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Public Health Laboratory Service Board Accounts 2004-2005

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Chairman's Statement for Report and Accounts 2004-2005

As I explained in the Annual Report for 2003-2004, at the start of 2004-2005 the Chief Executive had just been informed that Ministers had decided that the remaining business of the Public Health Laboratory Service (PHLS), the supply of pre-poured microbiological media, should be sold. The Department of Health assumed the responsibility for managing the disposal, through a working party on which PHLS Management and, later, the Board were represented. This process was challenging for the Board, and, as I reported last year, most Members considered that its openness and transparency to them could have been improved. The outcome was the negotiation of a sale of the business to Oxoid Limited, and the contract was signed on 2 August 2004.

We understood that Oxoid did not intend to utilise the PHLS's sites for production. It therefore became a major Board objective to ensure that satisfactory provisions would be made for the staff. In discussion with all parties, including the trade unions, we agreed that the transition would be better managed by PHLS in advance of the sale, within public sector terms and conditions. This required urgent and delicate negotiations to be undertaken at speed, because of the timetable, and the need to preserve continuity of our capacity to operate right up until the point of transfer. I am pleased to report that, as at the year-end, virtually all our employees had taken up new jobs or retired. The Board are grateful for the efforts made by Tony Sillis, the Chief Executive, and the four area managers – ably assisted by Mel Guest, on loan from the Health Protection Agency [HPA] – to manage the personnel transition smoothly and with the minimum of personal distress.

The sale agreement provided for sequential site-by-site transfer of the business. This allowed a phased transfer of customers from PHLS to Oxoid, guaranteeing continuous supply of media for diagnostic operations in the hospitals we served. A number of specialised media lines, produced exclusively for the HPA, in premises within the latter's Colindale site, were excluded from the sale and transferred to the HPA at the conclusion of the sale process.

It will be apparent from these accounts that the amount the Board received for the sale was insufficient to cover the costs associated with making the change of ownership and closing our sites in an employee-friendly manner, the latter being dominated by pension liabilities. However, in these difficult circumstances, we were able to continue operating successfully right up to the point of closure of each unit, and manage the transition without requiring extra financing, by virtue of our trading surplus within the year and that brought forward from 2003-2004. The Board believe this outcome to be consistent with what we understood the Department's objective to be: the smooth transfer of the operation to the private sector without requiring an allocation of new funding from the Exchequer in 2004-2005.

I should like to take this final opportunity to record my personal deep appreciation of the contribution to this successful outcome made by Tony Sillis, and by our Finance Director, Simon Blake, working virtually alone, and also to acknowledge the support of Board Members, especially those who served on the Media Services Board.

These accounts mark the final demise of the Public Health Laboratory Service, an organisation with a distinguished, world-class history of scientific endeavour, in pursuit of the goal of protecting the population of England and Wales from infection. My Board colleagues and I are conscious of the enormous importance of this activity to public health and we are proud to have been associated with it.

Roger Tabor

Chairman, Public Health Laboratory Service Board

Foreword to the Accounts

Background Information

The PHLS Board was constituted under sub-sections 5(4) and 5(5) of the National Health Service Act 1977 to exercise functions with respect to the administration of a microbiological service under sub-section 5(2)(c) in England and Wales. The constitution of the Board has been extended by the Public Health Laboratory Service Act 1979 to include such other activities as in the opinion of the Secretary of State can conveniently be carried on in conjunction with the service. Charges may be made for services or materials supplied under sub-section 5(2)(c) of the 1977 Act, and the powers conferred by that sub-section may be exercised both for the purposes of the Health Service and for other purposes.

The Health Protection Agency came into being on 1 April 2003 and all PHLS functions other than that of producing microbiological culture media were transferred to the HPA on 1 April 2003 – the annual accounts for 2003-2004 give further detail.

On 2 August 2004, the contract for the sale of Media Services to Oxoid Limited was signed. Subsequently, the production site at Taunton was closed on 31 October 2004, that at Leeds on 30 November 2004, and that at Chester on 31 January 2005. Production of routine media at the Colindale site ceased on 31 March 2005, whilst the specialist media production facility at the same site was transferred to the HPA on the same date.

The Secretary of State formally dissolved the PHLS on 31 March 2005.

Principal activities

The sole activity of the PHLS during 2004-2005 was the production of microbiological culture media.

Result for the year

The result for the year was an operating surplus of £47,000 on normal trading. After taking into account closure costs, sale proceeds and brought forward reserves, the final cumulative balance showed a surplus of £168,000.

Review of activities

Activities during 2004-2005 focused on maintaining production levels, maintaining ISO 9001(2000) accreditation, and ensuring a smooth handover of customers to Oxoid Limited.

