

BACS Limited Annual Report 2003

Registered No. 1023742



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Directors and Secretary

Board

R. Whatford *Chairman*
Lloyds TSB Bank plc

S. Eacott *Deputy Chairman*
The Royal Bank of Scotland plc

P. Baker
Lloyds TSB Bank plc

H. Cordier
National Australia Group Europe Limited

D. Cunliffe
Alliance & Leicester Commercial Bank plc

T. Dirienzo
Barclays Bank PLC

P. Feldman
Nationwide Building Society

C. Mann
Bank of England

A. McBurnie
Northern Rock plc

D. Sanders
The Co-operative Bank p.l.c.

M. Spearing
HSBC Bank plc

A. Thomas
Abbey National plc

J. Turner
HBOS plc

Chief Executive

M. King
Director and Member of the Board

Operational Directors

S. Grigg
Chief Operating Officer

C. Hackett
Director, Human Resources and Organisational Development

R. Parker
Chief Financial Officer

D. Sear
Chief Marketing Officer

M. Wilson
Ventures Director

Secretary

R. Bonnington

Report of the Directors

The Directors present their thirty-second annual report and the audited financial statements for the year ended 30th November 2003.

Principal Activity and Business Review

The principal activity of the Company was the provision of an electronic funds transfer service with applications in both the personal and corporate sectors. The service included the processing of Direct Debit and Direct Credit transactions for more than 50,000 organisations throughout the UK including all of the FTSE 100. During the year the Company's volumes and turnover grew. The Company continued its development of the core infrastructure replacement service, NewBACS, and the first phase of this innovative product won a number of technology awards.

Results and Dividends

The Group's profit before tax for the year was £2,149,000 (2002: loss £6,791,000)

The Directors do not recommend the payment of a final dividend (2002: nil).

Employees

The Company's support of equal opportunities in respect of recruitment, career progression and employee management processes continued. Consideration was given to all applicants for employment, irrespective of race, sex or disability. Support was also given to internal applicants who wished to move to new jobs in other parts of the Company.

The Company operated a profit share scheme for employees. This arrangement rewards Company employees for meeting agreed financial and other targets throughout the year.

Regular communication with employees continued throughout the year and they were kept informed of changes to the internal organisational structure and with progress made on key corporate programmes. The Chief Executive conducted a series of staff briefings throughout the year which kept staff fully informed and updated on business activities. General communication has been complemented by discussions with the recognised trade union UNIFI.

Charitable Contributions

The total amount given for charitable purposes by the Company was £10,000 (2002: £10,000). No contributions to political parties were made (2002: nil).

Directors

The names of the current Directors of the Company are shown below. During the year and subsequently the following changes occurred.

Appointed:

D. Bradley	11 th September 2003	P. Glover	29 th October 2003
P. Gray	11 th November 2003	A. Thomas	27 th November 2003
D. Sanders	27 th November 2003	H. Cordier	27 th November 2003
P. Feldman	27 th November 2003	A. McBurnie	27 th November 2003

Resigned:

I. Campbell	11 th September 2003	I. Clowes	29 th October 2003
S. Howlett	11 th November 2003	P. Glover	27 th November 2003
P. Gray	27 th November 2003	C. Henry	27 th November 2003
M. Roberts	27 th November 2003	D. Bradley	27 th November 2003

The names of the Alternate Directors are set out below, together with the dates of appointment where these took place during the year and subsequently.

H. Cordier	1 st April 2003	A. McBurnie	11 th September 2003
T. Frost	11 th September 2003	T. Turner	29 th October 2003
A. Thomas	29 th October 2003	J. Walton	31 st October 2003
A. Seddon	11 th November 2003	G. Cann	27 th November 2003
S. Styles	27 th November 2003	M. Roberts	27 th November 2003
G. Noel	27 th November 2003	D. Bradley	27 th November 2003
A. Hamilton	27 th November 2003	C. Henry	27 th November 2003

The following Alternate Directors resigned during the year and subsequently on the dates shown.

