

Presented pursuant to c.49 Sch. 3 para 18 of the National Health Service Act 1977

Public Health Laboratory Service Board Account 2003-2004

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Chairman's Statement for Report and Accounts 2003-2004

At the start of the financial year the Public Health Laboratory Service transferred its main functions to the new Health Protection Agency, and its laboratories either to the HPA or their host NHS Trust. At that time four small operational units, producing pre-poured microbiological culture media for supply to public health laboratories, were omitted from the transfer, and the PHLS Board was retained to oversee their operation and determine their future. To do this we established a small Media Services Board.

The Board, who had not expected still to exist at this point, thus faced a significant challenge. We had to maintain a reliable supply of media, through an operation with an uncertain future, whose staff considered they had been treated as an afterthought, even as steps were being taken to abolish the PHLS Board itself. Our first task was therefore to establish appropriate organisation and controls, and to examine the viability of the operation, which had up until then been an internal supply activity. We were impressed by the dedication of the staff, and the excellent reputation they enjoyed with their customer laboratories, despite, in some cases, working in less than modern accommodation.

At the Department of Health's request we prepared a comprehensive report on future options, aided by external advice and based on appropriate research and analysis, by August 2003. The Board's strongly held professional judgement was in favour of retaining the business within the public sector, with a modest investment in rationalisation to establish viable, standalone capability. We believed it would be preferable to create a sustainable entity, and drew up plans to do this over 18 months. Before responding to the Board, the Department initiated a further external study and the Board was unable to action its plans, pending a decision.

I am grateful for the leadership provided during this challenging period by Keith Saunders, formerly Deputy Director of the Service, who agreed to defer his planned retirement until 31 March 2004, in order to take on the role of Chief Executive, in the expectation that the Board's task would be completed within the year. When it became clear that this could not happen, as a decision was still awaited, I was pleased that Tony Sillis, Production Director, agreed to act as Chief Executive on Keith's retirement, and to welcome Simon Blake to support him as Finance Director.

On 30 March 2004 Department of Health officials informed the Chief Executive that Ministers had decided that the business should be sold to the private sector, without first being rationalised. This decision was later formally conveyed to the Board in writing in early June.

The Department established a project board to oversee the disposal, on which the PHLS was represented by the Chief Executive. Non executive Board Members were not invited to contribute their expertise to this process, despite their accountability, until it was agreed in late April that I should participate.

As a result of these events, the optimism within the PHLS that we had succeeded in creating in mid 2003-2004 evaporated. The conclusion of a sale contract with Oxoid Limited was announced on 2 August 2004. The Board will now continue in existence through 2004-2005, with the task of closing PHLS down, ensuring continuity of supply to customers, and a smooth transfer of business to Oxoid. We are taking every measure possible to support our staff through this difficult period and are especially grateful for the professionalism and commitment of the four Area Managers.

The Board has throughout had an overriding concern for the well being of its staff. Unfortunately, the sensitivity of the sale process precluded early communication of the sale decision, at the request of the Department. We are disappointed that the eventual outcome is not as satisfactory as it might have been for our employees, and we have taken steps to ensure that they are treated as favourably as possible.

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 following Statutory Instrument numbers 505 and 506. In summary Statutory Instrument number 505 stated that

- any right that was immediately before 1 April 2003, enforceable by or against the PHLS shall, on or after that date be enforceable by or against the HPA; and
- all property and liabilities of the PHLS shall be transferred on 1 April 2003 to the HPA (except if related to such functions as the secretary of State has determined will continue to be carried out by the PHLS).

All PHLS functions other than that of producing microbiological culture media were transferred to the HPA, which made an immediate transfer of the majority of laboratories to NHS Trusts. The sole remaining PHLS assets were those related to culture media production. The remaining PHLS represents only 5% in terms of operating income compared with the PHLS as of 31 March 2003.

Media Services has four production sites, at Colindale, Chester, Leeds and Taunton. The Headquarters office remains within the HPA Corporate Services building at Colindale. Because of the uncertainty of the future of PHLS Media Services, essential support functions such as finance, purchasing, IT and Human Resources were provided by contract with the HPA. All income and expenditure is processed through the HPA systems, and cash balances are held by the HPA on behalf of the PHLS.

