GSTS PATHOLOGY LLP

Annual Report and Financial Statements
For the year ended 31 December 2013

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

CONTENTS

DESIGNATED MEMBERS AND ADVISERS

Registration number:	OC337242
Registered office:	GSTS PATHOLOGY LLP Francis House 9 King's Head Yard London SE1 1NA
Designated members:	Pathology Services Limited (registered number 06593374) Serco Limited (registered number 00242246) KCH Commercial Services Limited (registered number 06023863)
Bankers:	HSBC Bank plc Regional Service Centre Europe PO Box 125 62-76 Park Street London SE1 9DZ
Independent auditor:	Deloitte LLP Chartered Accountants Statutory Auditor 2 New Street Square London EC4A 3BZ

SUMMARY INFORMATION
for the year ended 31 December 2013

About us

The principal activity of the GSTS LLP is the provision of pathology services in the United Kingdom. We aim to achieve high clinical standards and high levels of operating efficiency by consolidating existing services and focusing on innovative service delivery.

Financial Highlights

	2013	2012
	£000	£000
Revenue	**92,524**	87,575
Profit	**3,839**	303
Total assets	**35,661**	33,601
Return on capital employed	**31%**	**7%**

Revenue has increased due to the successful introduction of new tests in the year and the successful bid and implementation of new contract work.

Profit has increased in excess of revenue growth due to the continued focus of the business on its cost improvement programme. The business has maintained its investment programme and reduced its current liabilities. This is reflected in the increase in assets and the improved return on capital employed.

STRATEGIC REPORT
For the year ended 31 December 2013

This Strategic report has been prepared solely to provide additional information to assess the partnership's strategies and the potential for those strategies to succeed.

The Strategic report contains certain forward-looking statements. These statements are made by the Members in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Members in preparing this Strategic report have complied with s414C of the Companies Act 2006.

Business review and future developments
The results for the year ended 31 December 2013 are set out on page 14. The Members believe that these results appropriately reflect the LLP's activities during the year and reflect management's focus on quality, innovation, improving efficiency and driving cost reductions for its customers.

A summary of key financial results is set out in the table below and discussed in this section.

	Revenue		Gross profit		Operating profit	
	2013	2012	**2013**	2012	**2013**	2012
	£000	£000	**%**	%	**£000**	£000
Continuing operations	**92,524**	87,575	**26.6**	20.0	**4,205**	684

Revenue increased by £4.9m compared to last year, delivering revenue growth of 5.7%. This has been achieved through the development and introduction of new pathology tests for our acute trust customers and other third party customers. A significant success in the year has been the contractual work that we have successfully performed for new customers and we are confident that we will continue to service these contracts successfully and both organic and new business growth is expected in 2014.

The LLP was set up in order to exploit the potential for the transformation of the pathology market and while the pace of change envisaged following the Carter reforms has been slower than anticipated, the LLP is well placed to develop enhanced services for its customers. During 2013, the LLP continued to develop a pipeline of bid opportunities, including the bid to provide pathology services in partnership with Consolidated Pathology Services in the East of England. New bid activity is a key strand of the LLP's strategy and the sales and marketing capacity has been strengthened in the year; this reflects our continued commitment to expand our operations and to be a catalyst for change in the wider pathology market.

Operational performance metrics have improved significantly over the last 12 months and contractual targets with our NHS customers are being exceeded on a regular basis. A renewed focus on Quality throughout the organisation will see the publication of our first 'Quality Account'. This will set out the LLP's strategy around the Quality agenda.

The gross profit percentage has improved to 26.6%. A key driver of this year's improved financial results has been the continued progress of the cost improvement programme. The programme is delivering sustainable operational efficiencies and improved service for our existing hospital contracts at Guy's and St Thomas' Hospitals, King's College Hospital and Bedford Hospital and has delivered recurring annual cost reductions in excess of £10m over the last two years, which facilitates increased investment in the business. The programme will continue to be implemented without compromising the LLP's commitment to deliver clinical excellence. Further operational efficiencies will be delivered throughout 2014 which will allow further capital investment and the planned repayment of working capital and long-term loans to members.

The LLP approved a capital expenditure investment programme of £4.5m in 2013 to renew laboratory technology, modernise infrastructure and to continue the IT modernisation programme. A further £7m investment programme is planned in 2014.

Staff turnover in the 12 months to 31 December 2013 was 24.9% (2012: 26.9%). This two percentage point reduction compared to 2012 reflects the greater maturity of the organisation and the improved engagement of staff. For 2014, the focus will continue to be on staff engagement and a number of initiatives are planned under the 'One Organisation' programme.

STRATEGIC REPORT (continued)
For the year ended 31 December 2013

Principal risks and uncertainties

- Interest rate risk

The LLP is exposed to interest rate risk on funding from its members. As at 31 December 2013, the LLP had drawn down loans totalling £14.3m (2012: £14.3m) from its members. Interest is paid on member loans at 2% above LIBOR relating to three month deposits. There are no other significant borrowings or bank overdrafts.

- Credit risk

The LLP's principal financial assets are 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. The Trusts are independently regulated by Monitor and are largely government funded.

