the Operating Statement.

On becoming a Trading Fund on 1 April 1999, Ordnance Survey changed its accounting policy to recognise the database management system as a tangible fixed asset in accordance with current accounting standards and Treasury guidance. The database management system was brought to account within fixed assets at its depreciated net book value of £2.2 million, based on an original estimated cost of £4.8 million. No accounting records have been retained to support the original estimated cost of this database management system. There were no other audit procedures that I could adopt to confirm that this asset was properly valued.

In forming my opinion I also evaluated the overall adequacy of the

presentation of information in the financial statements.

Adverse Opinion

Ordnance Survey's turnover of £102.6 million derives principally from the exploitation of data contained on the National Topographic Database, the creation of which has been funded from public monies over many years. As disclosed in Note 1.7 to the accounts, the Agency has not capitalised the costs of setting up and maintaining the National Topographic Database in its Balance Sheet. In the Agency's view, the database is an intangible fixed asset that does not meet the conditions for capitalisation set by Financial Reporting Standard 10. In my opinion, the National Topographic Database is a tangible fixed asset that should be capitalised in accordance with Financial Reporting Standard 15. Having taken expert advice about the valuation of the database, in my view the value to the business is not less than £50 million. Had the National Topographic Database been capitalised at that value, the effect would have been to increase tangible fixed assets included in the Balance Sheet at 31 March 2002 from £39 million to £89 million.

In my opinion:

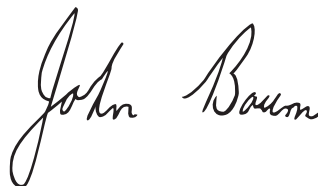
- in view of the effect of the decision not to capitalise the National Topographic Database as a tangible fixed asset in accordance with Financial Reporting Standard 15, the financial statements do not give a true and fair view of the state of affairs of Ordnance Survey at 31 March 2002 or of its deficit, total recognised gains and losses and cash flows for the year then ended;

- in all other respects, and except for any adjustments that might have been necessary had I been able to obtain sufficient evidence concerning the database management system, the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitation on my work relating to the database management system included within fixed assets:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- proper accounting records have not been maintained.

Details of these matters are set out in my report on the 2001–02 Accounts.



John Bourn
Comptroller and Auditor General
15 July 2002

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The Report of the Comptroller and Auditor General to the Houses of Parliament

Accounting for the National Topographic Database

Background

1. Ordnance Survey (the Agency) is a government department founded in 1791, and is responsible for the official, definitive surveying and topographical mapping of Great Britain. Having become an Executive Agency in 1990, Ordnance Survey acquired Trading Fund status in April 1999 under the provisions of the 1973 Government Trading Funds Act (as amended).
2. I have qualified my opinion on Ordnance Survey's accounts in each of its first three years as a Trading Fund due to my disagreement with the Agency's decision not to capitalise the National Topographic Database. The detailed reasons for my disagreement are set out in my report on the 1999–2000 accounts (HC 26, 2000–01).
3. The purpose of this report is to inform Parliament of a number of subsequent developments which I consider to be relevant to the debate over the appropriate accounting treatment for the National Topographic Database. These developments concern changes in accounting standards, enhanced disclosure in Ordnance Survey's annual report and accounts of the importance of the National Topographic Database and the recommendation from Stage 1 of Ordnance Survey's Quinquennial Review that it becomes a public limited company with shares wholly owned by the government.

The National Topographic Database

4. Over many decades Ordnance Survey has created, and continues to maintain, the National Topographic Database as a definitive computerised map of Great Britain. The Agency's main remit is the maintenance of the National Topographic Database and the provision of products and services from it and hence the database is of central importance to Ordnance Survey's business. In 2001–02 Ordnance Survey's turnover from the exploitation of data held on the database was £102.6 million. As well as generating revenues directly for Ordnance Survey, the Agency has noted in its Annual Report that independent consultants estimated some three years ago that around £100-billion worth of business and public services in Great Britain rely each year on Ordnance Survey data.
5. Over the past three years, some £17 million has been invested in re-engineering the 400 million features recorded on the National Topographic Database into a consistent polygonous format bringing significant benefits in the way that information is integrated, manipulated, analysed and presented.

Disagreement over the accounting treatment applied to the National Topographic Database

6. The National Topographic Database comprises two key elements: software (the database management system) and topographical data (the database). In accordance with Financial Reporting Standard 15

Tangible Fixed Assets, Ordnance Survey capitalises the database management system as a tangible fixed asset in its accounts. No value is attached in the Balance Sheet to the core database nor to the costs of re-engineering and updating existing data. Instead, ongoing costs of maintaining the database have been charged to the Operating Statement as incurred.

7. The accounting treatment applied to the database reflects the Agency's view that the database is a collection of information akin to intellectual property and, as such, is an intangible fixed asset. *Financial Reporting Standard 10 Goodwill and Intangible Assets* requires that internally generated fixed assets are capitalised only where there is a readily ascertainable market value evidenced by an active market in similar assets. As the National Topographic Database is unique and has never changed hands, the Agency considers that no value could or should be attached to it in the financial statements. The Agency has noted that there are no examples in the private sector of internally generated databases being capitalised except where they have been sold as part of a commercial transaction.

8. The Agency also considers that the revenue stream generated by the National Topographic Database is dependent upon the currency of the information held and that the level of currency required by its customers can only be sustained through a programme of continual revision. The Agency does not therefore regard its data as having a sufficiently long depreciable life to warrant capitalisation.

