

GSTS PATHOLOGY LLP

Annual Report and Financial Statements For the year ended 31 December 2012

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

GSTS PATHOLOGY LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS

CONTENTS

	PAGE
Designated members and advisers	3
Members' report	4
Chairman's statement	9
Statement of members' responsibilities	10
Independent auditor's report	11
Statement of comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Statement of cash flows	15
Significant accounting policies	16
Notes to the financial statements	19

GSTS PATHOLOGY LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS

DESIGNATED MEMBERS AND ADVISERS

Registration number: OC337242

Registered office: GSTS PATHOLOGY LLP
St Thomas' Hospital
Westminster Bridge Road
London
SE1 7EH

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

Bankers: HSBC Bank plc
Regional Service Centre Europe
PO Box 125
62-76 Park Street
London
SE1 9DZ

Independent auditor: Deloitte LLP
Chartered Accountants
Statutory Auditor
2 New Street Square
London
EC4A 3BZ

GSTS PATHOLOGY LLP

MEMBERS' REPORT

for the year ended 31 December 2012

The Members present their report on the affairs of GSTS Pathology LLP, together with the financial statements and auditor's report for the year ended 31 December 2012.

Structure

GSTS Pathology LLP (the LLP) is incorporated under the Limited Liability Partnership Act 2000 and is registered in England and Wales under registration number OC337242. GSTS Pathology LLP is wholly owned by its members.

Principal activities

The principal activity of the LLP is the provision of pathology services in the United Kingdom. It also operates to transform pathology by consolidating existing services while focusing on innovative, high quality service delivery.

Business review and future developments

The results for the year ended 31 December 2012 are set out on page 12. The Members believe that these results appropriately reflect the LLP's activities during the year and reflect management's focus on quality, innovation, improving efficiency and driving cost reductions for its NHS customers.

The Carter Reforms and NHS QIPP programme are driving the pace of change in the provision of pathology services in the NHS and continue to provide strategic opportunities for the LLP. During 2012, the LLP continued to develop a pipeline of bid opportunities including a bid to provide pathology services for Bedford Hospital Trust in partnership with Consolidated Pathology Services in the East of England. This presents an exciting opportunity to expand the LLP's operations and is expected to be a catalyst for change in the wider pathology market.

One of the key components to this year's successful financial results has been the continued drive to deliver further operational efficiencies for the existing hospital contracts at Guy's and St Thomas' Hospitals, King's College Hospital and Bedford Hospital. This has delivered cost reductions of £5.3m in 2012, with a full-year benefit of some £7.5m. The programme will continue to be implemented without compromising the LLP's commitment to deliver clinical excellence. Further operational efficiencies will continue throughout 2013 which will allow surplus cash to be reinvested back into the business through capital investment.

The Members have maintained their investment in the business and 2013 will see the implementation of further new pathology laboratories as services are consolidated. A £4.5m capital investment programme has been approved for 2013.

Key performance indicators (KPIs)

Revenue is a measure of the LLP's success in achieving its strategic objectives to grow its business and improve operating performance. Revenue in 2012 was £87.6m (2011: £84.5m), delivering growth of 3.7%. Planned forecast growth will be significantly higher as the East of England contract is implemented.

Gross profit percentage improved in 2012 to 20.0% (2011: 19.7%). This reflects the continuing cost improvement programme that ran throughout the year.

Staff turnover in the 12 months to 31 December 2012 was 26.9% (2011: 29.9%). This is favourable against 2011 and reflects management's policy of replacing interim staff with new permanent employees as well as its commitment to its staff development programme.

Financial risk management objectives and policies

- **Interest rate risk**

The LLP is exposed to interest rate risk on funding from its members. As at 31 December 2012, the LLP had drawn down loans totalling £14.3m (2011: £14.9m) from its members. Interest is paid on member loans at 2% above LIBOR relating to three month deposits. There are no other significant borrowings or bank overdrafts.

GSTS PATHOLOGY LLP

MEMBERS' REPORT (continued) for the year ended 31 December 2012

- **Credit risk**

The LLP's principal financial assets are trade and other receivables.

The Members do not consider that the LLP is exposed to significant credit risk, on the basis that the three main customers account for substantially all receivables and are successful NHS foundation trusts. The Trusts are independently regulated by Monitor and are largely government funded. Monitor authorises and regulates NHS foundation trusts and supports their development, ensuring they are well-governed and financially robust.