Monitor authorises and regulates NHS foundation trusts and supports their development, ensuring they are well-governed and financially robust. The NHS Trust Development Authority oversees the performance management of NHS trusts that are not foundation trusts, providing support to help them improve the quality and sustainability of their services. The Members monitor public information on the risk ratings of its principal customers.

The LLP trades with its designated members and creditworthy third parties. It is the LLP's policy that, as deemed appropriate, clients and customers 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 its 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 significant liquidity risk.

Corporate governance

- Overview

The board structure is comprised of the Members' Board, Operating Board, and three sub-committees of the Operating Board being the Audit Committee, Remuneration Committee and the Governance, Risk and Quality Committee.

- Members' Board

The Members' Board oversees the strategic direction of the business, takes decisions on items reserved for unanimous member approval and ensures accountability to investors. It meets at least once every six months. The meeting is chaired by the independent chairman of GSTS and attendees are individuals from each of the members of GSTS. Representatives of the GSTS Executive team and the GSTS company secretary also attend but do not have voting rights.

The Board has agreed the specific business and governance matters that are reserved for its decision to help it discharge its responsibilities and oversee the LLP's affairs. These matters include:

- annual objectives, budget and forecast;
- monitoring delivery of the LLP's strategy and objectives;
- profit sharing agreements;
- annual report and accounts;
- overall system of internal control and risk management;
- major capital projects;
- communications policy;
- changes to the structure, size and composition of the board;
- appointment of executive officers;
- material changes to pension plans or the introduction of new schemes.

Certain specific responsibilities are delegated to the Operating Board and to board committees, notably the Audit and Remuneration committees, which operate within clearly defined terms of reference and are described below.

STRATEGIC REPORT (continued)
for the year ended 31 December 2013

- Operating Board
  The Operating Board is accountable to the members' and meets monthly. It reviews the monthly performance of the business, cost improvement plans, clinical engagement, investments and significant new business opportunities. The meeting is chaired by the independent chairman of GSTS and attendees are individuals from each of the corporate members of GSTS. Representatives of the GSTS executive team and the GSTS company secretary also attend but do not have voting rights.

- Operating Board sub-committees

  - Remuneration Committee
    The Remuneration Committee is a standing sub-committee of the Operating Board. It meets at least once a year and reviews the remuneration arrangements including salary and benefits for the GSTS executive team. The meeting is chaired by the independent chairman of GSTS and attendees represent each of the members. The GSTS company secretary also attends.

  - Audit Committee
    The Audit Committee is a standing sub-committee of the Operating Board. It meets at least twice a year to review the financial risk, control and assurance processes as well as the statutory accounts, audit compliance and corporate risk register. The meeting is chaired by the independent chairman of GSTS and attendees represent each of the members. The GSTS company secretary also attends.

  - Governance, Risk and Quality Committee
    The Governance, Risk and Quality Committee is a standing sub-committee of the Operating Board. It supports the Board in gaining reasonable assurance that GSTS has unified and effective structures for clinical governance, quality and the related aspects of risk management and assurance to support the organisation's programme for quality improvement and safety. The meeting is chaired by the independent chairman of GSTS and attendees represent each of the members. The GSTS company secretary also attends.

- Chairman and Chief Executive Officer
  The Chairman, Christopher Baker MBE, is responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda. The Chief Executive Officer, Richard Jones, is responsible for leading and managing the LLP's business within the authorities delegated by the Board and implementing board strategy and policy.

Going concern
The financial position of the LLP is shown on the statement of financial position on page 15 and its cash flows are described in the statement of cash flows on page 17 of the financial statements. The liquidity and financial risk are described above and in addition, note 16 of the financial statements provides details of the LLP's objectives, policies and processes for managing its capital and details of its financial instruments.

A high proportion of the LLP's expenditure and over 85% of the LLP's revenue is fixed and secured through long term contracts. The contracts with Guy's and St Thomas' NHS Foundation Trust (GSTT) and King's College Hospital NHS Foundation Trust (KCHT) have been agreed up to 2020. The Members, who are also the primary suppliers of funding to the business, have made available to the LLP a committed loan facility. Management are committed to driving financial and operational improvements to deliver further sustainable profit enhancements.

The LLP has considerable financial resources available through both formal and informal funding from its members. The financial plan for the LLP forecasts that it will to generate cash in excess of its operational and investment requirements. Given the continuing support of the members, no further internal or external capital funding is expected to be required to maintain the business operations.

STRATEGIC REPORT (continued)
for the year ended 31 December 2013

In January 2013, the LLP was informed by HMRC that the VAT status of supplies made by the LLP was to be changed from a standard rating, to a VAT exempt status, with effect from 1 May 2013. The Members took legal advice and decided to challenge this ruling in the courts. The High Court judgment dated 22 April 2013 gave GSTS 'interim relief' from this proposed change, so that a First Tier Tribunal could consider the legal position. Costs were awarded to the LLP and the judge ruled that in the event that the VAT status does change following the First Tier Tribunal, then the LLP should be given reasonable time to restructure so as to continue providing a safe and high quality service to its customers. The First Tier Tribunal was heard on 31^{st} July 2013 and the LLP received the court's decision on 19 February 2014. The decision of the Tribunal was that the LLP's appeal was unsuccessful and the LLP is currently in discussions to agree a date for the change in its VAT status.

