

Accounts 1999-2000

Our accounts 1999–2000 – a one-minute overview

Trading performance

Following a sound performance in the final quarter of the year, we achieved our revenue target. We contained our cost base by controlling overheads and deferring investment programmes until early next year. We used Government funding to implement an early retirement programme.

Cash generation explained

Operating profits plus depreciation provided a positive cash contribution. Further benefit was derived from reducing map stocks and improving credit management. Additional pension provisions to cover future liabilities gave rise to an increase in long-term creditors.

How have funds been employed?

We invested in assets, including building a new database control system. We spent a significant amount on IT in the run up to Y2K. We repaid a temporary loan as well as part of our inaugural loans.

Investment committed to organisation

	£'000
Fixed assets	27 847
Working capital	3 992
Cash	21 659
Total	53 498

	£'000
Revenue	99 586
Operating costs	86 819
Trading profit	12 767
Restructuring cost	6 368
Restructuring grant income	6 000
Colaborative development	85
Operating profit	12 484

Operating profit	12 484
Non-cash costs	4 225
Working capital	10 801
Rise in long-term creditors	2 090
Cash generated	29 600

Applied:	
Fixed assets	-4 261
Net financing charges	132
Loan repayment	-3 828
Cash flow	21 643

Balance at 1 April 1999	16
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Balance at 31 March 2000	21 659
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Funded by

	£'000
Capital	14 000
Reserves	19 824
Loans	13 902
Long-term creditors	5 772

Total	53 498
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Financial performance ratios

Trading return – expresses trading profit as a percentage of revenue	12.8%
Revenue per £1 of labour cost – expresses productivity of payroll	£1.87
Revenue/asset ratio – effectiveness of assets to generate revenue	1.86:1

Foreword to the accounts

Status

Ordnance Survey is a government department founded in 1791, operating under legislation which 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. The Secretary of State for the Department of the Environment, Transport and the Regions (DETR) has 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 which 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.

Full details of the aims, objectives, accountability and responsibility are contained in Ordnance Survey's Framework Document published in April 1999.

Management Board

Strategic management of Ordnance Survey is directed by the Management Board shown on page 4. Two new Directors, Steve Erskine, Director of Product Development, and Nick Land, Director of Solutions, were appointed to the Board from 1 April 1999.

In October 1999 Dr Geoff Robinson resigned from the position of Director General of Ordnance Survey. David Willey, Director of Business Strategy and Finance, was

appointed acting Director General and Chief Executive for the remainder of 1999–2000, with Duncan Shiell joining the Board as acting Director of Business Strategy and Finance.

Vanessa Lawrence joined Ordnance Survey as Director General and Chief Executive on 4 September 2000, with David Willey resuming responsibility as Director of Business Strategy and Finance. Vanessa Lawrence has therefore signed these accounts.

Tony Black, Director of Strategic Operations, left Ordnance Survey in December 1999 and his responsibilities have been shared amongst the remaining Directors.

The Non-Executive Directors are appointed by the Secretary of State. The term of appointment is for two years with an option to extend the appointment for a further two years.

Auditor

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

Business activities

Ordnance Survey delivers its remit of maintaining the National Topographic Database 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 (National Interest Mapping Service 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.

In addition to these activities, Ordnance Survey earns revenue from pursuing other publishing, consultancy and commercial services with both private and public sector organisations. Consultancy on mapping and geographical information systems is carried out in both domestic and international markets, frequently in conjunction with partners. During the year the production of

co-publications with private sector commercial publishers was ceased. Commercial publishers use data supplied by Ordnance Survey under licensing agreements.

Business objectives 1999–2000

Details of the non-financial business targets for 1999–2000 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 targets for 1999–2000 set by the Secretary of State for the Environment, Transport and the Regions are:

- to achieve a revenue target (excluding NIMSA) of £83.4 million; and
- to achieve a return on sales (excluding NIMSA) of not less than 5%.

Details of the achievement of these targets are shown in Note 19.

Research and development

Ordnance Survey undertakes a diverse programme of research covering both product and process development. A proactive technology tracking programme ensures that threats and opportunities for the business are identified, providing direction for new research topics and helping to establish research priorities. This year has seen an increased emphasis on research in the area of communications, including the Internet and digital television. On an international front, Ordnance Survey has continued to be involved with the development of standards for information exchange which will provide direction for the future distribution and use of our data.

Last year's increase in collaborative research with academic, governmental and commercial organisations has continued in the form of a virtual research unit. This will promote closer, mutually beneficial working relationships on a range of research topics, including improvement in map generalisation and Internet mapping technology.

Creditor payment policy

Ordnance Survey adheres to the Confederation of British Industries (CBI) prompt payment code.

In 1999–2000, 98.9% (99.1% in 1998–99) 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 communication is considered to be of high strategic importance and has been identified as a Key Investment Programme for the future.

Ordnance Survey recognises the benefits of keeping employees informed of the progress of the business and of involving them in the Agency's performance. During the year employees were regularly provided, through a monthly core briefing and weekly notices, with information about the trading performance of Ordnance Survey, on new products and on other matters of concern to them as employees.