A considerable amount of work was carried out to ensure that staff were fully informed of their statutory rights, and to ensure that staff were treated fairly.

Fixed assets

As detailed in the 2003-2004 accounts, assets to the value of £160,000, committed before 30 March 2004 were purchased in the year. These new assets were transferred at cost and before delivery to PHLS, to Oxoid Limited, together with the majority of other fixed assets. All remaining fixed assets were transferred to the Health Protection Agency on 31 March 2005.

There were no fixed assets remaining as at 31 March 2005.

Board membership

The persons who served on the PHLS Board during the year ended 31 March 2005 were as follows

Mr Roger Tabor *	Chairman
Dr David Old *	Deputy Chairman
Mr John Cox *	
Prof Maxwell Irvine *	
Mr John Quin *	
Mr David Seal *	
Prof A Mike Emmerson	
Mr Tim Everett	
Dr Douglas Fleming	
Prof AJ Hall	
Mr Roy Luff	
Dr Vanessa Mayatt	
Dr David Scales	
Ms Pamela Taylor	
Mr David T Wood	

* denotes PHLS Media Services Board membership.

Preparation of accounts

These accounts have been prepared in accordance with paragraph 17 of Schedule 3 to the National Health Service Act 1977 and are drawn up in a form determined by the Secretary of State, and approved by the Treasury. Subject to these requirements the accounts for the financial year ended 31 March 2005 are prepared in accordance with:

- a the Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
- b other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view; and
- c any other specific disclosures required by the Secretary of State, except where agreed otherwise with HM Treasury, in which case the exception shall be disclosed in the notes to the accounts.

Going concern

On 2 August 2004 PHLS entered into a contract with Oxoid Limited to sell its business to the company. PHLS continued in existence throughout 2004-2005 during which the business was transferred to Oxoid Limited. All business operations ceased on 31 March 2005, at which date the Secretary of State formally dissolved the PHLS.

Employee relations

The PHLS promoted positive employment relations with staff and their representatives and a Recognition and Procedure Agreement with the relevant trade unions was in place for many years.

During 2004-2005 many meetings were held with staff and their representatives. Although TUPE applied to the sale of Media Services, Oxoid did not wish staff to transfer. Therefore negotiations with staff full-time representatives focused on ascertaining the future aspirations of the staff, and establishing mechanisms to ensure that staff remained in post until site closure.

Communications with employees

The PHLS has been committed to regular, informed communication with its employees at all levels. This was carried out by a variety of means, both formal and informal. The PHLS aimed to ensure the regular and clear communication of information that may impact upon employees' working and professional lives.

Equality and diversity

The PHLS undertook to promote equality and diversity and not to discriminate between employees or job applicants and recognised that it was responsible for taking all reasonable steps to enforce this policy.

In implementing this policy the PHLS ensured that the statutory provisions of the Sex Discrimination Acts 1975/1986; Equal Pay Act 1970; Race Relations Act (1976); Race Relations Amendment Act (2000) and the Disability Discrimination Act (1995) were observed.

Persons with disabilities

The PHLS policy in respect of people with disabilities is incorporated into the PHLS Equality and Diversity Policy. The PHLS took all practicable steps to ensure that it met the requirements of the Disability Discrimination Act (1995). Relevant principles and practices were incorporated into training programmes for staff involved in recruitment and selection procedures.

Health and safety

The PHLS complied with all relevant legislation and regulations concerning health and safety at work.

A comprehensive programme of inspections, risk assessments and training had been carried out and the PHLS was committed to ensuring that safe and healthy working conditions were provided for employees, contract staff and visitors.

Statement of payment practices

It was PHLS policy to pay suppliers in accordance with the Better Payments Practice Code. For the year ended 31 March 2005, 78% of invoices (which amounted to 80% of the total value of payments) were paid within 30 days. The PHLS finance function was provided by the HPA, this function being an integral part of the HPA finance system.

Register of interests

The Chief Executive maintained a register of Board members' interests.

Audit

The PHLS auditor is the Comptroller and Auditor General. Details of the audit fee for the year are disclosed in the financial statements.

Other than the statutory audit of the financial statements, the Comptroller and Auditor General has not provided any other services to the PHLS during the year ended 31 March 2005.

Tony Sillis
Accounting Officer

23 May 2006

Statement of Accounting Officers responsibilities

Under the National Health Service Act 1977, the Accounting Officer is required to prepare accounts for each financial year. The Secretary of State, with the approval of HM Treasury, directs that these accounts present a true and fair view of the Agency's income and expenditure and cash flows for the financial year, and of the state of affairs at the year-end. In preparing the accounts, the Accounting Officer is required to

- observe the Accounts Direction issued by the Secretary of State and approved by HM Treasury;
- apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis.

