

Growth Science Trust Service



GSTS PATHOLOGY LLP

Annual Report and Financial Statements For the year ended 31 December 2010



**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	Serco House 16 Bartley Wood Business Park Hook Hampshire RG27 9UY
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 auditors	Deloitte LLP Chartered Accountants & Registered Auditors London

GSTS PATHOLOGY LLP

MEMBERS' REPORT

For the year ended 31 December 2010

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 2010

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 2010 are set out on page 9. 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, also 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 GSTS. During 2011, GSTS will pursue new opportunities while also managing activities for the existing hospital contracts at Guys and St Thomas's, Kings College Hospital and Bedford Hospitals

The new management team in place from the Spring of 2011 is reviewing strategic options with a view to presenting developed proposals to the Members in Autumn 2011. In the context of constrained NHS spending, the review aims to identify appropriate ways to assure and grow revenue while at the same time controlling costs and maintaining GSTS's strong reputation for the breadth of its clinical and R&D capability. Significant further revenue and capital investment may be required to deliver the most appropriate opportunities and this is being actively discussed with the Members

Key performance indicators ("KPIs")

Performance is monitored by management in line with the LLP's strategy and with reference to a number of KPIs. In the 12 months to 31 December 2010, the LLP undertook 8,622,596 tests on patient samples. This is 12.6% (962,596) higher than the number of tests undertaken by the LLP in the 11 months to 31 December 2009

The LLP is monitored on a monthly basis on performance against a number of Service Level Agreements (SLAs) including its turnaround times. The turnaround times are monitored against the contractual requirements and remedial actions are put in place where a critical service level is exceeded. The LLP did not exceed the critical service level, however the LLP exceeded the escalation service level once

It exceeded the operating service levels 12 times, which is the same as the prior period. On average, 83% of operating service levels within the SLAs were achieved. The LLP has performed well against the SLAs, only incurring a service penalty of £4,661 for the year ended 31 Dec 2010, which is a reduction of 43.5% from the prior period

Staff turnover in the 12 months to 31 December 2010 was 7%. The staff turnover has been decreasing steadily during the year

GSTS PATHOLOGY LLP

MEMBERS' REPORT (CONTINUED)

For the year ended 31 December 2010

Financial risk management objectives and policies

Interest rate risk

The LLP is exposed to interest rate risk on the £13.1m (2009: £5m) funding from its members which charge interest based on LIBOR.

As at 31 December 2010, the LLP had drawn down a total of £13.1m 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 10. 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 annual revenue of £28m per year for a further 10 years, placing it significantly ahead of management's initial revenue growth plans. More than 50% of the LLP's costs are payable to its members, who are also the primary suppliers of funding to the business through a committed loan facility. All investment programmes go through a rigorous investment appraisal process and 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 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 foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

GSTS PATHOLOGY LLP

MEMBERS' REPORT (CONTINUED)

For the year ended 31 December 2010

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) was appointed on 1 October 2010

All the designated members served on the board during the year from the date of appointment where noted

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, which was last updated on 20 September 2010.

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, and
- Training and development programmes for employees designed to ensure employees' continuing professional and personal development in a manner aligned with the LLP's business needs
- 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 2010

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 2010 were equivalent to 56 days (2009: 25 days) purchase, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

There were no political contributions or 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.

Independent auditors

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

Approved and signed on behalf of the members



JEREMY STAFFORD
Designated Member
London, United Kingdom
Date 29th September 2011

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 2010 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 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 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 2010 and of the LLP's profit 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 29th September, 2011

GSTS PATHOLOGY LLP

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	01 Jan 2010 to 31 Dec 2010 £'000	01 Feb 2009 to 31 Dec 2009 £'000
Revenue	2	64,155	44,014
Cost of sales		(53,831)	(37,120)
Gross profit		10,324	6,894
Administrative expenses	4,5	(9,618)	(7,698)
Amortisation	4	(362)	(183)
Operating profit / (loss)		344	(987)
Finance costs	6	(173)	(153)
Profit / (Loss) for the financial year/period available for discretionary division among members	12	171	(1,140)
Total comprehensive income/(loss) for the year/period attributable to members		171	(1,140)