Staff involvement is actively encouraged within Ordnance Survey. During 1999–2000 an employee opinion survey, the Listening Survey, was carried out. Action plans have been produced both at corporate and local levels. Employee opinion surveys are repeated every two years.

Ordnance Survey was recognised in 1998 as an Investor in People (IIP), the national quality standard for effective investment in the training and development of staff. A review in 1999 confirmed that the standard was being maintained.

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 Management Board presents the accounts for the year ended 31 March 2000.



Vanessa Lawrence

Director General and Chief Executive

18 December 2000

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 which 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 the system of internal financial control

As Accounting Officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by Ordnance Survey.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, administrative procedures, including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Management Board;
- regular reviews by the Management Board of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- as appropriate, formal project management disciplines.

Ordnance Survey has an internal audit unit, which operates to standards defined in the *Government Internal Audit Manual*. The work of the internal audit unit is informed by an analysis of the risk to which Ordnance Survey is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by Ordnance Survey's Audit Committee and approved by me. At least annually, the Manager of Internal Audit (MIA) provides me with a report on internal audit activity in Ordnance Survey. The report includes the MIA's independent opinion on the adequacy and effectiveness of Ordnance Survey's system of internal financial control.

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

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and I am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ended 31 March 2002, in accordance with guidance to be issued by them.



Vanessa Lawrence

Director General and Chief Executive

18 December 2000

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 51 to 66 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 54 to 56.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 42, the Agency and Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Agency 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 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 Agency 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 43 reflects the Agency's compliance with Treasury's guidance *Corporate Governance: statement on the system of internal financial 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 opinion

I conducted my audit in accordance with 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 the Agency and 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 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, 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 at 1 April 1999, as disclosed in Note 21, 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 to 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 £99.6 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 2000 from £25.687 million to £75.7 million.

In my opinion:

- in view of the effect of the failure 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 2000 or of its surplus, total recognised gains and losses and cash flows for the year then ended;
- in all other respects, and except 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.



John Bourn

Comptroller and Auditor General
20 December 2000

National Audit Office
157–197 Buckingham Palace Road
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The Report of the Comptroller and Auditor General to the Houses of Parliament

Failure to capitalise 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).

The National Topographic Database

2. Over many decades Ordnance Survey has created, and continues to maintain, the National Topographic Database as a definitive computerised map of Great Britain. The National Topographic Database comprises two key elements: topographical data (*the database*) and software (*the database management system*). Topographical data consists of more than 200 million individual features of the British landscape recorded at a scale of up to 80 cm to 1 kilometre (50 inches to 1 mile) and encompasses details as small as telephone boxes and private garages. The same base data may be stored several times over to support different product lines and is held mainly in two-dimensional form using National Grid references. The database management system is the software that allows data to be organised, retrieved and manipulated. The existing database management system became fully operational in 1994 and has an expected useful economic life of 10 years.
3. 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 1999–2000 Ordnance Survey's turnover from the exploitation of data held on the database was £99.6 million, including £26.6 million in copyright fees and £58.4 million from the commercial sale of Ordnance Survey products and services. Apart

from the commercial application of the database, a significant element of the data is collected and maintained in the national interest. This element of Ordnance Survey's work is funded by the Department of the Environment, Transport and the Regions under a National Interest Mapping Services Agreement which accounted for £14.6 million of total turnover in 1999–2000.

4. As well as generating revenues directly for Ordnance Survey, the Agency has noted in its Annual Report that independent consultants have recently calculated that around £100 billion worth of business and public services in Great Britain rely each year on Ordnance Survey data.
5. The National Topographic Database is currently being enhanced and restructured through the development of a new database management system and the re-engineering of existing data for use with the new software. This process will enable data to be held in three-dimensional form to depict the shape of land and buildings, and will allow the Agency to produce customised products without the need to develop a new data format, as is currently the case. In addition, it offers the potential for Ordnance Survey's data to be integrated seamlessly with that held by other external organisations such as government agencies, local authorities and utility companies to provide through the Internet a single source of reference for all geographic data.
6. The total costs of enhancing and restructuring the National Topographic Database are estimated by Ordnance Survey at £13.4 million. Of this, £7.83 million relates to the development of a new database management system and £5.6 million relates to associated processes such as converting the format of existing data and migrating it to the new database management system. In 1999–2000 £1.58 million was spent on the new database management system and £3.3 million on re-engineering of data. The project is expected to be complete by 2003–04.

7. In addition to the £3.3 million spent on re-engineering data, the Agency estimates that around £28 million was spent on ongoing maintenance and enhancement of the database in 1999–2000. This involves updating major urban data within six months of change occurring on the ground and rural detail over a five-year cycle to ensure the continuing currency of the data held.