D. Black	1 st April 2003	G. Noel	11 th September 2003
A. Hamilton	29 th October 2003	M. Chambers	31 st October 2003
A. Thomas	27 th November 2003	T. Frost	27 th November 2003
D. Jones	27 th November 2003	H. Cordier	27 th November 2003
P. Feldman	27 th November 2003	A. McBurnie	27 th November 2003
T. Turner	27 th November 2003		

Governance

Work continued throughout the year on drafting the legal documentation that defined the proposed legal relationship between the Company, its customers, its Members and the independent legal entity BACS Payment Schemes Limited (BPSL): a company limited by guarantee. The transfer of assets to BPSL (the new scheme company), and the execution of contracts between all the interested parties was completed on 1st December 2003. In recognition of the changes brought about by separation BACS Limited adopted new articles of association that were more applicable to its role as an infrastructure provider.

Realignment of Shareholdings

At the 27th November 2003 meeting of the Board it was agreed that the shareholding of each Member would be adjusted pro rata to reflect the volume transacted by each Member over the three year period ended 30th November 2003 to the total aggregate Member volumes transacted over the same time. The consequent amendment of shareholdings would be completed no later than the end of May 2004.

Future Developments

In the forthcoming year the Company plans to extend its business operation into development and provision of specialised payment service networks and products.

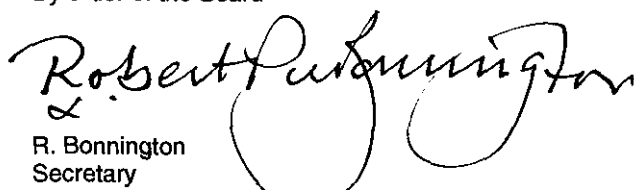
Directors' Interests

No Director had any interest in the shares of the Company during the current or previous year.

Auditors

Deloitte & Touche LLP have signified their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

By order of the Board



R. Bonnington
Secretary

13 January 2004

Statement of Directors' Responsibilities for the year ended 30th November 2003

United Kingdom company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



R. Bonnington
Secretary

13 January 2004

Independent Auditors' Report to the Members of BACS Limited

We have audited the financial statements of BACS Limited for the year ended 30th November 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the accounting policies and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's Members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

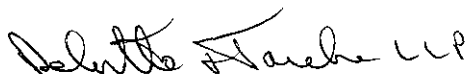
Basis of Audit Opinion

We conducted our 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 and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th November 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

13 January 2004

Consolidated Profit and Loss Account

For the year ended 30th November 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Operating Income					
Turnover	1		74,991		57,913
Operating Expenditure					
Employee Costs	2	28,007		25,285	
External charges		33,512		33,273	
Depreciation and other amounts written off tangible and intangible fixed assets	3	9,277		5,690	
			(70,796)		(64,248)
Other operating income			180		440
Operating profit / (loss)			4,375		(5,895)
Interest receivable and similar income			12		6
Interest payable and similar charges	4		(2,238)		(902)
Profit / (Loss) on ordinary activities			2,149		(6,791)
Tax on result on ordinary activities	5		503		(99)
Profit / (Loss) for the financial year on ordinary activities after taxation			2,652		(6,890)
Profits retained and brought forward from previous years			11,976		18,866
Profits retained and carried forward	16		14,628		11,976

All activities derive from continuing operations.

The Company has taken advantage of s230 of the Companies Act not to present its own profit and loss account.

The Company's profit before tax for the year was £2,153,000 (2002: loss £6,999,000)

There are no recognised gains or losses other than those shown in the profit and loss account above.

Accordingly there is no Statement of Total Recognised Gains and Losses presented in these financial statements.