Principal activities

The sole activity of the PHLS is the production of microbiological culture media.

Result for the year

The result for the year was a surplus of £315,000, which has been added to the Income and Expenditure Account.

Review of activities and future developments

The customer base was consolidated during the year, adding several new NHS Trust customers to existing former PHLS laboratories.

CE marking of all non-specialist media products was achieved before the CE marking deadline of December 2003. In addition, all four production sites were successful in upgrading their quality systems to ISO 9001(2000).

A considerable amount of work was carried out in determining the Board's preferred options for PHLS Media Services in future years.

Since the year end, the Department of Health announced on 2 August 2004, that PHLS Media Services was to be sold to Oxoid Limited. Further details are set out in note 23 to the financial statements.

Fixed assets

On 1 April 2003, ninety-nine percent of the PHLs' fixed assets by value, including all the land and buildings, were transferred to the HPA. The PHLs was left only with assets necessary for the production of microbiological culture media.

The cost of fixed asset additions during the year was £157,000.

Board membership

The persons who served on the PHLs Board during the year ended 31 March 2004 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. A copy of the accounts determination issued by the Secretary of State is attached at page 25. Subject to these requirements the accounts for the financial year ended 31 March 2004 and subsequent financial years 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 will continue in existence throughout 2004-2005 during which the business will be transferred to Oxoid Ltd. The Board has considered the results for the year, its financial position at the end of the year, the amounts owed by the PHLs, the continuing support of the Government and the 2004-2005 forecasts. Taking all of these factors into consideration, the PHLs believes that it is appropriate for the accounts to be prepared on a going concern basis.

Employee relations

The PHLs promotes positive employment relations with staff and their representatives and a Recognition and Procedure Agreement with the relevant trade unions has been in place for many years.

Communications with employees

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

Equality and diversity

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

In implementing this policy the PHLS will ensure 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) are observed.

Persons with disabilities

The PHLS policy in respect of people with disabilities is incorporated into the PHLS Equality and Diversity Policy. The PHLS takes all practicable steps to ensure that it meets 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 complies with all relevant legislation and regulations concerning health and safety at work.

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

Statement of payment practices

It is PHLS policy to pay suppliers in accordance with the Better Payments Practice Code. For the year ended 31 March 2004, 80% of invoices (which amounted to 70% of the total value of payments) were paid within 30 days. The PHLS finance function is provided by the HPA, this function being an integral part of the HPA finance system.

Register of interests

The Chief Executive, who will provide further appropriate information upon written application, maintains 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 2004.

Tony Sillis
Accounting Officer

26 January 2005

Statement of Accounting Officer's 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.

Statement on Internal Control

Introduction

The Health Protection Agency was established on 1 April 2003, and all functions of the PHLS, with the exception of PHLS Media Services, transferred to the Health Protection Agency.

During the year ended 31 March 2004, PHLS Media Services focused on continuing production whilst co-operating with the Department of Health in determining the future configuration and operation of the organisation. Included within this work were reviews of risk management, and of the risks involved in the various configurations and options. Systems already in place within the PHLS and HPA were to remain until PHLS Media Services could be established as a stand-alone organisation.

Mr Keith Saunders, the Accounting Officer for the period covered by these accounts, retired from the Service on 31 March 2004. I sign these accounts and the Statement of Internal Control, in my role as Accounting Officer for 2004-2005 on his behalf.

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 business plan, objectives and associated risks are discussed at the annual accountability meeting with the Minister for Public Health. 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 2004 and 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 so far include the following

- a comprehensive risk register has been established;
- a framework for risk management has been put in place. Area managers are responsible for local risk management, and report to the Production Manager, who is responsible for managing risk within the wider organisation;
- the Executive Group and Board regularly review and monitor the performance in achieving the corporate strategic goals;
- risk registers were further developed during the process of assessing the options for the future of the PHLS, and quality and service delivery risks were reviewed in depth during the process of attaining ISO 9001(2000) certification; and
- all Site Managers and the Chief Executive have attended risk management workshops to equip them in assessing risks, and also to demonstrate methods of promoting risk management through a collaborative approach to risk assessment.