Accounting for the National Topographic Database

8. The creation of the National Topographic Database has spanned many decades and historically Ordnance Survey has attached no value to the National Topographic Database in its accounts. Instead, costs have been written off as incurred and the existence and importance of the database disclosed by way of note. When the Agency announced its intention in 1996 to seek Trading Fund status, the National Audit Office raised with Ordnance Survey the issue of whether this accounting treatment remained appropriate. Trading Fund accounts are prepared on a full commercial basis, including a balance sheet and performance information such as return on capital employed. Given the overriding importance of the database to Ordnance Survey's business, the National Audit Office was concerned that failure to capitalise the database might result in the Trading Fund accounts not giving a true and fair view of the assets funded from public monies and employed by Ordnance Survey to generate revenues. Since then we have debated the matter between us frequently but have not been able to reach agreement.
9. In preparing financial statements for 1999–2000, Ordnance Survey has considered separately the accounting for the database management system and that for the database itself.

Database management system

10. In accordance with Financial Reporting Standard 15 *Tangible Fixed Assets*, the existing National Topographic Database management system has been capitalised as a tangible fixed asset at a valuation of £2.2 million. The costs of developing the new database management system have been capitalised at a value of £1.58 million as "assets under construction".
11. At the time that the database management system came fully into use in 1994, Ordnance Survey's accounting policy was to charge the costs of software development as an expense to 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. However, no accounting records have been retained to support the original estimated cost of £4.8 million. The scope of my audit was therefore limited and I have qualified my opinion on the financial statements in this respect.

Database

12. No value is attached to the current database nor to the costs of re-engineering existing data for use with the new database management system in Ordnance Survey's financial statements. Instead, ongoing costs of maintaining the database have been charged to the operating statement as incurred.
13. The Agency considers that the database is a collection of information akin to intellectual property and, as such, is an intangible fixed asset. The Agency has therefore accounted for the database in accordance with Financial Reporting Standard 10 *Goodwill and Intangible Assets*. This 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.
14. 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. It has also stated that the balance sheets of companies are rarely a complete reflection of assets employed, particularly where those assets are intangible. Internally generated brands, patents, copyrights and intellectual property, for example, are not generally recognised in company balance sheets even though they often play a crucial part in generating revenues.

15. 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.

[Disagreement with the accounting treatment applied to the National Topographic Database in the 1999–2000 Trading Fund accounts](#)

16. I have qualified my opinion on the accounts of Ordnance Survey for 1999–2000 because I disagree with the view taken by the Agency on the appropriate accounting treatment for the database.
17. In my opinion 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.
18. Furthermore, 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.
19. The tangibility of software derives from the fact that it is an integral part of the hardware to which it attaches. Similarly, data held on the National Topographic Database is an integral part of the database management system and the hardware to which it attaches. The National Topographic Database becomes a usable asset capable of generating future revenues only when it is populated with data. In my opinion, therefore, it is inappropriate to capitalise the database management system and hardware in the balance sheet without also recognising the value of the database.
20. As regards the lifespan of the data, while recognising that the database's currency is critical, the six-monthly urban and five-yearly rural cycles of updating typically change only a small element of the recorded topographical landscape, reflecting the fact that most features, such as buildings and roads, stand for many years. In my view therefore, much of the data has a useful economic life that extends well beyond one year, supporting treatment of the data as a capital asset.
21. In my opinion, failure to capitalise the National Topographic Database in Ordnance Survey's accounts not only results in a material understatement of Ordnance Survey's fixed assets, but may also distort the view given by measures of reported financial performance, for example, the return on capital employed which is currently shown as 27.6% for 1999–2000. The reported surplus will also be affected to the extent that expenditure which enhances the database has been charged to the operating statement rather than capitalised (see paragraph 26).

Valuation

22. Generally accepted accounting principles state that it is only appropriate to capitalise a fixed asset where it can be valued on a reliable basis. The database has three key elements of cost – the existing core data, ongoing maintenance, and enhancement and re-engineering data for use with the new database management system. Ordnance Survey's accounting policy is to capitalise tangible fixed assets at their current cost.

Core data

23. Core data is that gathered in the past and digitised for use with the existing database management system. The data is kept up to date on an ongoing basis to reflect changes in the topographical landscape. As the Agency has explained in Note 1.7 to the accounts, core data reflects historical surveying work done over many decades and no adequate accounting records are available to support the calculation of a current replacement cost.

Maintenance

24. The Agency estimates that the ongoing costs of surveying and updating the database amounted to around £28 million in 1999–2000. This expenditure not only maintains the currency of existing data but may also enhance it. For example, the accuracy of rural data held on the National Topographic Database is being improved by a two-year programme, the Positional Accuracy Project, and the database is being enhanced by inclusion of the National Cycle Network which is still under development.

25. The Agency has not analysed how much of the ongoing cost of surveying and updating the database relates to maintenance and how much to enhancement. However, as the database is already highly evolved, most expenditure is likely to relate to maintenance. In accordance with principles of *renewals accounting* contained in Financial Reporting Standard 15, by preserving the capacity of core data to generate future economic benefits, maintenance

expenditure can be capitalised and written off in year as depreciation. There would be no impact on the balance sheet and operating statement if such a policy were adopted as maintenance expenditure is written off fully in the year currently.