Consolidated Balance Sheet

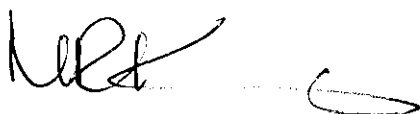
As at 30th November 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Intangible assets	6		54,299		32,860
Tangible assets	7a		26,140		24,787
Current assets					
Debtors	8	12,788		13,029	
Cash at bank and in hand		1,817		1,058	
		14,605		14,087	
Creditors					
Amounts falling due within one year	9	(27,120)		(17,191)	
Net current liabilities			(12,515)		(3,104)
Total assets less current liabilities			67,924		54,543
Creditors					
Amounts falling due after more than one year	10		(43,500)		(34,288)
Provision for liabilities and charges	11		(4,475)		(2,958)
Total Net assets			19,949		17,297
Capital and reserves					
Called up share capital	15		3,188		3,188
Share premium account	15		2,133		2,133
Profit and loss account	16		14,628		11,976
Equity shareholders' funds	17		19,949		17,297

These financial statements were approved by the Board of Directors on

13 January 2004

Signed on behalf of the Board of Directors.



M. King
Chief Executive

Company Balance Sheet

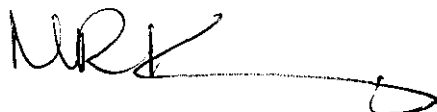
As at 30th November 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Intangible assets	6		54,299		32,860
Tangible assets	7a		26,140		24,787
Investment in subsidiary undertaking	7b		-		-
Current assets					
Debtors	8	12,503		12,878	
Cash at bank and in hand		1,817		1,056	
		14,320		13,934	
Creditors					
Amounts falling due within one year	9	(27,873)		(17,946)	
Net current liabilities			(13,553)		(4,012)
Total assets less current liabilities			66,886		53,635
Creditors					
Amounts falling due after more than one year	10		(43,500)		(34,288)
Provision for liabilities and charges	11		(4,475)		(2,958)
Total net assets			18,911		16,389
Capital and reserves					
Called up share capital	15		3,188		3,188
Share premium account	15		2,133		2,133
Profit and loss account	16		13,590		11,068
Equity Shareholders' funds	17		18,911		16,389

These financial statements were approved by the Board of Directors on

13 January 2004

Signed on behalf of the Board of Directors.



M. King
Chief Executive

Consolidated Cash Flow Statement

For the year ended 30th November 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Net Cash inflow from operating activities	18		15,567		977
Returns on investment and servicing of finance					
Interest received		12		6	
Interest paid		(2,128)		(762)	
Issue costs of new bank loan		(110)		(140)	
			(2,226)		(896)
Taxation					
Corporation tax received /(paid)			99		(801)
Capital expenditure					
Payments to acquire intangible fixed assets		(17,973)		(21,125)	
Payments to acquire tangible fixed assets		(6,647)		(11,871)	
Receipts from sale of tangible fixed assets		-		-	
			(24,620)		(32,996)
Financing					
New borrowings		13,500		30,000	
Capital element of finance lease rental payments		(1,561)		(940)	
			11,939		29,060
Increase / (Decrease) in cash for the period			759		(4,656)
Reconciliation of net cash flow to movement in net debt/funds					
		2003 £000		2002 £000	
Increase / (Decrease) in cash in the period		759		(4,656)	
Cash inflow from increase in debt and lease funding		(11,939)		(29,060)	
New finance leases		-		(4,140)	
Change in net funds/debt in the period		(11,180)		(37,856)	
Net (debt)/funds at 1 st December		(32,142)		5,714	
Net debt at 30 th November	19	(43,322)		(32,142)	

Accounting Policies

For the year ended 30th November 2003

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards. The principal accounting policies are described below.

Accounting Convention

These financial statements are prepared under the historical cost convention.

Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary.

Income Recognition

Charges for the Company's automated money transmission services are recognised in the month of processing.

Depreciation

Depreciation is provided in equal annual instalments over the estimated useful economic lives of the assets as set out below.

Leasehold land and buildings

Over the remaining period of the lease

Plant and equipment

4 to 20 years

Computers and ancillary equipment

2 to 4 years

Fixtures and fittings

4 to 10 years

Leased Assets

The shorter of the term of the lease and the useful economic life of the asset.

