

# **GSTS PATHOLOGY LLP**

## **Annual Report and Financial Statements For the 11 months from 1 February 2009 to 31 December 2009**



# **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 6593374) Serco Limited (registered number 00242246)
Bankers	HSBC Bank plc Regional Service Centre Europe PO Box 125 62-76 Part Street London SE1 9DZ
Independent auditors	Deloitte LLP Chartered Accountants & Registered Auditors London

## **GSTS PATHOLOGY LLP**

### **MEMBERS' REPORT**

#### **For the 11 months from 1 February 2009 to 31 December 2009**

The members present their report on the affairs of GSTS Pathology LLP, together with the financial statements for the 11 months from 1 February 2009 to 31 December 2009

GSTS Pathology LLP ("the LLP") is a Limited Liability Partnership registered in England and Wales with registration number OC337242

The LLP was incorporated on 13 May 2008 as Neutral Name LLP. On 30 September 2008 the LLP changed its name to GSTS Pathology LLP

On 1 February 2009 the LLP commenced operations under its first large contract to provide pathology services to Guy's and St Thomas' NHS Foundation Trust

On 1 December 2009 the LLP commenced operations under its second large contract to provide pathology services to Bedford Hospital NHS Foundation Trust

The LLP changed its accounting reference date from 31 January to 31 December and is presenting accounts for the 11 months from 1 February 2009 to 31 December 2009

#### **Principal activities**

GSTS Pathology LLP was established principally to provide pathology services to its related party, Guy's and St Thomas's NHS Foundation Trust and other third party customers. The LLP 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 11 months from 1 February 2009 to 31 December 2009 are set out on page 9. The members believe that these results appropriately reflect the LLP's start up status during the period

On 1 February 2009 the LLP commenced trading by taking on the contract to run all of the pathology services for Guy's and St Thomas's NHS Foundation Trust, the parent of its member Pathology Services Limited. This contract did not cover the LLP's central administration costs, bid costs and initial marketing and branding costs

On 1 December 2009 the LLP expanded its business by securing a contract to run all of the Bedford Hospital NHS Trust's pathology services for a period of ten years. The LLP acquired the operations and assets of Bedford's pathology department. The assets were invoiced to the LLP in January 2010 at a net book value of £184,600

Subsequent to 31 December 2009 the LLP has been extended to include many of the pathology services of King's College Hospital NHS Foundation Trust (KCH), which commenced on 1 October 2010. At the same time, KCS Commercial Services Limited, a wholly owned subsidiary of KCH, has also become a member of the LLP. From this date, the three designated members each own a third share in the LLP. The profit share mechanism has also been amended accordingly. Profits will be shared on a sliding scale dependent on the profit levels over a transitional period, with KCS Commercial Services Limited taking a share over a target profit in the first three years of the partnership

#### **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 11 months to 31 December 2009, the LLP undertook 7,660,000 tests on patient samples. This is 11% (787,000) higher than the number of tests undertaken by Guy's and St Thomas's NHS Foundation Trust in the 11 months to 31 December 2008, prior to the LLP taking over the business. It was also 10% higher than the contract base volumes

## **GSTS PATHOLOGY LLP**

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

**For the 11 months from 1 February 2009 to 31 December 2009**

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

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 exceeded a critical service level once during the period and the escalation service level once. It exceeded the operating service levels 12 times. On average, 83% of operating service levels within the SLAs were achieved. The LLP has performed well against the SLAs in its first period of operation, only incurring a service penalty of £7,558 for the period under review.

Staff turnover in the 11 months to 31 December 2009 was 8.5%, which is lower than the turnover in Guy's and St Thomas's NHS Foundation Trust for the same period. The staff turnover has been decreasing steadily during the period.

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

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

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

The LLP's exposure to interest rates relates to the start up funding received from each of its members. As at 31 December 2009, the LLP had drawn down a total of £5m from its members from a maximum facility of £7m. The LLP drew down the rest of the facility from its members during June 2010. 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 cash and cash equivalents and amounts due from customers, mainly Guy's and St Thomas's NHS Foundation Trust.