The LLP trades with its designated members and creditworthy third parties. It is the LLP's policy that, as deemed appropriate, clients and customers are subject to credit vetting procedures. During the accounting year, the LLP had three major public sector customers and a number of smaller public sector and commercial customers.

- **Liquidity risk**

The LLP has received funding from its members and has no other significant borrowings. The LLP continues to benefit from the joint support of its members. Adequate funds are provided by the members through a combination of loan funding and working capital management. The Members, therefore, do not consider that the LLP is exposed to significant liquidity risk.

Corporate governance

- **Overview**

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

- **Members' Board**

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

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

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

Certain specific responsibilities are delegated to board committees, notably the audit and remuneration committees, which operate within clearly defined terms of reference and are described below.

- **Operating Board**

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

GSTS PATHOLOGY LLP

MEMBERS' REPORT (continued) for the year ended 31 December 2012

- Operating Board sub-committees
 - Remuneration Committee
The Remuneration Committee is a standing sub-committee of the Operating Board. It meets at least once a year and reviews the remuneration arrangements including salary and benefits for the GSTS executive team. The meeting is chaired by the independent chairman of GSTS and attendees represent each of the members. The GSTS company secretary also attends.
 - Audit Committee
The Audit Committee is a standing sub-committee of the Operating Board. Its first meeting was on 21 March 2013 and thereafter it will meet at least twice a year to review the financial risk, control and assurance processes as well as the statutory accounts, audit compliance and corporate risk register. The meeting is chaired by the independent chairman of GSTS and attendees represent each of the members. The GSTS company secretary also attends.
 - Clinical Governance and Risk Management Committee
The Clinical Governance and Risk Management Committee is a standing sub-committee of the Operating Board. It supports the Board in gaining reasonable assurance that GSTS has unified and effective structures for clinical governance and the related aspects of risk management and assurance to support the organisation's programme for quality improvement and safety.
- Chairman and Chief Executive Officer
The Chairman, Christopher Baker MBE, is responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda. The Chief Executive Officer, Richard Jones, is responsible for leading and managing the LLP's business within the authorities delegated by the Board and implementation of board strategy and policy.

Going concern

The financial position of the LLP is shown on the statement of financial position on page 13 and its cash flows are described in the statement of cash flows on page 15 of the financial statements. The liquidity and financial risk are described above and in addition, note 16 of the financial statements provides details of the LLP's objectives, policies and processes for managing its capital and details of its financial instruments.

A high proportion of the LLP's expenditure and over 90% of the LLP's revenue is fixed and secured through long term contracts in place to 2019. The Members, who are also the primary suppliers of funding to the business, have made available to the LLP a committed loan facility. Management are committed to driving financial and operational improvements to deliver further sustainable profit enhancements.

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

In January 2013, the LLP was informed by HMRC that the VAT status of supplies made by the LLP was to be changed from a standard rating, to a VAT exempt status, with effect from 1 May 2013. The Members took legal advice and decided to challenge this ruling in the courts. The high court judgment dated 22 April 2013 gave GSTS 'interim relief' from this proposed change, such that a First Tier Tribunal can consider the legal position later in 2013. Additionally, costs were awarded to the LLP and the judge ruled that in the event that the VAT status does change following the First Tier Tribunal, then the LLP should be given reasonable time to restructure so as to continue providing a safe and high quality service to its customers.

As a consequence, the Members believe that the LLP is well placed to manage its business risks and continue as a going concern. The Members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the report and financial statements.

GSTS PATHOLOGY LLP

MEMBERS' REPORT (continued) for the year ended 31 December 2012

Designated members

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

Pathology Services Limited (registered number 06593374)

Serco Limited (registered number 00242246)

KCH Commercial Services Limited (registered number 06023863)

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

Members' drawings and capital

The level and timing of drawings is decided by the LLP's Board after taking into account the LLP's cash requirements for operating and investment activities. Unallocated profits are shown in 'other reserves' in the statement of financial position on page 13. The level of members' capital is defined in the members' agreement, dated 20 September 2010 and a further agreement between the Members dated 6 February 2012.

Employees

- **Equal opportunities policy**

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

There shall be no discrimination on the grounds of age, race, nationality, ethnic origin, gender, disability, religious belief, marital status, sexual orientation, social background or trade union affiliation. This policy applies to all departments and to all grades and positions.

All employees will be recruited, trained and promoted on the basis of ability, job requirements and fitness for work.

Where appropriate as determined by monitoring procedures, lawful positive action, training and encouragement will be considered in areas where particular groups are under-represented to make this policy fully effective.

