

Annual Accounts for the year ended 31 March 2004

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Foreword to the accounts

Status

Ordnance Survey is a Government Department formed in 1791, operating under legislation that dates back to 1841. It is responsible for the official, definitive surveying and topographical mapping of Great Britain. Ordnance Survey was established as an Executive Agency on 1 May 1990 and has operated as a Trading Fund since 1 April 1999 under the provisions of the Government Trading Funds Act 1973, as amended. Ordnance Survey's continued status as a Trading Fund was confirmed in 2002.

The holder of the combined post of Director General and Chief Executive is also the Accounting Officer. During 2003–04 the Office of the Deputy Prime Minister had ministerial responsibility for Ordnance Survey.

Vision, aim and strategic objectives

The vision is for Ordnance Survey and its partners to be the content provider of choice for location-based information in the new information economy.

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 Geographic Database sufficiently up to date and of suitable content and 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 reviewing strategic options, setting corporate policy and monitoring performance at corporate level to ensure the successful discharge of the remit assigned to Ordnance Survey by Ministers. The Strategy Board includes all Ordnance Survey Executive 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. It comprises all Ordnance Survey Executive Directors.

At 31 March 2004 the Strategy Board comprised

Vanessa Lawrence	Director General and Chief Executive
Neil Ackroyd	Director of Data Collection and Management
James Brayshaw	Director of Sales and Market Development
Steve Erskine	Director of Programmes and Products
Jan Hutchinson	Director of Human Resources and Corporate Services
Alastair Matthews	Finance Director (from 21 July 2003)
Ed Parsons	Chief Technology Officer and Director of Information Systems
Duncan Shiell	Director of Strategy
Judith Anthony	Non-Executive Director
Sir Michael Bett	Non-Executive Director
Michael Sommers	Non-Executive Director (from 1 September 2003)
Piers White	Non-Executive Director

The Non-Executive Directors are appointed by the Minister responsible for Ordnance Survey on the recommendation of the Chairman of the Selection Board and any others the Minister may wish to consult. 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. Michael Sommers joined the Board as a Non-Executive Director during the year. Lynn Mathieson left in September 2003 having 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, Archie Fyfe, Interim Finance Director, served on the Ordnance Survey Operating Board to the end of June 2003.

Company Directorships of Board members in 2003–04

As explained in Note 18, Duncan Shiell, Alastair Matthews and Ed Parsons were Directors of PointX Limited, Vanessa Lawrence was a Non-Executive Director of the Office of the Deputy Prime Minister and Lynn Mathieson was a Director of Peter Brent Consulting Limited during the year. Michael Sommers was a Non-Executive Director of the Department for Work and Pensions. There were no other Company Directorships or other significant conflicts of interest of Board Members.

Audit and Risk Committee at 31 March 2004

Judith Anthony, Sir Michael Bett, Michael Sommers, Piers White, Alastair Matthews and Duncan Shiell were members of the Ordnance Survey Audit and Risk Committee at 31 March 2004.

The Remuneration Committee at 31 March 2004

The Remuneration Committee is chaired by the Director General and Chief Executive, Vanessa Lawrence, and meets at least annually to agree the remuneration policy and practice for Executive Directors and other senior staff. Judith Anthony and Piers White, Non-Executive Directors, served on the Remuneration Committee. The Director General and Chief Executive is not present for discussions on matters concerning her remuneration; at these times her place is taken by Jan Hutchinson, Director of Human Resources. Full details of the Directors' remuneration are given on pages 63 to 64.

Auditor

The Auditor is Sir John Bourn, Comptroller and Auditor General. The actual costs of the statutory audit services provided by the National Audit Office for 2003–04 are estimated at £77 000 and provision is included in these Accounts (see Note 4).

Business activities

Ordnance Survey delivers its remit of maintaining the National Geographic Database 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 a commercial justification is funded by an agreement with central government called the National Interest Mapping Services Agreement (NIMSA). Large-scale 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 National Geographic Database.

At 31 March 2004 Ordnance Survey owned a 50% share in PointX Limited, a joint venture company set up to develop and market a points of interest database covering Great Britain. The aim of PointX Limited is to lead the points of interest market by delivering the most comprehensive, current and consistent national data (see Note 8).

Details of the non-financial business targets for 2003–04 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 1999 Framework agreement stated that 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 2003–04 set by the Office of the Deputy Prime Minister was:

- to achieve a trading surplus, before interest, dividends and exceptional items of £4.7 million for the financial year 1 April 2003 to 31 March 2004.

Results for the year

The surplus for the year is £6 604 000 (£5 582 000 before interest) which was transferred to the general reserve as shown in Note 14.

Details of the achievement of the longer term financial objective are shown in Note 20. Further details are contained in the Annual Report.

Research and development

Ordnance Survey's Research and Innovation group conducts activities aimed at sustaining Ordnance Survey's long-term future in a rapidly changing world.

During the last year Ordnance Survey's Research and Innovation team has provided guidelines for the development of the Digital National Framework, new database architectures and structures, novel information delivery solutions for mobile devices, data model solutions for the development of integrated transport and other networks, and efficiency algorithms associated with data capture and product delivery.

Much research work is conducted in collaborative projects through a developing network of expertise from around the world, coordinated through the External Research and University Liaison Unit. The Unit develops research partnerships and sponsors research with the academic community, other national mapping agencies and commercial research organisations.