The Accounting Officer for the Department of Health has appointed the Chief Executive as the Accounting Officer for the Public Health Laboratory Service. His relevant responsibilities, as Accounting Officer, including his responsibility for the propriety and regularity of the public finances, for the keeping of proper records and the safeguarding of PHLS assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by HM Treasury and published in Government Accounting.

The Health and Social Care (Community Health and Standards) Act 2003 repealed the section of the National Health Service Act 1977 relating to the Public Health Laboratory Service Board, and so the responsibilities for the preparation of this final account rest with the 2003 Act.

Statement on Internal Control

Introduction

During the year ended 31 March 2005, PHLS Media Services focused on continuing production of microbiological culture media whilst co-operating with the Department of Health in the sale of Media Services to the private sector. Included within this work were reviews of risk management, and of the risks involved in both the sale and winding-down processes.

Scope of responsibility

As Accounting Officer I am responsible for maintaining a sound internal control system that supports the achievement of the Board's policies, aims and objectives, whilst safeguarding public funds and Service assets for which I am responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Service's objectives and associated risks were discussed with the Department of Health and representatives from the Department of Health have attended Board meetings during the year.

Accountability within the PHLS is exercised through

- an Audit Committee and a Media Services Board, which support the Board in their responsibilities for issues of risk, control and governance and associated assurance. The Audit Committee has responsibility for advising on systems for risk, control and governance in their terms of reference, and has received and considered papers on Risk Management developed by the Media Services Board at meetings during the year; and
- an Executive Group comprising all Site Managers, the Financial Director and myself as the Accounting Officer. Each Site Manager is personally accountable for the management of the risks pertaining to their site, and has delegated authority to make decisions and incur costs within strict limits.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable assurance of effectiveness, not absolute assurance. The system is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2005 and, where appropriate for the dissolution of the Board and completion of these accounts, up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk, and the risk and control framework

Actions taken include the following

- a comprehensive risk register has been established. Quality and service delivery risks are reviewed in depth in accordance with maintaining ISO 9001(2000) certification;
- a framework for risk management has been put in place. Area managers are responsible for local risk management, and report to the Chief Executive, who is responsible for managing risk within the wider organisation; and
- risk registers were further developed to reflect the sale and closing-down process.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the management letter and reports of the external auditors, and by the work of the internal auditors and Site Managers who have responsibility for the maintenance of the internal control framework.

The Board receives reports from the Chairman of the Audit Committee and from the Chief Executive concerning risk, control and governance, and associated assurance. The Board and the Chief Executive monitor the appropriateness and effectiveness of the risk management strategy. Internal Audit provides an independent, objective assurance and consulting service designed to add value and improve operations. Its work is based on an agreed audit plan, which is prepared by and carried out in accordance with the principles of Government Internal Audit Standards. This helps ensure that the work undertaken by Internal Audit provides a reasonable indication of the controls in operation. The Head of Internal Audit provides an annual written statement to the Accounting Officer and the Audit Committee, setting out a formal opinion on the adequacy, reliability and effectiveness of the systems and controls in place.

For reasons of service continuity, the Board retained six staff members beyond the closure dates of three of its four sites, thereby attracting enhanced payments. During audit of these accounts, it became apparent that such action required Treasury approval in accordance with the guidelines for 'novel and contentious' payments within Treasury's Government Accounting. Further clarification of Treasury guidelines was issued in August 2005, and retrospective approval was sought. However, the Treasury concluded that these payments fell outside normal delegated authority, and denied retrospective approval on 20 February 2006.

Tony Sillis
Accounting Officer

23 May 2006

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 14 to 24 under the Health and Social Care (Community Health and Standards) Act 2003. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 to 19.

Respective responsibilities of the Board, Chief Executive and Auditor

As described on page 6, the Board and Chief Executive are responsible for the preparation of the financial statements in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State with the approval of HM Treasury and for ensuring the regularity of financial transactions. The Board and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State with the approval of HM Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Board has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 and 8 reflects the Board's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Unqualified opinion on the truth and fairness of the financial statements and qualified opinion on the regularity of expenditure arising from payments made to employees.

As described in the Foreword, the Board sold its culture media production business during the financial year and systematically closed its laboratories over that period. The Board retained certain staff beyond the closure dates of three of its four laboratories. In each case, evidence suggests the retention period was dictated by individual employment anniversary dates rather than in accordance with any agreed business case. Such action requires Treasury approval in accordance with the guidelines for 'novel and contentious' payments within Treasury's *Government Accounting*. Treasury concluded that these payments and liabilities fell outside the normal delegated authorities, and denied retrospective approval on 20 February 2006. The excess expenditure which totals £233,000 is therefore considered to be irregular.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Public Health Laboratory Service Board at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State with the approval of HM Treasury; and
- except for payments and liabilities incurred by the Board in relation to the retention of certain staff after the closure of laboratory sites during the year, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

My report on the financial statements is at pages 11 to 13.