The policy is in accordance with relevant legislation.

- **Health and safety**

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

- **Harassment**

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

- **Employee consultation**

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

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

Managers are tasked with developing employees' awareness of factors affecting the business and matters concerning them as employees and noting employees' views so that they can be taken into account when making decisions that may affect them or the business. Regular meetings are held with employee representatives where trade unions are recognised. A staff engagement group meets on a monthly basis at each operating location.

GSTS PATHOLOGY LLP

MEMBERS' REPORT (continued) for the year ended 31 December 2012

- **Employment of disabled persons**
Full and fair consideration is given to applications for employment made by disabled persons having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become disabled.

Supplier payment policy

The LLP negotiates and agrees the terms and conditions of payment for the supply of capital and revenue items just as keenly as they negotiate prices and other commercial matters. Suppliers are made aware of the agreed terms and the way in which disputes are settled. Payment is then made in accordance with these terms. The standard payments terms of the LLP are 30 days or other such terms as are negotiated with a supplier.

Trade creditors of the LLP at 31 December 2012 were equivalent to 36 days (2011: 39 days) purchases, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

There were no political contributions or material charitable contributions made by the LLP during the current year.

Disclosure of information to the auditor

The members of the Board at the date of approval of this report confirm that:

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

For these purposes, relevant audit information means information needed by the LLP's auditor in connection with the preparation of their report on page 11.

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

GSTS PATHOLOGY LLP

MEMBERS' REPORT (continued) for the year ended 31 December 2012

CHAIRMAN'S STATEMENT

GSTS has had a successful year. Management faced a significant challenge to bring the business to breakeven, having reported a significant loss in 2011. It is heartening to report that the business has exceeded this target and has reported a small profit in 2012 after absorbing a number of development costs that should benefit the business in future years. This has been achieved through a combination of successful trading and a rigorous review of its cost base resulting in a permanent and sustainable cost reduction. Further opportunities to improve efficiency continue to be identified and the cost improvement programme will proceed throughout 2013. I have confidence that the management team is well placed to steer the business to further success.

The LLP was not only set up to rationalise the pathology services of its NHS members but also to be a vehicle to drive efficiency within the wider pathology market. The progress of the addressable market had been slower than expected as NHS trusts have not tendered pathology services with the vigour that the financial pressures on the NHS demand and consequently the expansion of the business through acquiring further contracts has taken longer than expected. GSTS is working with Bedford Trust in partnership with Consolidated Pathology Services to deliver direct access services within this region, which we will achieve by expanding our operations at Bedford Hospital. As part of this bid activity, GSTS is developing a target operating model which can then be replicated elsewhere as we win further pathology contracts.

GSTS is committed to quality and innovation in pathology services. We are currently reviewing our brand to ensure it projects our core values and enables our geographically separate laboratories to come together as one organisation. We are uniquely well placed as a majority NHS-owned joint venture to play a very significant role in NHS pathology modernisation. We continue to explore new growth opportunities and to deliver excellent clinical services in an increasingly competitive pathology market.

I would like to thank all the employees of GSTS for their support in delivering the financial and operational turnaround which we have enjoyed in 2012.

Independent auditor

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



Approved by the Members and
signed on behalf of the Members

Ed Kessler
Pathology Services Limited
Designated Member
London
United Kingdom

17 July 2013

GSTS PATHOLOGY LLP

STATEMENT OF MEMBERS' RESPONSIBILITIES

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

Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, require the Members to prepare financial statements for each financial year. Under that law the Members have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the LLP's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions, in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

However, members are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

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

GSTS PATHOLOGY LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GSTS PATHOLOGY LLP

We have audited the financial statements of GSTS Pathology LLP for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the Significant Accounting Policies and the related Notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of members and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 December 2012 and of the LLP's profit for the year ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006, as applicable to limited liability partnerships.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applicable to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Ross Howard (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

17 July 2013

GSTS PATHOLOGY LLP**STATEMENT OF COMPREHENSIVE INCOME**
for the year ended 31 December 2012

Continuing operations	Notes	2012 £000	2011 £000
Revenue	2	87,575	84,543
Cost of sales		(70,092)	(67,883)
Gross profit		17,483	16,660
Administrative expenses		(16,799)	(22,181)
Operating profit/(loss)	4	684	(5,521)
Finance costs	6	(381)	(412)
Profit/(loss) for the financial year available for discretionary division among members	13	303	(5,933)
Total comprehensive income/(loss) for the year attributable to members		303	(5,933)