As part of the LLPs overall rebranding of its services the LLP plans to change its corporate structure. The LLP has been engaged with HMRC and has received HMRC's clearance for its planned structure. Within this structure the LLP will continue to be central to the provision of services. The Members have assessed the effect of irrecoverable VAT, which results from the Tribunal's decision, on the LLPs cash flows, together with the costs of restructuring the LLP and are satisfied that the cash impact of the Tribunal's decision and the planned restructure will be able to be absorbed without materially impacting the performance or prospects of the business.

As a consequence of these factors, the Members believe that the LLP continues to be well placed to manage its business risks and continue as a going concern. 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.

Approved by the Members and
signed on behalf of the Members

Tim Lawlor
Serco Limited
Designated Member
London
United Kingdom

21 March 2014

MEMBERS' REPORT
for the year ended 31 December 2013

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 2013.

Structure
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. GSTS Pathology LLP is wholly owned by its members.

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

Pathology Services Limited (registered number 06593374)
Serco Limited (registered number 00242246)
KCH Commercial Services Limited (registered number 06023863)

All the designated members served on the Board during the year**.**

Employees
The number of staff employed is detailed in note 5 to these accounts. The policies set out below are applied to both directly employed staff and, to the fullest extent possible, staff seconded under Retention of Employment arrangements.

- Equal opportunities policy
  The LLP is committed to offering equal opportunities in all areas of employment including recruitment, professional and personal development, career progression and terms and conditions of employment.

  There shall be no discrimination on the grounds of age, race, nationality, ethnic origin, gender, disability, religious belief, marital status, sexual orientation, social background or trade union affiliation. 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.

  The policy is in accordance with relevant legislation.

- Health and safety
  Health and safety are considered as equal importance to that of any other function of the LLP and its business objectives. Health and safety is a prime consideration in all aspects of the LLPs operations and performance in this respect is regularly reported upon to the Operating Board.

- Harassment
  The LLP will not tolerate sexual, mental or physical harassment in the work place. Appropriate reporting arrangements are in place for the benefit of any employee that believes they are experiencing harassment of any form.

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

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

  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 are recognised. A staff engagement group meets on a monthly basis at each operating location.

MEMBERS' REPORT (continued)
for the year ended 31 December 2013

- 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.
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- Reporting concerns - Whistleblowing
  All staff are encouraged to report concerns and full guidance is published in the LLP's Code of Conduct. The Code sets out how and when to report concerns and gives both internal and external contact details. The Code of Conduct is issued to all staff as part of their initial induction into the LLP.

Political contributions
There were no political contributions made by the LLP during the current year.

Members' drawings and capital
The level and timing of drawings is decided by the LLP's Members Board after taking into account the LLP's cash requirements for operating and investment activities. Unallocated profits are shown in 'other reserves' in the statement of financial position on page 15. The level of members' capital is defined in the Members' agreement, dated 20 September 2010 and further agreements between the Members dated 6 February 2012 and 17 July 2013.

Disclosure of information to the auditor
The members of the Members Board at the date of approval of this report confirm that:

- so far as they are aware, there is no relevant audit information of which the LLP's auditor is unaware; and
- each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the LLP's auditor is aware of that information.

For these purposes, relevant audit information means information needed by the LLP's auditor in connection with the preparation of their report on page 13.

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

MEMBERS' REPORT (continued)
for the year ended 31 December 2013

CHAIRMAN'S STATEMENT

GSTS has had an extremely successful 2013, not only in terms of the financial result, but also in its mission to deliver service improvements and innovation to its NHS customers.

Quality is at the core of GSTS's mission. It is therefore very pleasing to note the progress made during the year which has enhanced the quality of our service delivery. The Governance, Risk and Quality Committee has sponsored the development of a quality strategy and we will produce our first Quality Accounts in 2014. More of our laboratories than ever before are accredited under the Clinical Pathology Accreditation scheme and we have an objective that by April 2016 all of our laboratories will be compliant with ISO 15189. Performance against turnaround targets has been good and continues to improve. I'm particularly pleased with the marked improvement in phlebotomy waiting times that we have delivered to patients as a result of investment in better facilities and staffing.

Having achieved a small net profit in 2012 the Board and management faced the challenge of consolidating the gains made and ensuring the level of service delivered to our customers was enhanced, while continuing to improve efficiency. The outturn for 2013 is extremely pleasing from this perspective. The hard-won gains from 2012 have been consolidated and GSTS is now established as a profitable business with effective operational control. Further opportunities to improve efficiency continue to be identified and it is vital that the cost improvement programme proceeds throughout 2014 to enable us to continue to generate funds to invest in innovation and customer service.

The LLP was not only set up to modernise the pathology services of its NHS members but also to be a vehicle for transforming the wider pathology market. GSTS has been working to win new business and it continues to develop its systems and target operating model in order to give it a greater competitive advantage when bidding for further pathology contracts. Investment in this area will continue throughout 2014. The development of the market has been much slower than we would have wished, but we will continue to tender for major consolidation opportunities as they arise and seek markets for our comprehensive portfolio of specialist tests. In the longer term I am convinced that the continuing financial pressure on NHS trusts will offer us opportunities as hard-pressed trust managements try to achieve greater efficiency while responding to the challenge to raise quality and improve patient experience.