Enhancement and re-engineering costs

26. Enhancement expenditure potentially increases future economic benefits and represents an addition to the existing core database. The costs incurred in enhancing and re-engineering data for use with the new database management system amounted to £3.3 million in 1999–2000. The expenditure is directly attributable to bringing the new database management system into use and would have been avoided but for its construction. However, the costs of re-engineering data are also an enhancement to the core database. Expenditure can therefore be regarded as part of the cost of the new database management system or as a database cost.

Valuing the whole database

27. Given the difficulty of determining a value for the database based upon its component parts, an alternative approach is to value the database as a single entity. One method is to estimate the present value of the future income attributable to the ownership of the asset or the amount required to purchase exclusive rights to that asset. Having taken expert advice about the valuation of the database, my view is that the value of the database to the business is not less than £50 million on this basis. Had the National Topographic Database been capitalised at this value, the effect would have been to increase tangible fixed assets included in the balance sheet at 31 March 2000 from £25.7 million to at least £75.7 million.

Conclusion

28. Ordnance Survey's turnover of £99.6 million derives principally from the exploitation of data contained on the National Topographic Database, the collection of which has been funded from public monies over many years. I have qualified my opinion on Ordnance Survey's first set of Trading Fund accounts because, in my opinion, there is a material understatement of tangible fixed assets in the balance sheet arising from the failure to recognise the National Topographic Database as an asset in accordance with Financial Reporting Standard 15.
29. 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.



John Bourn

Comptroller and Auditor General
20 December 2000

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Operating account for the year ended 31 March 2000

	Note	1999–00		1998–99
		£'000	£'000	£'000
Turnover				
Turnover from operating activities	2		99 586	81 083
Government Grant income	1.9		6 000	–
Collaborative development income	1.10		85	–
			105 671	81 083
Operating costs				
Staff costs	3	53 340		50 027
Depreciation of fixed assets	6	4 119		3 809
Other operating charges	4	35 622		32 892
Total operating costs			93 081	86 728
Operating surplus/(deficit)			12 590	(5 645)
Loss on disposal of fixed assets			(106)	(504)
Surplus/(deficit) on ordinary activities before interest			12 484	(6 149)
Interest receivable	5	1 024		–
Interest payable	5	(840)		(2 713)
Net interest			184	(2 713)
Retained surplus/(deficit) for the year			12 668	(8 862)

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 2000

	Note	1999–00		1998–99
		£'000	£'000	£'000
Surplus/(deficit) for the financial year			12 668	(8 862)
Unrealised gain/(loss) on revaluation of tangible fixed assets	12	1 273		(1 431)
Unrealised gain on investment revaluation reserve	12	245		555
Total gains and losses relating to the financial year			14 186	(9 738)
Prior year adjustment	14	1 075		(1 051)
Total gains and losses recognised			15 261	(10 789)

The notes on pages 54 to 66 form part of these accounts

Balance sheet at 31 March 2000

	Note	31 March 2000		1 April 1999
		£'000	£'000	£'000
Fixed assets				
Tangible fixed assets	6.1	25 687		23 832
Fixed asset investments – other investments	6.2	2 160		1 915
			27 847	25 747
Current assets				
Stocks and work-in-progress	7	2 601		4 895
Debtors	8	15 326		18 787
Cash at bank and in hand		21 659		16
		39 586		23 698
Current liabilities				
Creditors: amounts falling due within one year	9	(13 935)		(11 352)
Net current assets			25 651	12 346
Total assets less current liabilities			53 498	38 093
Financed by:				
Creditors: amounts falling due after one year	10		5 772	3 682
Capital and reserves				
Public dividend capital		14 000		14 000
Loans repayable after one year	11	13 902		15 452
General reserve	12	14 013		–
Revaluation reserve – tangible fixed assets	12	4 497		2 815
Investment revaluation reserve	12	1 314		1 069
Prior year adjustment	14	–		1 075
			47 726	34 411
Total			53 498	38 093

The comparative figures at 1 April 1999 are adjusted balances set on the establishment of Ordnance Survey as a Trading Fund on 1 April 1999 (see Note 21) with a prior year adjustment (see Note 14).

The accounts were approved on 18 December 2000.



Vanessa Lawrence

Chief Executive and Agency Accounting Officer

The notes on pages 54 to 66 form part of these accounts

Cash flow statement for the year ended 31 March 2000

Reconciliation of operating surplus/(deficit) for the year to net cash flow from operating activities	Note	1999–00 £'000	1998–99 £'000
Operating surplus/(deficit)		12 484	(8 862)
Depreciation charges	6	4 119	3 809
Notional charges		–	2 925
Loss on disposal of fixed assets		106	504
(Increase)/decrease in stocks/WIP	7	2 294	(880)
(Increase)/decrease in debtors	8	3 513	(3 599)
Increase/(decrease) in creditors	9	4 261	(4 469)
General reserve/creditors adjustment	9	733	1 093
(Decrease)/increase in long-term liabilities	10	2 090	(951)
Net cash inflow/(outflow) from operating activities		29 600	(10 430)
Cash flow statement			
Net cash inflow/(outflow) from operating activities		29 600	(10 430)
Financing costs – net receipts/payments	13.1	132	–
Net capital expenditure	13.2	(4 261)	(5 764)
Cash inflow/(outflow) before financing		25 471	(16 194)
Financing	11	(3 828)	12 374
Increase/(decrease) in cash		21 643	(3 820)
Cash movement			
Increase/(decrease) in cash in the year		21 643	16
Cash at 1 April	21	16	–
Cash at 31 March		21 659	16

The cash balance at 1 April 1999 has been adjusted following the establishment of the Trading Fund. Details are shown in Note 21.