9. My decision to qualify Ordnance Survey's accounts in 1999–2000 and subsequent years reflects my opinion that the accounting treatment applied to the database should reflect the past investment of public funds in the National Topographic Database. This past public investment should, in my opinion, have been reflected in the public dividend capital and net assets vested in the Trading Fund at its inception on 1 April 1999. After taking professional advice on the valuation of the database, my opinion was that the value of the database to the business was not less than £50 million in 2000 and that there was accordingly a material understatement of capital employed in Ordnance Survey's accounts.
10. My opinion remains that the database is more appropriately accounted for as a tangible fixed asset and should be capitalised in accordance with Treasury Guidance and Financial Reporting Standard 15. Unlike intangible fixed assets such as trademarks, brands or patents, the database is an accurate representation of a physical reality that is not affected by opinion, taste, judgement, reputation or belief.
11. Furthermore, I consider that the database is analogous to internally generated software, which is also data held in electronic form. Treasury Guidance and Financial Reporting Standard 10 require the capitalisation of internally generated software as a tangible fixed asset, recognising that it represents expenditure that is of continuing use in a business and which supports the generation of future economic benefits.

Developments in accounting standards

12. Since I first qualified my opinion on the Ordnance Survey accounts in 1999–00, the Accounting Standards Board's Urgent Issues Taskforce (UITF) has issued Abstract 29 Website development costs. The UITF's Abstracts have the same force as accounting standards. The issues addressed in Abstract 29 are relevant to the consideration of accounting for the Ordnance Survey database. Abstract 29 covers web site content costs, being expenditure incurred on preparing, accumulating and posting the web site content. Abstract 29 requires web site content costs to be capitalised as tangible fixed assets to the extent that the expenditure is separately identifiable and leads to the creation of an enduring asset delivering benefits at least as great as the amount capitalised.
13. There is a clear analogy between expenditure on web site content costs incurred to secure the future revenue generating capacity of an entity's web site and the costs of collecting and engineering Ordnance Survey data to ensure the currency and future revenue generating capacity of the National Topographic Database.
14. There is a growing recognition across business and accounting fields that financial statements increasingly do not necessarily represent the true value of businesses. The economy is driven increasingly by assets such as information, intellectual property and human capital rather than by assets such as plant and machinery. Such assets are often excluded from financial statements as they are

considered to be intangible assets that do not meet the capitalisation criteria set out in Financial Reporting Standards 10. However, the UITF, having accepted the need to recognise the value of web site development costs in entities' balance sheets, also concluded that such costs represent tangible fixed assets in Abstract 29.

15. Ordnance Survey continues to believe, however, that current accounting standards do not support the capitalisation of the database in its accounts. The Annual Report accompanying Ordnance Survey's 2001–02 accounts nevertheless urges readers of the financial statements to take account of the database when seeking to understand the true value of the business and the asset base used to generate current and future revenues and Note 1.7 to the accounts draws the reader's attention to the report of the Principal Finance Officer. I welcome this new statement in the accounts.

Quinquennial Review

16. Ordnance Survey is currently undergoing a Quinquennial Review, a requirement for all agencies and Non-Departmental Public Bodies. The Review is split into two stages. Stage 1 of the Review involved canvassing stakeholders, considering the contribution made by the agency to wider governmental objectives and assessing the effectiveness of the organisational structure in delivering its services. A number of options for the future status of Ordnance Survey including abolition, continued Trading Fund status, merger or rationalisation

and privatisation were considered.

17. The review team recommended that Ordnance Survey should make the transition from Trading Fund to a wholly government owned public limited company (plc). This option was seen as giving Ordnance Survey the additional commercial freedoms essential to driving out further performance improvements and achieving greater agility in the market place. In December 2001 Ordnance Survey's Minister announced that she was minded to accept the recommendation and Stage 2 of the Review is currently looking at the costs, benefits and practicalities of such a move. The Stage 2 review team is expected to report its findings later in 2002. In my view, it will be important that any change in the status of Ordnance Survey safeguards the past public investment by the taxpayer in the National Topographic Database by ensuring that its value to the business is properly reflected in the financial statements.

Conclusion

18. I have qualified my opinion on Ordnance Survey's 2001–02 accounts because of my continuing disagreement with Ordnance Survey's decision not to capitalise the National Topographic Database. The National Topographic Database has been funded from public monies over many years and Ordnance Survey's turnover

(£102.6 million in 2001–02) derives principally from the exploitation of data held on the database. In my opinion the failure to capitalise the database results in a material understatement of capital employed in the Balance Sheet.

19. The Agency considers that the accounting treatment it has applied to the National Topographic Database conforms to both current accounting standards and standard practice amongst businesses that generate revenues from databases and information collections. Consequently it has informed me that, until and unless the current accounting standards and recommendations change, it does not intend to revise its accounting treatment. I nevertheless welcome the additional disclosures made by the Agency in the financial statements to draw readers' attention to this important asset.



John Bourn
Comptroller and Auditor General
15 July 2002

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Operating account for the year ended 31 March 2002

	Note	2001–02		2000–01
		£'000	£'000	£'000
Turnover				
Turnover from operating activities	2.1	102 631		99 558
Exceptional item	2.2	–		19 250
Government grant income	2.3	6 000		6 000
Invest to save budget income	2.4	108		171
Income from investment property	2.5	286		72
			109 025	125 051
Operating costs				
Staff costs	3	56 370		55 375
Depreciation of fixed assets	6	6 442		4 610
Other operating charges	4	53 699		37 724
Total operating costs			116 511	97 709
Operating surplus/(deficit)			(7 486)	27 342
Share of operating deficit – PointX			(72)	–
Total operating surplus/(deficit)			(7 558)	27 342
Profit/(Loss) on disposal of fixed assets			(4)	14
Surplus/(deficit) on ordinary activities before interest			(7 562)	27 356
Interest receivable	5	1 757		1 975
Interest payable	5	(647)		(751)
Net interest			1 110	1 224
Surplus/(Deficit) for the year including the exceptional item	2.2		(6 452)	28 580
Surplus/(Deficit) for the year before the exceptional item	2.2		(6 452)	9 330

All Ordnance Survey activities are continuing. There have been no material acquisitions or disposals in the year.