All activities are derived from continuing operations

The accompanying notes are an integral part of this Statement of Comprehensive Income

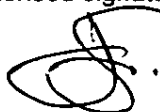
GSTS PATHOLOGY LLP**STATEMENT OF FINANCIAL POSITION****As at 31 December 2010**

	Notes	2010 £'000	2009 Restated (Note 10) £'000
Assets			
Non-current assets			
Intangible assets	7	3,290	1,878
Tangible assets	8	10,155	3,697
Trade and other receivables	9	2,871	2,118
		16,316	7,693
Current assets			
Trade and other receivables	9	17,038	4,468
Cash at bank		2,757	8,096
Inventories	10	2,102	1,175
		21,897	13,739
Total assets		38,213	21,432
Liabilities			
Current liabilities			
Trade and other payables	11	(23,048)	(15,644)
Non-current liabilities			
Loans and other debts due to members	12	(14,271)	(6,175)
Equity			
Other Reserves	12	(894)	387
Total liabilities and equity		(38,213)	(21,432)

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 29th September 2011 and signed on the members' behalf by

Authorised signature of



JEREMY STAFFORD
Serco Limited
Designated Member

GSTS PATHOLOGY LLP

STATEMENT OF CHANGES IN EQUITY

The following balances relating to members are included in the consolidated balance sheet

	Note	2010 £'000	2009 £'000
Members reserves at start of the year		(387)	753
Total comprehensive income/(loss) for the year/period		171	(1,140)
Other transactions with members	12	1,110	-
Members' other reserves at the end of the year/period		894	(387)

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 2010

	Notes	01 Jan 2010 to 31 Dec 2010 £'000	01 Feb 2009 to 31 Dec 2009 £'000
Net cash (outflow)/inflow from operating activities	13	(5,026)	10,933
Cash flows used in investing activities			
Purchase of tangible assets		(4,198)	(1,583)
Purchase of intangible assets		(1,442)	(2,115)
Net cash outflow used in investing activities		(5,640)	(3,698)
Cash flows from financing activities			
Proceeds from members loans		5,500	-
Interest paid to members		(173)	(153)
Net cash inflow from financing activities		5,327	(153)
Net (decrease)/increase in cash and cash equivalents		(5,339)	7,082
Cash and cash equivalents at beginning of year/period		8,096	1,014
Cash and cash equivalents at end of the year/period		2,757	8,096

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 2010

1 ACCOUNTING POLICIES

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

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

In these financial statements the following Standard has been reflected for the first time

Revision to IAS 1 "Presentation of Financial Statements Revised 2007" which has had an impact on the presentation of the LLP's primary financial statements but has no other impact

A number of new amendments and interpretations have been endorsed by the EU as part of adopted IFRS but are not yet effective. None of these amendments is expected to have a significant impact on the LLP's financial statements

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

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

GSTS PATHOLOGY LLP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

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, 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 the profit and loss account.

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, which reduce the assets to their residual value over their estimated useful lives.

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.

GSTS PATHOLOGY LLP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

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 a bad debt 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 bad debt 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.

Financial Liabilities

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

GSTS PATHOLOGY LLP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

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 have been prepared to determine whether the assets are recoverable. The members are confident that the carrying amount of the assets will be recovered in full.

GSTS PATHOLOGY LLP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. REVENUE

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

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

4. OPERATING PROFIT/(LOSS)

	01 Jan 2010 to 31 Dec 2010 £'000	01 Feb 2009 to 31 Dec 2009 £'000
Is stated after charging		
Amortisation of amounts recoverable on contracts	271	183
Amortisation of intangible assets	91	-
Rentals under member's agreement		
- Land and buildings	1,894	1,913
- Plant and machinery	905	318
Depreciation on equipment	644	344
Fees paid to Deloitte LLP audit services	30	25
Bad and doubtful debts	7	-