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.

Tony Sillis
Accounting Officer

26 January 2005

The 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 11 to 23 under the National Health Service Act 1977. 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 14 to 16.

Respective responsibilities of the Board, Director and Auditor

As described on page 6, the Board and Director are responsible for the preparation of the financial statements in accordance with the National Health Service Act 1977 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 Director are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued 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 National Health Service Act 1977 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 to 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 Director'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 Director 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.

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 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of HM Treasury; and
- 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 have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

17 March 2005

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account

	Notes	31 March 2004 £000	31 March 2003 £000
Income			
Government grant in aid	2	588	71,021
Operating income - continuing operations	3,24	4,136	3,762
Operating income - discontinued operations	3,24	0	82,780
Operating income	3,24	4,136	86,542
Total income		4,724	157,563
Expenditure			
Staff costs	5	1,505	96,161
Other operating charges	4	2,797	60,505
Depreciation	11	107	3,681
Total expenditure - continuing operations	24	4,409	3,705
Total expenditure - discontinued operations	24	0	156,642
Total expenditure		4,409	160,347
Operating surplus/(deficit) before cost of capital		315	(2,784)
Cost of capital charge	1(i)	(31)	(3,191)
Operating surplus/(deficit) for the year		284	(5,975)
Reversal of cost of capital charge	1(i)	31	3,191
Loss on disposal of assets		0	(558)
Transfer from reserves		0	844
Surplus/(deficit) for the year		315	(2,498)
Retained surplus/(deficit) brought forward		326	(8,685)
Transferred to the HPA on 1 April 2003	24	0	11,509
Retained surplus carried forward		641	326

Statement of Total Recognised Gains and Losses

	Note	31 March 2004 £000	31 March 2003 £000
Surplus/(deficit) for the year		315	(2498)
Unrealised surplus on revaluation of fixed assets	16	4	12830
Total gains recognised for the year		319	10332

Balance Sheet

	Notes	31 March 2004 £000	31 March 2003 £000
Fixed assets			
Tangible fixed assets	11	617	63,115
Current assets			
Stock	12	440	4,158
Debtors	13	481	12,464
Cash at bank and in hand		246	317
Total current assets		1,167	16,939
Creditors - amounts due within one year	14	526	12,969
Net current assets		641	3,970
Total assets less current liabilities		1,258	67,085
Provisions	15	0	(8,713)
Net assets		1,258	58,372
Capital and reserves			
Government grant reserve	16	617	25,843
Capital reserve	16	0	23,868
Revaluation reserve	16	0	19,844
Income and expenditure account	16	641	(11,183)
Total capital and reserves		1,258	58,372

Tony Sillis
Accounting Officer

26 January 2005

Cash Flow Statement

	Notes	31 March 2004 £000	31 March 2003 £000
Net cash inflow from operations	19	246	752
Capital expenditure			
Payments to acquire fixed assets		(157)	(4947)
Receipts from sale of fixed assets		0	194
Net cash inflow/(outflow) before financing		89	(4001)
Financing			
Capital grants received	2	157	4381
Increase in net cash in the year		246	380

Notes to the Financial Statements

1 Accounting policies

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 will continue in existence throughout 2004-2005 during which the business will be transferred to Oxoid Ltd. The Board has considered the results for the year, its financial position at the end of the year, the amounts owed by the PHLS, the continuing support of the Government and the 2004-2005 forecasts. Taking all of these factors into consideration, the PHLS believes that it is appropriate for the accounts to be prepared on a going concern basis.

Discontinued operations

On 1 April, 2003 all property and liabilities of PHLS, except those relating to the ongoing production of microbiological culture media, transferred to the Health Protection Agency. The majority of PHLS' NHS laboratories were subsequently transferred to the relevant NHS Trusts. The financial impact of the transfer of those assets and liabilities on opening net assets is set out in note 24.

The aggregate results of the continuing operations (the production of microbiological culture media) and discontinued operations (activities transferred to the Health Protection Agency and NHS Trusts) are in note 24. The analysis of comparative figures has been compiled using 2002-03 management accounts. It is not possible to disaggregate the 2002-2003 government grant-in-aid and certain central overhead costs.