John Bourn
Comptroller and Auditor General

30 June 2006

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Report by the Comptroller and Auditor General: Public Health Laboratory Service Board 2004-2005

Introduction

- 1 The Public Health Laboratory Service Board (the Board) was constituted as a non-departmental public body under the National Health Service Act 1977 to exercise functions with respect to the administration of a microbiological service in England and Wales.¹ The constitution of the Board was extended by the Public Health Laboratory Service Act 1979 to include such other activities as, in the opinion of the Secretary of State, can conveniently be carried on in conjunction with the service.
- 2 Following a Department of Health report in 2002, 'Getting Ahead of the Curve: A Strategy for Combating Infectious Diseases', legislation was introduced to create a new entity, the Health Protection Agency (HPA), and to transfer most of the functions of the Board to the HPA, together with the relevant staff and assets. The Health and Social Care (Community Health and Standards) Act 2003 provided for the eventual dissolution of the Board.
- 3 From 1 April 2003, the Board's sole function was its culture media production business, operating under the name of PHLS Media Services, which continued to supply the NHS whilst the Department of Health and the Board considered options for these facilities. Culture media is used for growing micro-organisms to diagnose infectious diseases.
- 4 The Department of Health, in consultation with the Board, decided that the Board should dispose of this business, and the tangible and intangible assets of PHLS Media Services were subsequently sold to Oxoid Ltd in August 2004.
- 5 Throughout the 2004-2005 financial year, the Board closed its laboratories in a systematic way to ensure an uninterrupted supply of culture media to the NHS, ceasing operations altogether on 31 March 2005. On this date the Board was dissolved and all remaining assets and liabilities were transferred to the Health Protection Agency.
- 6 PHLS Media Services employed 69 people on four sites in Colindale, Taunton, Leeds and Chester. In most cases, the employees were made redundant or retired on or before the closure of the laboratory in which they worked.

My responsibility as auditor

- 7 I am required, under Auditing Standards, to obtain sufficient appropriate audit evidence to satisfy myself that, in all material respects, the financial transactions incurred by the Board conform to the authorities governing them. In forming my opinion, I examine, on a test basis, the regularity of financial transactions included within the financial statements. Regularity can be defined as the requirement that a transaction is in accordance with
 - authorising legislation;
 - regulations issued under governing legislation;
 - Parliamentary authorities; and
 - HM Treasury authorities.

¹ The Public Health Laboratory Service was originally established by the Public Health Laboratory Service Act 1960 but that was repealed and replaced by the NHS Act 1977.

- 8 I have qualified my opinion on the account for 2004-2005 because payments made to certain staff retained beyond the closure of the laboratory within which they had been working did not comply with HM Treasury authorities. The contractual payments and consequential pensions liabilities made to these staff were in breach of requirements for 'novel and contentious' payments set out in HM Treasury's *Government Accounting*. HM Treasury concluded that these payments and liabilities fell outside the normal delegated authorities and denied retrospective approval on 20 February 2006. The excess expenditure, which totals £233,000 is therefore considered irregular.

Purpose of this report

- 9 The purpose of my report is to explain how these costs were incurred and why they are irregular.

Retention of staff beyond the closure of the laboratories

- 10 In accordance with the sale agreement with Oxoid Ltd, the Board decommissioned its laboratories throughout 2004-2005 on a phased basis. The majority of staff working in the laboratories were made redundant or retired on the closure date of their laboratory.
- 11 The Board, however, saw a need for a small number of staff to remain employed at the Leeds, Chester and Taunton sites for a time after closure, to decommission machinery and to be available for resolving any remaining business. The Board followed best practice for consulting with employees about the closure and decided that offering staff the opportunity to remain in employment after the closure of their site would ensure fair treatment of staff across all sites. As part of this process, it became clear that a small number of individuals were due to reach key employment anniversaries between the closure of their laboratory and the end of the financial year, when the final site closed. The anniversaries were either reaching the age of 50 or length of service.
- 12 In the event, six employees (Table 1) remained beyond the closure date. In each case, the staff retained were due to reach such a critical anniversary date between the closure of their site and the end of the financial year, and they were each retained only until that anniversary date. There was no pattern of retention across the four laboratory sites. The Board incurred additional costs as a result of these retentions, largely due to the impact on pensions; costs.