Statement of total recognised gains and losses for the year ended 31 March 2002

	Note	2001–02		2000–01
		£'000	£'000	£'000
Surplus/(deficit) for the financial year		(6 452)		28 580
Unrealised gain on revaluation of tangible fixed assets	13.2	590		1 374
Unrealised gain on investment revaluation reserve	13.2	1 913		2 357
Total gains and (losses) relating to the financial year		(3 949)		32 311
Prior year adjustments	15	–		931
Total gains and (losses) recognised		(3 949)		33 242

The notes on pages 58 to 70 form part of these accounts.

Balance sheet at 31 March 2002

	Note	31 March 2002		31 March 2001
		£'000	£'000	£'000
Fixed assets				
Tangible fixed assets	6.1	38 978		31 465
Fixed asset investments				
Property	6.2	6 430		4 517
Other Investments – PointX	7	68		–
			45 476	35 982
Current assets				
Stocks and work-in-progress (WIP)	8	1 677		3 416
Debtors	9.1	12 754		22 315
Prepayments	9.2	1 979		1 420
Cash at bank and in hand		35 285		37 765
			51 695	64 916
Current liabilities				
Creditors: amounts falling due within one year	10	(15 238)		(15 298)
Bank overdraft		–		(487)
			(15 238)	(15 785)
Net current assets			36 457	49 131
Total assets less current liabilities			81 933	85 113
Financed by:				
Provision for liabilities and charges	11		8 898	7 292
Capital and reserves				
Public Dividend Capital		14 000		14 000
Loans repayable after one year	12	11 018		12 353
General reserve	13.1	35 320		41 483
Revaluation reserve – tangible fixed assets	13.2	7 113		6 314
Investment revaluation reserve	13.2	5 584		3 671
			73 035	77 821
Total			81 933	85 113

The Accounts were approved on 28 June 2002.



Vanessa V Lawrence
Chief Executive and Agency Accounting Officer

The notes on pages 58 to 70 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2002

	Note	2001–02 £'000	2000–01 £'000
Reconciliation of operating surplus for the year to net cash flow from operating activities			
Operating surplus/(deficit)		(7 562)	27 356
Depreciation charges	6	6 442	4 610
(Profit)/Loss on disposal of fixed assets		4	(14)
Decrease/(increase) in stocks/WIP	8	1 739	(815)
(Increase)/decrease in debtors/prepayments	9	9 685	(9 080)
Decrease in prefunded pension commitments	9	296	–
Increase in creditors	10	115	999
General reserve/creditors' adjustment	10	498	597
Increase in long-term liabilities	11	615	1 520
Net cash inflow from operating activities		11 832	25 173
Cash flow statement			
Net cash inflow from operating activities		11 832	25 173
Financing costs – net receipts/payments	14.1	1 121	1 144
Net capital expenditure	14.2	(13 329)	(9 149)
Net other investment – PointX	14.3	(68)	–
Cash inflow/(outflow) before financing		(444)	17 168
Financing	12	(1 549)	(1 549)
Increase/(decrease) in cash		(1 993)	15 619
Cash movement			
Increase/(decrease) in cash in the year		(1 993)	16 106
(Increase) in bank overdraft		–	(487)
Cash at 1 April		37 278	21 659
Cash at 31 March		35 285	37 278

All Ordnance Survey movements in cash relate to cash flows from operating activities and there is no other net debt.

The notes on pages 58 to 70 form part of these accounts.

Notes to the accounts

Note 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to Ordnance Survey accounts.

1.1 Accounting conventions

These accounts have been prepared under the historical cost convention, modified to include the revaluation of fixed assets, to meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

They are in accordance with the Treasury Direction that is reproduced at the end of the accounts.

1.2 Freehold land and buildings

Title to the freehold headquarters site in Southampton is held by the Department for Transport, Local Government and the Regions in the name of the Secretary of State. The control and management of this freehold land and buildings were vested in Ordnance Survey from 1 April 1974 as if legal transfer had been effected.

The land and buildings were revalued on 31 March 2002 by Chesterton plc in accordance with the Appraisal and Valuation Manual produced by the Royal Institution of Chartered Surveyors (September 1995 as amended). The amount of this valuation was £23 740 000 consisting of £17 310 000 Existing Use Value and £6 430 000 for the Open Market Value in respect of investment

property. The Existing Use Value comprised £8 905 000 for land and £8 405 000 for buildings.

The basis of valuation for Ordnance Survey occupied buildings is Existing Use Value assuming vacant possession. The values are included in these accounts on the Ordnance Survey balance sheet and details are contained in Note 6.1.

There were no additions to land in the year.

Ordnance Survey, (under Treasury guidance) is deemed to be the owner of one common user estate property. This is included in Land and Buildings on the Balance Sheet and was revalued on 31 March 2002 by Chesterton plc. The basis of the valuation is Existing Use Value assuming vacant possession and the amount of the valuation was £95 000 (Land £60 000 Buildings £35 000).

1.3 Investment properties

Investment properties are included in the balance sheet at their Open Market Value. No depreciation is charged on these assets. Details are included in Note 6.2 and rental income is shown in Note 2.5.

1.4 Other fixed assets

- The minimum level for capitalisation as a fixed asset is £5 000, with the exception of Information Technology (IT) infrastructure and support systems hardware, which is normally £1 000.
- All IT workstations (office computers and laptops) are grouped as one asset.
- The values of other fixed assets have been restated using appropriate indices published by the Office for National Statistics.

Movements in fixed assets are disclosed in Note 6.