Operating income

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

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.

Other grants receivable

Grants receivable other than Government Grant in Aid are accounted for in the same way as Government Grant in Aid except that any amounts receivable as contributions towards capital expenditure are credited to an Other Grants Reserve. No such capital grants were received in the year to 31 March 2004.

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. Currently, all tangible fixed assets have been funded by Government Grant in Aid.

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	Five to 20 years
Vehicles	Seven years
IT Equipment	Three to five years

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.

Research and development

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

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 3.5% 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.

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.

Operating leases

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

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.

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.

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. As at 31 March 2004 there were no employees in early retirement and consequently no provision was required.

2 Government Grant in Aid

	31 March 2004 £000	31 March 2003 £000
Department of Health	931	56,520
National Assembly for Wales	0	4,814
Consultants' excellence award funding	0	1,180
Other grants	0	4,648
Total grant in aid received	931	67,162
Transferred to capital	(157)	355
Transferred to deferred income	(293)	0
Total revenue grant in aid received	481	67,517
Transfer from reserve for depreciation	107	3,504
Total grant in aid income	588	71,021

3 Operating income

	31 March 2004 £000	31 March 2003 £000
Sales of products (continuing operations)	4,136	3,762
Income from services (discontinued operations)	0	81,937
Other income (discontinued operations)	0	843
Total operating income	4,136	86,542

4 Other operating charges

	31 March 2004 £000	31 March 2003 £000
Production consumables	1,937	28,384
Supplies and services	500	29,114
Accommodation	324	2,294
Audit fee	27	63
Bad and doubtful debt provision	9	650
Total other operating charges	2,797	60,505

5 Staff costs

	31 March 2004 £000	31 March 2003 £000
Salaries and wages	1,145	80,141
Social security costs	88	6,015
Other pension costs	64	5,019
Total costs of staff employed	1,297	91,175
Agency staff	147	4,181
Redundancy and early retirement costs	61	805
Total staff costs	1,505	96,161

6 Employee numbers

The average number of persons employed during the year, expressed in whole time equivalents, was 69 (31 March 2003: 3,242) including 13 agency staff split as follows

	2003-2004	2002-2003
Medical/Nursing	0	286
Administrative	2	664
Scientific	0	291
Other	0	21
Operations and technical	67	1,980
	69	3242

7 Emoluments of Non-Executive Board Members

The total emoluments for the year ended 31 March 2004 of the Chairman of the Board, Mr Roger Tabor, amount to £11,000 (2002-2003: £8,000) and of the Deputy Chairman, Dr David Old, amount to £4,000 (2002-2003: £2,000). The non-executive Board members received attendance allowances totalling £6,000 (2002-2003: £29,000). The non-executive Board members received no other benefits.

8 Emoluments of Members of the Executive Group

The only member of the Executive Group in the year was Keith Saunders, aged 60. His total emoluments and pension entitlements relating to the year ended 31 March 2004 were

- a Emoluments:- £183,000 including £61,000 redundancy settlement (2002-2003 - £107,000);
- b Real increase in pension entitlement – £5,000; and
- c Pension accrued at 31 March 2004 – £56,000.

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 2004 this amounted to 7% of pensionable pay, 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 2004 employer's contributions of £60,000 (2002-2003: £5,019,000) and employees' contributions of £51,000 (2002-2003: £5,827,000) 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 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
As at 31 March 2003	56,869	21,233	6,979	589	85,670
Transferred to the HPA on 1 April 2003	(56,869)	(20,101)	(6,812)	(486)	(84,268)
Opening balance at 1 April 2003	0	1,132	167	103	1,402
Additions	0	76	0	81	157
Revaluations	0	4	0	0	4
Disposals	0	(17)	(16)	(28)	(61)
At 31 March 2004	0	1,195	151	156	1,502
Depreciation					
As at 31 March 2003	7,405	10,817	3,973	360	22,555
Transferred to the HPA on 1 April 2003	(7,405)	(10,200)	(3,811)	(300)	(21,716)
Opening balance at 1 April 2003	0	617	162	60	839
Charge for the year	0	91	3	13	107
Disposals	0	(17)	(16)	(28)	(61)
At 31 March 2004	0	691	149	45	885
Net book value					
At 31 March 2003	49,464	10,416	3,006	229	63,115
At 31 March 2004	0	504	2	111	617