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

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 accordance with the Treasury Direction which 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 of the Environment, Transport 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 2000 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 £15 958 000 (Land £6 750 000, Buildings £9 208 000).

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 2000 by Chesterton plc. The basis of the valuation is Existing Use Value assuming vacant possession and the amount of the valuation was £90 000 (Land £60 000, Buildings £30 000).

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.

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 infrastructure 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	60 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 National Topographic Database consists of geodetic networks and topographic information from large-scale survey which is subject to continuous revision. With frequent changes taking place, the costs of setting up and maintaining this database have been charged to the operating account as incurred. The major part of this asset is represented by collected data which is viewed as a collection of information akin to intellectual property and it cannot be valued with any certainty. Consequently, no value for the National Topographic Database appears in the balance sheet, notwithstanding its central importance to Ordnance Survey activities.

The database management system developed over several years has been capitalised and is written off over its expected working life. A new database management system is in course of construction (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 which may relate to periods after 31 March 2000 are included in trade debtors which represent all invoices unpaid at 31 March 2000.

The proportion of the value of invoices excluding VAT raised in 1999–2000 which relate to the period after 31 March 2000, 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 3.6.
- 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. All of the costs of funding early leavers prior to 31 March 1999 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 10). 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 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 9).
- The Trading Fund plan for Ordnance Survey agreed between the Department of the Environment,

Transport and the Regions (DETR) and the Treasury included a major initiative to contain staff costs in order to allow Ordnance Survey to sustain adequate profitability into the future. In 1999–2000 DETR provided a grant of £6 000 000 principally towards the costs of funding early retirements arising from restructuring. This is included in the operating account.

1.10 Research and development

Expenditure on research and development is treated as an operating charge in the year in which it is incurred. Development projects run in collaboration with other organisations received investment support amounting to £300 000 which is released to collaborative development income as costs are incurred (£84 884 in 1999–2000).

1.11 Taxation

Ordnance Survey is not liable to corporation tax on its profits.

1.12 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.

1.13 Year 2000 business continuity

Ordnance Survey addressed the issues relating to year 2000 compliance. Ordnance Survey systems and equipment were replaced or upgraded as required. Contingencies were made across the business. All costs were written off to the operating account as incurred. Total costs were £ 1 008 000 of which £360 000 was incurred in 1999–2000 (£461 000 in 1998–99 and £187 000 in 1997–98).

2. Turnover

2.1 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 £99 586 000 for 1999–2000 includes £14 616 800 received from the Department for the Environment, Transport and the Regions in respect of the provision of national interest mapping through a service agreement (NIMSA).

2.2 The turnover figures include external licensing income of £26 642 000 (£30 563 000 in 1998–99).

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

	1999–00	1998–99
	£'000	£'000
Countries within the		
European Union	231	1 662
Eastern Europe	159	105
United States of America	208	114
Asia	38	3
Rest of the world	231	177

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:

	1999–00	1998–99
Operations	1 313	1 308
Sales and marketing	214	206
Corporate services	346	350
	1 873	1 864

3.2 Total staff costs

	1999–00	1998–99
	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	38 993	38 093
Social Security costs	2 796	2 872
Superannuation	5 183	5 041
Early retirement costs in year	–	2 400
Additional provision for long-term early retirement commitments (see Notes 1.9 and 10)	6 368	1 621
	53 340	50 027

3.3 Directors' emoluments

The most senior members of Ordnance Survey are the Management Board, comprising the Chief Executive and Directors. Changes to the Board during 1999–2000 are detailed in the Foreword to the accounts.

The salary and pension commitments of the Chief Executive and Directors were as follows:

	Age (at 31 March 2000)	Salary 1999–2000 including performancy pay £'000	Real increase in pension at 60 £'000	Total accrued pension at 60 at 31 March 2000 £'000
Geoff Robinson, Chief Executive 1 April 1999 to 22 October 1999	54	50–55	see note a. below	see note a. below
David Willey, Chief Executive 25 October 1999 to 31 March 2000 Director 1 April 1999 to 24 October 1999	41	60–65	0–2.5	10–15
Tony Black, Director 1 April 1999 to 31 December 1999	46	40–45	see note b. below	see note b. below
Steve Erskine, Director	42	40–45	2.5–5.0	10–15
Nick Land, Director	38	40–45	0–2.5	5–10
Ian Logan, Director	57	55–60	0–2.5	25–30
Michael Mayes, Director	50	50–55	0–2.5	15–20
Bryan Nanson, Director	53	55–60	0–2.5	25–30
Duncan Shiell, Director 1 November 1999 to 31 March 2000	51	45–50	0–2.5	15–20

Salary includes gross salary, performance pay and all allowances that are subject to UK taxation.