Certain items of ancillary equipment are coterminously depreciated over the estimated useful economic life of the primary equipment.

Development Expenditure

All systems and programming development expenditure has been written off when incurred except where such costs have met the criteria stipulated under *Statement of Accounting Practice 13 Accounting for research and development*. In these instances such expenditure is capitalised and amortised over the shorter of its estimated useful life and the Company's core processing contract (to November 2010), commencing in the year in which the development becomes functional.

Financial Instruments

Derivative instruments are used by the Company for other than trading purposes to alter the risk profile of an existing underlying exposure. Interest rate swaps are used to manage interest rate exposures and amounts payable are recognised in interest expense on an accrual basis based on the terms of the agreement and the prevailing rate of interest at that time.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease. Provision is made for the future rental and related costs of leasehold property where it is vacant.

Pension Commitments

The Company operates a defined benefit pension scheme covering the majority of its employees. The scheme is financed through a separate fund managed by Company and member nominated trustees. Contributions to the fund, which are charged against profits so as to spread the cost of pensions over employees' working lives with the Company, are based on actuarial advice.

The Company has paid all the contributions in accordance with the actuary's recommendations.

Taxation

The charge for taxation is based on the result for the year and takes into account deferred taxation relating to the year. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on the current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

For the year ended 30th November 2003

1. Turnover

Turnover originates within the UK and consists of the charges for the Company's automated money transmission services.

2. Information Regarding Employees and Directors

(a) Employee costs, including Executive Directors

	2003 £000	2002 £000
Wages and salaries	18,725	18,980
Social security	1,774	1,563
Pension costs	3,386	1,554
Home loan support	2	5
	23,887	22,102
Reorganisation costs and associated pension benefits	4,120	3,183
Total employee costs	28,007	25,285

Number of persons employed (including part-time staff)

	2003 No.	2002 No.
Total staff (average throughout the year)	399	445

(b) Pensions

BACS Limited operates a pension scheme, BACS Pension and Assurance Scheme, which provides benefits based upon final pensionable pay. A full actuarial valuation was carried out by Towers Perrin, the then Scheme actuary at 5th April 2000. The cash contribution made to the scheme in the accounting period was £4,970,000 (2002: £2,064,000). Future contributions were agreed to increase to 27 per cent of pensionable salaries from November 2003.

(i) FRS 17 - Disclosures

In November 2000 the Accounting Standards Boards (ASB) issued FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. In July 2002 the ASB published for comment an Exposure Draft which would, if implemented, allow an extension to the transition arrangements of FRS17. The probability of implementation is uncertain and partly dependent upon proposals from the International Accounting Standards Board. The Group will take advice to ensure that it continues to adopt best practice in respect of accounting for retirement benefits. The required disclosures under FRS 17 are made below.

2. Information Regarding Employees and Directors (continued)

(ii) FRS 17 – Assumptions, asset, liability and reserves disclosures

The actuarial valuations of BACS Limited were updated to 30th November 2003 by the Scheme actuary, an employee of Punter Southall. The principal assumptions used are shown below.

	2003 percent	2002 percent
Rate of increase in salaries	3.25	3.00
Rate of increase of pensions in payment and deferment	2.70	2.45
Discount rate of scheme liabilities	5.75	6.00
Inflation	2.70	2.45

The assets and liabilities of the Scheme and the expected rate of return on an FRS 17 basis are shown below.