Creditor payment policy

Ordnance Survey adheres to the Better Payment Practice Code. In 2003–04, 97.1% (97.5% in 2002–03) 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

The effectiveness of internal communication channels is continuously monitored. Guidance and advice are available to all staff whenever required, setting appropriate standards for business communication activity.

Primary communication channels are under continuous review and development, including a focused Intranet communication site that reflects the business groups' goals and supports corporate objectives. All employees are encouraged to submit business messages and share activities and success stories with their colleagues.

Our emphasis on improving performance continued this year. Following the successful introduction of the performance management system, managers have been attending a programme to increase their skills in this area. *Focusing on People* has been delivered to over two hundred managers who have taken away new tools and skills to help them and their teams in the workplace.

Ordnance Survey continues to provide training for all new managers. A number of events have also been run to help teams agree their performance targets and to improve the way in which we work together. There has been increased focus on personal development with many people being coached to improve their influencing skills, their communication and their development of others.

This year we conducted *Your Say*, a survey of staff opinions. This has provided a valuable source of information with which to plan change and development.

A review in February and March resulted in Ordnance Survey's continued recognition as an Investor in People (IIP), the national quality standard for effective investment in the training and development of staff. We are holding our fourth Charter Mark, which recognises our service to customers.

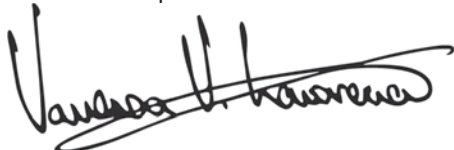
The Ordnance Survey Departmental Whitley Council provides for regular consultations with employees' representatives.

Events since the end of the financial year

There have been no significant events since the end of the financial year which 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 2004.



Vanessa V Lawrence
Director General and Chief Executive
17 June 2004

Statement of Agency's and Director General and Chief Executive's responsibilities

Under Section 4(6) of the Government Trading Funds Act 1973 HM 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 applicable to all Trading Funds issued by HM Treasury. 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 HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards 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.

HM Treasury has appointed the Director General and 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 HM Treasury and published in *Government Accounting* (The Stationery Office).

Statement on Internal Control

1. Scope of responsibility

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

As Director General and Chief Executive of Ordnance Survey I am accountable to the Minister responsible for Ordnance Survey at the Office of the Deputy Prime Minister (ODPM) for the performance of Ordnance Survey in accordance with the Framework Document and Ordnance Survey's Corporate Business Plan. I make periodic reports to the Minister on Ordnance Survey's performance and progress and have at least one meeting each year with the Minister to discuss strategy, performance and risk management. I retain access to the Minister to discuss matters concerning Ordnance Survey.

I am official advisor to the UK government on all aspects of survey, mapping and geographic information and may therefore be called upon by any department of central government for such advice. I seek and take into account the views of others in government and the wider geographic information industry when formulating such advice if requested by ministers or officials from the department to which advice is being given.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all 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 and prioritise the risks to the achievement of Ordnance Survey policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ordnance Survey for the year ended 31 March 2004 and up to the date of the approval of the Annual Report and Accounts, and accords with Treasury guidance.

3. Capacity to handle risk

In Ordnance Survey we have embedded a comprehensive risk management process reaching every level of the business under the leadership of our Strategy Board (Ordnance Survey Executive and Non-Executive Directors) and Audit & Risk Committee. We are committed to the improvement of risk management across every aspect of the business and our team of Directors encourage both the adoption of best practice and proactive management of risks. Our Director of Strategy acts as Chief Risk Officer and manages a small team, including our nominated Risk Improvement Manager, responsible for corporate risk management processes and the promotion of best practice complementing the improvements being made in our programme and project management under the Centre of Excellence initiative. Our major programmes and projects are subject to a gateway review process.

We are developing a culture to support the effective management of risk while encouraging the risk-taking necessary to deliver the outcomes needed by our customers and partners. All of our staff recognise that we all have a role in how successfully the business manages risk and to support this approach we have improved communication across the business to deliver greater transparency in decision making and accountability for risk. As a business we are committed to identifying and managing all risks which impact on all our stakeholders and ensuring our actions to manage risk are transparent.

4. The risk framework

Ordnance Survey adopts a themed approach to risk identification. Corporate risk themes cover strategic, business capability, financial and corporate governance risks.

As part of our annual business planning the strategic risks which face the business are reviewed as we look at how the business environment has changed and influenced our ability to achieve our objectives and the needs of our stakeholders. The Audit and Risk Committee provides independent assessment of our primary risks and provides a challenge to the effectiveness of our internal risk management processes supported by Internal Audit. As part of the monthly business report to Strategy Board (including all Executive and Non-Executive Directors) corporate risks are explored together with the effectiveness of mitigation strategies we have used. The monthly risk update is derived from a review of key risks and their current likelihood and potential impact by members of our senior management team who represent all aspects of the business. Complementing this our Operating Board (Executive Directors) receives regular updates from accountable officers on our key investment programmes and the risks influencing successful delivery.

In addition to the process detailed above, the key ways in which risk management is embedded in the activities of Ordnance Survey are:

- Strategic risk and control assessments.
- Establishment of key performance indicators.
- Maintenance of an organisation-wide risk register system with registers being maintained at Board and departmental management team level.
- Business Group management boards review local risks on a monthly basis providing the very latest input into the corporate risk reporting process.
- All investment proposals and papers for Strategy and Operating Board must explicitly consider risk.
- Our Investment Group provides a weekly focus for the management of the risks which impact upon our key investment programmes.