The members do not consider that the LLP is exposed to significant credit risk on the basis that the two 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 period, the LLP had two major public sector customers and a number of smaller public sector and commercial customers.

##### **Liquidity risk**

The LLP has received start up 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 equally by both members through a combination of loan funding and working capital management. The member, therefore, do not consider that the LLP is exposed to major liquidity risk.

##### **Going concern disclosure**

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 above.

The financial position of the LLP is shown on the balance sheet 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.

## **GSTS PATHOLOGY LLP**

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

**For the 11 months from 1 February 2009 to 31 December 2009**

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

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 them 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 £7m committed loan facility. All investment programmes go through a rigorous investment appraisal process and require approval by the Board who are comprised of representatives of both 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, although there is no formal financial guarantee in place or contractual commitment by either member.

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.

#### **Designated members**

The designated members during the period 1 February 2009 to the date of this report were as follows:

On 28 January 2009 Guy's and St Thomas's NHS Foundation Trust sold its 99.99% share in the LLP to Pathology Services Limited (registered number 6593374), who owned 99.99% share in the LLP as at 1 February 2009. At 1 February 2009, Serco Limited owned 0.01% of the LLP.

On 1 February 2009 Pathology Services Limited transferred a 49.99% share in the LLP to Serco Limited (registered number 00242246).

The designated members Pathology Services Limited and Serco Limited each currently control 50% of the LLP, subject to various reserved matters in the members' agreement, effective from 1 February 2009.

#### **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, effective from 1 February 2009.

#### **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.

## **GSTS PATHOLOGY LLP**

### **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 is in a manner aligned with the LLP's business needs
- Consultation on specific proposals which are considered to have an impact on employees

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.

### **Charitable and political contributions**

There were no political contributions or charitable contributions made by the LLP during in the current 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 partnership'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 was appointed as auditor on 18 December 2009 for the audit of the statutory financial statements of the LLP for the 11 months from 1 February 2009 to 31 December 2009.

Approved and signed on its behalf of the members

  
Designated Member  
London, United Kingdom  
Date  
25 OCTOBER 2010

FOR AND ON BEHALF OF PATHOLOGY SERVICES  
LIMITED, DESIGNATED MEMBER

## **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 AUDITORS' REPORT TO THE MEMBERS OF GSTS PATHOLOGY LLP**

We have audited the financial statements of GSTS Pathology LLP for the 11 months from 1 February 2009 to 31 December 2009 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 16. 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 auditors**

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 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 (APB'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 members, and the overall presentation of the financial statements.

#### **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 2009 and of the LLP's loss for the period then 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 Auditors  
London, United Kingdom  
Date

25/10/2010

# GSTS PATHOLOGY LLP

## INCOME STATEMENT

For the 11 months from 1 February 2009 to 31 December 2009

	Notes	1 Feb 2009 to 31 Dec 2009 £'000	13 May 2008 to 31 Jan 2009 £'000
Revenue	1, 2	44,014	-
Cost of sales		(37,120)	-
<b>Gross profit</b>		<b>6,894</b>	-
Administrative expenses	4,5	(7,698)	(1,468)
Amortisation of receivables	4	(183)	-
<b>Operating loss</b>		<b>(987)</b>	<b>(1,468)</b>
Finance costs	6	(153)	-
<b>Loss for the financial period available for discretionary division among members</b>	11	<b>(1,140)</b>	<b>(1,468)</b>

All activities are derived from continuing operations

The LLP has no further items of income or expense in the current and prior period other than the results set out above, as such a statement of comprehensive income has not been presented

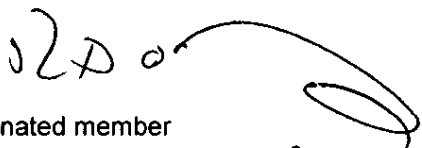
The accompanying notes are an integral part of this income statement