The Chief Executive and all Ordnance Survey Directors 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 three 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.

Notes:

- a. Geoff Robinson served one year as Chief Executive from 1 October 1998 to 22 October 1999. The time period is below the threshold that entitles him to receive preserved benefits from the Principal Civil Service Pension Scheme.
- b. As explained in Note 1.9, some staff may be retired early under restructuring arrangements at the discretion of Ordnance Survey and in these cases the Department is required to pay the pensions until normal pensionable age or, if they are under 50 years of age, a one-off early severance payment. Tony Black left Ordnance Survey under these arrangements in December 1999 and received an early severance payment of £261 677.

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:

	1999-00	1998-99
	£'000	£'000
Gwynneth Flower	5-10	5-10
Lynn Mathieson	5-10	0-5
Michael Pattison	5-10	5-10

3.5 Remuneration of staff excluding Directors

The remuneration, excluding pension contributions, of other staff whose pre-tax emoluments exceeded £40 000 was as follows:

	1999-00	1998-99
£40 000 – £50 000	4	7
£50 001 – £60 000	–	1

3.6 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 1999–2000 contributions of £5 182 863 (£5 041 112 for 1998–99) were paid to the Paymaster at rates determined from time to time by the Government Actuary and advised by the Treasury. The rates for 1999–2000 were between 12% and 18.5% depending upon the pay band of each employee (unchanged from 1998–99).

4 Other operating charges

Included in other operating charges are:

	1999–00	1998–99
	£'000	£'000
Staff travel, subsistence and hospitality	3 076	2 923
Research and development	368	486
Notional insurance and vehicle excise duty	–	212
Charges for operating leases	662	409
Auditors' remuneration and expenses	78	67
Foreign exchange rate gains/losses (net)	55	1
Hire of plant and machinery	24	14

5 Interest receivable and payable

	1999–00	1998–99
	£'000	£'000
Interest receivable from		
Balances at the account with HM Paymaster	162	–
Short-term deposits with the National Loans Fund	762	–
Interest received on trade debt	100	–
Interest receivable	1 024	–
Interest payable		
On deemed loans	(839)	(2 713)
On temporary borrowing	(1)	–
Interest payable	(840)	(2 713)
Net interest	184	(2 713)

Note: Prior to becoming a Trading Fund on 1 April 1999 the financing structure of Ordnance Survey did not include specific interest bearing debt but, to ensure that the operating account bore an appropriate charge for the use of capital in the year, a notional charge was included in the 1998–99 accounts.

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 1999 (note 1 below)	12 835	30 714	917	–	44 466
Additions	256	2 977	84	1 583	4 900
Disposals	–	(6 880)	(94)	–	(6 974)
Revaluation	797	278	(9)	–	1 066
At 31 March 2000	13 888	27 089	898	1 583	43 458
Depreciation					
At 1 April 1999	–	19 823	811	–	20 634
Charged in year	318	3 718	83	–	4 119
Disposals	–	(6 681)	(94)	–	(6 775)
Revaluation	(318)	117	(6)	–	(207)
At 31 March 2000	–	16 977	794	–	17 771
Net book value					
At 1 April 1999	12 835	10 891	106	–	23 832
At 31 March 2000	13 888	10 112	104	1 583	25 687

Notes:

1. The opening balance at 1 April 1999 was adjusted on the establishment of Ordnance Survey as a Trading Fund on 1 April 1999 (see Note 21).

2. Assets shown as being under construction relate to the development of the new topographic database management system.

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 1999	9 418	9 282	117	18 817
At 31 March 2000	9 371	11 703	116	21 190

6.2 Fixed asset investments

	1999–00	1998–99
	£'000	£'000
Balance at 1 April	1 915	1 360
Revaluation in the year	245	555
Balance at 31 March	2 160	1 915

Note:

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

7 Stocks and work-in-progress

	1999–00	1998–99
	£'000	£'000
Finished goods	1 169	3 956
Work-in-progress	1 432	939
Total	2 601	4 895

Note:

Included in work-in-progress are long-term contract balances of £256 000 (£412 000 in 1998–99).

8 Debtors

	1999–00	1998–99
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	10 718	13 291
Prepayments and accrued income	3 811	3 709
Staff debtors and advances	152	152
Accrued interest receivable	52	–
Value added tax	–	14
Subtotal	14 733	17 166
Amounts falling due over one year:		
Accrued copyright income	271	542
Staff debtors and advances	322	365
Subtotal	15 326	18 073
Prior year adjustment	–	714
Total	15 326	18 787

Note:

Tony Black, Director, repaid in full his house purchase loan when he left Ordnance Survey in December 1999.

No debts were owed by Directors at year end.