Ordnance Survey is committed to involving stakeholders where practical in the management of risks which impact upon the business. The business planning cycle, production of the Business Plan for the Minister and involvement of the Non-Executive Directors ensures that all stakeholder perspectives are considered. As part of this process we also consult widely with our customers and partners about our future product development programmes and pricing models.

5 Review of effectiveness of control

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The process I have applied in maintaining and reviewing the effectiveness of the system of control includes contributions by:

The Strategy Board, who:

- discuss a comprehensive monthly Business Health Check;
- discuss a report on progress with the more significant internal audit recommendations; and
- discuss risk management strategies reported in the corporate risk register.

The Audit and Risk Committee, who:

- discuss a comprehensive internal audit progress report incorporating situation reports and the texts of all audit summary reports; and
- discuss the NAO management letter.

Internal Audit, who:

- carry out an internal audit programme based around management's perception of the key risks, gleaned from the business plan, risk registers and conversations with me, my Director colleagues and key senior managers;
- provide reports to me, the Board and the Audit and Risk Committee on progress with the audit programme, the outcome of individual audits, including audit findings, the risks to which they give rise, recommendations to mitigate the risks and management's responses and implementation targets and progress with implementing recommendations;
- provide me with a quarterly digest of findings and recommendations; and
- track recommendations to implementation or until superseded.

The Head of Internal Audit, who provides me with an annual report on the strength of risk management, control and governance throughout Ordnance Survey.

The National Audit Office, which provides me with a Management Letter discussing the findings arising from their review of the annual accounts and reports on other assignments they may carry out from time to time.

A handwritten signature in black ink, appearing to read 'Vanessa V Lawrence', with a long horizontal flourish extending to the right.

Vanessa V Lawrence
Director General and Chief Executive
17 June 2004

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 54 to 71 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 57 to 60.

Respective responsibilities of Ordnance Survey, the Director General and Chief Executive and Auditor

As described on page 48, Ordnance Survey and the Director General and 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 Director General and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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 to 51 reflects Ordnance Survey's compliance with Treasury's guidance on the *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. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of Ordnance Survey's corporate governance procedures or its risk and control procedures,

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 Director General and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to Ordnance Survey'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.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Adverse Opinion

Ordnance Survey's turnover of £116 million derives principally from the exploitation of data held in Ordnance Survey's geospatial databases (now referred to as the National Geographic 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 data held in the geospatial databases in its Balance Sheet. In the Agency's view, the data is an intangible fixed asset that does not meet the conditions for capitalisation set by Financial Reporting Standard 10. In my opinion, the data held in the geospatial databases 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 data held, in my view the value to the business is not less than £50 million. Had the data been capitalised at that value, the effect would have been to increase tangible fixed assets included in the Balance Sheet at 31 March 2004 from £36 million to £86 million.

In my opinion:

- in view of the effect of the decision not to capitalise the data held in Ordnance Survey's geospatial databases 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 2004 or of its surplus, total recognised gains and losses and cash flows for the year then ended;
- in all other respects, 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.

Details of my adverse opinion are set out in my report on the 2001–02 accounts (HC892, 2001–02).



John Bourn
Comptroller and Auditor General
5 July 2004

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

Operating account for the year ended 31 March 2004

	Note	2003-04		2002-03
		£'000	£'000	£'000
Turnover				
Turnover from operating activities	2.1	116 280		108 042
Income from investment property	2.2	233		475
Invest to save budget income	2.3	17		50
Government grant income	2.4	1		2
			116 531	108 569
Operating costs				
Staff costs	3.3	57 800		57 533
Amortisation of intangible fixed assets	7.1	411		442
Depreciation of tangible fixed assets	7.2	8 027		8 145
Other operating charges	4	44 353		44 488
Total operating costs			110 591	110 608
Operating surplus/(deficit)			5 940	(2 039)
Share of operating deficit – PointX	8		(278)	(154)
Total operating surplus/(deficit)			5 662	(2 193)
Loss on disposal of fixed assets			(80)	(20)
Surplus/(deficit) on ordinary activities before interest and exceptional item			5 582	(2 213)
Exceptional item – reorganisation costs	5		–	(38 182)
Surplus/(deficit) on ordinary activities before interest			5 582	(40 395)
Interest receivable	6	1 532		1 605
Interest payable	6	(510)		(569)
Net interest			1 022	1 036
Surplus/(deficit) for the year including exceptional item			6 604	(39 359)

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 2004

	Note	2003-04	2002-03
		£'000	£'000
Surplus/(deficit) for the financial year		6 604	(39 359)
Unrealised gain on revaluation of fixed assets	14.2	785	281
Unrealised gain on investment revaluation reserve	14.2	1 805	530
Total gains and (losses) relating to the financial year		9 194	(38 548)

The notes on pages 57 to 71 form part of these accounts.