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

GSTS PATHOLOGY LLP

STATEMENT OF FINANCIAL POSITION as at 31 December 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Intangible assets	7	7,999	6,910*
Property, plant and equipment	8	3,093	3,843*
Trade and other receivables	9 b)	2,278	2,714
Total non-current assets		13,370	13,467
Current assets			
Inventories	10	2,140	2,141
Trade and other receivables	9 a)	13,732	15,921
Cash and cash equivalents	11	4,359	384
Total current assets		20,231	18,446
Total assets		33,601	31,913
Equity and liabilities			
Equity attributable to members			
Members' capital	13	3,331	3,331
Other reserves	13	(8,067)	(8,370)
Total equity		(4,736)	(5,039)
Non-current liabilities			
Loans and other debts due to members	13	14,271	14,871
Trade and other payables	12 b)	215	-
Total non-current liabilities		14,486	14,871
Current liabilities			
Trade and other payables	12 a)	23,851	22,081
Total current liabilities		23,851	22,081
Total liabilities		38,337	36,952
Total equity and liabilities		33,601	31,913

*The classification of 2011 assets under construction has been changed. See note 7.

The accompanying notes are an integral part of this statement of financial position.

The financial statements were approved by the Members and authorised for issue on 17 July 2013 and signed on the Members behalf by:



Ed Kessler
Pathology Services Limited
Designated Member

GSTS PATHOLOGY LLP

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2012

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

	Members' capital £000	Other reserves £000	Total £000
Balance at 1 January 2011	3,331	(2,437)	894
Total comprehensive income	-	(5,933)	(5,933)
Balance at 1 January 2012	3,331	(8,370)	(5,039)
Total comprehensive income	-	303	303
Balance at 31 December 2012	3,331	(8,067)	(4,736)

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

GSTS PATHOLOGY LLP

STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	2012 £000	2011 £000
Cash flow from operating activities		
Profit/(loss) for the period	303	(5,933)
Profit less losses on disposal of non-current assets	13	-
Other finance charges	7	-
Amortisation	1,337	955*
Depreciation	1,185	1,250*
Interest paid	374	162
Intangible impairment	551	3,602*
Property, plant and equipment impairment	129	-*
Decrease/(increase) in inventories	1	(39)
Decrease in receivables	2,189	889
Increase/(decrease) in payables	1,758	(812)**
Net cash from operating activities	7,847	74
Cash flows from investing activities		
Purchase of property, plant and equipment	(577)	(2,431)
Purchase of intangibles	(2,530)	(474)
Purchase of other non-current assets	(11)	-
Net cash from investing activities	(3,118)	(2,905)
Cash flows from financing activities		
Members loans	(600)	600
Interest paid to members	(147)	(142)**
Other finance charges	(7)	-
Net cash from financing activities	(754)	458
Net increase/(decrease) in cash and cash equivalents	3,975	(2,373)
Cash and cash equivalents at beginning of year	384	2,757
Cash and cash equivalents at end of the year	4,359	384

*See note 7.

**The 2011 numbers have been adjusted for accrued interest.

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

GSTS PATHOLOGY LLP

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 December 2012

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

Going concern

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

The Members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the report and financial statements.

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and under the historical cost convention.

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

Adoption of new and revised standards

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

- IFRS 9 Financial Instruments
- Annual Improvements to IFRSs 2011
- IFRS 13 Fair Value Measurement

The directors anticipate that the adoption of these standards and Interpretations in future periods will have no material impact on the financial statements of the LLP.

Basis of translation of foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on re-translation are included in the statement of comprehensive income for the year.

Revenue

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Taxation

The taxation payable on profits of the LLP is the liability of the Members, and is not dealt with in these financial statements.

Members' remuneration

Remuneration to members that is paid under the LLP agreement, or other payments, which represent a liability of GSTS Pathology LLP not arising from a division of profits, are either expensed to the income statement or capitalised depending on the nature of the transaction and are disclosed within the related party note.

Profit shares, which have not been allocated until after the balance sheet date, are treated in these financial statements as unallocated at the balance sheet date and included within other reserves.

GSTS PATHOLOGY LLP

SIGNIFICANT ACCOUNTING POLICIES (continued) for the year ended 31 December 2012

Intangible assets

Costs are capitalised as an intangible asset only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

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

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

Laboratory information system software is amortised on a straight line basis at the rate of 14% per annum.