**GSTS PATHOLOGY LLP****BALANCE SHEET****As at 31 December 2009**

	Notes	31 Dec 2009 £'000	31 Jan 2009 £'000
<b>Non-current assets</b>			
Intangible assets	7	1,878	-
Property, plant and equipment	8	3,697	2,221
		<b>5,575</b>	<b>2,221</b>
<b>Current assets</b>			
Trade and other receivables – amounts falling due within one year	9	4,468	720
– amounts falling due after more than one year	9	2,118	1,798
Cash at bank		8,096	1,014
		<b>14,682</b>	<b>3,532</b>
<b>Current liabilities</b>			
Trade and other payables	10	(15,644)	-
<b>Net current (liabilities) / assets</b>		<b>(962)</b>	<b>3,532</b>
<b>NET ASSETS ATTRIBUTABLE TO MEMBERS</b>		<b>4,613</b>	<b>5,753</b>
<b>REPRESENTED BY</b>			
Loans and other debts due to members		5,000	5,000
Other reserves	11	(387)	753
<b>TOTAL MEMBERS' INTERESTS</b>		<b>4,613</b>	<b>5,753</b>

The accompanying notes are an integral part of this balance sheet

The financial statements were approved by the members on 25 October 2010 and signed on their behalf by

  
 Designated member  
 FOR AND ON BEHALF OF PATHOLOGY SERVICES LIMITED, DESIGNATED MEMBER  
 GSTS Pathology LLP  
 Registered number OC337242

**GSTS PATHOLOGY LLP****CASH FLOW STATEMENT****For the 11 months ended 31 December 2009**

	Notes	1 Feb 2009 to 31 Dec 2009 £'000	13 May 2008 to 31 Jan 2009 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	12	<b>10,780</b>	<b>(3,986)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,583)	-
Purchase of intangible assets		(2,115)	-
<b>Net cash outflow from investing activities</b>		<b>(3,698)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Loans from members	13	-	5,000
<b>Net cash inflow from financing activities</b>		<b>-</b>	<b>5,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,082</b>	<b>1,014</b>
Cash and cash equivalents at beginning of period		1,014	-
<b>Cash and cash equivalents at end of the period</b>		<b>8,096</b>	<b>1,014</b>

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

# **GSTS PATHOLOGY LLP**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the 11 months from 1 February 2009 to 31 December 2009**

### **1. ACCOUNTING POLICIES**

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

#### **Basis of preparation**

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 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 them 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 £7m committed loan facility. All investment programmes go through a rigorous investment appraisal process and require approval by the Board who are comprised of representatives of both 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, although there is no formal financial guarantee in place or contractual commitment by either member.

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 the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

##### ***IAS 1 (revised 2007) - Presentation of Financial Statements***

IAS 1 (revised 2007) requires the presentation of a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. No such adjustments were made.

#### **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 income statement for the period.

#### **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.

# **GSTS PATHOLOGY LLP**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the 11 months from 1 February 2009 to 31 December 2009**

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

#### **Taxation**

The taxation payable on profits of the LLP is the personal liability of the members. Accordingly, no tax charge is included in the income statement.

#### **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 Group 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.

#### **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 expensed to the income statement 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 contract with Guy's and St Thomas's NHS Foundation Trust. Where appropriate, provision is also made for any impairment. All other development expenditure is written off as incurred.

#### **Property, plant and equipment**

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.

# **GSTS PATHOLOGY LLP**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the 11 months from 1 February 2009 to 31 December 2009**

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

#### **Depreciation**

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

Plant and machinery	15% - 20%
Furniture and office equipment	20% - 33%
Laboratory information management system software	14%

#### **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

#### **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

#### **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

#### *Pre-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 phase in costs incurred after this point are then capitalised within debtors as amounts recoverable on contracts. On contract award 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.

