

Growth Science Trust Service



# GSTS PATHOLOGY LLP

## Annual Report and Financial Statements For the year ended 31 December 2011



A limited liability partnership registered in England and Wales  
Registered number OC337242

# **GSTS PATHOLOGY LLP**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

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**GSTS PATHOLOGY LLP**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**DESIGNATED MEMBERS AND ADVISERS**

Registration number	OC337242
Registered office	GSTS PATHOLOGY LLP St Thomas' Hospital Westminster Bridge Road London SE1 7EH
Designated members	Pathology Services Limited (registered number 06593374) Serco Limited (registered number 00242246) KCH Commercial Services Limited (registered number 06023863)
Bankers	HSBC Bank plc Regional Service Centre Europe PO Box 125 62-76 Park Street London SE1 9DZ
Independent auditor	Deloitte LLP Chartered Accountants & Registered Auditors 2 New Street Square London EC4A 3BZ

## **GSTS PATHOLOGY LLP**

### **MEMBERS' REPORT**

#### **For the year ended 31 December 2011**

The members present their report on the affairs of GSTS Pathology LLP, together with the financial statements and auditor's report for the year ended 31 December 2011

GSTS Pathology LLP (the LLP) is incorporated under the Limited Liability Partnership Act 2000 and is registered in England and Wales under registration number OC337242

#### **Principal activities**

The LLP was established principally to provide pathology services and operates to transform the way pathology services are provided by focusing on innovation, quality and service and to set new standards in patient care

#### **Business review and future developments**

The results for the year ended 31 December 2011 are set out on page 10. The members believe that these results appropriately reflect the LLP's activities during the year.

On 1 October 2010 the LLP expanded its business to include many of the pathology services of King's College Hospital NHS Foundation Trust (KCHT). At the same time, KCS Commercial Services Limited (KCL), a wholly owned subsidiary of KCHT, became a member of the LLP.

The Carter Reforms and NHS QIPP programme are driving the pace of change in the provision of pathology services in the NHS and continue to provide strategic opportunities for the LLP. During 2012, the LLP will continue to develop a pipeline of bid opportunities while also driving out further operational efficiencies for the existing hospital contracts at Guys and St Thomas's Hospital, Kings College Hospital and Bedford Hospital.

With the full support of the LLP members, the new management team, in place from the spring of 2011, have embarked on a cost improvement programme, integral to the success of the LLP, which necessitated incurring further re-organisation and transformation costs. This had a significant adverse impact on profitability in advance of moving the business back into profit during 2012.

Integral to returning the business to profitability has been defining and implementing a continuous improvement programme which is now well advanced. The programme will be delivered without compromising the LLP's strong clinical excellence.

The members continue to invest in the business and for example, 2012 will see the implementation of new pathology information management systems.

#### **Key performance indicators (KPIs)**

Revenue is a measure of the LLP's success in achieving its strategic objectives to grow the business and improve operating performance. 2011 revenue was £84.543m (2010, £64.155m) delivering growth of 31.8% mostly due to the new business from KCHT from October 2010.

Gross profit percentage improved 1.6% in 2011 to 19.7% (2010 18.1%). This is positive considering the constraints on NHS spending. This indicator is used to assess gross profit performance, excluding impairment losses and other income and expense.

Staff turnover in the 12 months to 31 December 2011 was 12%, which is 5% unfavourable against 2010 (7%). This is as a result of the new management team that joined in spring 2011.

## **GSTS PATHOLOGY LLP**

### **MEMBERS' REPORT (CONTINUED)**

**For the year ended 31 December 2011**

#### **Financial risk management objectives and policies**

##### **Interest rate risk**

The LLP is exposed to interest rate risk on the £13.7m (2010: £13.1m) funding from its members which charge interest based on LIBOR.

As at 31 December 2011, the LLP had drawn down a total of £14.9m from its members. Interest is paid on the members' loans at 2% above LIBOR relating to three month deposits. There are no other significant borrowings.

##### **Credit risk**

The LLP's principal financial assets are tangible assets, intangible assets and trade and other receivables.

The members do not consider that the LLP is exposed to significant credit risk, on the basis that the three main customers account for substantially all receivables and are successful NHS foundation trusts. They are largely government funded and independently regulated by Monitor who ensure the trusts are well led and financially robust.

The LLP only trades with its designated members and recognised, creditworthy third parties. It is the LLP's policy that as may be deemed appropriate, clients are subject to credit vetting procedures. During the accounting year, the LLP had three major public sector customers and a number of smaller public sector and commercial customers.

##### **Liquidity risk**

The LLP has received funding from the members and has no other significant borrowings. The LLP continues to benefit from the joint support of its members. Adequate funds are provided by the members through a combination of loan funding and working capital management. The members, therefore, do not consider that the LLP is exposed to major liquidity risk.