	Long-term rate of return expected at 30/11/03 percent	Value at 30/11/03 £000	Long-term rate of return expected at 30/11/02 percent	Value at 30/11/02 £000
Equities	9	31,953	8	45,683
Bonds	5	14,793	5	3,822
Corporate Bonds	6	6,920	6	4,310
Cash	4	1,271	4	877
Insured pensioners	6	5,699	6	5,709
Absolute return funds	8	5,191	n/a	-
Market value of Scheme assets		65,827		60,401
Present value of Scheme liabilities		(105,329)		(88,197)
Deficit		(39,502)		(27,796)
Related deferred tax asset		11,850		8,339
Net pension deficit		(27,652)		(19,457)

(iii) Movement in deficit during the year

	2003 £000	2002 £000
Deficit in the Scheme brought forward	(27,796)	(21,019)
Movement in year :		
Current service cost	(2,684)	(3,638)
Contributions	4,970	2,064
Past service costs	(1,844)	(584)
Net financial return	(620)	9
Actuarial loss	(11,528)	(4,628)
Deficit in Scheme carried forward	(39,502)	(27,796)

2. Information Regarding Employees and Directors (continued)

(iv) Movement in FRS 17 deficit

The increase in the net pension liability calculated under FRS 17 is principally attributable to a change in the assumptions used for calculating the value of the liabilities. Yields on AA rated corporate bonds have fallen since last year resulting in a higher liability value. In addition, the inflation assumption has been increased resulting in a higher liability value.

(v) FRS 17 – Five year history

The following disclosures will be built up over time as a five-year history.

	2003 % of Scheme assets/ liabilities	2003 £000	2002 % of Scheme assets/ liabilities	2002 £000
Difference between actual and expected return on Scheme assets	(2)	(1,372)	(24)	(14,351)
Experience gains on Scheme liabilities	-	(428)	-	(67)
Amount recognised in the statement of total recognised gains and losses	(11)	(11,528)	(5)	(4,628)

(vi) Future profile of the BACS Pension Scheme

The BACS Pension Scheme has introduced further measures to reduce the future cost of the Scheme. From 1st January 2004 existing scheme members are required to contribute 3 per cent of their salary to the Scheme rising to 6 per cent from 1 January 2005. All new members of the Scheme are required to pay 6 per cent of salary.

The Group has considered the impact of the FRS 17 deficit in respect of the Group, its employees and pensions. Consequently the Company along with the Pension Trustees and its professional advisers has developed an investment strategy which is aimed to return the fund to full funding within ten years. In the context of the prudent funding structure of the Group, the Group is in a strong position to manage this long-term liability to the satisfaction and benefit of all stakeholders. If the Group had adopted FRS 17 early profit and loss reserves would have been as follows.

	2003 £000	2002 £000
Profit and loss reserve, excluding pension liability	14,628	11,976
FRS 17 pension deficit, net of related deferred tax	(27,652)	(19,457)
Profit and loss reserve as adjusted	(13,024)	(7,481)

2. Information Regarding Employees and Directors (continued)

(vii) FRS 17 – Profit and loss account disclosures

	2003 £000	2002 £000
Amounts charged to profit and loss account		
Current service cost	2,684	3,638
Past service costs	1,844	584
Total amount charged to profit and loss account	4,528	4,222
Amounts included as other finance costs		
Expected return on Pension Scheme assets	4,665	5,130
Interest on pension liabilities	(5,285)	(5,121)
Net financial return	(620)	9
Amounts recognised in the statement of total recognised gains and losses		
Actual return less expected return on assets	(1,372)	(14,351)
Experience gain on liabilities	(428)	(67)
Impact of changes in assumptions relating to present value of Scheme liabilities	(9,728)	9,790
Actuarial loss	(11,528)	(4,628)

(c) Directors' emoluments

	2003 £000	2002 £000
Directors' remuneration and other emoluments	300	527
Pension contributions to defined contribution scheme	-	37
Compensation for loss of office	-	88
	300	652
Highest paid director - remuneration and other emoluments	300	449
- pension contributions to defined contribution scheme	-	37
- compensation for loss of office	-	88
	300	574

Neither the Chairman nor the Non-Executive nor Alternate Directors received any emoluments during the year.