12 Stock

	31 March 2004 £000	31 March 2003 £000
Consumables and other stores	250	3,915
Finished products	190	243
Total stock	440	4,158

13 Debtors

	31 March 2004 £000	31 March 2003 £000
Trade debtors	478	9,427
Prepayments and other debtors	3	3,037
Total debtors	481	12,464

14 Creditors

	31 March 2004 £000	31 March 2003 £000
Amounts falling due within one year		
Trade creditors	136	8,201
Accruals and other creditors	97	14
Taxation and social security	0	2,443
Deferred income	293	2,311
Total creditors due within one year	526	12,969

There were no creditors falling due after more than one year at 31 March 2004

15 Provision for liabilities and charges

	31 March 2004 £000	31 March 2003 £000
Legal claims	0	1,834
Future costs of early retirement	0	6,879
Total	0	8,713

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 or employees retiring early in the year to 31 March 2004.

16 Capital and reserves

	Government Grant Reserve	Capital Reserve	Revaluation Reserve	Income and Expenditure Account	Total
	£000	£000	£000	£000	£000
Closing balance at 31 March 2003	25,843	23,868	19,844	(11,183)	58,372
Transfer to the HPA	(62,552)	0	0	5,069	(57,483)
Post-transfer rationalisation	37,272	(23,868)	(19,844)	6,440	0
Opening balance at 1 April 2003	563	0	0	326	889
Capital grant transferred	450	0	0	0	450
Transfer to deferred income	(293)	0	0	0	(293)
Revaluation of fixed assets	4	0	0	0	4
Transfer in respect of depreciation	(107)	0	0	0	(107)
Surplus for the year	0	0	0	315	315
Balance at 31 March 2004	617	0	0	641	1,258

17 Capital commitments

The contracted capital commitments at 31 March 2004 not provided for in the accounts amounted to £153,000.

18 Operating lease commitments

There were no operating lease commitments at 31 March 2004.

19 Reconciliation of operating surplus to net cash inflow from operating activities

	31 March 2004 £000	31 March 2003 £000
Operating surplus/(deficit)	284	(5,975)
Adjustments for non-cash transactions		
Depreciation	107	3,681
Cost of capital	31	3,191
Adjustments for working capital changes		
Change in provisions	0	1,632
Change in stocks	(116)	(356)
Change in debtors and accrued income	(479)	(1,011)
Change in creditors	526	3,094
Transfer from reserves	(107)	(3,504)
Net cash inflow from operating activities	246	752

20 Analysis of changes in net funds

The cash at bank and in hand of £317,000 at 31 March 2003 was transferred to the HPA on 1 April 2003 leaving a nil balance for the PHLS. The change in net funds in the year to 31 March 2004 is therefore the £246,000 increase in net cash shown on the cash flow statement.

21 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.

22 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 year to 31 March 2004

23 Post balance sheet events

The Department of Health informed the PHLS Chief Executive on 30 March 2004, that PHLS Media Services was to be sold to the private sector, and that no funding would be forthcoming from the Department for the 2004-2005 financial year. Ultimately, this led to the announcement on 2 August 2004, that PHLS Media Services was to be sold to Oxoid Limited, and that the PHLS would be dissolved as a Non-Departmental Public Body on 31 March 2005. As a consequence, closure costs will be incurred during the year to 31 March 2005.