##### **Going concern**

The financial position of the LLP is shown on the statement of financial position on page 11. In addition the members' report includes the LLP's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

The majority of the LLP's expenditure and over 90% of the LLP's revenue is fixed and secured through long term contracts in place to 2019. In September 2010, the LLP signed a major new contract securing additional fixed annual revenue of £25.8m per year for a further 10 years, placing it significantly ahead of management's initial revenue growth plans. The members, who are also the primary suppliers of funding to the business have made available a committed loan facility for the LLP. The new management, in place since spring of 2011 have initiated a cost improvement process to deliver material one-off and incremental cost savings. The majority of benefits are expected to be realised in 2012. All cost improvement programmes go through a rigorous investment appraisal process and for material investments programmes require approval by the Board which is comprised of representatives of the three members. Where required, funding arrangements would need to be agreed at the same time. The LLP has considerable financial resources available through both formal and informal funding from its members. The members have signed a letter of support stating their intention to continue to fund the LLP to enable it to continue as a going concern for the next 12 months from date of signing including but not limited to its ability to pay or otherwise discharge its debts as they fall due, taking into account actual, contingent and prospective liabilities of the LLP.

As a consequence, the members believe that the LLP is well placed to manage its business risks and continue as a going concern despite the current uncertain economic outlook. The members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the

## **GSTS PATHOLOGY LLP**

### **MEMBERS' REPORT (CONTINUED)**

**For the year ended 31 December 2011**

#### **Going concern (continued)**

foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements

#### **Designated members**

The designated members (as defined in the Limited Liability Partnerships Act 2000) during the year were

Pathology Services Limited (registered number 06593374)

Serco Limited (registered number 00242246)

KCH Commercial Services Limited (registered number 06023863)

All the designated members served on the board during the year.

#### **Members' drawings and capital**

The level and timing of drawings is decided by the LLP's operating board after taking into account the LLP's cash requirements for operating and investment activities Unallocated profits are shown in 'other reserves' The level of members' capital is defined in the members' agreement, dated on 20 September 2010 and a further agreement between the members dated 6 February 2012 (see note 17)

#### **Equal opportunities policy**

It is the policy of the LLP to provide equal opportunities in all areas of its employment including recruitment, education, training, promotion, transfer and terms and conditions of employment

There shall be no discrimination on the grounds of colour, race, nationality, ethnic or national origin, religion, social background, marital status, sex, sexuality, actual or perceived AIDS/HIV status or perceived association with a HIV positive person, age or disability This policy applies to all departments and to all grades and positions

All employees will be recruited, trained and promoted on the basis of ability, job requirements and fitness for work

Where appropriate as determined by monitoring procedures, lawful positive action, training and encouragement will be considered in areas where particular groups are under-represented to make this policy fully effective

The policy is in accordance with relevant legislation

#### **Employee consultation**

The LLP places considerable value on the involvement of its employees and ensures that they are fully integrated within its activities This is achieved through

- regular briefings and a newsletter highlighting the LLP's strategy, performance and market successes,
- training and development programmes for employees designed to ensure employees' continuing professional and personal development is in a manner aligned with the LLP's business needs, and
- consultation on specific proposals which are considered to have an impact on employees

## **GSTS PATHOLOGY LLP**

### **MEMBERS' REPORT (CONTINUED)**

**For the year ended 31 December 2011**

#### **Employee consultation (continued)**

Managers are tasked with developing employees' awareness of factors affecting the business and matters concerning them as employees and noting employees' views so that they can be taken into account when making decisions that may affect them or the business. Regular meetings are held with employee representatives where trade unions or staff associations are recognised or where works councils are constituted.

#### **Employment of disabled persons**

Full and fair consideration is given to applications for employment made by disabled persons having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become disabled.

#### **Supplier payment policy**

The LLP negotiates and agrees the terms and conditions of payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters. Suppliers are made aware of the agreed terms and the way in which disputes are settled. Payment is then made in accordance with these terms. The standard payments terms of the LLP are 30 days or other such terms as are negotiated with a supplier.

Trade creditors of the LLP at 31 December 2011 were equivalent to 39 days (2010: 56 days) purchases, based on the average daily amount invoiced by suppliers during the year.

#### **Charitable and political contributions**

There were no political contributions or material charitable contributions made by the LLP during the current year or prior period.

#### **Disclosure of information to auditors**

Each of the persons who is a member of the Board at the date of approval of this report confirms that

- so far as the member is aware, there is no relevant audit information of which the LLP's auditors are unaware, and
- the member has taken all the steps that he ought to have taken as a member in order to make himself aware of any relevant audit information and to establish that the partnership's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### **CHAIR'S STATEMENT**

GSTS Pathology continues to develop new opportunities to grow its business. It is actively engaged in the procurement process in both the East of England and South London to deliver new consolidated pathology services in these regions. Both these opportunities have the potential to expand GSTS' business significantly in 2013.