Property, plant and equipment

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

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

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

The principal annual rates used are:

Plant and equipment	10% - 33%
---------------------	-----------

Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the LLP reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in profit and loss.

Leases

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2012

Financial assets

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

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

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and have a maturity of three months or less.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the value to the business in use.

Financial liabilities

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

Loans due to members

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

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

Pension costs: defined contribution schemes

Contributions for the period in respect of defined contribution schemes are charged to the profit and loss account as they fall due. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the balance sheet.

Critical accounting estimates and key sources of estimation

In the process of applying the LLP's accounting policies which are described in this note, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

- **Contract costs**

All bid costs are expensed through the income statement up to the point where contract award (or full recovery of costs) is virtually certain. Bid and transition costs incurred after this point are then recognised within trade and other receivables as amounts recoverable on contracts. Bid costs are expensed on a straight-line basis on award of contract over the life of the contract. Transition costs are expensed on a straight-line basis on successful completion of the project over the contract period. Detailed contract forecasts are prepared to determine whether the assets are recoverable and an asset is only recognised where it is determined that the costs are fully recoverable. The Members are confident that the carrying amount of the assets will be recovered in full.

GSTS PATHOLOGY LLP

NOTES FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 31 December 2012

1. OPERATING SEGMENT

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

2. REVENUE

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

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

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

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

4. OPERATING PROFIT/(LOSS)

	2012 £000	2011 £000
Is stated after charging:		
Amortisation of amounts recoverable on contracts	418	388*
Amortisation of intangible assets	890	567*
Rentals under member's agreements:		
- Land and buildings	3,241	2,729
- Plant and machinery	2,062	2,141
Depreciation on equipment	1,185	1,250*
Fees paid to Deloitte LLP: audit services	34	35
Trade receivables impairment	12	46
Intangible impairment	551	3,602*
Property, plant and equipment impairment	129	-*
Revenue contribution from Serco	(1,300)	(2,700)

* The 2011 disclosures have been reanalysed following a reclassification of tangible assets under construction to intangible assets. See note 7.

5. STAFF COSTS

	2012 £000	2011** £000
Employee costs excluding members:		
Wages and salaries	10,792	8,880
Social security costs	1,054	839
Other pension costs (Note 18)	903	879
Total staff costs	12,749	10,598
Seconded staff (under Retention of Employment arrangements)	29,438	32,269

The average numbers of employees were as follows:

	2012 Number	2011 Number
Scientific and Operational	135	128
Administrative and Clerical	221	209
	356	337
Seconded staff	562	665

**2011 Staff numbers and costs have been re-analysed to exclude seconded staff.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

6. FINANCE COSTS

	2012	2011
	£000	£000
Interest payable to members	374	412
Finance lease interest	4	-
Other	3	-
Total finance costs	381	412

7. INTANGIBLE ASSETS

	Assets under construction*	Intangibles	Total
	£000	£000	£000
Cost			
At 31 December 2010	5,462	3,381	8,843
Additions during the year	1,913	414	2,327
Transfer	(1,223)	1,223	-
Impairment	(2,697)	(905)	(3,602)
At 31 December 2011	3,455	4,113	7,568
Additions during the year	2,150	380	2,530
Transfer	(4,292)	4,292	-
Impairment	(126)	(425)	(551)
At 31 December 2012	1,187	8,360	9,547
Accumulated amortisation			
At 31 December 2010	-	(91)	(91)
Charge for the year	-	(567)	(567)
At 31 December 2011	-	(658)	(658)
Charge for the year	-	(890)	(890)
At 31 December 2012	-	(1,548)	(1,548)
Net book value			
At 31 December 2011	3,455	3,455	6,910
At 31 December 2012	1,187	6,812	7,999

*Assets under construction, being laboratory information management systems, were previously included in property, plant and equipment and are now included in intangible assets to better reflect the nature of these costs.

During the year ended 31 December 2012, the LLP incurred costs on its transformation programme, which is focused on a number of themes:

- processes and operations (the procedures and activities carried out to enable service delivery);
- organisation and people (the operating structure of the organisation including the roles, skills, knowledge and culture of the personnel);
- tools and technology (the tools, including machinery, laboratories and IT systems available to enable staff to carry out their functions and deliver products and services); and
- information (the information for monitoring and appropriate reporting of performance of the organisation to enable decision making).

The benefits of the transformation programme will be realised throughout the life of the GSTS contract with GSTFT, KCHT and BHT. The transformation programme costs will be recovered over the life of those contracts.