9 Creditors: amounts falling due within one year

	1999-00	1998-99
	£'000	£'000
		restated
Copyright and other revenue in advance	5 176	4 463
Trade creditors	2 675	1 090
Accruals	2 561	1 185
Value added tax	762	-
Provision for loss on long-term contracts	8	352
Long-term loans repayable in one year (Notes 11 and 21)	1 549	3 828
Pension costs payable within one year (Note 10)	1 204	697
Amount due to Consolidated Fund (Note 21)	-	98
Subtotal	13 935	11 713
Prior year adjustment	-	(361)
Total	13 935	11 352

Note:

£679 000 was transferred from creditors at 31 March 1999 to the General reserve in 1999-2000 (see Note 1.9), plus pension costs paid in year amounting to £54 000.

10 Creditors: amounts falling due after one year

	1999-00	1998-99
	£'000	£'000
Early retirement and pension commitments		
Balance at 1 April	3 682	4 633
Transferred to short-term provision in the year	(3 074)	(1 875)
To creditors falling due in one year (Note 9)	(1 204)	(697)
Additional provision (Note 3.2)	6 368	1 621
Total	5 772	3 682

The above amount is estimated as falling due as follows:

	£'000
2001-2002	1 302
2002-2003	1 128
2003-2004	1 038
2004-2005	788
2005-2010	1 516
Total	5 772

11 Long-term loans

Government loans, repayable by instalments, and bearing interest at rates between 4.75% and 4.875% per annum are (see Note 21):

	31 March 2000	31 March 1999
	£'000	£'000
Amounts repayable:		
In one year	1 549	3 828
In two to five years	5 034	5 553
After five years	8 868	9 898
Total	15 451	19 279

12 Reserves

12.1 Reconciliation of movements in General reserve

	1999-00
	£'000
At 1 April	–
Surplus for the year	12 668
Pension costs – transfers to General reserve (Note 9)	679
Fixed assets (Note 12.2)	(409)
Prior year adjustment (Note 14)	1 075
At 31 March	14 013

12.2 Revaluation reserves

	1999-00	1998-99
	£'000	£'000
Balance at 1 April	3 884	4 566
Arising on revaluation during the year (net)	1 518	(876)
General reserve transfer	409	194
Balance at 31 March	5 811	3 884
Net reserve movements in the year		
Tangible fixed assets	1 273	(1 237)
Investment assets	245	555

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.

13 Gross cash flows

13.1 Financing charges and income

	1999-00	1998-99
	£'000	£'000
Interest received	972	-
Interest paid	(840)	-
Net interest	132	-
13.2 Capital expenditure		
Payments to acquire tangible fixed assets	4 292	5 789
Receipts from sales of tangible fixed assets	(31)	(25)
Net capital expenditure	4 261	5 764

14 Prior year adjustment

As a result of a change of accounting policy, debtors on the balance sheet were increased by £714 000 to reflect returns received from Licensed Partners after the year end relating to the previous year and creditors were decreased by £361 000 to correct the apportionment of revenue in respect of licences issued to digital copyright customers. These changes reflect the increased activity with Licensed Partners. The net effect of this adjustment is an increase in turnover in 1999-2000 of £195 000. The operating deficit for 1998-1999 has not been restated.

15 Capital commitments

	1999-00	1998-99
	£'000	£'000
Capital commitments at 31 March, for which no provision has been made in these accounts, were as follows:		
Contracted	78	65
Authorised by Directors but not contracted	130	-

16 Operating lease obligations

	1999-00	1998-99
	£'000	£'000
Non-cancellable operating lease payments on vehicles and office equipment due within the next year		
Leases expiring within:		
One year	2	2
Two to five years	711	538
More than five years	1	1

17 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 of the Environment, Transport and the Regions and its Executive Agencies, HM Land Registry, the Ministry of Agriculture, Fisheries and Food, the Ministry of Defence and the Defence Agencies, and the Scottish Office and its Agencies.

Ordnance Survey has also had material transactions with the Valuation Office Agency for payment of contributions in lieu of rates (CILOR) and 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.

None of the Management Board members, key management staff or other related parties has undertaken any material transactions with Ordnance Survey during the year.

18 Contingent liabilities

There were no contingent liabilities at 31 March 2000.

19 Financial targets and results

The financial objectives for the year 1999–2000 were as follows:

	Target	Achieved
	£'000 000	£'000 000
To achieve a revenue target (excluding the National Interest Mapping Service Agreement – NIMSA)	83.4	85.0
To achieve a return on sales (excluding NIMSA) of not less than	5.0%	14.7%

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 in 1999–2000 represents a return on capital employed of 27.6% over the first year of this five-year target.

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 review of the year on page 7 of the Annual Report.

20 Losses, special payments and gifts

During the year, 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.

