

ENABLING A BETTER WORKING BRITAIN ACCOUNTS 2010/2011



# CONTENTS

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Chief Executive's Foreword 03

Management Commentary 05

HSL Accounts 2010/11 22

Notes to the accounts 33



**HEALTH & SAFETY  
LABORATORY**

## FOREWORD

By the Chief Executive Eddie Morland

As for many public sector Agencies, this year has proved a very challenging one for Health and Safety Laboratory (HSL). I am, therefore, very proud to report that, due to exceptionally hard work by our staff, once again the laboratory has had a successful year. I am particularly pleased to report that this success has spanned all of the key areas of our business, that is: keeping things healthy, safe, environmentally friendly and secure; winning new business; delivering existing business and investing in the future of our business. None of this would have happened without the energy, determination and sheer professionalism of our staff. I would therefore like to take this opportunity to thank them all for their outstanding efforts throughout the year and for their continued enthusiasm and belief in the mission and vision of HSL.

Not surprisingly, given who we are, health, safety, environmental awareness and security remain at the top of our organisational agenda. This year we continued to improve our performance. In terms of safety, we had our first full year without a single RIDDOR event and accidents and incidents were less than prior year. In terms of health, using our extensive in-house expertise, we have embarked on a laboratory-wide

'well-being' programme, encouraging not only healthier lifestyles for individuals, but also greater worker involvement through a culture change programme. One example of the latter is the 'let's talk' sessions where a cross section of staff and senior managers regularly 'get round the table' to discuss different aspects of business operations in an informal atmosphere. In terms of results, sickness absence at the laboratory remains well below national averages for both public and private sector establishments, at 3.9 days per person. In terms of environmental performance we successfully maintained our ISO 14001 status, achieving, for example, the lowest-ever water usage since the new laboratory was built. In terms of security, we have made a number of enhancements to both physical and IT security, maintained our compliance with Cabinet Office's Security Policy Framework and received approval to join the Government Secure Intranet.

The laboratory rose particularly well to the challenge of winning more business from other sources. Despite the restriction on traditional marketing channels, we continued to meet and talk with customers and succeeded in submitting over £20m worth of formal bids to the market for

the very first time. This is almost 25% higher than prior year, a tremendous effort! Once again, these bids covered every discipline within the laboratory and a truly diverse set of market sectors, ranging from Nuclear to Oil and Gas to the Food and Retail Sectors, thereby demonstrating the wide appeal of HSL's offerings.

In terms of delivery, prior year investments in a world-class project management system and continued investment in project management and technical competence is really paying off.

As well as delivering HSL's highest ever value of external business on projects (at £7.7m almost 10% up on prior year), working with partners we were also able to successfully bring new software and hardware products to market for the first time. In particular, our 'Safety Climate Tool' was purchased by over 70 companies in its first year of release, ranging from SMEs to multi-nationals. We continue to deliver vital support to HSE with, for example, over 190 incident investigations undertaken during the year. Major investigations and their legal processes can take several years to complete. This year our contribution to the investigation of the 2005 fire and explosion at the Buncefield Oil Depot culminated in the provision of expert evidence that was central to the successful prosecution of the companies involved. In July 2010 these companies were fined a collective £9.5m.

The laboratory delivered total revenue of £38.3m which was £0.9m below last year due exclusively to the planned reduction in HSE income. This reduced revenue was mitigated by both the strong performance on external revenue and strong operational cost control. As a consequence, HSL generated

an operating surplus of £0.4m (2009/10 £1.1m) before adjusting for the property revaluation gain of £0.6m (2009/10 revaluation loss of £0.8m). When the revaluation movement is included HSL made a surplus during 2010/11 of £1.0m (2009/10 £0.3m).

All of this excellent work is the result of HSL's determination to be 'professional on all dimensions', which in turn requires continued investment in the capability of our staff and facilities. Ultimately, however, it is the scientific and technical competence of the laboratory which is most central to our mission and which underpins our short-term delivery, reputation and long-term strategy (see Developments at HSL). I am therefore proud to report an excellent year for Science and Technology in the laboratory, as confirmed by various peer review processes. This year, HSL published 39 peer-reviewed publications, our highest since 2006 and a 43% increase on prior year. Indeed, we were awarded not one but two IChemE Hutchinson Medals for outstanding publications in 2010. On a broader front, a 2-day review of a wide range of HSL's science was undertaken by a panel of independent experts from industry

and academia. This is the second of an ongoing set of reviews, as required by HSE. This year the areas covered were those of fire, process safety and explosion safety and once again the review complimented HSL on the quality of its work noting that it is of 'national and international significance'.