### **2. REVENUE**

The revenue of the LLP is principally derived from the provision of pathology services to Guy's and St Thomas's 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

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the 11 months from 1 February 2009 to 31 December 2009

### 4. OPERATING LOSS

	1 Feb 2009 to 31 Dec 2009 £'000	13 May 2008 to 31 Jan 2009 £'000
Is stated after charging		
Amortisation of amounts recoverable on contracts	183	-
Rentals under member's agreement		
- Land and buildings	1,913	-
- Plant and machinery	318	-
Depreciation on property, plant and equipment	344	-
Fees paid to Deloitte LLP audit services	25	5

### 5. STAFF COSTS

	1 Feb 2009 to 31 Dec 2009 £'000	13 May 2008 to 31 Jan 2009 £'000
Employee costs excluding members		
Wages and salaries	20,287	-
Social security costs	1,543	-
Other pension costs (Note 15)	2,084	-
<b>Total</b>	<b>23,914</b>	<b>-</b>

	1 Feb 2009 to 31 Dec 2009 Number	13 May 2008 to 31 Jan 2009 Number
Average monthly number of persons (including executive directors) employed by the LLP during the period	607	-

### 6. FINANCE COSTS

	1 Feb 2009 to 31 Dec 2009 £'000	13 May 2008 to 31 Jan 2009 £'000
Interest payable to members	153	-
	<b>153</b>	<b>-</b>

### 7. INTANGIBLE ASSETS

	Transformation costs £'000
<b>Cost and net book value.</b>	
At 1 February 2009	-
Additions during the year	1,878
<b>At 31 December 2009</b>	<b>1,878</b>



# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the 11 months from 1 February 2009 to 31 December 2009

### 7. INTANGIBLE ASSETS (CONTINUED)

During the 11 months from 1 February 2009 to 31 December 2009, 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 programme is planned to continue for a period of approximately two years from the GSTS "go-live" date of February 2009. As each project within the programme is completed, it is handed over to the GSTS executive team to be managed by them.

As at 31 December 2009, none of the themes were completed and used in the business and so the no amortisation has been charged.

### 8. PROPERTY, PLANT AND EQUIPMENT

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

	Assets under construction £'000	Plant and machinery, furniture and equipment £'000	Total £'000
<b>Cost and net book value:</b>			
At 13 May 2008	-	-	-
Additions	-	2,221	2,221
<b>At 31 January 2009</b>	<b>-</b>	<b>2,221</b>	<b>2,221</b>

The assets of the LLP brought forward on 1 February 2009 were all acquired from Guy's and St Thomas's NHS Foundation Trust on 28 January 2009 at a cost of £2,221,498. They comprise machinery and equipment.

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the 11 months from 1 February 2009 to 31 December 2009

### 9. TRADE AND OTHER RECEIVABLES

a) Amounts falling due within one year

	31 Dec 2009 £'000	31 Jan 2009 £'000
Trade receivables	57	-
Other amounts recoverable on contracts	256	200
Amounts owed by members (note 13)	254	-
Other debtors	388	520
Prepayments and other accrued income	3,513	-
	<b>4,468</b>	<b>720</b>

A bad debt provision is not currently required against the trade receivables balance

b) Amounts falling due after more than one year

	31 Dec 2009 £'000	31 Jan 2009 £'000
Amounts recoverable on contracts	2,118	1,798
	<b>2,118</b>	<b>1,798</b>

Amounts recoverable on contracts relates to pre-contract costs capitalised, including bidding costs on the Bedford contract in line with the accounting policy set out in note 1

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

### 10. TRADE AND OTHER PAYABLES

	31 Dec 2009 £'000	31 Jan 2009 £'000
Trade payables	584	-
Amounts owed to members (note 13)	2,741	-
Other taxes and social security	1,266	-
Other payables	177	-
Accruals and deferred income	7,091	-
Deferred income	3,785	-
	<b>15,644</b>	<b>-</b>

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

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the 11 months from 1 February 2009 to 31 December 2009