Balance sheet at 31 March 2004

	Note	31 March 2004		31 March 2003
		£'000	£'000	£'000
Fixed assets				
Intangible fixed assets	7.1	497		901
Tangible fixed assets	7.2	35 744		37 003
Fixed asset investments				
– Property	7.3	8 765		6 960
– Other investments – PointX	8	37		14
			45 043	44 878
Current assets				
Stocks and work-in-progress (WIP)	9	1 675		1 927
Debtors	10.1	13 320		12 146
Prepayments	10.2	1 732		2 363
Cash at bank and in hand		23 976		28 665
		40 703		45 101
Current liabilities				
Creditors: amounts falling due within one year	11	(24 453)		(32 060)
Net current assets			16 250	13 041
Total assets less current liabilities			61 293	57 919
Financed by:				
Provision for liabilities and charges	12		19 591	24 172
Capital and reserves				
Public Dividend Capital		14 000		14 000
Loans repayable after one year	13	8 868		9 898
General reserve	14.1	2 900		(3 948)
Revaluation reserve – tangible and intangible fixed assets	14.2	8 015		7 683
Investment revaluation reserve	14.2	7 919	41 702	6 114
Total			61 293	57 919

The Accounts were approved on 17 June 2004.



Vanessa V Lawrence
Director General and Chief Executive and Agency Accounting Officer

The notes on pages 57 to 71 form part of these accounts.

Cash flow statement for the year ended 31 March 2004

Reconciliation of operating surplus for the period to net cash flow from operating activities

	Note	2003-04 £'000	2002-03 £'000
Operating surplus/(deficit) on ordinary activities before interest		5 582	(40 395)
Depreciation/amortisation	7	8 438	8 587
Loss on disposal of fixed assets		80	20
Decrease/(increase) in stocks/WIP	9	252	(250)
(Increase) in debtors/prepayments	10	(699)	(59)
Decrease in prefunded pension commitments	10	172	211
(Decrease)/increase in creditors	11	(7 366)	17 132
General reserve/creditors' adjustment	11	403	380
Increase/(decrease) in long-term liabilities	12	(4 581)	15 275
Net cash inflow from operating activities		2 281	901

Cash Flow Statement

Net cash inflow from operating activities		2 281	901
Financing costs – net receipts/payments	15.1	1 004	1,108
Net capital expenditure	15.2	(6 832)	(7 348)
Net other investment – PointX	15.3	(22)	54
Cash outflow before financing		(3 569)	(5 285)
Financing – repayment of long-term loans	13	(1 120)	(1 335)
(Decrease) in cash		(4 689)	(6 620)

Cash Movement

(Decrease) in cash in the year		(4 689)	(6 620)
Cash at 1 April		28 665	35 285
Cash at 31 March		23 976	28 665

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

The notes on pages 57 to 71 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 which 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 compliance with the accounting principles and disclosure requirements of the 2003–04 edition of *Trading Funds – Accounts Guidance* issued by HM Treasury.

1.2 Freehold land and buildings

The control and management of the freehold land and buildings head office site in Southampton were vested in Ordnance Survey from 1 April 1974 as if legal transfer had been effected.

The land and buildings occupied by Ordnance Survey were revalued on 31 March 2004 by Chesterton plc in accordance with the Appraisal and Valuation Standards produced by the Royal Institution of Chartered Surveyors (May 2003). The amount of this valuation was £17 900 000 consisting of £10 687 500 for land and £7 212 500 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 7.2. 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 Tangible Fixed Assets (Land and Buildings) on the Balance Sheet and was revalued on 31 March 2004 by Chesterton plc. In 2003–04 the property was declared surplus to requirements and is being marketed as an investment with part vacant possession. The basis of the valuation is therefore Market Value assuming part vacant possession and the amount of the valuation was £260 000. An offer was under consideration at 31 March 2004.

1.3 Investment property

The investment property was revalued on 31 March 2004 by Chesterton plc. The basis of this valuation is Market Value and the amount of the valuation was £8 765 000. No depreciation is charged on investment property. Details are included in Note 7.3 and rental income is shown in Note 2.2.

1.4 Other fixed assets

- 1.4.1 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.
- 1.4.2 All IT workstations (office computers and laptops) are grouped as one asset.
- 1.4.3 Costs incurred in the creation of the core database management system and related infrastructure assets, both internal and external charges and software development, are capitalised as tangible fixed assets.
- 1.4.4 Software developed in house or by third parties is capitalised as a tangible fixed asset; licences are capitalised as intangible.
- 1.4.5 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 7.

1.5 Depreciation and amortisation

Depreciation and amortisation are calculated so as to write off the valuation of freehold buildings and other tangible and intangible 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, depreciation and amortisation charges for the year are 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; and

Amounts recoverable on contracts – at the value of work carried out after provision for contingencies and anticipated future losses.

1.7 National Geographic Database (formerly referred to as The National Topographic Database)

The background to the accounting treatment of the data that constitutes the National Geographic Database (formerly referred to as the National Topographic Database) is set out in the Finance Director's report contained in the Annual Report. 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 data 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 data appears on the balance sheet, notwithstanding its central importance to Ordnance Survey activities and revenue generation.

The database management system is treated as a tangible fixed asset in the normal way. The system comprises, principally, internally generated software which has been developed and enhanced over several years and written off over its expected working life.

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 which may relate to periods after 31 March 2004 are included in trade debtors that represent all invoices unpaid at 31 March 2004.

The proportion of the value of invoices excluding VAT raised in 2003–04 which relate to the period after 31 March 2004, irrespective of the date of payment, is included in creditors as copyright and other revenue in advance.

1.9 Pensions

Pension benefits are provided through the Civil Service Pension Scheme (PCSPS). From 1 October 2002, Ordnance Survey staff, as civil servants, may be in one of three statutory based *final salary* defined benefit schemes (*classic*, *premium*, and *classic plus*). New entrants after 1 October 2002 may choose between membership of the *premium* scheme or joining a defined contribution scheme with a significant employer contribution (*partnership pension account*).

Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. 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.

Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the classic scheme, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80^{ths} of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8^{ths} of the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings 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. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus Scheme

This is essentially a variation of the premium scheme, but with benefits in respect of service before 1 October 2002 calculated broadly as per the classic scheme.

Pensions payable under the classic, premium and classic plus schemes are increased in line with the Retail Prices Index.

Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending upon the age of the member) into a stakeholder pension product. The employee does not have to contribute but, where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25% of the fund as a lump sum.

1.10 Early release costs

Some staff may be retired early under restructuring arrangements at the discretion of Ordnance Survey. Ordnance Survey is required to pay the pensions of employees who leave 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 2003 have been provided for in earlier years. Funds are released from the provision annually to fund payments for pensions and related benefits to the retired employees until normal retirement age (see Note 12). Under the different funding arrangements which 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 11).

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 release. Some unused balances for future years remain at 31 March 2004 and in accordance with Trading Fund Guidance the provisions and prepayments are shown separately on the Balance Sheet (see also Note 10.2).

Note 5 gives details of the exceptional item included in the 2002–03 Operating Account in respect of new leavers in 2002–03 and 2003–04. The charge of £38 182 000 to the Operating Account reflects 100% of the costs of these leavers up to their normal retirement age.

The 2003–04 Operating Account includes an additional provision of £2 622 000 in respect of new leavers in 2003–04 and 2004–05. This charge to the Operating Account reflects 100% of the costs of these leavers up to their normal retirement age (see also Note 3.3).

1.11 Research and development

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

1.12 Operating leases

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

1.13 Taxation

As a Trading Fund Ordnance Survey is not liable to Corporation Tax.

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

The total operating turnover of £116 280 000 for 2003–04 (£108 042 000 in 2002–03) includes £12 820 427 (£12 546 480 in 2002–03) received from the Office of the Deputy Prime Minister in respect of the provision of national interest mapping through a services agreement (NIMSA).

2.2 Income from investment property

Details of this property are included in Notes 1.3 and 7.3. Rent received in 2003–04 totalled £233 000 (£475 000 in 2002–03). Incentives in the form of rent-free periods are accounted for by spreading the rent receivable on a straight-line basis over either the relevant lease period or a shorter period ending on a date from which it is expected that the prevailing market rental will be payable under the lease.

2.3 Invest to save budget income

Invest to save budget income supports approved development projects run in collaboration with other organisations. In 2003–04 an additional £17 000 was received in support of the integrated coastal map zone project, a development project between Ordnance Survey, the UK Hydrographic Office and the British Geological Survey.

2.4 Government grant income

In 2002–03 Ordnance Survey received a government grant of £7 500 towards the purchase of two official cars powered from surplus electricity generated from Ordnance Survey's combined heat and power system. The amount is spread over five years, with £1 500 released to the Operating Account each year.

3 Staff numbers and costs

3.1 Total permanent staff numbers

The average monthly number of whole-time equivalent persons, all classified as Civil Service staff, employed by Ordnance Survey during the year was as follows:

	2003–04	2002–03
Operations	1 107	1 207
Sales and Marketing	207	325
Corporate Services	269	342
	1 583	1 874

3.2 Total temporary/agency/contract staff

The average monthly number of whole-time equivalent temporary/agency /contract persons employed by Ordnance Survey during the year was as follows:

	2003–04	2002–03
Operations	196	174
Sales and Marketing	14	14
Corporate Services	30	21
	240	209

In accordance with changed requirements, the figures for 2003–04 include the average monthly numbers of contract staff (staff engaged by Ordnance Survey on a contract to undertake a project or task). The figures for 2002–03 have not been restated to include contract staff.

The figures for Operations reflect investment during the year in quality improvement to prepare data for further releases of OS MasterMap, Integrated Transport Network and Address Layers.

3.3 Total staff costs

The aggregate payroll costs were as follows:	2003–04	2002–03
	£'000	£'000
Wages and salaries	40 700	44 020
Social Security costs	3 369	3 123
Pension costs	5 275	5 796
Capitalised labour	(1 353)	(451)
Additional early release costs in year (Notes 1.10 and 12)	2 622	–
	50 613	52 488
Temporary/Agency/labour costs	10 308	5 045
Temporary/Agency/labour – capitalised	(3 121)	–
	57 800	57 533

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but Ordnance Survey is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2003–04 employer's contributions of £5 275 000 were payable to the PCSPS (£5 796 000 for 2002–03) at one of four rates in the range 12 to 20.8% of pensionable pay, based on salary bands. The Scheme's Actuary reviews employers' contributions every four years following a full scheme valuation. Rates will remain the same in 2004–05, subject to revalorisation of the salary bands, but will increase from 2005–06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

As described in Note 1.9, employees joining after 1 October 2002 could opt to open a partnership pension account – a stakeholder pension with an employer contribution. Ordnance Survey had one member of the partnership pension account in 2003–04. Employers' contributions paid to appointed stakeholder pension providers, and also to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of that employee were immaterial. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

In 2003–04 two persons retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1 150.