In anticipation of the future growth of the business the board is delighted to announce the appointment of Christopher Baker on 1 May 2012 as GSTS' first independent non-executive Chair. Chris has a wealth of relevant experience from both the public and private sectors and his appointment is integral in helping GSTS through the next phase of its development and growth. On behalf of all the members I would like to take this opportunity to welcome Chris to the board and I look forward to working with him during 2012.

**GSTS PATHOLOGY LLP**

**MEMBERS' REPORT (CONTINUED)**

**For the year ended 31 December 2011**

**Independent auditors**

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditors in accordance with the LLP agreement

Approved and signed on its behalf of the members



ROLAND SINKER  
Designated Member  
London, United Kingdom  
Date 27/06/12



## **GSTS PATHOLOGY LLP**

### **STATEMENT OF MEMBERS' RESPONSIBILITIES**

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law, the members have elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the firm's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

However, members are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Under LLP Regulations, the members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the partnership and group, and to enable them to ensure that the financial statements comply with those regulations. They are also responsible for the system of internal control, for safeguarding the assets of the partnership, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The responsibilities are exercised by the board on behalf of the members.

## **GSTS PATHOLOGY LLP**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GSTS PATHOLOGY LLP**

We have audited the financial statements of GSTS Pathology LLP for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the Statement of Cash Flows and the Related Notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applicable to limited liability partnerships. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's 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 LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of members and auditor**

As explained more fully in the Statement of Members' Responsibilities, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the designated members, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the LLP's affairs as at 31 December 2011 and of the LLP's loss for the year ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006, as applicable to limited liability partnerships.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 as applicable to limited liability partnerships requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- we have not received all the information and explanations we require for our audit.



Ross Howard (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
Date 27/06/12

## GSTS PATHOLOGY LLP

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Revenue	2	84,543	64,155
Cost of sales	5	(67,883)	(52,539)*
<b>Gross profit</b>		<b>16,660</b>	<b>11,616</b>
Administrative expenses		(22,181)	(11,272)*
<b>Operating (loss)/profit</b>	4	<b>(5,521)</b>	<b>344</b>
Finance costs	6	(412)	(173)
<b>(Loss)/profit for the financial year available for discretionary division among members</b>	12	<b>(5,933)</b>	<b>171</b>
<b>Total comprehensive (loss)/income for the year attributable to members</b>		<b>(5,933)</b>	<b>171</b>

All activities are derived from continuing operations

The accompanying notes are an integral part of this statement of comprehensive income

\*Reclassified to appropriately reflect the classification between administrative expenses and cost of sales

# GSTS PATHOLOGY LLP

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	7	2,378	3,290
Tangible assets	8	8,375	10,155
Trade and other receivables	9	2,714	2,871
		<b>13,467</b>	<b>16,316</b>
<b>Current assets</b>			
Trade and other receivables	9	15,921	17,038
Cash at bank		384	2,757
Inventories	10	2,141	2,102
		<b>18,446</b>	<b>21,897</b>
<b>Total assets</b>		<b>31,913</b>	<b>38,213</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	22,081	23,048
<b>Non-current liabilities</b>			
Loans and other debts due to members	12	14,871	14,271
<b>Equity</b>			
Members' capital	12	3,331	2,221
Other reserves	12	(8,370)	(2,608)
<b>Total liabilities and equity</b>		<b>31,913</b>	<b>38,213</b>

The accompanying notes are an integral part of this statement of financial position

The financial statements were approved by the members and authorised for issue on 27 June 2012 and signed on the members behalf by



ROLAND SINKER  
Serco Limited/Pathology Service Limited/KCH Commercial Services Limited  
Designated Member

## GSTS PATHOLOGY LLP

### STATEMENT OF CHANGES IN EQUITY

The following balances relating to members are included in the statement of financial position

	Notes	Members' capital £'000	Other reserves £'000	Total £'000
Balance at 1 January 2010		2,221	(2,608)	(387)
Total comprehensive income		-	171	171
Members' capital contribution	12	1,110	-	1,110
<hr/>				
Balance at 1 January 2011		3,331	(2,437)	894
Total comprehensive loss		-	(5,933)	(5,933)
<hr/>				
<b>Balance at 31 December 2011</b>		<b>3,331</b>	<b>(8,370)</b>	<b>(5,039)</b>

The accompanying notes are an integral part of this statement of changes in equity

**GSTS PATHOLOGY LLP****STATEMENT OF CASH FLOWS**

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	13	<b>94</b>	<b>(5,026)</b>
<b>Cash flows used in investing activities</b>			
Purchase of tangible assets		(2,431)	(4,198)
Purchase of intangible assets		(474)	(1,442)
<b>Net cash outflow used in investing activities</b>		<b>(2,905)</b>	<b>(5,640)</b>
<b>Cash flows from financing activities</b>			
Proceeds from members' loans		600	5,500
Interest paid to members		(162)	(173)
<b>Net cash inflow from financing activities</b>		<b>438</b>	<b>5,327</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,373)</b>	<b>(5,339)</b>
Cash and cash equivalents at beginning of year		2,757	8,096
<b>Cash and cash equivalents at end of the year</b>		<b>384</b>	<b>2,757</b>