GSTS PATHOLOGY LLP

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2012

7. INTANGIBLE ASSETS (continued)

The transformation asset will not be available for use in its entirety until 2013 (end of transformation activity), however management believe it is appropriate that amortisation for each sub-project only begins once the relevant sub-project has been completed. It is at this point that the asset is transferred from assets under construction to Intangibles. Transformation assets are amortised over the shorter of the expected economic life of the asset or the term of the contract.

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

The management team have conducted a review of the transformation programme. The Board approved the impairment of £0.55m (2011: £3.6m) to intangible assets related to process analysis and programme management following a fair value review and this has been recognised in profit and loss. The impairment loss is measured as the difference between the carrying value and value in use. The value in use of the Transformation Programme at 31 December 2012 is fully recoverable over the life of the existing Pathology Services Agreement (PSA) contracts in which activity will be measured and revenues recognised with GSTFT, KCHT and BHT.

8. PROPERTY, PLANT AND EQUIPMENT

	2012 £000	2011* £000
Cost		
At 1 January	6,081	5,681
Additions during the period	577	400
Disposals	(40)	-
Impairment	(129)	-
At 31 December	6,489	6,081
Accumulated depreciation		
At 1 January	(2,238)	(988)
Charge for the period	(1,185)	(1,250)
Disposals	27	-
At 31 December	(3,396)	(2,238)
Net book value		
At 31 December	3,093	3,843

*See note 7.

	2012 £000	2011 £000
Net book value of finance lease assets	234	-
Capital expenditure commitments- contracted but not provided for	158	-

The Board approved the impairment of £0.13m (2011: £nil) of plant and equipment related to a number of low value items of equipment which have been recognised in profit and loss.

9. TRADE AND OTHER RECEIVABLES

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

	2012 £000	2011 £000
Trade receivables	614	642
Provision for doubtful debts	(47)	(46)
Total trade receivables	567	596
Other amounts recoverable on contracts	441	412
Amounts owed by members (note 14)	11,766	13,398
Other receivables	54	1,150
Prepayments and other accrued income	904	365
Total receivables falling due within 1 year	13,732	15,921

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

9. TRADE AND OTHER RECEIVABLES (continued)

Ageing of past due but not impaired receivables

	2012	2011
	£000	£000
Not overdue	143	125
30 – 60 days	189	425
60 - 90 days	120	30
90 – 120 days	33	16
Over 120 days	82	-
	567	596

Movement in trade receivables impairment provision

	2012	2011
	£000	£000
Balance as at 1 January	46	7
Impairment loss recognised	12	46
Utilised	(11)	(7)
Balance as at 31 December	47	46

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

	2012	2011
	£000	£000
Amounts recoverable on contracts	2,278	2,714
Total receivables falling due after 1 year	2,278	2,714

Amounts recoverable on contracts relate to pre-contract and transition costs incurred on the GSTT, King's and Bedford contracts. These costs have been recognised in accordance with the accounting policy as set out in the Significant Accounting Policies – Contracts note on page 18 of these accounts. The transition costs represent the expenditure incurred to deliver the King's and Bedford contracts into a working position.

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

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

10. INVENTORIES

	2012	2011
	£000	£000
Stock ready for use by the business	2,140	2,141
Net realisable value of stock as at 31 December	2,140	2,141

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

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

No inventories have been pledged as security.

11. CASH AND CASH EQUIVALENTS

	2012	2011
	£000	£000
Cash at bank and in hand	4,359	384
Cash and cash equivalents	4,359	384

GSTS PATHOLOGY LLP

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2012

12. TRADE AND OTHER PAYABLES

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

	2012 £000	2011 £000
Trade payables	3,520	2,017
Amounts owed to members (note 14)	10,413	9,839
Other taxes and social security	968	1,664
Accruals	2,786	2,225
Deferred income	6,164	6,336
Total payables falling due within 1 year	23,851	22,081

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

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

	2012 £000	2011 £000
Finance lease creditor	215	-
Total payables falling due after one year	215	-

13. MEMBERS' INTEREST

	Members' capital £000	Other reserves £000	Loans and other debts due to members £000	Total £000
Balance at 1 January 2011	3,331	(2,437)	14,271	15,165
Loans introduced from members	-	-	600	600
Loss for the financial period available for discretionary division among members	-	(5,933)	-	(5,933)
Balance at 1 January 2012	3,331	(8,370)	14,871	9,832
Loans repaid to members	-	-	(600)	(600)
Profit for the financial year available for discretionary division among members	-	303	-	303
Balance at 31 December 2012	3,331	(8,067)	14,271	9,535