1.5 Depreciation

Depreciation is calculated so as to write off the valuation of freehold buildings and other fixed assets by equal instalments over their estimated useful lives determined by professional assessment. Lives are normally as follows:

Freehold buildings	45 years
Machinery, equipment and fixtures	3 to 10 years
Computers and IT equipment	2 to 5 years
IT Software	3 to 10 years
Vehicles	4 years

Freehold land is not depreciated.

The depreciation charge for the year on buildings is calculated at the year end on the valuation by Chesterton plc (see Note 1.2). For all other fixed assets, the depreciation charge for the year is calculated on the average asset values for the year (average of values recalculated annually using indices issued by the Office for National Statistics).

1.6 Stocks and work-in-progress

Stocks and work-in-progress are valued as follows:

- Maps – at the lower of cost and net realisable value. Costs of large-scale maps (at scale of 1:10 000 or greater) are charged to the operating account as incurred.
- Work-in-progress – at the lower of cost and net realisable value. Cost represents materials and labour and other directly attributable overheads.
- Amounts recoverable on contracts – at the value of work carried out

after provision for contingencies and anticipated future losses.

1.7 National Topographic Database

The background to the accounting treatment of the data that constitutes the National Topographic Database (NTD) is set out in the report of the Principal Finance Officer. This note should be read in conjunction with that Report. It is important to distinguish the data itself from the software and hardware (the database management system), which enables the data to be securely held and updated.

The NTD itself is accounted for as an intangible fixed asset under FRS10. With changes to the data happening in *real time*, the costs of surveying, otherwise acquiring, rectifying and loading the data are charged to the Operating Account as incurred. Consequently, no value for the NTD appears on the balance sheet, notwithstanding its central importance to Ordnance Survey activities and revenue generation.

The database management system is treated as a fixed asset in the normal way. The system comprises, principally, internally generated software that has been developed and enhanced over several years and written off over its expected working life. The replacement database management system in course of construction at 31 March 2001 came into use in 2001–02 and was capitalised in the year (see Note 6).

1.8 Turnover

Turnover comprises invoiced sales of mapping data, information, customer-tailored services and copyright revenue (net of trade discount) and is shown net of Value

Added Tax (VAT).

Copyright licences issued can cover periods beyond the end of the financial year. Copyright turnover is recognised in the year in which it is earned, being the year in which Ordnance Survey material is printed by the licence holder.

Unpaid copyright invoices for licence fees that may relate to periods after 31 March 2002 are included in trade debtors that represent all invoices unpaid at 31 March 2002.

The proportion of the value of invoices excluding VAT raised in 2001–02 that relate to the period after 31 March 2002, irrespective of the date of payment, is included in creditors as copyright and other revenue in advance.

1.9 Pension and early retirement costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme. Contributions in respect of accruing superannuation liabilities, calculated at rates determined from time to time by the Treasury, are charged to the Operating Account in the year in which they fall due. Details are contained in Note 3.5.

Some staff may be retired early under restructuring arrangements at the discretion of Ordnance Survey. The Department is required to pay the pensions of employees who retire early (excluding actuarially reduced retirement and medical retirement) until they reach normal pensionable age. 100% of the costs of funding early leavers prior to 31 March 2001 have been provided for in earlier years with the provision being

increased in subsequent years to meet the known liability for these leavers (see Notes 3.2 and 11). Funds are released from the provision annually to fund pensions and related benefits payments to the retired employees until normal retirement age. Under the different funding arrangements that applied between October 1994 and 31 March 1997, 80% of the costs were met centrally from the Civil Superannuation Vote. In order to reflect the 100% cost of all employees leaving under the revised arrangements during this period, the 80% funded centrally has been transferred from the provision to the general reserve in these accounts (see Note 10).

Until 1999, when Ordnance Survey was an on-vote Executive Agency, it made payments to the Civil Superannuation Vote to prefund some of the liabilities relating to compensation for early retirement. Some unused balances for future years remain at 31 March 2002 and in accordance with 2001–02 Trading Fund Guidance, the provisions and prepayments are shown separately on the Balance Sheet (see also Note 11). In previous years a net liability has been shown. Details of the costs of leavers in 2001–02 are provided for in the Operating Account (see Notes 2.3 and 3.2).

1.10 Research and development

Expenditure on research and development is treated as an operating charge in the year in which it is incurred.

1.11 Operating leases

Rentals payable under operating leases are charged to the Operating Account as incurred.

1.12 Taxation

Ordnance Survey is not liable to Corporation Tax on its profits.

1.13 Foreign currency transactions

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of the transactions. Exchange rate differences are charged to the Operating Account as incurred (see Note 4). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date.

2. Turnover

2.1 Operating turnover

Ordnance Survey operating turnover is principally generated by the sales of mapping data, information, customer-tailored services and copyright revenue.

The total operating turnover of £102 631 000 for 2001–02 (£99 558 000 in 2000–01) includes £15 987 245 (£13 454 136 in 2000–01) received from the Department for Transport, Local Government and the Regions in respect of the provision of national interest mapping through a services agreement (NIMSA).

2.2 Exceptional item

In March 2001 Ordnance Survey and Centrica® reached agreement to resolve a long-running copyright action against the Automobile Association (now owned by Centrica) for the use of Ordnance Survey mapping. The out-of-court settlement was for payment of

£20 000 000 over two years and an agreement to become a licensee, so allowing the use of Ordnance Survey material in future publishing and information activities. The payment covers backdated royalty payments, interest on these amounts, Ordnance Survey's costs and an advance of £750 000 on the royalties payable for twelve months from 2 March 2001.

£19 250 000 was included as an exceptional item in the 2000–01 Operating Account. The £750 000 related to trading turnover and was primarily included as copyright in advance in the 2000–01 accounts (see Note 1.8 above). £10 000 000 was received in March 2001 and the remaining £10 000 000 in March 2002.