Table 1: Six employees were retained beyond the closure of their laboratory

Site	Closure date	Staff retained	Leaving date	Weeks retained	Anniversary
Taunton	31 October 2004	1	30 November 2004	5	Start work
Leeds	30 November 2004	3	12 February 2005 6 February 2005 31 January 2005	11 10 9	Age 50 Start work Start work
Chester	31 January 2005	2	26 March 2005 31 March 2005	8 9	Start work Start work
Colindale	31 March 2005	Nil	-	-	-

- 13 Whilst a condition of this continuing service was that the individuals had to remain available to undertake reasonable duties if required, I have not been provided with sufficient evidence that they were gainfully employed in the period following the laboratory closures.
- 14 Although the payments to these staff were contractual, there was no clear business case for retaining these staff. As these additional costs could have been avoided, they required approval from HM Treasury. This was not sought at the time they were incurred but, following my audit, the Department wrote to HM Treasury seeking retrospective approval.

- 15 HM Treasury declined such approval on 20 February 2006 on the grounds that there was insufficient evidence that the Board made the decision to retain the staff on the basis of good value for money.
- 16 I have estimated the additional costs incurred as a result of retaining these staff beyond the closure of their respective laboratories to be some £233,000. This includes additional redundancy pay through longer service, capitalised pension costs and additional pay for the extra weeks retained on the payroll.

Conclusion

- 17 HM Treasury have denied retrospective approval for the additional costs incurred. As the transactions are not, therefore, in accordance with HM Treasury authorities, they are irregular. I have qualified my opinion accordingly.

John Bourn
Comptroller and Auditor General

30 June 2006

Income and Expenditure Account

	Notes	31 March 2005 £'000	31 March 2004 £'000
Income			
Government grant in aid	2	208	588
Operating income	3	3509	4136
Total income		3717	4724
Expenditure			
Staff costs	5	1243	1505
Other operating charges	4	2327	2797
Depreciation	13	75	107
Total expenditure		3645	4409
Operating surplus before cost of capital		72	315
Cost of capital charge	1(h)	(25)	(31)
Operating surplus for the year		47	284
Reversal of cost of capital charge	1(h)	25	31
Exceptional items: dissolution of PHLS			
Proceeds from sale of business	11	953	0
Closure costs	12	(1498)	0
Net cost of dissolution of PHLS		(545)	0
Deficit/surplus for the year		(473)	315
Retained surplus brought forward		641	326
Retained surplus carried forward	18	168	641

Statement of Total Recognised Gains and Losses

	Note	31 March 2005 £'000	31 March 2004 £'000
Deficit/surplus for the year		(473)	315
Unrealised surplus on revaluation of fixed assets	18	0	4
Total losses/gains recognised for the year		(473)	319

Balance Sheet

	Notes	31 March 2005 £'000	31 March 2004 £'000
Fixed assets			
Tangible fixed assets	13	0	617
Current assets			
Stock	14	0	440
Debtors	15	220	481
Cash with the HPA		491	218
Total current assets		711	1139
Creditors - amounts due within one year	16	543	498
Net current assets		168	641
Total assets less current liabilities		168	1258
Provisions	17	0	0
Net assets		168	1258
Capital and reserves			
Government grant reserve	18	0	617
Income and expenditure account	18	168	641
Total capital and reserves		168	1258

Tony Sillis
Accounting Officer

23 May 2006

Cash Flow Statement

		31 March 2005 £'000	31 March 2004 £'000
Net cash inflow from operations	21	234	218
Capital expenditure			
Payments to acquire fixed assets		(160)	(157)
Acquisitions and disposals			
Sale of business	11	1052	0
Closure costs		(1013)	0
Net cash inflow before financing		113	61
Financing			
Capital grants received	2	160	157
Increase in net cash in the year		273	218

Notes to the Financial Statements

1 Accounting policies

a Accounting convention

The accounts for the PHLS have been prepared under the historical cost convention, modified to include the revaluation of fixed assets. Without limiting the information given, the accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Health with the approval of HM Treasury. The accounts comply with generally accepted accounting practice in the United Kingdom (UK GAAP) to the extent that this is meaningful in respect of PHLS affairs.

On 2 August 2004 PHLS entered into a contract with Oxoid Limited to sell its business to the company. PHLS continued in existence throughout 2004-2005 during which the business was transferred to Oxoid Limited. All business operations ceased on 31 March 2005, at which date the Secretary of State formally dissolved the PHLS.

b Operating income

Operating income comprises amounts receivable, excluding Value Added Tax, for goods and services supplied.

c Government Grant in Aid

Government Grant in Aid that contributes to the general activities of the PHLS is credited to the Income and Expenditure Account as received. Government Grant in Aid that finances specific revenue activities is credited to the Income and Expenditure Account so as to match the income with the related expenditure. Any such specific Government Grant in Aid received before the expenditure to which it relates is charged to the Income and Expenditure Account, is held as deferred income. Government Grant in Aid receivable as a contribution towards capital expenditure is credited to the Government Grant Reserve and is released to the Income and Expenditure Account to match any depreciation charge on the capital asset.

d Tangible fixed assets

Tangible fixed assets are valued at depreciated replacement cost. The depreciated replacement cost is calculated by applying, annually, appropriate indices to the cost. Individual items with a value below £5,000 are not capitalised. Tangible fixed assets of the same or similar type acquired around the same time, and scheduled for disposal about the same time or assets that are purchased at the same time and are used together are grouped and treated as if they were individual assets.