24 Transfer of activities to the Health Protection Agency

On 1 April, 2003 all property and liabilities of the PHLS, except those relating to the ongoing production of microbiological culture media, transferred to the Health Protection Agency, which then immediately transferred the majority of laboratories to NHS Trusts. The financial impact of the transfer of those assets and liabilities on opening net assets is set out below

	31 March 2003 Closing £000	Transfer to the HPA £000	Adjustments £000	1 April 2003 Opening £000
Fixed assets				
Tangible fixed assets	63,115	(62,552)	0	563
Current assets				
Stock	4,158	(3,834)	0	324
Debtors	12,464	(12,462)	0	2
Cash at bank and in hand	317	(317)	0	0
Total current assets	16,939	(16,613)	0	326
Creditors - amounts due within one year	12,969	(12,969)	0	0
Net current assets	3,970	(3,644)	0	326
Total assets less current liabilities	67,085	(66,196)	0	889
Provisions	(8,713)	8,713	0	0
Net assets	58,372	(57,483)	0	889
Capital and reserves				
Government grant reserve	25,843	(62,552)	37,272	563
Capital reserve	23,868	0	(23,868)	0
Revaluation reserve	19,844	0	(19,844)	0
Income and expenditure account	(11,183)	5,069	6,440	326
Total capital and reserves	58,372	(57,483)	0	889

The aggregate results of the continuing operations (the production of microbiological culture media) and discontinued operations (activities transferred to the Health Protection Agency) are set out below.

	31 March 2004 £000	Continuing Operations £000	31 March 2003 Discontinued Operations £000	Total Operations £000
Operating income	4,136	3,762	82,780	86,542
Expenditure				
Staff costs	1,505	1,133	95,028	96,161
Other operating charges	2,797	2465	58,040	60,505
Depreciation	107	107	3,574	3,681
Total expenditure	4,409	3,705	156,642	160,347
Government grant in aid	588	107	70,914	71,021
Operating surplus/(deficit) before cost of capital	315	164	(2,948)	(2,784)

The analysis of comparative figures has been compiled using 2002-2003 management accounts. It is not possible to disaggregate the 2002-2003 government grant-in-aid and certain central overhead costs with the exception of the transfer from government reserves to offset the depreciation charge.

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

Trading result

	31 March 2004 £000	31 March 2003 £000
Gross sales	4,436	4,074
Less inter-site sales	(300)	(312)
Net sales	4,136	3,762
<i>Operating costs</i>		
Raw materials	2,237	2,188
Less inter-site sales	(300)	(312)
Net raw materials	1,937	1,876
Salaries	1,275	1,133
Other operating costs	595	589
Total operating costs	3,807	3,598
Operating surplus	329	164
<i>Head Office costs</i>		
Salaries	230	
Administration	231	
Audit fee	25	
Doubtful debts	9	
Total Head Office costs	495	
Grant income	481	
Net surplus	315	

Notes to the Trading Statement

- 1 These pages, which do not form part of the audited accounts, have been included so that the trading performance of PHLS Media in 2003-2004 can be meaningfully compared with that of 2002-2003. This comparison is considered a key part of the management's overall control system
- 2 In 2002-2003 PHLS Media was a small division in a much larger PHLS and did not produce its own audited accounts. The figures for 2002-2003 are therefore extracted from the PHLS unaudited management accounts and may contain estimated amounts.

Accounts Determination

The Secretary of State, with the approval of the Treasury, in pursuance of paragraph 17 of Schedule 3 to the National Health Service Act 1977, hereby gives the following determination

- 1 In this determination, 'the Board' means the Public Health Laboratory Service Board.
- 2 The Board shall prepare accounts for the financial year ended 31 March 1997 and subsequent financial years comprising
 - a a foreword;
 - b an income and expenditure account;
 - c a balance sheet;
 - d a cash flow statement; and
 - e a statement of total recognised gains and losses;including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 3 The accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 4 Subject to this requirement, the accounts shall be prepared in accordance with
 - a generally accepted accounting practice in the United Kingdom (UK GAAP);
 - b the disclosure and accounting requirements contained in 'The fees and charges guide' (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury or the Secretary of State may issue from time to time in respect of accounts which are required to give a true and fair view;
 - c the accounting and disclosure requirements given in 'Government accounting' and in 'Executive NDPBs: annual reports and accounts guidance', as amended or augmented from time to time;insofar as these are appropriate to the Board and are in force for the financial year for which the statement of accounts is to be prepared.
- 5 Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
- 6 The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of
 - a fixed assets at their value to the business by reference to current costs; and
 - b stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

P Kendall
Branch Head (RMF-EAC Division)
Department of Health

6 May 1997

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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