King's College Hospital NHS Foundation Trust made available £0.3m on the 17 November 2011 and £0.3m on the 24 November 2011 to the LLP as short term financing to support operational cash flows. These amounts were repaid during February 2012.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

14. RELATED PARTY TRANSACTIONS

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

Trading transactions

During the year ended 31 December 2012, the LLP entered into the following trading transactions with its members:

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

Related party	Sales 31 Dec 2011 £000	Purchases 31 Dec 2011 £000	Amounts owed from related party at 31 Dec 2011 £000	Amounts owed to related party at 31 Dec 2011 £000
Guy's and St Thomas' NHS Foundation Trust	48,714	27,183	6,485	5,620
Serco Limited	-	(592)	3,314	3,574
King's College Hospital NHS Foundation Trust	28,225	18,551	3,599	645
Total	76,939	45,142	13,398	9,839

Material related party transactions can be summarised as follows:

Guy's and St Thomas' NHS Foundation Trust:

- 1) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to Guy's and St Thomas' NHS Trust (GSTT). Amounts invoiced to GSTT in the year were £48.8m (2011: £48.7m).
- 2) Under the secondment agreement, GSTT supply seconded staff to the LLP under retention of employment (RoE) legislation. Amounts invoiced by GSTT were £17.9m (2011: £19.6m).
- 3) The number of staff seconded as at 31 December 2012 was 346 (2011: 397).
- 4) Certain transactions are invoiced by GSTT under the Trust Services Agreement (TSA) such as rent, service charges, IT and finance charges, equipment lease charges and a medical staff recharge. Amounts invoiced amounted to £8.2m in the year (2011: £7.7m).
- 5) A provision of £0.5m (2011: £1.1m) has been maintained against invoiced pathology tests.
- 6) A provision of £0.2m (2011: £0.3m) has been maintained against disputed RoE costs.
- 7) GSTT invoiced £0.1m in respect of transformation costs in 2012 (2011: £nil).
- 8) An interest charge of £0.1m (2011: £0.1m) has been recognised in profit and loss in relation to the loan from GSTT.

GSTS PATHOLOGY LLP

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2012

14. RELATED PARTY TRANSACTIONS (continued)

Serco Limited:

- 1) Serco charged an amount of £0.1m in 2012 (2011: £0.1m) under the Serco Services Agreement (SSA) for IT, accounting, payroll, company secretarial services and finance charges.
- 2) Serco supplies all insurances to the LLP. In 2012 the amount charged was £1.0m (2011: £0.6m).
- 3) During the year, Serco recharged costs for the transformation programme for the supply of consultants to undertake the various projects within the programme, 2012 £nil (2011: £0.3m).
- 4) Serco also supplied certain bidding activities to the LLP, 2012 £nil (2011: £0.3m). These costs are reported in line with the contract cost accounting policy as set out on page 18.
- 5) Serco invoiced transition costs £nil (2011: £0.2m).
- 6) An Interest charge of £0.2m (2011: £0.2m) has been recognised in profit and loss in relation to the loan from Serco.
- 7) Staff working for the LLP, employed by Serco payroll were recharged to the LLP £0.6m (2011: £0.5m).
- 8) The LLP recorded a revenue contribution from Serco for £1.3m (2011: £2.7m).

King's College Hospital NHS Foundation Trust:

- 1) Under the Pathology Services Agreement (PSA) the LLP provides a full range of pathology services to KCHT. Amounts invoiced amounted to £28.7m in the year (2011: £28.2m).
- 2) Under the secondment agreement KCHT supply seconded staff to the LLP under the Retention of Employment (RoE) Legislation. Amounts invoiced by King's in the year were £11.9m (2011: £12.7m). The number of staff seconded as at 31 December 2012 was 239 (2011: 268).
- 3) Certain transactions are invoiced by KCHT under the Trust Services Agreement (TSA) such as rent, service charges, equipment lease charges and medical staff recharges. Amounts invoiced amounted to £4.7m in the year (2011: £5.9m).
- 4) The short term financing received from KCHT in November 2011 (£0.6m) was repaid in February 2012.
- 5) An interest charge of £0.1m (2011: £0.1m) has been recognised in profit and loss in relation to the loan from King's.