For tangible fixed assets funded by grants, each year an amount equal to the depreciation is transferred from the Government Grant Reserve and/or the Other Grants Reserve to the Income and Expenditure Account. For tangible fixed assets not funded by grants, the only amount transferred from reserves relates to the excess of the actual depreciation over the historic cost depreciation, which is transferred from the Revaluation Reserve to the Income and Expenditure Account. For tangible fixed assets funded by grants, each year an amount equal to the depreciation is transferred from the Government Grant Reserve and/or the Other Grants Reserve to the Income and Expenditure Account. For tangible fixed assets not funded by grants, the only amount transferred from reserves relates to the excess of the actual depreciation over the historic cost depreciation, which is transferred from the Revaluation Reserve to the Income and Expenditure Account. Currently, all tangible fixed assets have been funded by Government Grant in Aid.

e Depreciation

Depreciation is provided, from the month following purchase, on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write-off the cost or valuation of each asset evenly over its expected useful life as follows

Asset category	Estimated Useful Life
Buildings	Up to 50 years as advised by the Valuation Office Agency
Plant and Machinery	5 to 20 years
Vehicles	7 years
IT Equipment	3 to 5 years

f Stock

Stock is valued at the lower of cost or net current replacement cost if materially different, and net realisable value. For stock held for resale, net realisable value is based on estimated selling price less further costs expected to be incurred to completion.

g Research and development

Research and development expenditure is charged to the Income and Expenditure Account as incurred.

h Notional costs (cost of capital charge)

The Income and Expenditure account includes a notional charge for the cost of the Government funded capital employed during the year. The charge is calculated at 3 1/2% of the average net assets for the year, excluding cash balances held with the Office of the Paymaster General which do not attract interest and fixed assets funded by Grants other than the Government Grant in Aid.

i Value added tax

The PHLS is registered for Value Added Tax (VAT). VAT is charged on invoices for business contracts relating to products and services where applicable. The PHLS recovers part of its input VAT proportionate to its business activities in relation to total income. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure or capitalised if it relates to a fixed asset.

j Operating leases

Operating lease costs are charged to the income and expenditure account on a straight-line basis over the lease term.

k Taxation

The PHLS as a Non-Departmental Public Sector Body is exempt from income tax and corporation taxes under Part XII of the Income and Corporation Taxes Act 1988.

l Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in accordance with Statement of Standard Accounting Practice 20.

m Pensions

The PHLS participates in the NHS pension scheme. Details of the scheme are included in the notes to the financial statements (note 9). Although the scheme is unfunded the PHLS contributes annual premiums and retains no further liability, except for certain employees who have taken early retirement. The annual premiums are charged to the income and expenditure account as incurred. In certain circumstances, employees taking early retirement are entitled to an enhanced lump sum and ongoing pension. The PHLS is responsible for meeting the additional cost of the lump sum, the full cost of the pension until normal retirement age and the enhanced element of the pension thereafter. A provision is made for the estimated future cost of early retirements at the time when the employee retires. For the year 2004-2005, no provisions were required, as the capital costs for early retirement were charged to the Income and Expenditure Account in the year.

2 Government Grant in Aid

	31 March 2005 £'000	31 March 2004 £'000
Department of Health	<u>0</u>	<u>931</u>
Total grant in aid received	0	931
Transferred to capital	(160)	(157)
Transferred from/to deferred income	293	(293)
Total revenue grant in aid received	133	481
Transfer from reserve for depreciation	75	107
Total grant in aid income	208	<u>588</u>

3 Operating income

	31 March 2005 £'000	31 March 2004 £'000
Sales of products	3509	4136
Other income	0	0
Total operating income	3509	<u>4136</u>

4 Other operating charges

	31 March 2005 £'000	31 March 2004 £'000
Production consumables	1598	1937
Supplies and services	414	502
Accommodation	250	324
Audit fee	25	25
Bad and doubtful debt provision	40	9
Total other operating charges	2327	<u>2797</u>

5 Staff costs

	31 March 2005 £'000	31 March 2004 £'000
Salaries and wages	902	1145
Social security costs	67	88
Other pension costs	85	64
Total costs of staff employed	1054	1297
Agency staff	189	147
Redundancy and early retirement costs	0	61
Total staff costs	1243	1505

6 Employee numbers

The number of persons employed during the year, expressed in whole time equivalents, was 69 including 13 agency staff split as follows

	2004-2005	2003-2004
Administrative	2	2
Operations and technical	67	67

Employee numbers represent the average number of staff in post prior to the sale. As sites were systematically decommissioned, staff were made redundant or retired early. There were no staff remaining in employment after 31 March 2005.