3.4 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, pension entitlements and the value of any taxable benefits in kind of the most senior members of Ordnance Survey were as follows:

	Salary 2003–04 including performance pay	Real increase in pension and related lump sum at age 60	Total accrued pension at 60 at 31 March 2004 and related lump sum	Cash Equivalent Transfer Value (CETV) at 31/3/03	CETV at 31/3/04	Real increase in CETV after adjustment for inflation and changes in market investment factors	Salary 2002–03 including performance pay
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Vanessa Lawrence Director General and Chief Executive	165–170 see note C below	2.5–5 plus 0–2.5 lump sum	5–10 plus 10–15 lump sum	54	86	29	155–160
Neil Ackroyd Director	110–115	0–2.5 no increase in lump sum	0–5 plus 0–5 lump sum	21	36	14	95–100
James Brayshaw Director	115–120	0–2.5	0–5	20	36	15	95–100
Steve Erskine Director	70–75	0–2.5 plus 2.5–5 lump sum	20–25 plus 70–75 lump sum	312	346	16	65–70
Jan Hutchinson Director	100–105	0–2.5 plus 2.5–5 lump sum	0–5 plus 5–10 lump sum	16	35	18	75–80
Alastair Matthews Director (from 21 July 2003)	75–80	–	0–5	–	12	–	–
Ed Parsons Director and Chief Technology Officer	95–100	0–2.5 plus 2.5–5 lump sum	0–5 plus 5–10 lump sum	19	32	11	80–85
Duncan Shiell Director	75–80	5–7.5 plus 17.5–20 lump sum	30–35 plus 95–100 lump sum	444	573	107	60–65

Notes:

- Salary includes gross salary, performance pay and all allowances that are subject to UK taxation.
- The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. In 2003–04 Neil Ackroyd also had use of a car under the terms of the Private User Scheme, the benefit in kind of which was £3 400.
- The Director General and Chief Executive's remuneration for 2003–04 includes a bonus paid in respect of 2002–03. The bonus payable for 2003–04 has yet to be approved.
- To 30 June 2003 Mr Fyfe served as Interim Finance Director. Ordnance Survey paid the Ashton Penney Partnership Ltd £12 338 for the services of Mr Fyfe as Finance Director during the year. Mr Fyfe was not a member of the Principal Civil Service Pension Scheme.

e. Pensions

The Director General and Chief Executive and Ordnance Survey Directors in the table above are members of the Principal Civil Service Pension Scheme. Details of the scheme are contained in Note 1.9. Vanessa Lawrence and Neil Ackroyd are members of the Classic Plus Scheme; Alastair Matthews and James Brayshaw are members of the Premium Scheme; the remaining directors are all members of the Classic Scheme.

The table above shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period and the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

3.5 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:

	2003–04	2002–03
	£'000	£'000
Judith Anthony	10–15	10–15
Sir Michael Bett	10–15	10–15
Lynn Mathieson (to September 2003)	5–10	10–15
Michael Sommers (from September 2003)	5–10	–
Piers White	10–15	10–15

4 Other operating charges

	2003–04	2002–03
	£'000	£'000
Included in other operating charges are:		
Staff travel and subsistence	4 163	4 963
Research and development	1 536	683
Operating lease charges – equipment and vehicles	1 575	1 963
– land and buildings	1 011	937
Auditors' remuneration and expenses	77	76
Foreign exchange (gains)/losses (net)	9	1

5 Exceptional item

Ordnance Survey undertook a fundamental reorganisation during 2002–03 and invested significantly in technology and new ways of working to meet the needs of its customers. This resulted in improvements both in operational efficiency and Ordnance Survey's ability to deliver the needs of customers with fewer staff. Provision was made in full for employees leaving the organisation between February 2003 and March 2004 under Voluntary Early Retirement or Voluntary Early Severance terms. The full cost of these leavers (£38 182 000) was disclosed as an exceptional item in the 2002–03 accounts.

6 Interest receivable and payable

	2003–04	2002–03
	£'000	£'000
Interest receivable		
Balances at the account with HM Paymaster	156	181
Short-term deposits with the National Loans Fund	1 374	1 399
Interest received on trade debt	2	25
	1 532	1 605
Interest payable		
On deemed loans	(510)	(569)
Net interest	1 022	1 036

7 Fixed assets

7.1 Intangible fixed assets

	Software licences £'000
Cost or valuation	
At 1 April 2003	1 596
Additions	8
Disposals	(191)
Revaluation	(2)
At 31 March 2004	1 411
Amortisation	
At 1 April 2003	695
Charged in year	411
Disposals	(191)
Revaluation	(1)
At 31 March 2004	914
Net book value	
At 1 April 2003	901
At 31 March 2004	497

The value of intangible fixed assets according to the historical cost accounting rules at 31 March 2004 is £505 000 (£915 000 at 31 March 2003).

7.2 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 2003	17 395	42 118	452	1 242	61 207
Adjustment	–	(837)	1	–	(836)
Restated at 1 April 2003	17 395	41 281	453	1 242	60 371
Additions	509	757	–	5 453	6 719
Disposals	–	(5 974)	(128)	–	(6 102)
Revaluation	256	(3)	3	–	256
At 31 March 2004	18 160	36 061	328	6 695	61 244
Depreciation					
At 1 April 2003	–	23 948	256	–	24 204
Adjustment	–	(217)	(7)	–	(224)
Restated at 1 April 2003	–	23 731	249	–	23 980
Charged in year	498	7 444	85	–	8 027
Disposals	–	(5 869)	(107)	–	(5 976)
Revaluation	(498)	(35)	2	–	(531)
At 31 March 2004	–	25 271	229	–	25 500
Net book value					
At 1 April 2003	17 395	18 170	196	1 242	37 003
At 31 March 2004	18 160	10 790	99	6 695	35 744