### 11. MEMBERS' INTEREST

	Members Capital £'000	Other reserves £'000	Loans and other debts due to members £'000	Total £'000
<b>Balance on incorporation – 13 May 2008</b>	-	-	-	-
Members' capital contributed – Guy's and St Thomas's NHS Foundation Trust	2,221	-	-	2,221
Loss for the financial period available for discretionary division among members	-	(1,468)	-	(1,140)
Loans introduced from members	-	-	5,000	5,000
<b>Balance at 31 January 2009</b>	<b>2,221</b>	<b>(1,468)</b>	<b>5,000</b>	<b>5,753</b>
Loss for the financial period available for discretionary division among members	-	(1,140)	-	(1,140)
<b>Balance at 31 December 2009</b>	<b>2,221</b>	<b>(2,608)</b>	<b>5,000</b>	<b>4,613</b>

### 12. NET CASH RECONCILIATION OF OPERATING LOSS TO/FROM OPERATING ACTIVITIES

	1 Feb 2009 to 31 Dec 2009 £'000	13 May 2008 to 31 Jan 2009 £'000
<b>Loss for the financial period available for discretionary division among members</b>	<b>(1,140)</b>	<b>(1,468)</b>
Adjustments for		
Depreciation on plant and machinery, furniture and equipment	344	-
Amortisation on receivables	183	-
<b>Operating cash outflow before movements in working capital</b>	<b>(613)</b>	<b>(1,468)</b>
Increase in receivables	(4,251)	(2,518)
Increase in payables	15,644	-
<b>Net cash inflow / (outflow) from operating activities</b>	<b>10,780</b>	<b>(3,986)</b>

### 13. RELATED PARTY TRANSACTIONS

GSTS Pathology LLP is a joint venture between Pathology Services Limited and Serco Limited, each owning 50% of the LLP. Pathology Services Limited is an indirectly wholly owned subsidiary of Guy's and St Thomas's NHS Foundation Trust and the ultimate holding company of Serco is Serco Group plc, both of whom are related parties. Because of the nature of the business, during the period the LLP entered into a substantial number of transactions with Guy's and St Thomas's NHS Foundation Trust and also with Serco Limited.

# GSTS PATHOLOGY LLP

## NOTES TO THE FINANCIAL STATEMENTS

For the 11 months from 1 February 2009 to 31 December 2009

### 13. RELATED PARTY TRANSACTIONS (CONTINUED)

#### Trading transactions:

During the 11 months to 31 December 2009, the LLP entered into the following trading transactions with its members

Related party	Sales 1 Feb 2009 to 31 Dec 2009 £'000	Purchases 1 Feb 2009 to 31 Dec 2009 £'000	Amounts due from at 31 Dec 2009 £'000	Amounts due to at 31 Dec 2009 £'000
Guy's and St Thomas's NHS Foundation Trust	43,473	29,525	254	2,290
Serco Limited	-	1,685	-	451

Sales of goods and services to related parties were made at the LLP's usual selling prices. Purchases were made at market prices and include the management charge disclosed in note 3. The amounts outstanding are unsecured and will be settled in cash.

Material related party transactions can be summarised as follows

#### Guy's and St Thomas's NHS Foundation Trust

- 1) On 28 January 2009, Guy's and St Thomas's NHS Foundation Trust contributed tangible fixed assets to the value of £2,221,498 to the LLP. This value was added to the member's capital.
- 2) On 28 January 2009, Guy's and St Thomas's NHS Foundation Trust invoiced the LLP bid and set up costs incurred on the LLP's behalf totalling £1,194,269. Bid and set up costs were expensed through the income statement in full in the period.
- 3) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to Guy's and St Thomas's NHS Foundation Trust. Amounts invoiced amounted to £43.2m in the period (prior period: £nil).
- 4) Under the secondment agreement, Guy's and St Thomas's NHS Foundation Trust supply seconded staff to the LLP under the retention of employment (RoE) legislation. Amounts invoiced amounted to £19.8m in the period (prior period: £nil).
- 5) Certain transactions are invoiced by Guy's and St Thomas's NHS Foundation Trust 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 £6.7m in the period (prior period: £nil).