A key focus during the year has been to strengthen our internal and external communications. Our external communications have been focused on raising awareness of the quality of our services and generating new business. Our internal communications have concentrated on bringing our staff together as 'One Organisation'. I am very pleased with the progress made in 2013 and we plan to go further and faster in 2014. The culmination of this work will be to launch our new 'Viapath' brand alongside our new website. Viapath is a scientific organisation with a clinical purpose and we will ensure that our scientists and clinicians work together to provide high quality services to our NHS customers for the benefit of patients.

I would like to thank all the employees of GSTS, my board member colleagues and the management team, for their support during a strong year of improved operational and financial performance. I look forward to reporting on a successful year for Viapath in 2014.

Independent auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Board meeting.

Approved by the Members and
signed on behalf of the Members

Tim Lawlor
Serco Limited
Designated Member
London
United Kingdom

21 March 2014

STATEMENT OF MEMBERS' RESPONSIBILITIES

The Members are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Limited Liability Partnerships (Accounts and 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 International Financial Reporting Standards (IFRS) 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 LLP'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 International Financial Reporting Standards.

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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to Limited Liability Partnerships. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Members are responsible for the maintenance and integrity of the corporate and financial information included on the LLP's website.

These responsibilities are exercised by the Members' Board on behalf of the Members.

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 2013 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the Significant Accounting Policies and the related Notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applicable to limited liability partnerships. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 December 2013 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

21 March 2014

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

Continuing operations	Notes	2013 £000	2012 £000
Revenue	2	**92,524**	87,575
Cost of sales		**(67,869)**	(70,092)
Gross profit		**24,655**	17,483
Administrative expenses		**(20,450)**	(16,799)
Operating profit	4	**4,205**	684
Finance income	6	**10**	-
Finance costs	6	**(376)**	(381)
Profit for the financial year available for discretionary division among members	13	**3,839**	303
Total comprehensive income for the year attributable to members		**3,839**	303

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Notes	**2013 £000**	2012 £000
Assets			
Non-current assets			
Intangible assets	7	**7,638**	7,999
Property, plant and equipment	8	**3,849**	3,093
Trade and other receivables	9 b)	**1,837**	2,278
Total non-current assets		**13,324**	13,370
Current assets			
Inventories	10	**2,140**	2,140
Trade and other receivables	9 a)	**14,229**	13,732
Cash and cash equivalents	11	**5,918**	4,359
Total current assets		**22,287**	20,231
Total assets		**35,611**	33,601
Equity and liabilities			
Equity attributable to members			
Members' capital	13	**3,331**	3,331
Other reserves	13	**(4,228)**	(8,067)
Total equity		**(897)**	(4,736)
Non-current liabilities			
Loans and other debts due to members	13	**14,271**	14,271
Trade and other payables	12 b)	**156**	215
Total non-current liabilities		**14,427**	14,486
Current liabilities			
Trade and other payables	12 a)	**22,081**	23,851
Total current liabilities		**22,081**	23,851
Total liabilities		**36,508**	38,337
Total equity and liabilities		**35,611**	33,601

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 21 March 2014 and signed on the Members behalf by:

Tim Lawlor
Serco Limited
Designated Member

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

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

	Members' capital £000	Other reserves £000	Total £000
Balance at 1 January 2012	3,331	(8,370)	(5,039)
Total comprehensive income	-	303	303
Balance at 1 January 2013	3,331	(8,067)	(4,736)
Total comprehensive income	-	3,839	3,839
Balance at 31 December 2013	**3,331**	**(4,228)**	**(897)**

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

	2013	2012
	£000	£000
Cash flow from operating activities		
Profit for the period	**3,839**	303
Profit less losses on disposal of non-current assets	**69**	13
Other finance charges	**13**	7
Amortisation	**2,118**	1,337
Depreciation	**1,200**	1,185
Interest received	**(10)**	-
Interest paid	**363**	374
Intangible impairment	**-**	551
Property, plant and equipment impairment	**-**	129
Decrease in inventories	**-**	1
(Increase)/decrease in receivables	**(497)**	2,189
(Decrease)/increase in payables	**(2,043)**	1,758
Net cash from operating activities	**5,052**	7,847
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,984)**	(577)
Purchase of intangibles	**(1,357)**	(2,530)
Purchase of other non-current assets	-	(11)
Net cash from investing activities	**(3,341)**	(3,118)
Cash flows from financing activities		
Members loans	-	(600)
Interest paid to members	**(149)**	(147)
Other finance income	**10**	-
Other finance charges	**(13)**	(7)
Net cash from financing activities	**(152)**	(754)
Net increase in cash and cash equivalents	**1,559**	3,975
Cash and cash equivalents at beginning of year	**4,359**	384
Cash and cash equivalents at end of the year	**5,918**	4,359

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

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2013

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

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

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 (IFRS) as adopted by the European Union and under the historical cost convention.