Notes

a. The adjustments to the brought forward figures at 1 April 2003 in the table above are the result of errors which occurred in earlier years and which were discovered in the Fixed Asset Register prior to implementation of a new improved Fixed Asset accounting system from 1 April 2004. The adjustments result in an overall reduction in the net book values of assets at 1 April 2003 of £612 000 and primarily relate to Plant, Machinery and Equipment. The brought forward amount at 1 April 2003 for Land and Buildings does not need restatement as it was determined by external valuation; therefore the adjustment required to Land and Buildings has been effected in 2003–04.

b. Assets in course of construction at 31 March 2004 total £6 695 000 of which £1 242 000 was brought forward from 2002–03. This relates to the development of a new seamless database management system and its associated edit system and the design and creation of a new system to collect and maintain all geospatial data.

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 2003	10 217	18 885	204	29 306
At 31 March 2004	9 962	17 665	94	27 721

7.3 Fixed asset investments – property

	2003–04 £'000	2002–03 £'000
Balance at 1 April	6 960	6 430
Revaluation in the year	1 805	530
Balance at 31 March	8 765	6 960

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

8 Other investments – PointX Limited

PointX Limited is 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 three Directors. At 31 March 2004 Ordnance Survey owned 50% of the total shares in PointX, being 500 (100%) £1 “A” ordinary shares. Another investor owned the remaining 500 “B” ordinary shares. All shares were ranked equally.

In the year ended 31 March 2004 PointX had turnover of £320 000 and expenditure of £875 000. Ordnance Survey's 50% share of the net loss is therefore £278 000.

An interest-free loan was agreed on 30 March 2001. £239 600 was drawn down by 31 March 2003 with a further £300 000 in 2003–04. The amount drawn down is included on the Balance Sheet. The maximum agreed loan is £750 000 and the undrawn amount is disclosed in Note 16 – Financial Commitments.

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

The investment in PointX at 31 March is as follows:	2003–04 £'000	2002–03 £'000
Share of gross assets	202	89
Share of gross liabilities	(705)	(315)
Loan	540	240
	37	14

9 Stocks and work-in-progress

	2003–04 £'000	2002–03 £'000
Finished goods	1 456	1 621
Work-in-progress	219	306
	1 675	1 927

Note: Included in work-in-progress are long-term contract balances of £24 000 (£38 000 in 2002–03).

10.1 Debtors

	2003–04 £'000	2002–03 £'000
Amounts falling due within one year:		
Trade debtors (see also Note 1.8)	9 619	8 297
Accrued income	3 122	3 457
Staff debtors and advances	66	110
Accrued interest receivable	63	47
Value Added Tax	272	–
	13 142	11 911
Amounts falling due over one year:		
Staff debtors and advances	178	235
	13 320	12 146

Notes:

a. Trade debts are shown after a provision of £420 000. Bad Debts totalling £81 000 were written off in 2003–04 (£207 000 in 2002–03).

b. No debts were owed by Directors at year end.

10.2 Prepayments

	2003–04 £'000	2002–03 £'000
Prepayments	1 354	1 600
Prepayment of early release liabilities due over one year (Note 1.10)	312	484
Other prepayments due over one year	66	279
	1 732	2 363

11 Creditors: amounts falling due within one year

	2003–04 £'000	2002–03 £'000
Copyright and other revenue in advance	4 661	3 787
Trade creditors	3 377	2 708
Other creditors	1 543	–
Accruals	5 678	3 789
Value Added Tax	–	213
Long-term loans repayable in one year (Note 13)	1 030	1 120
Early release costs payable within one year (Note 12)	8 164	20 443
	24 453	32 060

Note: £403 000 was transferred from creditors at 31 March 2003 to the general reserve in 2003–04 (see Note 1.10).

12 Provision for liabilities and charges

12.1 Early release and pension commitments

	2003–04 £'000	2002–03 £'000
Balance at 1 April	24 172	8 898
Exceptional item (Note 5)	–	38 182
Paid in year	–	(2 465)
Transferred from short-term provision in the year	608	–
To creditors falling due within one year (Note 11)	(8 164)	(20 443)
Additional provision (Note 3.3)	2 622	–
	19 238	24 172

The above amount is estimated as falling due as follows:	£'000
2005–06	4 085
2006–07	3 597
2007–08	3 234
2008–09	2 834
2009–14	5 488
	19 238

12.2 Provision for onerous leases

As a result of regional office closures	353
	19 591

The provision of £353 000 for onerous leases covers residual lease commitments of up to 5 years, after application of a risk-factored allowance for anticipated sublet rental income.