21 Statement of net assets appropriated to the Trading Fund at 1 April 1999 and consequential changes to the balance sheet at 1 April 1999

The balance sheet figures at 1 April 1999, provided as comparatives in this set of accounts, represent the opening balance sheet of Ordnance Survey as a Trading Fund. The adjustments to the closing balance sheet of Ordnance Survey as a vote-funded Agency to reflect its restructuring as a Trading Fund, are as follows:

	31 March 1999	Adjustment	Note	1 April 1999
	£'000	£'000		£'000
Fixed assets				
Tangible fixed assets	21 632	2 200	a	23 832
Fixed asset investments – other investments	1 915	–		1 915
	23 547	2 200		25 747
Current assets				
Stocks and work-in-progress	4 895	–		4 895
Debtors	18 073	–		18 073
Cash at bank and in hand	506	(490)	b	16
	23 474	(490)		22 984
Creditors: amounts falling due within one year	(8 375)	(3 828)	c	(11 713)
		490	b	
Net current assets	15 099	(3 828)		11 271
Total assets less current liabilities	38 646	(1 628)		37 018
Financed by:				
Creditors: amounts falling due after one year	3 682	–		3 682
Capital and reserves				
Public dividend capital	–	14 000	c	14 000
Long-term loans	–	15 452	c	15 452
General Fund	31 080	(31 080)		–
Revaluation reserve – tangible fixed assets	2 815	–		2 815
Investment revaluation reserve	1 069	–		1 069
	38 646	(1 628)		37 018
Movement in net cash				
At 31 March 1999				506
Surrender to Consolidated Fund				(490)
Long-term loans				(19 279)
At 1 April 1999				(19 263)

Notes:

- With effect from the establishment of the Trading Fund, Ordnance Survey database management system was capitalised at a value of £2 200 000 on 1 April 1999.
- The balance at the bank, estimated on 31 March 1999, totalled £490 000. This was surrendered to the Consolidated Fund CFERS account on 1 April 1999. The remainder of the 1998–99 excess vote, being £98 000, is included in creditors at 1 April and was surrendered to the Consolidated Fund in 1999–2000 in accordance with the requirements for vote-funded agencies.
- In accordance with the Trading Fund Order 1999 (SI 1999 No 965) the balance of assets and liabilities is funded by long-term loans from the National Loans Fund of £19 279 000 and public dividend capital of £14 000 000. Long-term loans and public dividend capital represent 52% and 48% of the balance of assets and liabilities respectively. £ 3 828 000 of long-term loans is repayable within one year.

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

1. Ordnance Survey Trading Fund (Ordnance Survey) shall prepare accounts for the financial year ending 31 March 2000, and for subsequent financial years comprising:

- a foreword;
- a statement of the Accounting Officer's responsibilities;
- a statement on the system of internal financial control;
- an income and expenditure account;
- a statement of total recognised gains and losses;
- a balance sheet; and
- a cash flow statement

including such notes as may be necessary for the purposes referred to in the following paragraphs.

2. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

3. Subject to this requirement, the accounts shall be prepared in accordance with:

- generally accepted accounting practice in the United Kingdom (UK GAAP);
- the disclosure and accounting requirements contained in *The Fees and Charges Guide* (in particular those relating to the need for segmental information for different services or forms of service provided) and in any other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view; and
- the accounting and disclosure requirements of *Government Accounting* (in particular Chapter 17) and the Treasury's guidance paper *Next Steps Agencies – Annual Reports and Accounts* (February 1993), as amended or augmented from time to time,

insofar as these are appropriate to Ordnance Survey and are in force for the financial period for which the accounts are to be prepared.

4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in schedule 1 attached. Additional disclosure requirements are set out in schedule 2 attached.

5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

- fixed assets at their value to the business by reference to current costs; and
- stocks and work-in-progress at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

6. This Direction and the Treasury Minute (see paragraph 2 of schedule 2) shall be reproduced as appendices to the accounts.

Treasury Officer of Accounts
February 1999

Schedule 1 Application of the accounting and disclosure requirements of the Companies Act and Accounting Standards

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to Ordnance Survey unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to Ordnance Survey shall be contained in the foreword.
3. When preparing its income and expenditure account, Ordnance Survey shall have regard to the profit and loss account format 2 prescribed in schedule 4 to the Companies Act.
4. When preparing its balance sheet, Ordnance Survey shall have regard to the balance sheet format 1 prescribed in schedule 4 to the Companies Act. The balance sheet totals shall be struck at *Total assets less current liabilities*.
5. Ordnance Survey is not required to provide the historical cost information described in paragraph 33(3) of schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed by the Accounting Officer and dated.

Accounting Standards

7. Ordnance Survey is not required to include a note showing historical cost profits and losses as described in FRS3.

Schedule 2 Additional Disclosure Requirements

1. The foreword shall, *inter alia*:

- state that the accounts have been prepared in accordance with a Direction given by the Treasury in accordance with Section 4(6) of the Government Trading Funds Act 1973; and
- include a brief history of Ordnance Survey and its statutory background.

2. The notes to the accounts shall include, *inter alia*:

- details of the further financial objectives set by the responsible minister as described in a Treasury Minute in accordance with Section 4(1)(b) of the Government Trading Funds Act 1973, together with an indication of the performance achieved; and
- details of the licensing income included in turnover.

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%, 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.



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