The financial statements are presented in sterling, rounded to the nearest £1000, on the historic cost basis and on the basis of the accounting policies presented herein.

Adoption of new and revised standards
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

IFRS 13 Fair Value Measurement – The LLP has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instruments and disclosures and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements or the disclosures.

Amendments to IFRS 7 Disclosures – The LLP has applied the amendments to IFRS 7 Disclosures-Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 requires entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. As the LLP does not have any offsetting arrangements in place, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the financial statements.

At the date of authorisation of these financial statements, the following standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments
- IAS 27 (amendments) Investment Entities
- IAS 36 (amendments) Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 (amendments) Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 13 Fair Value Measurement
- IFRIC Interpretation 21 Levies

The members do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the LLP in future periods.

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.

Members' remuneration
Remuneration to members that is paid under the LLP agreement, or other payments, which represent a liability of the LLP not arising from a division of profits, are either expensed to the income statement or capitalised depending on the nature of the 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
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.

Expenditure is amortised over the shorter of the period of the relevant major contract or its expected useful life. Where appropriate, provision is also made for any impairment. All other development expenditure is written off as incurred.

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

Laboratory information system software is amortised on a straight line basis at the rates of 10% - 14% per annum or until the end of the support contract if earlier.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. The LLP does not own any property.

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

Depreciation is provided on all property, plant and equipment on a straight-line basis at rates that reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Plant and equipment	10% - 33%

Impairment of property, plant and equipment and intangible assets
At each balance sheet date, the LLP reviews the carrying amounts of its property, plant and equipment 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 of 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 immediately as an expense in profit and loss.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and 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 other amounts due to members.

Loans due to members
Loans are recognised at the value of proceeds received. Finance charges are recognised in the profit and loss account on an accrual basis. Member's loans carry a variable interest rate based on LIBOR plus agreements.

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.

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2013

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 recognised within trade and other receivables as amounts recoverable on contracts. Bid costs are expensed on a straight-line basis on award of contract over the life of the contract. Transition costs are expensed on a straight-line basis on successful completion of the project over the contract period. Detailed contract forecasts are prepared to determine whether the assets are recoverable and an asset is only recognised where it is determined that the costs are fully recoverable. The Members are confident that the carrying amount of the assets will be recovered in full.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

1. OPERATING SEGMENT

The LLP's operations relate to delivering pathology services within the United Kingdom. As such the LLP does not disclose operating segment information. The Members' Board is the chief operating decision maker.

2. REVENUE

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

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

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

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

4. OPERATING PROFIT

	2013 £000	2012 £000
Is stated after charging:		
Amortisation of amounts recoverable on contracts	**441**	418
Amortisation of intangible assets	**1,677**	890
Rental agreements:		
- Land and buildings	**3,005**	3,241
- Plant and machinery	**2,230**	2,062
Depreciation on equipment	**1,200**	1,185
Fees paid to Deloitte LLP - audit services	**37**	34
- other professional services	**20**	-
Trade receivables impairment	**265**	12
Intangible impairment	**-**	551
Property, plant and equipment impairment	**-**	129
Revenue contribution from Serco	**-**	(1,300)

5. STAFF COSTS

	2013 £000	2012 £000
Employee costs excluding members:		
Wages and salaries	**13,012**	10,792
Social security costs	**1,290**	1,054
Other pension costs (Note 18)	**969**	903
Total staff costs	**15,271**	12,749
Seconded staff (under Retention of Employment arrangements)	**29,164**	29,438

The average numbers of employees were as follows:

	2013 Number	2012* Number
Scientific and operational	**357**	281
Administrative and clerical	**90**	75
	447	356
Seconded staff	**522**	562

*The 2012 staff number analysis has been restated to include laboratory support staff in the scientific and operational category.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2013

6. FINANCE INCOME AND FINANCE COSTS

	2013	2012
	£000	£000
Interest on bank deposits	**10**	-
Finance income	**10**	-
Borrowing costs:		
Interest payable to members (see note 14)	**363**	374
Finance lease interest	**8**	4
Other	**5**	3
Finance costs	**376**	381

7. INTANGIBLE ASSETS

	Assets under construction £000	Intangibles £000	Total £000
Cost			
At 31 December 2011	3,455	4,113	7,568
Additions during the year	2,150	380	2,530
Transfer	(4,292)	4,292	-
Impairment	(126)	(425)	(551)
At 31 December 2012	1,187	8,360	9,547
Additions during the year	330	1,027	1,357
Transfer	(817)	817	-
Disposals	-	(160)	(160)
At 31 December 2013	**700**	**10,044**	**10,744**
Accumulated amortisation			
At 31 December 2011	-	(658)	(658)
Charge for the year	-	(890)	(890)
At 31 December 2012	-	(1,548)	(1,548)
Charge for the year	-	(1,677)	(1,677)
Disposals	-	119	119
At 31 December 2013	-	**(3,106)**	**(3,106)**
Net book value			
At 31 December 2012	1,187	6,812	7,999
At 31 December 2013	**700**	**6,938**	**7,638**

During the year ended 31 December 2013, the LLP incurred costs on its transformation programme, which is focused 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).