5. STAFF COSTS

	01 Jan 2010 to 31 Dec 2010 £'000	01 Feb 2009 to 31 Dec 2009 £'000
Employee costs excluding members		
Wages and salaries	28,071	20,287
Social security costs	2,264	1,543
Other pension costs (Note 16)	3,295	2,084
Total staff costs	33,630	23,914

	01 Jan 2010 to 31 Dec 2010 Number	01 Feb 2009 to 31 Dec 2009 Number
Average monthly number of persons (including executive directors) employed by the LLP during the period	756	607

GSTS PATHOLOGY LLP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. FINANCE COSTS

	01 Jan 2010 to 31 Dec 2010 £'000	01 Feb 2009 to 31 Dec 2009 £'000
Interest payable to members	173	153
Total finance costs	173	153

7. INTANGIBLE ASSETS

	2010 £'000	2009 £'000
Cost and net book value:		
At 1 January 2010 / 1 February 2009	1,878	-
Additions during the period	1,503	1,878
At 31 December	3,381	1,878
Accumulated amortisation:		
Charge for the period	(91)	-
At 31 December	(91)	-
Net book value:		
At 31 December	3,290	1,878

During the year ended 31 December 2010, 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 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 a sub-project begins once the relevant sub-project has been completed with an estimated useful life running to the end 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.

As each project within the programme is completed, it is handed over to the GSTS executive team to be managed by them.

GSTS PATHOLOGY LLP**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

8. TANGIBLE ASSETS

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

	Assets under construction £'000	Furniture and equipment £'000	Total £'000
Cost:			
At 1 February 2009	-	2,221	2,221
Additions during the period	1,566	254	1,820
At 31 December 2009	1,566	2,475	4,041
Accumulated depreciation:			
Charge for the period	-	(344)	(344)
At 31 December 2009	-	(344)	(344)
Net book value:			
At 31 December 2009	1,566	2,131	3,697

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. TRADE AND OTHER RECEIVABLES

a) Receivables falling due within one year

	2010 £'000	2009 Restated £'000
Trade receivables	1,259	57
Allowance for doubtful debts	(7)	-
Total Trade debtors	1,252	57
Other amounts recoverable on contracts	412	256
Amounts owed by members (note 14)	13,727	3,069
Other debtors	260	388
Prepayments and other accrued income	1,387	698
Total receivables falling due within 1 year	17,038	4,468

Ageing of past due but not impaired receivables

	2010 £'000	2009 £'000
30 – 60 days	685	5
60 - 90 days	36	41
90 – 120 days	376	4
120+ days	155	7
	1,252	57

Movement in the allowance for doubtful debt

	2010 £'000	2009 £'000
Impairment loss recognised	7	-
Balance at the end of the year	7	-

b) Receivables falling due after one year

	2010 £'000	2009 £'000
Amounts recoverable on contracts	2,871	2,118
Total receivables falling due after 1 year	2,871	2,118

Amounts recoverable on contracts relates to pre-contract and transition capitalised. These costs include bidding costs on the GSTT, Kings and Bedford contracts in line with the accounting policy set out in note 1. The transition costs represent the expenditure required to deliver the Kings 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.

The prior year comparative has been restated to include member's unbilled revenue of £2,815,000 under Amount owed by members.

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NOTES TO THE FINANCIAL STATEMENTS

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10. INVENTORIES

	2010 £'000	2009 Restated £'000
Stock ready for use by the business	2,102	1,175
Net realisable value of stock as at 31 December 2010	2,102	1,175

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

No inventories have been pledged as security

The prior year comparative has been restated to include GSTT take on stock. In Feb 2009, on commencement of the GSTT contract, GSTT sold to the LLP all the Trust stock useable by the LLP. The Pathology Services Agreement (PSA) requires the LLP to replace the stock at the end of the contract period.