The accompanying notes are an integral part of this statement of cash flows

# **GSTS PATHOLOGY LLP**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

### **1. ACCOUNTING POLICIES**

The principal accounting policies are set out below and have been applied consistently throughout the current and preceding year

#### **Going concern**

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Members' Report

The members have signed a letter of support stating their intention to continue to fund the LLP to enable it to continue as a going concern for the next 12 months including but not limited to its ability to pay or otherwise discharge its debts as they fall due, taking into account actual, contingent and prospective liabilities of the LLP

As a consequence, the members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements

#### **Basis of accounting**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and under the historical cost convention

The financial statements are presented in sterling on the historic cost basis and on the basis of the accounting policies presented herein

#### **Adoption of new and revised Standards**

At the date of authorisation of these financial statements, the following standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU) None of these amendments is expected to have a significant impact on the LLP's financial statements

- IAS 24 (revised 2009) Related Party Disclosures
- IFRS 9 Financial Instruments (2009)
- IFRS 9 Financial Instruments (2010)
- Improvements to IFRSs (2010)
- IFRS 13 Fair Value Measurement
- IFRS 19 Employee Benefits

The directors anticipate that the adoption of these standards and Interpretations in future periods will have no material impact on the financial statements of the LLP

#### **Basis of translation of foreign currencies**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date Gains and losses arising on re-translation are included in the statement of comprehensive income for the year

## **GSTS PATHOLOGY LLP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **Revenue**

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes

##### **Taxation**

The taxation payable on profits of the LLP is the liability of the members, and is not dealt with in these financial statements

##### **Members' remuneration**

Remuneration to members that is paid under the LLP agreement, or other payments, which represent a liability of GSTS Pathology LLP not arising from a division of profits, are either expensed to the income statement or capitalised depending on nature of transaction and are disclosed within the related party note

Profit shares, which have not been allocated until after the balance sheet date, are treated in these financial statements as unallocated at the balance sheet date and included within other reserves

##### **Intangible assets**

Transformation costs are capitalised as an intangible asset only if all of the following conditions are met

- an asset is created that can be identified,
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and
- the cost of the asset can be measured reliably

Transformation expenditure is amortised over the period of the relevant major contract. Where appropriate, provision is also made for any impairment. All other development expenditure is written off as incurred.

##### **Tangible assets**

Plant and machinery, and furniture and equipment is stated at cost, net of depreciation and any provision for impairment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Assets under construction are stated at cost and are not depreciated until the asset is completed and placed in service.

Depreciation is provided on all tangible fixed assets on a straight-line basis at rates that reduce the assets to their residual value over their estimated useful lives.



# **GSTS PATHOLOGY LLP**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

### **1 ACCOUNTING POLICIES (CONTINUED)**

#### **Tangible assets (continued)**

The principal annual rates used are

furniture and office equipment	20% - 33%
laboratory information management system software	14%

#### **Impairment of tangible and intangible assets**

At each balance sheet date, the LLP reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent to the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

#### **Financial assets**

Financial assets are classified as loans and receivables. Loans and receivables have fixed or determinable payments that are not quoted in an active market.

Financial assets include cash and cash equivalents, trade receivables, other debtors and amounts owed by members. The LLP determines the classification of its financial assets at initial recognition and they are initially recorded at fair value.

#### **Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the LLP will not be able to collect all amounts due according to the original terms of the contract. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that a trade receivable is impaired. The amount of the provision is based on management's best estimate of the likelihood of the recoverable amount. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the impairment provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and have a maturity of three months or less.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the value to the business in use.

# **GSTS PATHOLOGY LLP**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **Financial liabilities**

The LLP determines the classification of its financial liabilities at initial recognition. Financial liabilities include trade payables, loans due to members and other amounts due to members.

#### **Loans due to members**

Loans are initially stated at the amount of the net proceeds and subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

#### **Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

#### **Pension costs: defined contribution schemes**

Contributions for the period in respect of defined contribution schemes are charged to the profit and loss account as they fall due. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the balance sheet.

#### **Critical accounting estimates and key sources of estimation**

In the process of applying the LLP's accounting policies which are described in this note, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

#### **Contract costs**

All bid costs are expensed through the income statement up to the point where contract award (or full recovery of costs) is virtually certain. Bid and transition costs incurred after this point are then capitalised within debtors as amounts recoverable on contracts. Bid costs are amortised on award of contract and transition costs are amortised on successful completion of the project. These costs are amortised through the income statement on a straight-line basis over the contract period. Detailed contract forecasts are prepared to determine whether the assets are recoverable and costs are only capitalised where it is determined that the assets are fully recoverable. The members are confident that the carrying amount of the assets will be recovered in full.