7. INTANGIBLE ASSETS (continued)

The benefits of the transformation programme will be realised throughout the life of the LLP's contracts with Guy's and St Thomas' NHS Foundation Trust (GSTT), King's College Hospital NHS Foundation Trust (KCHT) and Bedford Hospital Trust (BHT). The transformation programme costs will be recovered over the life of those contracts.

The transformation activity was planned to be completed by the end of 2013 and this strand of expenditure has been largely completed. Amortisation for each sub-project starts once it has been completed. At this point the asset is transferred from assets under construction to intangibles. Transformation assets are amortised over the shorter of the expected economic life of the asset or the term of the contract.

Transformation assets relate to the BHT and KCHT contracts. These contracts run until 2019 and 2020 respectively, and 2020 is the latest year to which any constituent part of the assets are amortised.

The management team have conducted a review of the transformation programme and the Board consider that the intangible assets values are approximately equal to their value in use and no impairment is required (2012: £0.55m). The value in use of the transformation programme at 31 December 2013 is fully recoverable over the life of the existing Pathology Services Agreement (PSA) contracts in which activity will be measured and revenues recognised with GSTT, KCHT and BHT.

GSTS will be implementing over 2014 and 2015 a major upgrade of its laboratory information system software and it is expected that further intangible assets will be created and capitalised in relation to this and similar projects.

8. PROPERTY, PLANT AND EQUIPMENT

	2013 **£000**	2012 £000
Cost		
At 1 January	**6,489**	6,081
Additions during the period	**1,984**	577
Disposals	**(296)**	(40)
Impairment	**-**	(129)
At 31 December	**8,177**	6,489
Accumulated depreciation		
At 1 January	**(3,396)**	(2,238)
Charge for the period	**(1,200)**	(1,185)
Disposals	**268**	27
At 31 December	**(4,328)**	(3,396)
Net book value		
At 31 December	**3,849**	3,093

	2013 **£000**	2012 £000
Net book value of finance lease assets	**184**	234
Capital expenditure commitments- contracted but not provided for	**731**	158

A review of tangible fixed assets has been completed and the Board consider that the tangible assets values are approximately equal to their value in use and no impairment is required (2012: £0.13m).

9. TRADE AND OTHER RECEIVABLES

a) Trade and other receivables falling due within one year:

	2013 **£000**	2012 £000
Trade receivables	**882**	614
Trade receivables impairment provision	**(300)**	(47)
Total trade receivables	**582**	567
Other amounts recoverable on contracts	**441**	441
Amounts owed by members (note 14)	**11,317**	11,766
Other receivables	**68**	54
Prepayments and other accrued income	**1,821**	904
Total receivables falling due within 1 year	**14,229**	13,732

Ageing of past due but not impaired receivables

	2013 **£000**	2012 £000
Not overdue	**506**	143
30 – 60 days	**31**	189
60 - 90 days	**27**	120
90 – 120 days	**15**	33
Over 120 days	**3**	82
	582	567

Movement in trade receivables impairment provision

	2013 **£000**	2012 £000
Balance as at 1 January	**47**	46
Impairment loss recognised	**265**	12
Utilised	**(12)**	(11)
Balance as at 31 December	**300**	47

b) Trade and other receivables falling due after one year:

	2013 **£000**	2012 £000
Amounts recoverable on contracts	**1,837**	2,278
Total receivables falling due after 1 year	**1,837**	2,278

Amounts recoverable on contracts relate to pre-contract and transition costs incurred on the GSTT, KCHT and BHT contracts. These costs have been recognised in accordance with the accounting policy as set out in Significant Accounting Policies – Contract costs on page 21 of these accounts. The transition costs represent the expenditure incurred to deliver the KCHT and BHT contracts into 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 their fair value.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2013

10. INVENTORIES

	2013 £000	2012 £000
Stock ready for use by the business	**2,140**	2,140
Net realisable value of stock as at 31 December	**2,140**	2,140

Inventories represent reagents, stains and other materials consumed in the pathology testing process.

The Members estimate that the carrying amount of inventories approximates their fair value.

No inventories have been pledged as security.

11. CASH AND CASH EQUIVALENTS

	2013 £000	2012 £000
Cash at bank and in hand	**5,918**	**4,359**
Cash and cash equivalents	**5,918**	**4,359**

12. TRADE AND OTHER PAYABLES

a) Trade and other payables falling due within one year:

	2013 £000	2012 £000
Trade and other payables	**5,036**	3,520
Amounts owed to members (note 14)	**5,854**	10,413
Other taxes and social security	**1,335**	968
Accruals	**3,718**	2,786
Deferred income	**6,138**	6,164
Total payables falling due within 1 year	**22,081**	23,851

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

b) Trade and other payables falling due after one year:

	2013 £000	2012 £000
Finance lease creditor	**156**	215
Total payables falling due after one year	**156**	215

13. MEMBERS' INTERESTS

	Members' capital £000	Other reserves £000	Loans and other debts due to members £000	Total £000
Balance at 1 January 2012	3,331	(8,370)	14,871	9,832
Loans repaid to members	-	-	(600)	(600)
Profit for the financial year available for discretionary division among members	-	303	-	303
Balance at 1 January 2013	3,331	(8,067)	14,271	9,535
Profit for the financial year available for discretionary division among members	-	3,839	-	3,839
Balance at 31 December 2013	**3,331**	**(4,228)**	**14,271**	**13,374**

There have been no movement in loans to members in 2013. Loans of £0.6m were repaid to KCHT during February 2012.