3. Operating Profit

	2003 £000	2002 £000
Operating profit from continuing operations is stated after charging		
Depreciation		
Charge for year:		
On owned assets	4,994	4,420
On leased assets	1,035	692
Amortisation of development costs	3,241	235
Loss on disposal of fixed assets	7	343
	<u>9,277</u>	<u>5,690</u>
Rental of premises	1,186	1,012
Hire of computer equipment	-	80
Auditors' remuneration		
Audit fee	76	73
Non-audit services	178	361

4. Interest Payable and Similar Charges

	2003 £000	2002 £000
Interest payable on overdrafts and bank loans	<u>2,238</u>	<u>902</u>

5. Tax on Result on Ordinary Activities

	2003 £000	2002 £000
The taxation charges on the profit for the year comprises		
Corporation tax at 30% (2002 : 30%)		
Current year	-	(151)
Prior years	(134)	(771)
	<u>(134)</u>	<u>(922)</u>
Advanced Corporation Tax	58	-
Deferred taxation		
Current year	2,282	720
Prior years	(2,709)	301
Taxation (credit) / charge	<u>(503)</u>	<u>99</u>

5. Tax on Result on Ordinary Activities (continued)

The actual tax charge for the current and previous year exceeds the standard rate of 30 per cent for the reasons set out in the following reconciliation.

	Group 2003 £000	Group 2002 £000
Profit / (loss) on ordinary activities before tax	2,149	(6,791)
Tax at 30% thereon	(645)	2,037
Effect of:		
Expenses not deductible for tax purposes	(802)	(2,005)
Capital allowances in excess of depreciation	3,148	3,181
Utilisation of tax losses	(1,587)	(2,469)
Movement in short-term timing differences	(114)	9
Rate on difference on current tax	-	(126)
Loss carry back	-	(476)
Prior period adjustments	134	771
Current tax credit for period	134	922

6. Intangible Fixed Assets

	Group & Company £000
Cost	
1st December 2002	33,095
Incurred during the year	24,680
30 th November 2003	57,775
Amortisation	
1st December 2002	(235)
Amortised in the year	(3,241)
30 th November 2003	(3,476)
Net book value – 30 th November 2003	54,299
Net book value – 30 th November 2002	32,860

Development expenditure relates to the costs incurred in respect of the development of NewBACS, a major new infrastructure system. The cost is being amortised over the life of the core processing contract (to November 2010) commencing on the implementation dates of the major deliveries of the new system. NewBACS represents a significant investment and the details of commitments in respect of this development can be found in note 13.

7(a). Group & Company Fixed Assets : Tangible Assets

	Total £000	Leasehold Land and Buildings £000	Plant and Equipment £000	Computers and Ancillary Equipment £000	Fixtures and Fittings £000
Cost					
1 st December 2002	55,360	17,338	14,180	22,995	847
Additions	7,393	3,506	1,399	2,388	100
Disposals	(1,923)	(501)	(311)	(775)	(336)
30th November 2003	60,830	20,343	15,268	24,608	611
Depreciation					
1 st December 2002	30,573	6,657	12,665	10,654	597
Charge for year	6,029	1,224	278	4,436	91
Eliminated on disposals	(1,912)	(501)	(311)	(764)	(336)
30th November 2003	34,690	7,380	12,632	14,326	352
Net book value – 30th November 2003	26,140	12,963	2,636	10,282	259
Net book value – 30th November 2002	24,787	10,681	1,515	12,341	250

Included in computers and ancillary equipment is computer equipment held under a finance lease with a Net book value of £2,413,000 at 30th November 2003 (2002: £3,448,000).

7(b). Investment in Subsidiary Undertaking

The investment as shown in note 14 at 30th November 2003 comprises share capital of £2 (30th November 2002 : £2).