11. TRADE AND OTHER PAYABLES

	2010 £'000	2009 Restated £'000
Trade payables	1,591	761
Amounts owed to members (note 14)	10,405	7,424
Other taxes and social security	547	1,266
Accruals	4,412	2,408
Deferred income	6,093	3,785
Total payables falling due within 1 year	23,048	15,644

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

The prior year comparative has been restated to include member's expenses, accrued as at 31 December 2009, as Amounts owed to members

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12. MEMBERS' INTEREST

	Members Capital £'000	Other reserves £'000	Loans and other debts due to members £'000	Total £'000
Balance as at 1 February 2009	2,221	(1,468)	5,000	5,753
Stock provided by GSTT	-	-	1,175	1,175
Loss for the financial period available for discretionary division among members	-	(1,140)	-	(1,140)
Balance at 1 January 2010 (restated – note 10)	2,221	(2,608)	6,175	5,788
Members' capital contributed – Kings College NHS Foundation Trust	1,110	-	-	1,110
Loans introduced from members	-	-	8,096	8,096
Profit for the financial year available for discretionary division among members	-	171	-	171
Balance at 31 December 2010	3,331	(2,437)	14,271	15,165

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") and KCHT became a member through its subsidiary, KCH Commercial Services Ltd

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

	2010 £'000	2009 £'000
Profit/(Loss) for the financial year/period available for discretionary division among members	171	(1,140)
Adjustments for		
Depreciation on furniture and equipment	644	344
Amortisation	362	183
Interest paid	173	153
Operating cash inflow/(outflow) before movements in working capital	1,350	(460)
Increase in stock	(6)	-
Increase in receivables	(13,317)	(4,251)
Increase in payables	6,947	15,644
Net cash (outflow) / inflow from operating activities	(5,026)	10,933

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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's NHS Foundation Trust, King's College Hospital NHS Foundation Trust and Serco Limited

Trading transactions:

During the year ended 31 December 2010, the LLP entered into the following trading transactions with its members

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

Related party	Sales 31 Dec 2009 £'000	Purchases 31 Dec 2009 £'000	Amounts owed from at 31 Dec 2009 £'000	Amounts owed to at 31 Dec 2009 £'000
Guy's and St Thomas's NHS Foundation Trust	43,473	29,525	3,069	5,243
Serco Limited	-	1,685	-	2,181
Total	43,473	31,210	3,069	7,424

Material related party transactions can be summarised as follows

Guy's and St Thomas's NHS Foundation Trust

- 1) On 28 January 2009, GSTT contributed tangible fixed assets to the value of £2.2m to the LLP. This value was added to the member's capital.
- 2) On 28 January 2009, GSTT invoiced the LLP bid and set up costs incurred on the LLP's behalf totalling £1.2m. Bid and set up costs were expensed through the Statement of Comprehensive Income in full in the period.
- 3) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to GSTT. Amounts invoiced amounted to £53.7m in the year (2009 £43.4m).
- 4) Under the secondment agreement, GSTT supply seconded staff to the LLP under the retention of employment (RoE) legislation. Amounts invoiced amounted to £21.2m (2009 £19.8m). Number of staff seconded as at 31 December 2010 was 495 (2009 542).
- 5) 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 £7.3m in the year (2009 £6.7m).

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14. RELATED PARTY TRANSACTIONS (CONTINUED)

Serco Limited

- 1) On 31 January 2009, Serco invoiced the LLP set up costs totalling £0.2m and bid costs incurred on the LLP's behalf totalling £1.9m. Set up costs were expensed through the Statement of Comprehensive Income in full in the period. Bid costs were capitalised within debtors as amounts recoverable on contracts in line with the accounting policy set out in note 1.
- 2) Serco invoiced £0.1m (2009 £0.3m) under the Serco Services Agreement (SSA) for IT, accounting, payroll, company secretarial services and finance charges.
- 3) Serco supplies all insurances to the LLP. 2010 charge of £0.2m (2009 £0.5m) includes a rebate for insurance over accrued in 2009.
- 4) During the year, Serco managed a transformation programme for the LLP including management of the programme and supply of consultants to undertake the various projects within the programme, 2010 £2.2m (2009 £2.7m).
- 5) Serco also supplied certain bidding activities to the LLP, 2010 £1.5m (2009 £2m). These costs are reported in line with the accounting policy as set out in note 1.