14. RELATED PARTY TRANSACTIONS

During the year, as part of its normal business operations, the LLP entered into a substantial number of transactions with its members; Guy's and St Thomas' NHS Foundation Trust, King's College Hospital NHS Foundation Trust and Serco Limited.

Trading transactions

During the year ended 31 December 2013, the LLP entered into the following material trading transactions with its members:

Related party	**Sales 31 Dec 2013 £000**	**Purchases 31 Dec 2013 £000**	**Amounts owed from related party at 31 Dec 2013 £000**	**Amounts owed to related party at 31 Dec 2013 £000**
Guy's and St Thomas' NHS Foundation Trust	**50,982**	**24,097**	**6,723**	**3,183**
Serco Limited	**-**	**887**	**74**	**1,988**
King's College Hospital NHS Foundation Trust	**30,084**	**15,683**	**4,520**	**682**
Total	**81,066**	**40,667**	**11,317**	**5,853**

Related party	Sales 31 Dec 2012 £000	Purchases 31 Dec 2012 £000	Amounts owed from related party at 31 Dec 2012 £000	Amounts owed to related party at 31 Dec 2012 £000
Guy's and St Thomas' NHS Foundation Trust	48,849	26,208	8,284	6,894
Serco Limited	-	422	74	2,961
King's College Hospital NHS Foundation Trust	28,715	16,236	3,408	558
Total	77,564	42,866	11,766	10,413

Material related party transactions can be summarised as follows:

Guy's and St Thomas' NHS Foundation Trust:

1) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to Guy's and St Thomas' NHS Trust (GSTT). Amounts invoiced to GSTT in the year were £51.0m (2012: £48.8m).
2) Under the secondment agreement, GSTT supply seconded staff to the LLP under retention of employment (RoE) legislation. Amounts invoiced by GSTT were £15.7m (2012: £17.9m).
3) The number of staff seconded as at 31 December 2013 was 314 (2012: 346).
4) 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 £8.3m in the year (2012: £8.2m).
5) A provision of £0.07m (2012: £0.5m) has been maintained against invoiced pathology tests.
6) There is no provision against disputed RoE costs in 2013 (2012: £0.2m).
7) GSTT invoiced £0.002m in respect of transformation costs in 2013 (2012: £0.1).
8) An interest charge of £0.1m (2012: £0.1m) has been recognised in profit and loss in relation to the loan from GSTT.

14. RELATED PARTY TRANSACTIONS (continued)

Serco Limited:

1) Serco charged an amount of £0.1m in 2013 (2012: £0.1m) under the Serco Services Agreement (SSA) for IT, accounting, payroll and finance charges.
2) Serco supplied insurances to the LLP in 2013. In 2013 the amount charged was £0.3m (2012: £1.0m).
3) An Interest charge of £0.2m (2012: £0.2m) has been recognised in profit and loss in relation to the loan from Serco.
4) Staff working for the LLP, employed by Serco payroll were recharged to the LLP £0.3m (2012: £0.6m).
5) There has been no revenue contribution from Serco in 2013. (2012: £1.3m).

King's College Hospital NHS Foundation Trust:

1) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to KCHT. Amounts invoiced amounted to £30.1m in the year (2012: £28.7m).
2) Under the secondment agreement KCHT supply seconded staff to the LLP under RoE Legislation. Amounts invoiced by KCHT in the year were £11.4m (2012: £11.9m). The number of staff seconded as at 31 December 2013 was 208 (2012: 239).
3) Certain transactions are invoiced by KCHT under the Trust Services Agreement (TSA) such as rent, service charges, equipment lease charges and medical staff recharges. Amounts invoiced amounted to £4.2m in the year (2012: £4.7m).
4) There have been no movements in short term financing in 2013. £0.6m was repaid in February 2012.
5) An interest charge of £0.1m (2012: £0.1m) has been recognised in profit and loss in relation to the loan from KCHT.

15. ANALYSIS OF NET DEBT

	31 December 2012 £000	Cash flows £000	Interest charges £000	Non-cash £000	**31 December 2013 £000**
Current assets					
Cash and cash equivalents	4,359	1,559	-	-	**5,918**
Current liabilities					
Finance leases	(57)	65	(8)	(59)	**(59)**
Non-current liabilities					
Finance leases	(215)	-	-	59	**(156)**
Loans over one year	(14,271)	-	-	-	**(14,271)**
Net debt	(10,184)	1,624	(8)	-	**(8,568)**

Cash and cash equivalents comprise cash balances at major UK banks. There are no bank overdrafts.