### **2 REVENUE**

The revenue of the LLP is principally derived from the provision of pathology services to Guy's and St Thomas' Hospital NHS Foundation Trust, King's College Hospital NHS Foundation Trust and to Bedford Hospital NHS Trust.

### **3. MEMBERS' REMUNERATION CHARGED AS AN EXPENSE AND SHARE OF PROFITS**

All outflows of benefits to members are treated as members' remuneration. No remuneration was paid to members under an employment contract in the current or prior year.

Distributable profits are divided among the members in accordance with agreed profit sharing arrangements.

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 4. OPERATING (LOSS)/PROFIT

	2011 £'000	2010 £'000
Is stated after charging		
Amortisation of amounts recoverable on contracts	388	271
Amortisation of intangible assets	421	91
Rentals under member's agreement		
- Land and buildings	2,729	1,894
- Plant and machinery	2,141	905
Depreciation on equipment	1,396	644
Fees paid to Deloitte LLP audit services	35	30
Trade receivables impairment	46	7
Intangible impairment	905	-
Tangible impairment	2,697	-
Revenue contribution from Serco	(2,700)	-

### 5. STAFF COSTS

	2011 £'000	2010 £'000
Employee costs excluding members		
Wages and salaries	37,970	28,071
Social security costs	3,237	2,264
Other pension costs (Note 16)	4,083	3,295
<b>Total staff costs</b>	<b>45,290</b>	<b>33,630</b>

	2011 Number	2010 Number
Average monthly number of persons (including executive directors) employed by the LLP during the period	1,002	756

### 6. FINANCE COSTS

	2011 £'000	2010 £'000
Interest payable to members	412	173

## GSTS PATHOLOGY LLP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

#### 7. INTANGIBLE ASSETS

	2011 £'000	2010 £'000
<b>Cost</b>		
At 1 January	3,381	1,878
Additions during the period	414	1,503
Impairment	(905)	-
<b>At 31 December</b>	<b>2,890</b>	<b>3,381</b>
<b>Accumulated amortisation</b>		
At 1 January	(91)	-
Charge for the period	(421)	(91)
<b>At 31 December</b>	<b>(512)</b>	<b>(91)</b>
<b>Net book value</b>		
<b>At 31 December</b>	<b>2,378</b>	<b>3,290</b>

During the year ended 31 December 2011, the LLP incurred costs on its transformation programme, which is focussed on a number of themes

- processes and operations (the procedures and activities carried out to enable service delivery),
- organisation and people (the operating structure of the organisation including the roles, skills, knowledge and culture of the personnel),
- tools and technology (the tools, including machinery, laboratories and IT systems available to enable staff to carry out their functions and deliver products and services), and
- information (the information for monitoring and appropriate reporting of performance of the organisation to enable decision making)

The benefits of the transformation programme will be realised throughout the life of the GSTS contract with Guy's and St Thomas' Foundation Trust (GSTFT). Additionally the transformation programme costs will be recovered over the life of that contract. The useful economic life of the asset is directly aligned to the contract life.

The transformation asset will not be available for use in its entirety until 2013 (end of transformation activity), however, to defer amortisation charges until that date is not considered to be prudent. As such, it is deemed more appropriate that amortisation for each sub-project begins once the relevant sub-project has been completed. Transformation assets are amortised over the term of the contract.

The first critical business projects and early enablers phase ended in 2010 and amortisation began on those elements in 2010. The contract covers a ten-year period until 2019 and this is the latest year to which any constituent part of the asset will be amortised.

The new management team arrived in spring 2011 and have conducted a review of the transformation programme. In November 2011 the Board approved the impairment of £0.9m intangible assets, recognised in profit and loss associated with skills mix and new working arrangements, because the implementation plan has moved from a step-change single occurrence approach to a progressive, slower implementation. Additionally, management consideration of future cash generating benefits determined that components of the Laboratory Information Management System (LIMS) programme posed potential clinical uncertainty at GSTFT and therefore no longer represented fair value. The impairment loss is measured as the difference between the carrying value and fair value. The board approved the impairment of £2.7m of tangible assets related to LIMS transformation programme which has been recognised in profit and loss. The value in use of the Transformation Programme at 31 December 2011 is fully recoverable over the life of the existing PSA contracts in which activity will be measured and revenues recognised with GSTFT, KCHT and BHT.