13 Long-term loans

Government loans, repayable by instalments, and bearing interest at rates between 4.75% and 4.875% per annum are:	2003–04	2002–03
Amounts repayable:	£'000	£'000
In one year (Note 11)	1 030	1 120
In two to five years	2 654	3 203
After five years	6 214	6 695
	9 898	11 018

14 Reserves

14.1 Reconciliation of movements in general reserve

	2003–04	2002–03
	£'000	£'000
At 1 April	(3 948)	35 320
Surplus(Deficit) for the year	6 604	(39 359)
Early release costs – transfers to general reserve (Note 11)	403	380
Fixed assets (Note 14.2)	(159)	(289)
At 31 March	2 900	(3 948)

14.2 Revaluation reserves

	2003–04	2002–03
	£'000	£'000
Balance at 1 April	13 797	12 697
Adjustment	(612)	–
Restated balance at 1 April	13 185	12 697
Arising on revaluation during the year (net)	2 590	811
General reserve transfer	159	289
Balance at 31 March	15 934	13 797
Net reserve movements in the year		
Tangible and intangible fixed assets	785	281
Investment assets	1 805	530

Notes:

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

Net book value at 31 March 2004	Revalued	Historic	Difference
	£'000	£'000	£'000
Intangible fixed assets (Note 7.1)	497	505	(8)
Tangible fixed assets (Note 7.2)	35 744	27 721	8 023
Investment assets (Note 7.3)	8 765	846	7 919
	45 006	29 072	15 934

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

c. The revaluation reserve for tangible fixed assets at 1 April 2003 has been restated in line with the adjustment to the opening balance for fixed assets, details of which are disclosed in Note 7.2.

15 Gross cash flows

15.1 Financing charges and income

	2003-04	2002-03
	£'000	£'000
Interest received	1 514	1 677
Interest paid	(510)	(569)
Net interest	1 004	1 108

15.2 Capital expenditure

Payments to acquire tangible fixed assets	(6 877)	(7 394)
Receipts from sales of tangible fixed assets	45	46
Net capital expenditure	(6 832)	(7 348)

15.3 Investment expenditure

Share of PointX	278	154
Loan	(300)	(100)
Net investment	(22)	54

16 Financial commitments

	2003-04	2002-03
	£'000	£'000
No provisions have been made in these accounts in respect of:		
Contracted capital commitments	–	22
Capital authorised by Directors but not contracted	–	–
Undrawn loan commitment – PointX (Note 8)	210	510

17 Operating lease commitments

At 31 March 2004 Ordnance Survey had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2003-04	2002-03	2003-04	2002-03
	£'000	£'000	£'000	£'000
Expiring:				
Within one year	488	560	252	145
Between two and five years	211	270	499	616
After five years	101	223	–	–

18 Related party transactions

Ordnance Survey is a government department operating as a Trading Fund and is also an Executive Agency. In the course of its normal business Ordnance Survey provides mapping data and licences 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 Office of the Deputy Prime Minister, 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. Rental income was also received from HM Customs and Excise (see Note 2.2).

Ordnance Survey had material transactions with the Inland Revenue and Department for Work and Pensions (DWP) for payment of rents and service charges where Ordnance Survey occupies accommodation in buildings for which the Inland Revenue or DWP is the major occupier.

As explained in Note 8, Ordnance Survey and PointX Limited are related parties. During the year Duncan Shiell, Alastair Matthews and Ed Parsons were Directors of PointX Limited.

Ordnance Survey is a member of, and exercises significant influence over, the board of Little Explorers Nursery Limited, a non-profit-making company limited by guarantee. The company is run as a nursery for children of Ordnance Survey employees on its head office site. No material transaction occurred between Little Explorers Nursery Limited and Ordnance Survey during 2003–04.

During 2003–04 Vanessa Lawrence, Director General and Chief Executive of Ordnance Survey, was a Non-Executive Director of the Office of the Deputy Prime Minister and Michael Sommers, a Non-Executive Director of Ordnance Survey, was a Non-Executive Director of the Department for Work and Pensions.

In 2003–04 Ordnance Survey had transactions totalling £26 861 with Peter Brent Consulting Limited for the provision of sales and marketing consultancy. Lynn Mathieson was a Non-Executive Director of Ordnance Survey until September 2003 and is also a Director of Peter Brent Consulting Limited. No 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 2004.

20 Financial targets and results

The financial objective for the year 2003–04 was to achieve a trading surplus, before interest, dividends and exceptional items of £4.7 million for the financial year April 2003 to March 2004. The trading surplus achieved was £5.6 million.

The longer term financial objective of Ordnance Survey set in the framework agreement 1999 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 2003–04 (including the £20 000 000 received from Centrica and shown as an exceptional item in the 2000–01 accounts) represents ROCE of 12.8% over this five-year period (without the exceptional item it would have been 7.7%). The exceptional item for reorganisation costs contained in the 2002–03 accounts (Note 5) is excluded from the calculation of ROCE as agreed with HM Treasury.

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. In 2003–04 Ordnance Survey wrote off stock valued at £147 754 as a result of new editions of products in the Explorer and OS Landranger series and the consequential write-off of the obsolete stock they superseded.
- b. Bad debt write-offs of £81 000 were incurred in the year.
- c. 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 1999 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 follows Government Accounting rules, negotiating contracts with suppliers or contractors in sterling or major international currencies such as the euro or US dollar. Ordnance Survey's policy during the year on routine transactional conversions between currencies (for example, the collection of receivables and the settlement of payables) remained that these should be effected at the relevant spot exchange rate.

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 2004 are set out below. All balances are held in sterling:

Financial assets	Fixed rate	Floating rate	Total
	£'000	£'000	31 March 2004 £'000
Cash on deposit	–	21 000	21 000
Loan to PointX (Note 8)	–	–	540

Cash on deposit at 31 March 2004 consists of five short-term loans to the National Loans Fund for a weighted average period of 44.5 days at a weighted average interest rate of 3.93%.

Details of the interest-free loan to PointX are contained in Note 8.

Financial liabilities	Fixed rate	Floating rate	Total
	£'000	£'000	31 March 2004 £'000
Government loans (Note 13)	9 898	–	9 898

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

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.