16. 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:

	2013 £000	2012 £000
Financial assets – loans and receivables		
Trade receivables (note 9)	**582**	567
Other receivables (note 9)	**68**	54
Amounts owed by members (note 9)	**11,317**	11,766
Cash and cash equivalents (note 11)	**5,918**	4,359
Financial liabilities – at amortised cost		
Trade and other payables (note 12)	**(5,036)**	(3,520)
Loans due to members (note 13)	**(14,271)**	(14,271)
Amounts owed to members (note 12)	**(5,854)**	(10,413)
Net financial liabilities	**(7,276)**	(11,458)

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

The principal risks arising from the LLP's use of financial assets and liabilities and details of how these risks are managed are set out in the Strategic report on page 5, 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 were renegotiated in 2013 and now fall due on 31 December 2016 (£12.175m) and 30 September 2020 (£2.1m).

If LIBOR interest rates move by 1% the LLP could be exposed to an increase/(decrease) in interest charge of £1.43m per annum (2012: £1.43m).

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

31 December 2013	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	Over 1 year £000	Total £000
Financial assets – loans and receivables					
Trade receivables (note 9)	**506**	**58**	**18**	**-**	**582**
Other receivables (note 9)	**9**	**17**	**41**	**1**	**68**
Amounts owed by members (note 9)	**11,317**	**-**	**-**	**-**	**11,317**
Cash and cash equivalents (note 11)	**5,918**	**-**	**-**	**-**	**5,918**
Financial liabilities – at amortised cost					
Trade and other payables (note 12)	**(5,036)**	**-**	**-**	**-**	**(5,036)**
Loans due to members (note 13)	**-**	**-**	**-**	**(14,271)**	**(14,271)**
Amounts owed to members (note 12)	**(5,854)**	**-**	**-**	**-**	**(5,854)**
Net financial instruments	**6,860**	**75**	**59**	**(14,270)**	**(7,276)**

16. FINANCIAL RISK MANAGEMENT (continued)

31 December 2012	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	Over 1 year £000	Total £000
Financial assets – loans and receivables					
Trade receivables (note 9)	144	308	115	-	567
Other receivables (note 9)	17	13	24	-	54
Amounts owed by members (note 9)	11,766	-	-	-	11,766
Cash and cash equivalents (note 11)	4,359	-	-	-	4,359
Financial liabilities – at amortised cost					
Trade and other payables (note 12)	(3,520)	-	-	-	(3,520)
Loans due to members (note 13)	-	-	-	(14,271)	(14,271)
Amounts owed to members (note 12)	(10,413)	-	-	-	(10,413)
Net financial instruments	2,353	321	139	(14,271)	(11,458)

17. LEASE COMMITMENTS

Operating leases

Under the terms of the lease agreements, no contingent rents are payable.

The future minimum lease payments under operating leases are as follows:

	2013 £000	2012 £000
Within one year	**241**	405
Between one and five years	**841**	111
After five years	**119**	-
	1,201	516

Finance leases

Finance lease liabilities are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Within one year	**65**	65	**63**	63
In the second to fifth year inclusive	**162**	227	**148**	203
After five years	**-**	-	**-**	-
	227	292	**211**	266
Less: future finance charges on finance leases	**(12)**	(20)	**(11)**	(19)
Present value of lease obligations	**215**	272	**200**	247

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the LLP's lease obligations is approximately equal to their carrying amount.

18. DEFINED CONTRIBUTION PENSION SCHEMES

Pre-funded defined benefit pension schemes treated as defined contribution schemes

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 2013 of £661,021 (2012: £631,552), into this scheme. The balance due at 31 December 2013 was £22,995 (2012: £nil). The scheme is closed to new entrants.

Defined contribution schemes

Some employees of the LLP benefit from employer contributions to the Serco managed Legal and General stakeholder pension scheme. The LLP paid employer contributions for the year ended 31 December 2013 of £424,346 (2012: £262,696). The balance due at 31 December 2013 was £40,521 (2012: £27,712).

In all cases the schemes' assets are held separately from those of the LLP in contract-based arrangements.

19. SUBSEQUENT EVENTS

In January 2013, the LLP was informed by HMRC that the VAT status of supplies made by the LLP was to be changed from a standard rating, to a VAT exempt status, with effect from 1 May 2013. The Members took legal advice and decided to challenge this ruling in the courts. The High Court judgment dated 22 April 2013 gave GSTS 'interim relief' from this proposed change, so that a First Tier Tribunal could consider the legal position. Costs were awarded to the LLP and the judge ruled that in the event that the VAT status does change following the First Tier Tribunal, then the LLP should be given reasonable time to restructure so as to continue providing a safe and high quality service to its customers. The First Tier Tribunal was heard on 31st July 2013 and the LLP received the Court's decision on 19 February 2014. The decision of the Tribunal was that the LLP's appeal was unsuccessful and the LLP is currently in discussions to agree a date for the change in its VAT status.

As part of the LLPs overall rebranding of its services the LLP plans to change its corporate structure. The LLP has been engaged with HMRC and has received HMRC's approval for its planned structure. Within this structure the LLP will continue to be central to the provision of services. The Members have assessed the effect of irrecoverable VAT, which results from the Tribunal's decision, on the LLPs cash flows, together with the costs of restructuring the LLP and are satisfied that the cash impact of the Tribunal's decision and the planned restructure will be able to be absorbed by the current business.