**GSTS PATHOLOGY LLP**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

**8. TANGIBLE ASSETS**

	Assets under construction £'000	Furniture and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2011	5,462	5,681	11,143
Additions during the year	1,913	400	2,313
Transfer	(1,223)	1,223	-
Impairment (see note 7)	(2,697)	-	(2,697)
<b>At 31 December 2011</b>	<b>3,455</b>	<b>7,304</b>	<b>10,759</b>
<b>Accumulated depreciation</b>			
At 1 January 2011	-	(988)	(988)
Charge for the year	-	(1,396)	(1,396)
<b>At 31 December 2011</b>	<b>-</b>	<b>(2,384)</b>	<b>(2,384)</b>
<b>Net book value</b>			
<b>At 31 December 2011</b>	<b>3,455</b>	<b>4,920</b>	<b>8,375</b>

	Assets under construction £'000	Furniture and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	1,566	2,475	4,041
Additions during the period	3,896	3,206	7,102
<b>At 31 December 2010</b>	<b>5,462</b>	<b>5,681</b>	<b>11,143</b>
<b>Accumulated depreciation</b>			
At 1 January 2010	-	(344)	(344)
Charge for the period	-	(644)	(644)
<b>At 31 December 2010</b>	<b>-</b>	<b>(988)</b>	<b>(988)</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>5,462</b>	<b>4,693</b>	<b>10,155</b>

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 9. TRADE AND OTHER RECEIVABLES

a) Receivables falling due within one year

	2011 £'000	2010 £'000
Trade receivables	642	1,259
Allowance for doubtful debts	(46)	(7)
<b>Total Trade debtors</b>	<b>596</b>	<b>1,252</b>
Other amounts recoverable on contracts	412	412
Amounts owed by members (note 14)	13,398	13,727
Other debtors	1,150	260
Prepayments and other accrued income	365	1,387
<b>Total receivables falling due within 1 year</b>	<b>15,921</b>	<b>17,038</b>

Ageing of past due but not impaired receivables

	2011 £'000	2010 £'000
30 – 60 days	550	685
60 - 90 days	30	36
90 – 120 days	16	376
Over 120 days	-	155
	<b>596</b>	<b>1,252</b>

Movement in trade receivables impairment provision

	2011 £'000	2010 £'000
Balance as at 1 January	7	-
Impairment loss recognised	46	7
Utilised	(7)	-
<b>Balance as at 31 December</b>	<b>46</b>	<b>7</b>

b) Receivables falling due after one year

	2011 £'000	2010 £'000
Amounts recoverable on contracts	2,714	2,871
<b>Total receivables falling due after 1 year</b>	<b>2,714</b>	<b>2,871</b>

Amounts recoverable on contracts relate to capitalised pre-contract and transition costs. These costs include bidding costs on the GSTT, King's and Bedford contracts in line with the accounting policy set out in note 1. The transition costs represent the expenditure required to deliver the King's and Bedford transitions, i.e. to start up these contracts and to get them to a working position.

Amounts owed by members are due within 30 days of the balance sheet date and do not bear interest.

The members estimate that the carrying amount of trade receivables approximates to their fair value.

## GSTS PATHOLOGY LLP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

#### 10. INVENTORIES

	2011 £'000	2010 £'000
Stock ready for use by the business	2,141	2,102
Net realisable value of stock as at 31 December	<b>2,141</b>	<b>2,102</b>

The members estimate that the carrying amount of inventories approximates to their fair value

No inventories have been pledged as security

#### 11. TRADE AND OTHER PAYABLES

	2011 £'000	2010 £'000
Trade payables	2,017	1,591
Amounts owed to members (note 14)	9,839	10,405
Other taxes and social security	1,664	547
Accruals	2,225	4,412
Deferred income	6,336	6,093
<b>Total payables falling due within 1 year</b>	<b>22,081</b>	<b>23,048</b>

Amounts owed to members are due within 30 days of the balance sheet date and do not bear interest

#### 12. MEMBERS' INTERESTS

	Members' capital £'000	Other reserves £'000	Loans and other debts due to members £'000	Total £'000
Balance at 1 January 2010	2,221	(2,608)	6,175	5,788
Members' capital contributed – King's College NHS Foundation Trust	1,110	-	-	1,110
Loans introduced from members	-	-	8,096	8,096
Profit for the financial period available for discretionary division among members	-	171	-	171
Balance at 1 January 2011	3,331	(2,437)	14,271	15,165
Loans introduced from members	-	-	600	600
Loss for the financial year available for discretionary division among members	-	(5,933)	-	(5,933)
<b>Balance at 31 December 2011</b>	<b>3,331</b>	<b>(8,370)</b>	<b>14,871</b>	<b>9,832</b>

On 1 October 2010 the LLP expanded its business to include many of the pathology services of King's College Hospital NHS Foundation Trust and KCHT became a member through its subsidiary KCH Commercial Services Ltd

King's College Hospital NHS Foundation Trust made available £0.3m on the 17 November 2011 and £0.3m on the 24 November 2011 to the LLP as short term financing to support operational cash flows

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 13. NET CASH RECONCILIATION OF OPERATING (LOSS)/PROFIT FROM/TO OPERATING ACTIVITIES