#### Serco Limited

- 1) On 31 January 2009, Serco Limited invoiced the LLP set up costs totalling £274,664 and bid costs incurred on the LLP's behalf totalling £1,997,736. Set up costs were expensed through the income statement 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) Certain transactions are invoiced by Serco Limited under the Serco Services Agreement (SSA) such as IT and finance charges and company secretarial costs.
- 3) Serco Limited supplies all insurances to the LLP and recharge for this.
- 4) During the period, Serco Limited managed a transformation programme to the LLP including management of the programme and supply of consultants to undertake the various projects within the programme.
- 5) Serco Limited also supplied certain bidding activities to the LLP.

On 31 January 2009 the LLP drew down loans of £2,500,000 from each of Guy's and St Thomas's NHS Foundation Trust and Serco Limited and used these funds to settle the set up and bid costs invoiced by the members. In June 2010, the LLP drew down the remaining £1,000,000 from each of the members, giving total loans of £3,500,000 from each member.

## GSTS PATHOLOGY LLP

### NOTES TO THE FINANCIAL STATEMENTS

For the 11 months from 1 February 2009 to 31 December 2009

#### 14. FINANCIAL ASSETS AND LIABILITIES

The following information is provided in accordance with the requirements of IFRS 7, "Financial Instruments Disclosures"

The LLP had the following financial instruments at 31 December 2009

	31 Dec 2009 £'000	31 Jan 2009 £'000
<b>Financial assets – loans and receivables</b>		
Trade receivables (note 9)	57	-
Other debtors (note 9)	388	520
Amounts owed by members (note 9)	254	-
Cash at bank	8,096	1,014
<b>Financial liabilities – at amortised cost</b>		
Trade payables (note 10)	(584)	-
Other payables (note 10)	(177)	-
Loans and other debts due to members	(5,000)	(5,000)
Amounts owed to members (note 10)	(2,741)	-
<b>Net financial instruments</b>	<b>293</b>	<b>(3,466)</b>

The maximum exposure to credit risk in relation to financial assets at the reporting date is the carrying value. The group does not hold any collateral as security. The members estimate that the carrying value of financial instruments approximates to their fair value.

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 3 of the members report, under the heading financial risk management objectives and policies.

Interest is paid 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.

#### 15. 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 in the 11 months to 31 December 2009 of £46,000 (period from 13 May 2008 to 31 January 2009 £nil) into UK defined contribution schemes and foreign state pension schemes. The balance at 31 December 2009 was £13,015.

The LLP also pays contributions to the Serco Legal and General stakeholder pension scheme. The value of these contributions is £39,000 for the 11 months to 31 December 2009 (period from 13 May 2008 to 31 January 2009 £nil). The balance at 31 December 2009 was £10,861.

## **GSTS PATHOLOGY LLP**

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

**For the 11 months from 1 February 2009 to 31 December 2009**

#### **16. POST BALANCE SHEET EVENTS**

On 20 September 2010, an agreement was signed extending membership of the LLP to KCS Commercial Services Limited (a subsidiary of King's College Hospital NHS Foundation Trust). At the same time a contract was signed for the LLP to provide pathology services to King's College Hospital NHS Foundation Trust, starting from 1 October 2010. Certain staff previously employed by King's College Hospital NHS Foundation Trust involved in the provision of pathology services were transferred to the LLP and trading commenced on that date.

From 1 October 2010, the three designated members each share joint control of the LLP. The LLP distributes profit to members based on a mechanical calculation. Profits will be shared between members on a sliding scale dependent on the profit levels over a transitional period, with KCS Commercial Services Limited taking a share over a target profit in the first three years of the new partnership from 1 October 2010.