15. ANALYSIS OF NET DEBT

	At 31 December 2011 £000	Cash flow £000	At 31 December 2012 £000
Cash and cash equivalents	384	3,975	4,359
	384	3,975	4,359

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

16. FINANCIAL RISK MANAGEMENT**Capital risk management**

The LLP's capital structure and policies are regularly reviewed to ensure that they remain relevant to the business and its plans for growth. The LLP is financed by the three members via capital and loans.

The carrying amounts of financial instruments are as follows:

	2012	2011
	£000	£000
Financial assets – loans and receivables		
Trade receivables (note 9)	567	596
Other receivables (note 9)	54	1,150
Amounts owed by members (note 9)	11,766	13,398
Cash and cash equivalents (note 11)	4,359	384
Financial liabilities – at amortised cost		
Trade payables (note 12)	(3,520)	(2,017)
Loans due to members (note 13)	(14,271)	(14,871)
Amounts owed to members (note 12)	(10,413)	(9,839)
Net financial liabilities	(11,458)	(11,199)

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

The principal risks arising from the LLP's use of financial assets and liabilities and details of how these risks are managed are set out in the members' report on page 4, under the heading 'financial risk management objectives and policies'.

Interest rate sensitivity analysis

The LLP is exposed to interest rate risk on the loans due to members at 2% above LIBOR relating to three month deposits. Loans due to members fall due on 1 January 2014 (£12.176m) and 31 January 2019 (£1.175m) and 30 September 2020 (£0.92). The Members have signed a memorandum of understanding to defer the member loans due on 1 January 2014 (see note 19).

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

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

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

GSTS PATHOLOGY LLP

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2012

16. FINANCIAL RISK MANAGEMENT (continued)

31 December 2011	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	Over 1 year £000	Total £000
Financial assets – loans and receivables					
Trade receivables (note 9)	125	455	16	-	596
Other debtors (note 9)	1,150	-	-	-	1,150
Amounts owed by members (note 9)	13,398	-	-	-	13,398
Cash and cash equivalents (note 11)	384	-	-	-	384
Financial liabilities – at amortised cost					
Trade payables (note 12)	(2,017)	-	-	-	(2,017)
Loans due to members (note 13)	(600)	-	(3,500)	(10,771)	(14,871)
Amounts owed to members (note 12)	(9,839)	-	-	-	(9,839)
Net financial instruments	2,601	455	(3,484)	(10,771)	(11,199)

17. LEASE COMMITMENTS

Operating leases

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

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

	2012 £000	2011 £000
Within one year	405	383
Between one and five years	111	469
After five years	-	-
	516	852

Finance leases

Finance lease liabilities are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2012 £000	2011 £000	2012 £000	2011 £000
Within one year	65	-	63	-
In the second to fifth year inclusive	227	-	203	-
After five years	-	-	-	-
	292	-	266	-
Less: future finance charges on finance leases	(20)	-	(19)	-
Present value of lease obligations	272	-	247	-

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

All lease obligations are denominated in sterling.

The fair value of the LLPs lease obligations is approximately equal to their carrying amount.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012**

18. DEFINED CONTRIBUTION PENSION SCHEMES

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

Some employees of the LLP benefit from employer contributions to the Prudential Platinum scheme.

The LLP paid employer contributions for the year ended 31 December 2012 of £631,552 (2011: £644,200), into this scheme. The balance due at 31 December 2012 was £nil (2011: £nil). The scheme is closed to new entrants.

Defined contribution schemes

Some employees of the LLP benefit from employer contributions to the Serco managed Legal and General stakeholder pension scheme. The LLP paid employer contributions for the year ended 31 December 2012 of £262,696 (2011: £211,276). The balance due at 31 December 2012 was £27,712 (2011: £19,694).

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

19. SUBSEQUENT EVENTS

In January 2013, the LLP was informed by HMRC that the VAT status of supplies made by the LLP was to be changed from a standard rating, to a VAT exempt status, with effect from 1 May 2013. The Members took legal advice and decided to challenge this ruling in the courts. The High Court judgment dated 22 April 2013 gave GSTS 'interim relief' from this proposed change, such that a First Tier Tribunal can consider the legal position later in 2013. Additionally, costs were awarded to the LLP and the judge ruled that in the event that the VAT status does change following the First Tier Tribunal, then the LLP should be given reasonable time to restructure so as to continue providing a safe and high quality service to its customers.

On 17 July 2013, the Members signed a memorandum of understanding to defer the member loans due on 1 January 2014, with an agreement that the loans will be paid before 31 December 2016.