	2011 £'000	2010 £'000
<b>(Loss)/profit for the financial year available for discretionary division among members</b>	<b>(5,933)</b>	<b>171</b>
Adjustments for		
Depreciation on furniture and equipment	1,396	644
Amortisation	809	362
Interest paid	162	173
Intangible impairment	905	-
Tangible impairment	2,697	-
<b>Operating cash inflow before movements in working capital</b>	<b>36</b>	<b>1,350</b>
Increase in stock	(39)	(6)
Decrease/(increase) in receivables	889	(13,317)
(Decrease)/increase in payables	(792)	6,947
<b>Net cash inflow/(outflow) from operating activities</b>	<b>94</b>	<b>(5,026)</b>

### 14. RELATED PARTY TRANSACTIONS

Because of the nature of the business, during the year the LLP entered into a substantial number of transactions with its members, Guy's and St Thomas' NHS Foundation Trust, King's College Hospital NHS Foundation Trust and Serco Limited

#### Trading transactions

During the year ended 31 December 2011, the LLP entered into the following trading transactions with its members

Related party	Sales	Purchases	Amounts	Amounts
	31 Dec 2011	31 Dec 2011	owed from at	owed to at 31
	£'000	£'000	31 Dec 2011	Dec 2011
			£'000	£'000
Guy's and St Thomas' NHS Foundation Trust	48,714	27,183	6,485	5,620
Serco Limited	-	(592)	3,314	3,574
King's College Hospital NHS Foundation Trust	28,225	18,551	3,599	645
<b>Total</b>	<b>76,939</b>	<b>45,142</b>	<b>13,398</b>	<b>9,839</b>

Related party	Sales	Purchases	Amounts	Amounts
	31 Dec 2010	31 Dec 2010	owed from at	owed to at
	£'000	£'000	31 Dec 2010	31 Dec 2010
			£'000	£'000
Guy's and St Thomas' NHS Foundation Trust	53,749	28,096	10,862	8,671
Serco Limited	74	4,241	74	973
King's College Hospital NHS Foundation Trust	8,198	5,112	2,791	761
<b>Total</b>	<b>62,021</b>	<b>37,449</b>	<b>13,727</b>	<b>10,405</b>



## GSTS PATHOLOGY LLP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

#### 14. RELATED PARTY TRANSACTIONS (CONTINUED)

Material related party transactions can be summarised as follows

Guy's and St Thomas' NHS Foundation Trust

- 1) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to Guy's and St Thomas' NHS Trust (GSTT) Amounts invoiced amounted to £48.7m in the year (2010 £53.7m)
- 2) Under the secondment agreement, GSTT supply seconded staff to the LLP under retention of employment (RoE) legislation Amounts invoiced amounted to £19.6m (2010 £21.2m) Number of staff seconded as at 31 December 2011 was 397 (2010 495)
- 3) Certain transactions are invoiced by GSTT under the Trust Services Agreement (TSA) such as rent, service charges, IT and finance charges, equipment lease charges and a medical staff recharge Amounts invoiced amounted to £7.7m in the year (2010 £7.3m)
- 4) On 19 December 2011, GSTT increased the available working capital facility by £0.6m, on a short term basis
- 5) £1.1m provision for doubtful debt has been recognised in the profit and loss against genetic activity
- 6) Unbilled provisions of £0.3m recorded on activity and genetics

Serco Limited

- 1) Serco invoiced £0.1m (2010 £0.1m) under the Serco Services Agreement (SSA) for IT, accounting, payroll, company secretarial services and finance charges
- 2) Serco supplies all insurances to the LLP 2011 The amount charged was £0.6m (2010 £0.2m)
- 3) During the year, Serco recharged costs for the transformation programme for the supply of consultants to undertake the various projects within the programme, 2011 £0.3m (2010 £2.2m)
- 4) Serco also supplied certain bidding activities to the LLP, 2011 £0.3m (2010 £1.5m) These costs are reported in line with the accounting policy as set out in note 1
- 5) Serco invoiced transition costs £0.2m (2010 £0.2m)
- 6) Interest accrued on loan with Serco £0.2m (2010 £0.1m)
- 7) Staff working for the LLP, employed by Serco payroll were recharged to the LLP £0.5m (2010 nil)
- 8) The LLP recorded a revenue contribution from Serco for £2.7m (2010 nil) and invoiced Serco £0.1m for an insurance claim (2010 nil)

King's College Hospital NHS Foundation Trust

- 1) On 1 October 2010, KCHT contributed tangible fixed assets to the value of £2.8m to the LLP £1.1m was added to the member's capital and the remaining balance, £1.7m, was financed by a loan
- 2) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to KCHT Amounts invoiced amounted to £28.2m in the year (2010 £8.2m)
- 3) Under the secondment agreement KCHT supply seconded staff to the LLP under the Retention of Employment (RoE) Legislation Amounts invoiced amounted to £12.7m in the year (2010 £3.2m) Number of staff seconded as at 31 December 2011 was 268 (2010 290)
- 4) Certain transactions are invoiced by KCHT under the Trust Services Agreement (TSA) such as rent, service charges, equipment lease charges and a medical staff recharge Amounts invoiced amounted to £5.9m in the year (2010 £1.5m)
- 5) During November 2011, KCHT provided £0.6m short term financing to the LLP (2010 nil)