7 Emoluments of Non-Executive Board Members

The total emoluments for the year ended 31 March 2005 of the Chairman of the Board, Mr Roger Tabor, amount to £11,000 (2003-2004 – £11,000) and of the Deputy Chairman, Dr David Old, amount to £4,000 (2003-2004 – £4,000). The non-executive Board members received attendance allowances totaling £2,000 (2003-2004 – £6,000). The non-executive Board members received no other benefits.

8 Emoluments of Members of the Executive Group

The two members of the Executive Group in the year were Tony Sillis (Chief Executive) and Simon Blake (Financial Director). Emoluments relating to the year ended 31 March 2005 were

Tony Sillis - £119,000 including £45,000 redundancy settlement.

Simon Blake - £68,000 including £7,000 redundancy settlement

Neither member of the executive group remained in PHLS employment after 31 March 2005.

9 Pension scheme

The PHLS participates in the NHS Pension Scheme, which is an unfunded multi-employer defined benefit scheme. The PHLS is unable to identify its share of the underlying assets and liabilities of the scheme. A full actuarial valuation was carried out in March 1999, details of which can be found in the report of the Government Actuary on the NHS Pensions Agency which is available on the NHS Pensions Agency website.

All employees are eligible to join the Scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No. 300). Under these regulations, the PHLS is required to pay an employer's contribution (for the year ended 31 March 2005 this amounted to 14% of pensionable pay (7% in 2003-2004), as specified by the Secretary of State for Health). These contributions are charged to the income and expenditure account as and when they become due. Employees pay contributions of 6% (manual staff 5%) of pensionable pay. Eligible employees may pay additional contributions to purchase added years. For the year ended 31 March 2005 employer's contributions of £85,000 (2003-2004 – £64,000) and employees' contributions of £38,000 (2003-2004 – £51,000) in respect of all staff belonging to the Scheme were paid to the NHS Pensions Agency.

Under the terms of the Social Security Act 1986, employees have the option to provide their own personal pension rather than join or remain in the Scheme.

Employer and employee contributions are used to defray the costs of providing the NHS Pension Scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Agency. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The Scheme is notionally funded. Scheme accounts are prepared annually by the NHS Pensions Agency and are examined by the Comptroller and Auditor General. The Government Actuary values the Scheme every five years and his quinquennial reports are published.

The Scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement that is available to employees to enhance their pension benefits.

In certain circumstances, employees taking early retirement are entitled to an enhanced lump sum and ongoing pension. The PHLS is responsible for meeting the additional cost of the lump sum, the full cost of the pension until normal retirement age and the enhanced element of the pension thereafter. A provision is made for the estimated future cost of early retirements at the time when the employee retires.

10 Related party transactions

The PHLS is sponsored by the Department of Health, which is regarded as a related party. During the year PHLS has had various transactions with the Department itself, and with other bodies for which the Department is regarded as the parent entity. These transactions include income from the Department, income from sales to the NHS and HPA, and support and facilities agreements with the HPA.

During the year, no Board members, members of the senior management or other related parties undertook any material transactions within the PHLS.

11 Net proceeds from sale of business

	31 March 2005 £'000	£'000
Sale proceeds	0	1052
Cost of tangible assets sold	1662	
Cumulative depreciation of assets sold	(960)	
Stock transferred to Oxoid	99	
Book value of assets sold		(801)
Profit on sale of business		251
Release of Grant Reserve		702
Net proceeds from sale of business		953

The proceeds from the sale to Oxoid Limited was satisfied by cash.

12 Closure costs

	31 March 2005 £'000	31 March 2004 £'000
Staff redundancy	312	0
Staff early retirement	1128	0
Support costs supplied by HPA	58	0
Total closure costs	1498	0

Included in the above is £233,000 relating to contractual payments and liabilities incurred as a result of retaining staff beyond the closure of the sites in which they worked. HM Treasury concluded in February 2006 that the Board exceeded delegated Treasury authority in retaining these staff, thereby rendering the expenditure irregular.