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 £8.2m in the year (2009 £nil).
- 3) Under the secondment agreement, KCHT supply seconded staff to the LLP under the retention of employment (RoE) legislation. Amounts invoiced amounted to £3.2m in the year (2009 £nil). Number of staff seconded as at 31 December 2010 was 290 (2009 nil).
- 4) Certain transactions are invoiced by GSTT under the Trust Services Agreement (TSA) such as rent, service charges, equipment lease charges and a medical staff recharge. Amounts invoiced amounted to £1.5m in the year (2009 £nil).

During the year ended 31 December 2010 the LLP drew down loans of £1m from GSTT (2009 £2.5m) and £4.5m from Serco (2009 £2.5m). In October 2010 KCHT provided a loan of £1.7m to part finance the purchased tangible assets.

In February 2009 GSTT contributed stock to the value of £1.2m to the LLP. The prior year comparatives have been amended to reflect this transaction. At the end of contract the LLP will be required to return the stock at the same value.

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 October 2012. Interest is paid at 2% above LIBOR.

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NOTES TO THE FINANCIAL STATEMENTS

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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:

	2010 £'000	2009 Restated £'000
Financial assets – loans and receivables		
Trade receivables (note 9)	1,252	57
Other debtors (note 9)	260	388
Amounts owed by members (note 9)	13,727	3,069
Cash at bank	2,757	8,096
Financial liabilities – at amortised cost		
Trade payables (note 11)	(1,591)	(761)
Loans due to members (note 12)	(13,096)	(5,000)
Stock provided by GSTT (note 12)	(1,175)	(1,175)
Amounts owed to members (note 11)	(10,405)	(7,424)
Net financial (Liabilities) / Assets	(8,271)	(2,750)

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 on page 4 of the members report, 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 October 2012.

If the LIBOR interest rates move by 1% the LLP could be exposed to an increase/(decrease) in interest rates of £131,000 per annum.

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NOTES TO THE FINANCIAL STATEMENTS

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)

The maturity dates of financial risk management are as follows:

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1+ years £'000	Total £'000
31 December 2010					
Financial assets – loans and receivables					
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
Financial liabilities – at amortised cost					
Trade payables (note 11)	(1,591)	-	-	-	(1,591)
Loans due to members (note 12)	-	-	(3,500)	(9,596)	(13,096)
Stock provided by GSTT (note 12)	-	-	-	(1,175)	(1,175)
Amounts owed to members (note 11)	(10,405)	-	-	-	(10,405)
Net financial instruments	6,000	-	(3,500)	(10,771)	(8,271)
31 December 2009					
Financial assets – loans and receivables					
Trade receivables (note 9)	57	-	-	-	57
Other debtors (note 9)	388	-	-	-	388
Amounts owed by members (note 9)	3,069	-	-	-	3,069
Cash at bank	8,096	-	-	-	8,096
Financial liabilities – at amortised cost					
Trade payables (note 11)	(761)	-	-	-	(761)
Loans due to members (note 12)	-	-	-	(5,000)	(5,000)
Stock provided by GSTT (note 12)	-	-	-	(1,175)	(1,175)
Amounts owed to members (note 11)	(7,424)	-	-	-	(7,424)
Net financial instruments	3,425	-	-	(6,175)	(2,750)

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NOTES TO THE FINANCIAL STATEMENTS

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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 2010 of £682,000 (2009 £46,000), into UK defined contribution schemes. The balance due at 31 December 2010 was £nil (2009 £13,000).

The LLP also pays contributions to the Serco Legal and General stakeholder pension scheme. The value of these contributions is £122,000 for the year ended 31 December 2010 (2009 £39,000). The balance due at 31 December 2010 is £15,000 (2009 £11,000).

17. SUBSEQUENT EVENTS

There are no events after the statement of financial position date of 31 December 2010 requiring to be reflected in these financial statements.