8. Debtors

	Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
Trade debtors	6,466	6,466	5,131	5,131
Other debtors	795	510	931	780
Prepayments and other accrued income	5,527	5,527	6,967	6,967
	12,788	12,503	13,029	12,878

9. Creditors : Amounts Falling Due Within One Year

		Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
	Notes				
Trade Creditors		5,744	5,744	7,382	7,382
Amounts due to Group undertaking		-	752	-	755
Finance leases	12	1,639	1,639	1,561	1,561
Other taxation and social security		650	650	735	735
Accruals		19,087	19,088	7,513	7,513
		27,120	27,873	17,191	17,946

As referenced in note 12 the Company has secured additional funding which provides for the future payments relating to these creditors due within one year.

10. Creditors : Amounts Falling Due After More Than One Year

		Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
	Notes				
Trade creditors		-	-	2,649	2,649
Bank loans	12	43,500	43,500	30,000	30,000
Finance leases	12	-	-	1,639	1,639
		43,500	43,500	34,288	34,288

11. Provision for Liabilities and Charges

	Group & Company Deferred Taxation £000	Group & Company Reorganisation Provision £000	Group & Company Other Provision £000	Group & Company Total £000
At 1 st December 2002	701	2,257	-	2,958
Profit and loss account				
Current year	(426)	2,700	1,500	3,774
Prior Year	-	-	-	-
Utilised during the year	-	(2,257)	-	(2,257)
At 30 th November 2003	275	2,700	1,500	4,475

The Company is undergoing a review of its organisational development and structure. As part of this review the reorganisation provision relates to the expected redundancy costs of identified individuals at 30th November 2003. The provision is expected to be fully utilised at 30th November 2004.

In 2001 the Group entered into a four year contract for the rental of software from a major supplier to run the Groups core processing. Following the introduction of NewBACS technology the software is expected to be redundant by the end of 2004. The £1,500,000 provision relates to the contract costs post 2004 until the termination of the contract.

The full potential liability for deferred tax has been provided in these financial statements. The analysis of the provision is shown below.

	Group & Company 2003 £000	Group & Company 2002 £000
Accelerated tax allowances on plant and machinery	5,510	3,170
Short term timing differences	(140)	-
Trading losses	(5,095)	(2,469)
Deferred tax liability as at 30 th November	275	701

12. Loans and Other Borrowings

		Group	Company	Group	Company
		2003	2003	2002	2002
	Notes	£000	£000	£000	£000
Bank loans and overdrafts		43,500	43,500	30,000	30,000
Finance leases		1,639	1,639	3,200	3,200
		45,139	45,139	33,200	33,200
Maturity of debt					
In one year or less, or on demand	9	1,639	1,639	1,561	1,561
In more than one year, but not more than two years		-	-	1,639	1,639
In more than two years, but not more than five years	10	43,500	43,500	30,000	30,000
		45,139	45,139	33,200	33,200

During the year the Company negotiated an increase in its loan facility from £56,000,000 to £78,000,000 with National Westminster Bank Plc. At the year end the Company had drawn down £43,500,000 of the facility. The Company is able to draw down the remainder of this facility in order to fund the working capital requirements of the company.

13. Commitments

(a) Capital

The amount not provided in the accounts on contracts placed for capital relating to the property relocation is £1,700,000 (2002 : £nil). The amount not provided for in the accounts but authorised by the Directors in respect of NewBACS is £21,300,000 (2002 : £8,200,000) of which £21,300,000 has been contracted for.

(b) Other

At 30th November 2003 the Group was committed to making the following payments during the next year in respect of operating leases.

	2003	2003	2002	2002
	Land and	Other	Land and	Other
	Buildings		Buildings	
	£000	£000	£000	£000
Lease expiring				
within one year	-	24	-	30
between two and five years	500	171	-	238
over five years	1,522	-	1,071	-
	2,022	195	1,071	268

14. Subsidiary

The subsidiary undertaking at 30th November 2003 was Bankers' Automated Clearing Services Limited, a company registered in England and Wales, the capital of which consists of ordinary shares and is wholly owned by BACS Limited. The subsidiary did not trade throughout the year.