13 Tangible fixed assets

	Plant and Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost or valuation				
As at 31 March 2004	1195	151	156	1502
Additions	160	0	0	160
Revaluations	0	0	0	0
Disposals	(1355)	(151)	(156)	(1662)
At 31 March 2005	0	0	0	0
Depreciation				
As at 31 March 2004	691	149	45	885
Charge for the year	64	2	9	75
Disposals	(755)	(151)	(54)	(960)
At 31 March 2005	0	0	0	0
Net book value				
At 31 March 2004	504	2	111	617
At 31 March 2005	0	0	0	0

14 Stock

	31 March 2005 £'000	31 March 2004 £'000
Consumables and other stores	0	250
Finished products	0	190
Total stock	0	440

15 Debtors

	31 March 2005 £'000	31 March 2004 £'000
Trade debtors	120	478
Sale proceeds from Oxoid	94	0
Prepayments and other debtors	6	3
Total debtors	220	481

16 Creditors

	31 March 2005 £'000	31 March 2004 £'000
Amounts falling due within one year		
Trade creditors	0	136
Accruals and other creditors	58	69
Due to NHS Pension Agency	485	0
Deferred income	0	293
Total creditors due within one year	<u>543</u>	<u>498</u>

There were no creditors falling due after more than one year at 31 March 2005.

17 Provision for Liabilities and Charges

	31 March 2005 £'000	31 March 2004 £'000
Legal claims	0	0
Future costs of early retirement	0	0
Total	<u>0</u>	<u>0</u>

The liability for all legal claims and future costs of early retirement arising before 31 March 2003 were transferred to the HPA on 1 April 2003. There were no new legal claims in the years to 31 March 2004 and 31 March 2005. There were no staff retiring in the year to 31 March 2004 and the liability for employees retiring early in the year to 31 March 2005 has been provided for in the closure costs.

18 Capital and reserves

	Government Grant Reserve	Income and Expenditure Account	Total
As at 31 March 2004	617	641	1258
Transfer to Income and Expenditure re depreciation	(75)	0	(75)
Transfer from Income and Expenditure account	160	0	160
Release of grant on sale of assets	(702)	0	(702)
Deficit for the year	0	(473)	(473)
At 31 March 2005	<u>0</u>	<u>168</u>	<u>168</u>

19 Capital commitments

There were no contracted capital commitments at 31 March 2005.

20 Operating lease commitments

There were no operating lease commitments at 31 March 2005.

21 Reconciliation of operating surplus to net cash inflows

	31 March 2005 £'000	31 March 2004 £'000
Operating surplus	47	284
Adjustments for non-cash transactions		
Depreciation	75	107
Cost of capital	25	31
Adjustments for working capital changes		
Change in stocks	341	(116)
Change in debtors and accrued income	261	(479)
Change in creditors	(440)	498
Transfer from reserves	(75)	(107)
Net cash inflow from operating activities	234	218

22 Analysis of changes in net funds

The change in net funds in the year to 31 March 2005 is the £273,000 increase in net cash shown in the cash flow statement.

23 Financial instruments

Financial Reporting Standard 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the way in which the PHLS is financed, it is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which Financial Reporting Standard 13 mainly applies.

The PHLS has no powers to borrow, invest surplus funds or purchase foreign currency with grant in aid from the government. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the PHLS in undertaking its activities.

The PHLS has no borrowings and relies primarily on funding from the Department of Health for its own cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling.

The PHLS is not exposed to significant interest rate risk.

The PHLS has a limited amount of foreign currency expenditure, upon which the currency risk is deemed to be negligible.

For all other assets and liabilities book value represents fair value.

As allowed by Financial Reporting Standard 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have not been disclosed as financial instruments.

24 Contingent liabilities

All contingent liabilities arising prior to 31 March 2003 were transferred to the HPA on 1 April 2003. We are not aware of any contingent liabilities that have arisen in the two years to 31 March 2005

25 Post balance sheet events

The Secretary of State dissolved the PHLS on 31 March 2005. In accordance with governing legislation, all remaining assets and liabilities were transferred to the HPA on dissolution of the Board.

Note - these pages do not form part of the audited accounts

Trading result

	31 March 2005 £'000	31 March 2004 £'000
Gross sales	3872	4436
Less inter-site sales	(363)	(300)
Net sales	3509	4136
Operating costs		
Raw materials	1961	2237
Less inter-site sales	(363)	(300)
Net raw materials	1598	1937
Salaries	1078	1275
Other operating costs	465	595
Total operating costs	3141	3807
Operating surplus	368	329
Head Office costs		
Salaries	165	230
Administration	199	231
Audit fee	25	25
Doubtful debts	40	9
Total Head Office costs	429	495
Grant income	133	481
Net surplus	72	315

This page, which does not form part of the audited accounts, has been included so that the trading performance of PHLS Media in 2004-2005 can be meaningfully compared with that of 2003-2004. This comparison is considered a key part of the management's overall control system.

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