During the year ended 31 December 2011, the LLP drew down £0.6m from KCHT and in October 2010 KCHT provided a loan of £1.7m to part finance the purchased tangible assets The LLP did not draw down further loans from GSTT (2010 £1m) or Serco (2010 £4.5m)

On 1 October 2010 KCHT contributed stock to the value of £0.92m to the LLP The purchase of stock was financed by a loan from KCH Commercial Services Ltd which is repayable on 1 January 2014 Interest is paid at 2% above LIBOR

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 15 FINANCIAL RISK MANAGEMENT

#### Capital risk management

The LLP's capital structure and policies are regularly reviewed to ensure that they remain relevant to the business and its plans for growth. The LLP is financed by the three members via capital and loans.

The carrying amounts of financial instruments are as follows:

	2011 £'000	2010 £'000
<b>Financial assets – loans and receivables</b>		
Trade receivables (note 9)	596	1,252
Other debtors (note 9)	1,164	260
Amounts owed by members (note 9)	13,398	13,727
Cash at bank	384	2,757
<b>Financial liabilities – at amortised cost</b>		
Trade payables (note 11)	(2,017)	(1,591)
Loans due to members (note 12)	(14,871)	(14,271)
Amounts owed to members (note 11)	(9,839)	(10,405)
<b>Net financial liabilities</b>	<b>(11,185)</b>	<b>(8,271)</b>

The maximum exposure to credit risk in relation to financial assets at the reporting date is the carrying value. The LLP does not hold any collateral as security. The members estimate that the carrying value of all financial instruments approximates to their fair value. The fair values have been determined using available market information and appropriate valuation methodology.

The principal risks arising from the LLP's use of financial assets and liabilities and details of how these risks are managed are set out in the members' report on page 4, under the heading 'financial risk management objectives and policies'.

#### Interest rate sensitivity analysis

The LLP is exposed to interest rate risk on the loans due to members at 2% above LIBOR relating to three month deposits. Loans due to members fall due on 1 January 2014.

If the LIBOR interest rates move by 1% the LLP could be exposed to an increase/(decrease) in interest rates of £143,000 per annum.

**GSTS PATHOLOGY LLP**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

**15. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The maturity dates of financial assets/liabilities are as follows:

	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	Over 1 year £'000	Total £'000
<b>31 December 2011</b>					
<b>Financial assets – loans and receivables</b>					
Trade receivables (note 9)	125	455	16	-	596
Other debtors (note 9)	1,150	-	-	-	1,150
Amounts owed by members (note 9)	13,398	-	-	-	13,398
Cash at bank	384	-	-	-	384
<b>Financial liabilities – at amortised cost</b>					
Trade payables (note 11)	(2,017)	-	-	-	(2,017)
Loans due to members (note 12)	(600)	-	(3,500)	(10,771)	(14,871)
Amounts owed to members (note 11)	(9,839)	-	-	-	(9,839)
<b>Net financial instruments</b>	<b>2,601</b>	<b>455</b>	<b>(3,484)</b>	<b>(10,771)</b>	<b>(11,199)</b>
<b>31 December 2010</b>					
<b>Financial assets – loans and receivables</b>					
Trade receivables (note 9)	1,252	-	-	-	1,252
Other debtors (note 9)	260	-	-	-	260
Amounts owed by members (note 9)	13,727	-	-	-	13,727
Cash at bank	2,757	-	-	-	2,757
<b>Financial liabilities – at amortised cost</b>					
Trade payables (note 11)	(1,591)	-	-	-	(1,591)
Loans due to members (note 12)	-	-	(3,500)	(10,771)	(14,271)
Amounts owed to members (note 11)	(10,405)	-	-	-	(10,405)
<b>Net financial instruments</b>	<b>6,000</b>	<b>-</b>	<b>(3,500)</b>	<b>(10,771)</b>	<b>(8,271)</b>

## **GSTS PATHOLOGY LLP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

#### **16. DEFINED CONTRIBUTION PENSION SCHEMES**

##### **Pre-funded defined benefit schemes treated as defined contribution**

Some employees of the LLP benefit from employer contributions to the Prudential Platinum scheme. The LLP paid employer contributions for the year ended 31 December 2011 of £644,200 (2010 £682,000), into UK defined contribution schemes. The balance due at 31 December 2011 was £nil (2010 £nil).

The LLP also pays contributions to the Serco Legal and General stakeholder pension scheme. The value of these contributions is £211,276 for the year ended 31 December 2011 (2010 £122,000). The balance due at 31 December 2011 is £19,694 (2010 £15,000).

#### **17. SUBSEQUENT EVENTS**

On 6 February 2012 a new agreement between the members was signed to deal with specific operational and financial developments relating to the existing members agreement.