The surplus for the year in the Operating Account for 2000–01 is stated both before and after inclusion of this exceptional item. For details of its treatment in respect of Ordnance Survey's financial targets see note 20.

2.3 Government grant income

The Trading Fund plan for Ordnance Survey agreed between the Department for Transport, Local Government and the Regions (DTLR) and the Treasury included a major initiative to contain costs in order to allow Ordnance Survey to sustain adequate profitability into the future. In 2001–02 DTLR provided a grant of £6 000 000, which was towards the costs of funding early retirements arising from restructuring. The costs are included in the Operating Account.

2.4 Invest to save budget income

Development projects run in collaboration with other organisations

received investment support amounting to £300 000 in 1999–2000. By the end of 2000–01, £234 080 had been released to invest to save budget income as costs were incurred. The balance of £65 920 is being used as part of the integrated coastal map zone project, a development project between Ordnance Survey, the UK Hydrographic Office, the British Geological Survey and Ordnance Survey Northern Ireland. In 2001–02 £108 000 was released to invest to save budget income.

2.5 Income from investment property

Details of this property are included in Note 1.3. Rental received in 2001–02 totalled £286 000 (£72 000 in 2000–01).

2.6 The geographical turnover of non-United Kingdom business is as follows:

	2001–02 £'000	2000–01 £'000
Countries within the European Union	386	592
United States of America	285	305
Eastern Europe	3	432
Asia	4	11
Rest of the World	48	226

3 Staff numbers and costs

3.1 Total staff numbers

The average monthly number of whole-time equivalent persons employed by Ordnance Survey (including the Board of Management) during the year was as follows:

	2001–02	2000–01
Operations	1 212	1 263
Sales and Marketing	304	276
Corporate Services	332	325
	<hr/> 1 848	<hr/> 1 864

3.2 Total staff costs

The aggregate payroll costs were as follows:

	2001–02 £'000	2000–01 £'000
Wages and salaries	42 302	41 074
Social Security costs	3 085	2 965
Superannuation	5 555	5 329
Early retirement costs in year	2 145	1 715
Additional provision for long-term early retirement commitments (Notes 1.9 and 11)	3 283	4 292
	<hr/> 56 370	<hr/> 55 375

3.3 Directors' emoluments

The most senior members and key decision makers of Ordnance Survey are the members of the Strategy and Operating Boards, details of whom are contained in the Foreword to the Accounts. The salary and pension commitments of the most senior members of Ordnance Survey were as follows:

	Age (at 31 March 2002)	Salary 2001–02 including performance pay	Real increase in pension at 60	Total accrued pension at 60 at 31 March 2002	Salary 2000–01 including performance pay
	£'000	£'000	£'000	£'000	
Vanessa Lawrence Chief Executive	39	125–130	0–2.5	0–5	65–70
		See Note c below			
David Willey Director and Deputy Chief Executive	43	75–80	2.5–5	15–20	65–70
Neil Ackroyd Director (from 4 September 2001)	40	45–50	0–2.5	0–5	–
James Brayshaw Director (from 1 November 2001)	41	35–40	0–2.5	0–5	–
Steve Erskine Director	44	60–65	2.5–5	20–25	50–55
Stephen Gapper Acting Director (to 31 October 2001)		See Note d below			
Nick Land Director (to 30 November 2001)	40	100–105	0–25	5–10	45–50
		See Note e below			
Graham Little Acting Director (1 May to 3 September 2001)	53	40–45	0–2.5	10–15	35–40
Ian Logan Director (to 30 April 2001)	59	5–10	2.5–5.0	30–35	55–60
Bryan Nanson Director (Note g below)	55	65–70	2.5–5	30–35	55–60
Ed Parsons Chief Technology Officer (from 5 June 2001)	36	60–65	0–2.5	0–5	–
Duncan Shiell Head of Strategy	53	60–65	0–2.5	20–25	50–55

Notes:

- Salary includes gross salary, performance pay and all allowances that are subject to UK taxation.
- With the exception of Mr Stephen Gapper, the Chief Executive and Ordnance Survey Directors in the table above are members of the Principal Civil Service Pension Scheme. This is a statutory scheme which provides benefits on a final salary basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in line with the retail price index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.
- The Chief Executive's remuneration for 2001–02 includes a bonus of £6 871 paid in respect of 2000–01. The bonus payable for 2001–02 has yet to be approved by Ministers.
- Until 31 October 2001, Mr Stephen Gapper served as acting Director of Digital Brands. Ordnance Survey entered into a framework agreement with Greatstone UK Ltd. for the provision of general management and IT services, including the services of Mr Gapper. Mr Gapper was a director of Greatstone UK Ltd throughout this period. Mr Gapper has withheld consent to disclose the amount paid by Ordnance Survey to Greatstone UK Ltd for his services.
- Nick Land left Ordnance Survey on 30 November 2001. Included in his salary for 2001–02 is an ex gratia payment of £50 000.
- Ian Logan retired from Ordnance Survey on 30 April 2001.
- Bryan Nanson is leaving Ordnance Survey on voluntary early retirement terms in May 2002. Provision of £249 777 in respect of the liability for costs to be paid by Ordnance Survey in 2002–03 and for future years is included in these accounts.

3.4 Payments to Non-Executive Directors

Ordnance Survey Non-Executive Directors are not Ordnance Survey employees and are not members of the Principal Civil Service Pension Scheme.