15. Called Up Share Capital and Share Premium Account

	2003 £000	2002 £000
(a) Called up share capital		
Authorised ordinary shares of £1 each	10,000	10,000
Called up, allotted and fully paid ordinary shares of £1 each at 30 th November	3,188	3,188
(b) Share premium		
At 30 th November	2,133	2,133

	% Holding	% Holding
(c) Members		
Abbey National plc	2.53	2.53
Alliance & Leicester Commercial Bank Plc	1.69	1.69
Bank of England	1.40	1.40
Bank of Scotland*	5.65	5.65
Barclays Bank PLC	16.86	16.86
Clydesdale Bank PLC	3.76	3.76
Coutts & Co*	0.16	0.16
HSBC Bank plc	20.18	20.18
Lloyds TSB Bank Plc	17.53	17.53
National Westminster Bank Plc*	19.11	19.11
Nationwide Building Society	1.53	1.53
Northern Rock plc	0.18	0.18
The Co-operative Bank Plc	2.62	2.62
The Royal Bank of Scotland plc*	6.80	6.80
	100.00	100.00

+ Member of HBOS Group

* Members of The Royal Bank of Scotland Group

As outlined in the Report of the Directors, a shareholding realignment will take place before the end of May 2004.

16. Movement in Reserves

	Profit and Loss Group £000	Share Premium Group £000	Profit and Loss Company £000	Share Premium Company £000
At 1 st December 2002	11,976	2,133	11,068	2,133
Retained profit for the financial year	2,652	-	2,522	-
At 30 th November 2003	14,628	2,133	13,590	2,133

17. Reconciliation of Movements in Shareholders' Funds

	Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
Opening shareholders' funds	17,297	16,389	24,187	23,296
Profit / (Loss) for the year	2,652	2,522	(6,890)	(6,907)
Closing shareholders' funds	19,949	18,911	17,297	16,389

18. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Notes	2003 £000	2002 £000
Operating profit / (loss)		4,375	(5,895)
Depreciation	3	9,277	5,690
Decrease / (Increase) in debtors		241	(3,742)
Increase in creditors		157	1,966
Increase in provision for liabilities and charges		1,517	2,958
Net cash inflow from operating activities		15,567	977

19. Analysis of Changes in Net Debt

	At 1 December 2002	Cash Flows	Other non-cash Changes	At November 2003
Cash at bank and in hand	1,058	759	-	1,817
Debt due within on year	-	-	-	-
Debt due after one year	(30,000)	(13,500)	-	(43,500)
Finance leases	(3,200)	1,561	-	(1,639)
Total	(32,142)	(11,180)	-	(43,322)

20. Related Party Disclosures

(a) Operating Income

The Company's income was principally derived from transaction charges for the Company's automated money transmission services with Member companies. During the year this income amounted to £71,771,000 (2002: £53,083,000) and at the year end trade debtors of £5,772,000 (2002: £4,536,000) were outstanding in this respect.

(b) Fleet Administration

The Company has a fleet administration contract with Lombard Vehicle Management, a subsidiary of National Westminster Bank Plc. During the year £321,000 (2002: £420,000) was invoiced under the contract. There were no balances outstanding at the year end (2002: £nil).

(c) Management Charges

The Company paid £1,077,000 (2002: £314,000) during the year for management services and consultancy charges to APACS Administration Limited, a company with common ownership. At the year end £58,000 (2002: £nil) was outstanding within trade creditors.

(d) Inter-Bank Data Exchange Service

The Company developed and manages the Inter-Bank Data Exchange (IBDE) service on behalf of the Cheque and Credit Clearing Company Limited which has common ownership. Income invoiced during the year relating to this service was £1,491,000 (2002: £1,184,000) and at the year end £361,000 (2002: £345,000) remained within trade debtors.

(e) House Loan Scheme

Halifax plc, member of the HBOS group, administers the BACS Limited House Loan Scheme.

(f) Bank Loan

As detailed in note 12 during the year the Company operated a loan facility with National Westminster Bank Plc, a member of The Royal Bank of Scotland Group.