Fees paid to Non-Executive Directors were as follows:

	2001–02 £'000	2000–01 £'000
Gwynneth Flower	5–10	5–10
Lynn Mathieson	5–10	5–10
Michael Pattison (to 31 October 2001)	0–5	5–10
Piers White (from 1 November 2001)	5–10	–

3.5 Superannuation

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme which is non-contributory and non-funded. Liability for payment of future benefits is a charge on the Consolidated Fund. For 2001–02 contributions of £5 555 007 (£5 328 700 for 2000–01) were paid to the Paymaster at rates determined from time to time by the Government Actuary and advised by the Treasury. The rates for 2001–02 were between 12% and 20.5% depending upon the pay band of each employee (between 12% and 18.5% in 2000–01).

4 Other operating charges

Included in other operating charges are:

	2001–02 £'000	2000–01 £'000
Staff travel, subsistence and hospitality	4 722	4 448
Research and development	574	442
Charges for operating leases	1 912	1 774
Auditors' remuneration and expenses	76	78
Foreign exchange rate (gains)/losses(net)	9	(45)
Hire of plant and machinery	450	28

5 Interest receivable and payable

	2001–02 £'000	2000–01 £'000
Interest receivable from		
Balances at the account with HM Paymaster	168	172
Short-term deposits with the National Loans Fund	1 587	1 803
Interest received on trade debt	2	–
Interest receivable	1 757	1 975
Interest payable		
On deemed loans	(643)	(717)
Other	(4)	(34)
Interest payable	(647)	(751)
Net interest	1 110	1 224

6 Fixed assets

6.1 Tangible fixed assets

	Freehold land and buildings £'000	Equipment, facilities and fixtures £'000	Vehicles £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 April 2001	16 095	28 783	758	4 007	49 643
Capitalised in year	–	4 007	–	(4 007)	–
Additions	1 032	12 071	144	191	13 438
Disposals	–	(2 524)	(226)	–	(2 750)
Revaluation	278	(371)	–	–	(93)
At 31 March 2002	17 405	41 966	676	191	60 238
Depreciation					
At 1 April 2001	–	17 623	555	–	18 178
Charged in year	563	5 789	90	–	6 442
Disposals	–	(2 452)	(225)	–	(2 677)
Revaluation	(563)	(120)	–	–	(683)
At 31 March 2002	–	20 840	420	–	21 260
Net book value					
At 1 April 2001	16 095	11 160	203	4 007	31 465
At 31 March 2002	17 405	21 126	256	191	38 978

Note:

Assets shown as being under construction at 31 March 2002 relate to development of a customer web site (£135 000), work on improved security (£18 000) and new speedgate turnstiles (£38 000). Assets under construction at 31 March 2001 totalled £4 007 000 (the development of the new topographic database management system, installation of a combined heat and power system and replacement fire alarm system) and were capitalised in 2001–02.

The value of fixed assets determined according to the historical cost accounting rules is as follows:

	Freehold land and buildings £'000	Equipment, facilities and fixtures £'000	Vehicles £'000	Total £'000
Net book value				
At 31 March 2001	10 233	14 695	223	25 151
At 31 March 2002	10 514	21 084	267	31 865

6.2 Fixed asset investments

	2001–02 £'000	2000–01 £'000
Balance at 1 April	4 517	2 160
Revaluation in the year	1 913	2 357
Balance at 31 March	6 430	4 517

Note: The value of the fixed asset investments determined according to the historical cost accounting rules is £846 000.

7 Other Investments – PointX

On 30 March 2001 Ordnance Survey acquired a 40% share in PointX Limited, a joint venture company set up to develop and market a points of interest database covering Great Britain. Ordnance Survey is represented on the Board by a Director and a senior manager who is seconded to the company as Managing Director.

At 31 March 2001 Ordnance Survey owned 40% of the total of the shares in PointX, being 400 (100%) £1 A ordinary shares. Other investors owned all the B and C ordinary shares. All shares were ranked equally. On 20 November 2001 one of the investors went into receivership and Ordnance Survey increased its ownership to 50% of the total shares. At 31 March 2002 Ordnance Survey therefore owned 400 £1 A and 100 £1 C ordinary shares.

PointX had no turnover during the year ended 31 March 2002. Its deficit/net liability position reflects the fact that 2001–02 was a set-up year prior to the expected launch of the points of interest database in 2002–03.

An interest-free loan was agreed on 30 March 2001 and £533 000 was therefore provided for in the 2000–01 accounts. As a result of increasing its share in PointX the provision was increased to £750 000 of which £139 600 was drawn down in 2001–02. Following advice from the National Audit Office the provision has been removed and only the amount drawn down in 2001–02 (£139 600) is included on the balance sheet. The undrawn amount is disclosed in Note 16 – Financial Commitments. To reflect this change debtors and creditors for 2000–01 have been restated with no overall effect on the balance sheet.

No dividend shall be declared or paid whilst any of the loan to PointX remains outstanding.

The investment in PointX at 31 March is as follows:

	2001–02 £'000	2000–01 £'000
Share of gross assets	61	–
Share of gross liabilities	(133)	–
Loan	140	–
Total	68	–

8 Stocks and work-in-progress

	2001–02 £'000	2000–01 £'000
Finished goods	1 414	2 443
Work-in-progress	263	973
Total	1 677	3 416

Note: Included in work-in-progress are long-term contract balances of £164 000 (£499 000 in 2000–01).

9.1 Debtors

	2001–02 £'000	2000–01 £'000
Amounts falling due within one year:		
Trade debtors (see also Note 2.2)	8 739	18 125
Accrued income	3 262	3 190
Staff debtors and advances	114	169
Accrued interest receivable	120	131
Value added tax	290	411
Subtotal	12 525	22 026
Amounts falling due over one year:		
Staff debtors and advances	229	289
Total	12 754	22 315

Notes:

- Trade debts are shown after a provision of £470 000. Bad Debts totalling £44 000 were written off in 2001–02 (£111 000 in 2000–01).
- No debts were owed by Directors at year end.

9.2 Prepayments

	2001–02	2000–01
	£'000	£'000
Prepayments	1 284	1 420
Prepayment of early retirement liabilities due over one year (Note 1.9 and Note 11)	695	–
Total	1 979	1 420

10 Creditors: amounts falling due within one year

	2001–02	2000–01
	£'000	£'000
Copyright and other revenue in advance	4 761	5 100
Trade creditors	437	2 492
Accruals	6 262	3 438
Provision for loss on long-term contracts	1	4
Long-term loans repayable in one year (Note 12)	1 335	1 549
Pension costs payable within one year (Note 11)	2 442	2 715
Total	15 238	15 298

Note. £498 000 was transferred from creditors at 31 March 2001 to the general reserve in 2001–02 (see Note 1.9).

11 Provision for liabilities and charges

	2001–02	2000–01
	£'000	£'000
Early retirement and pension commitments		
Balance at 1 April	8 282	5 772
Transferred to short-term provision in the year	(225)	(57)
To creditors falling due in one year (Note 10)	(2 442)	(2 715)
Additional provision (Note 3.2)	3 283	4 292
Subtotal	8 898	7 292
Adjustment for prefunded liabilities (Note 1.9)	–	990
	8 898	8 282
The above amount is estimated as falling due as follows:	£'000	
	2003–04	2 120
	2004–05	1 829
	2005–06	1 554
	2006–07	1 225
	2007–12	2 170
Total	8 898	

12 Long-term loans

Government loans, repayable by instalments, and bearing interest at rates between 4.75% and 4.875% per annum are:

	2001–02	2000–01
	£'000	£'000
Amounts repayable:		
In one year	1 335	1 549
In two to five years	3 730	4 347
After five years	7 288	8 006
Total	12 353	13 902

13 Reserves

13.1 Reconciliation of movements in general reserve

	2001–02	2000–01
	£'000	£'000
At 1 April	41 483	14 013
Prior year adjustment (Note 15)	–	(1 264)
Sub total	41 483	12 749
Surplus/(deficit) for the year	(6 452)	28 580
Pension costs – transfers to general reserve (Note 10)	498	597
Fixed assets (Note 13.2)	(209)	(443)
At 31 March	35 320	41 483

13.2 Revaluation reserves

	2001–02	2000–01
	£'000	£'000
Balance at 1 April	9 985	5 811
Arising on revaluation during the year (net)	2 503	3 731
General reserve transfer	209	443
Balance at 31 March	12 697	9 985
Net reserve movements in the year		
Tangible fixed assets	590	1 374
Investment assets	1 913	2 357

Notes:

The revaluation reserve represents the difference between the net book values of the fixed assets on a revalued and on a historic cost basis.

The transfer from the general reserve represents the enhanced depreciation on the current accounting basis over the historic cost depreciation charged during the year.

14 Gross cash flows

14.1 Financing charges and income

	2001–02 £'000	2000–01 £'000
Interest received	1 768	1 895
Interest paid	(647)	(751)
Net interest	1 121	1 144

14.2 Capital expenditure

Payments to acquire tangible fixed assets	13 397	9 216
Receipts from sales of tangible fixed assets	(68)	(67)
Net capital expenditure	13 329	9 149

14.3 Investment expenditure

Share of PointX assets	(72)	–
Loan	140	–
Net investment	68	–

15 Prior year adjustment

2000–01

In 2000–01 Ordnance Survey effected a change in accounting policy to reflect the apportionment of revenue in respect of data supplied to Superplan Agents in order to reflect the revenue over the period of the licences. These licences cover a period of twelve months from the supply of the data. As a result of this change debtors were decreased by £218 000 and creditors increased by £1 046 000. The effect of this change of accounting policy was a net increase in the surplus for 2000–01 of £76 000.

16 Financial commitments

	2001–02 £'000	2000–01 £'000
No provisions have been made in these accounts in respect of:		
Contracted capital commitments	441	2 460
Capital authorised by Directors but not contracted	464	336
Undrawn loan commitment – PointX (Note 7)	610	533

17 Operating lease commitments

At 31 March 2002 Ordnance Survey had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings		Other	
	2001–02 £'000	2000–01 £'000	2001–02 £'000	2000–01 £'000
Within one year	443	223	264	403
Between two and five years	348	427	636	607
After five years	206	305	–	–

18 Related party transactions

Ordnance Survey is a government department operating under a Trading Fund and is also an Executive Agency. In the course of its normal business Ordnance Survey provides mapping data and copyright to both the private and public sectors. During the year Ordnance Survey has had a significant number of material transactions with other government departments and central government bodies. Most of these transactions have been with the Department for Transport, Local Government and the Regions and its Executive Agencies; with HM Land Registry; the Department of the Environment, Food and Rural Affairs; the Ministry of Defence and Defence Agencies; and with the Scottish Office and its Agencies. Income was also received from HM Customs and Excise (see Notes 1.3 and 2.5).

Ordnance Survey had material transactions with the Inland Revenue and Benefits Agency for payment of rents and service charges where Ordnance Survey occupies accommodation in buildings for which the Inland Revenue or Benefits Agency is the major occupier.

As explained in Note 7, Ordnance Survey and PointX Ltd are related parties.

The framework agreement between Ordnance Survey and Greatstone UK Ltd, referred to in Note 3.3 (d) above, involved payments for general management and IT services totalling £381 096. Mr Stephen Gapper, acting Director of Digital Brands until 31 October 2001, was a director of

Greatstone UK Ltd throughout the period of the framework agreement. No other Management Board members, key management staff or other related parties has undertaken any material transactions with Ordnance Survey during the year.

19 Contingent liabilities

There were no contingent liabilities at 31 March 2002.

20 Financial targets and results

The financial objective for the year 2001–02 was as follows:

	Target	Achieved
To achieve a revenue target (excluding NIMSA)	£'000 85 600	£'000 86 643

The longer-term financial objective of Ordnance Survey is to achieve an average annual return on capital employed (ROCE) on the surplus on ordinary activities before interest of at least 9% of net assets employed over the period 1 April 1999 to 31 March 2004.

The operating surplus from 1999–2000 to 2001–02, including the exceptional item referred to in Note 2.2, represents a return on capital employed of 19.3% over the first three years of this five-year target (excluding the exceptional item it would have been 10.7%).

The above information relates to the requirements of the Ordnance Survey Framework Document and the Fees and Charges Guide and is not for the purposes of SSAP 25.

Further background to the trading year is contained in the Annual Report.

21 Losses, special payments and gifts

- a Customer Relationship Management
In 2000–01 Ordnance Survey commenced work on a Customer Relationship Management (CRM) project at an estimated cost of £4 076 000 for the provision of technical and process infrastructures supported by the formation of an integrated Customer Service Centre. The infrastructure consisted of a suite of Oracle® software applications. In October 2001 Directors decided to stop development on the Oracle CRM suite as a result of a related decision to implement a fully integrated technology platform for all business systems in Ordnance Survey based on SAP software. Development of the Oracle CRM application was suspended and Ordnance Survey incurred a constructive loss of £2 084 000.
- b In 2001–02 special payments totalling £65 000 were made to three employees in respect of compensation in lieu of notice and loss of employment
- c Bad debt write-offs of £44 000 were incurred in the year.
- d Other costs falling into the category of losses, special payments and gifts were below the level, currently £100 000, at which they needed to be reported separately.

22 Financial Instruments

Ordnance Survey's treasury operations are governed by the Ordnance Survey Trading Fund Order 1999, under the Government's Trading Fund Act 1973(a) as supplemented by the Framework Document agreed with the Department for Transport, Local Government and the Regions and approved by HM Treasury.

Ordnance Survey's financial instruments comprise cash deposits and other items, such as trade debtors, trade creditors and provisions. The main purpose of these financial instruments is to finance Ordnance Survey's operations.

The main risks arising from Ordnance Survey's financial instruments are liquidity and interest rate risks.

Ordnance Survey's policies for managing these risks are set to achieve compliance with the regulatory framework. Ordnance Survey does not have significant exposure to foreign currency risk. Hedging of foreign currency is not undertaken.

Interest rate risk

Ordnance Survey finances its operations through retained profits. In exceptional circumstances Ordnance Survey may also be funded by additional monies from government to fund specific investments. Sums retained in the business but surplus to immediate requirements are deposited in a short-term interest bearing account with the National Loans Fund.

Liquidity risk

Ordnance Survey has maintained short-term liquidity throughout the

year by management of its cash deposits. Ordnance Survey may borrow such sums as it may require to meet its working capital needs and finance its capital investment programme. Borrowing for in-year fluctuations is subject to a temporary borrowing limit agreed with HM Treasury. Such loans are normally repayable in year.

Short-term debtors and creditors are excluded from the following disclosures.

Interest rate risk profile

The interest rate profile of Ordnance Survey's financial assets and liabilities at 31 March 2002 are set out below. All balances are held in sterling:

Financial assets

	Fixed Rate	Floating rate	Total
	£'000	£'000	31 March 2002 £'000
Cash on deposit	–	29 000	29 000
Loan to PointX (note 7)	–	–	140

Cash on deposit at 31 March 2002 consists of four short-term loans to the National Loans Fund for a weighted average period of 98.8 days at a weighted average interest rate of 3.94 per cent. Details of the interest-free loan to PointX are contained in Note 7.

Financial liabilities

	Fixed Rate	Floating rate	Total
	£'000	£'000	31 March 2002 £'000
Government loans (note 12)	12 353	–	12 353

The fair value of all assets and liabilities approximates to book value.

Accounts Direction given by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

1. This direction applies to Ordnance Survey.
2. Ordnance Survey shall prepare accounts for the financial year ending 31 March 2002 in compliance with the accounting principles and disclosure requirements of the edition of Trading Funds – Accounts Guidance issued by HM Treasury (*the Guidance*) which is in force for 2001–02.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows of Ordnance Survey, and of the state of affairs as at 31 March 2002.
4. Compliance with the requirements of the Guidance will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements

of the Guidance is inconsistent with the requirement to give a true and fair view, the requirements of the Guidance should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment that should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Guidance. Any material departure from the Guidance should be discussed in the first instance with the Treasury.



David Loweth
Head of the Central Accountancy
Team, Her Majesty's Treasury

18 February 2002

Treasury minute dated 29 March 1999

1. Section 4(1) of the Government Trading Funds Act 1973 provides that a trading fund established under that Act shall be under the control and management of the responsible Minister and in discharge of his function in relation to the fund it shall be his duty:
 - (a) to manage the funded operations so that the revenue of the fund:
 - (i) consists principally of receipts in respect of goods or services provided in the course of the funded operations; and
 - (ii) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and
 - (b) to achieve such further financial objectives as the Treasury may from time to time, by Minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.
2. The Trading Fund for Ordnance Survey will be established on 1 April 1999 under the Ordnance Survey Trading Fund Order 1999 (SI 1999 No. 965).
3. The Secretary of State for the Environment, Transport and the Regions, being the responsible Minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by Ordnance Survey Trading Fund for the period from 1 April 1999 to 31 March 2004 shall be to achieve a return averaged over the period as a whole, of at least 9 per cent, in the form of a surplus on ordinary activities before interest expressed as a percentage of average capital employed. Capital employed shall equate to the total assets from which shall be deducted the total of the current liabilities.
4. Let a copy of this Minute be laid before the House of Commons pursuant to section 4(1)(b) of the Government Trading Funds Act 1973.