In summary, HSL has risen to the difficult economic conditions facing Public Sector Research Establishments without compromise to quality or innovation. The laboratory continues to provide strategic services and support to HSE whilst continuing to help industry directly, in still greater proportion. Everyone at HSL is proud to be enabling a better working Britain. Providing that resources are maintained, we shall continue to do so.

## MANAGEMENT COMMENTARY

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### BACKGROUND INFORMATION

HSL was established as an in-house Agency of the Health and Safety Executive (HSE) on 1 April 1995 and operates on "Next Steps Agency" principles. Prior to this date the Laboratory was a division of HSE.

The cost reflected in the accounts for audit services provided by NAO for the year was £49,000 (2009/10 £48,500).

HSE is a statutory body established by section 10 of the Health and Safety at Work etc. Act 1974. HSE is a Crown Non-Departmental Public Body, sponsored by the Department for Work and Pensions (DWP).

The accounts have been prepared in accordance with a direction given by HSE. They are prepared on an accruals basis and show the full in-year resource costs of HSL.

The accounts of HSL are audited by the Comptroller and Auditor General. The audit is undertaken by agreement, rather than because of any statutory requirement, as HSL's transactions and balances are included in the statutory accounts of HSE, and this discharges the responsibility to report to Parliament. The audit provides an opinion on whether the financial statements provide a true and fair view and have been properly prepared in accordance with the accounts direction issued by HSE.

## PRINCIPAL ACTIVITIES

HSL's principal activities are:

- to carry out and publish research and provide scientific and forensic services to high scientific and ethical standards to meet the needs of its customers in a cost-effective way;
- to continue to maintain and advance its scientific competence and expert knowledge of scientific developments relevant to health and safety world-wide to meet the needs of its customers;
- to achieve the effective exploitation of intellectual property, in conjunction with the relevant customers;
- to develop the business by carrying out seed-corn research and staff training to maintain and improve its scientific capability and expertise in relevant key areas of technology.

The research and development work of the Laboratory underpins the activities of HSE, which are to protect the health, safety and welfare of employees and to safeguard others, principally the public, who may be exposed to risks from work activities.

HSL's strategy recognises these principal activities and the overwhelming importance of key relationships between customers and staff. The strategy is based on four principal objectives:

- Improving our acquisition and generation of new knowledge
- Systematically improving our access to this knowledge
- Improving our transfer of this knowledge to others
- Influencing leading organisations in both the public and private sectors on a long-term basis

The strategy is guided by our **vision** where we see ourselves:

### **Enabling a better working Britain.**

Our **mission** can therefore be simply stated:

**To support the HSE Mission and directly help organisations become healthier, safer and therefore, more productive places in which to work.**

## SERVICE PERFORMANCE

Each year, HSL lays down overall objectives for key areas where service performance is then measured against pre-defined targets. The objectives set for the year ended 31 March 2011, and performance against the targets, are set out below.

### **Service Objectives**

**A.** *Contribute to delivery of HSE's overall strategy "The Health and Safety of Great Britain: Be part of the solution."*

**B.** *To transfer HSL knowledge to others and to demonstrate competitiveness by winning non-HSE business*

### **Service Delivery Targets**

*Deliver research projects, scientific intelligence and forensic work to HSE in line with the HSE Science Plan and deliver research projects and consultancy to other Government Departments/Agencies and Private Sector clients.*

HSE's science plan supports delivery of the HSE delivery plan. The health and safety strategy (The Health and Safety of Great Britain: Be part of the solution) was launched in June 2009 and invites all stakeholders within the health and safety system to bring about improvements in health and safety performance. HSE applies science, engineering and analytical skills to support front line regulatory functions (e.g. incident investigation) and to look ahead to identify future challenges. The science we undertake provides robust evidence to underpin policy and delivery of operational activities, supporting HSE's role as an evidence based regulator and in our mission to prevent death, injury and ill-health to those at work and those affected by work activities.

In 2010/11 HSL delivered a wide range of research, forensic investigation and other scientific and technological services closely aligned to HSE's strategic programmes and operational activities.

The figure on page 8 shows the distribution of HSE's spend with HSL in 2010/11 and the four previous years across HSE's main areas of science and technology (S&T) activity as follows:

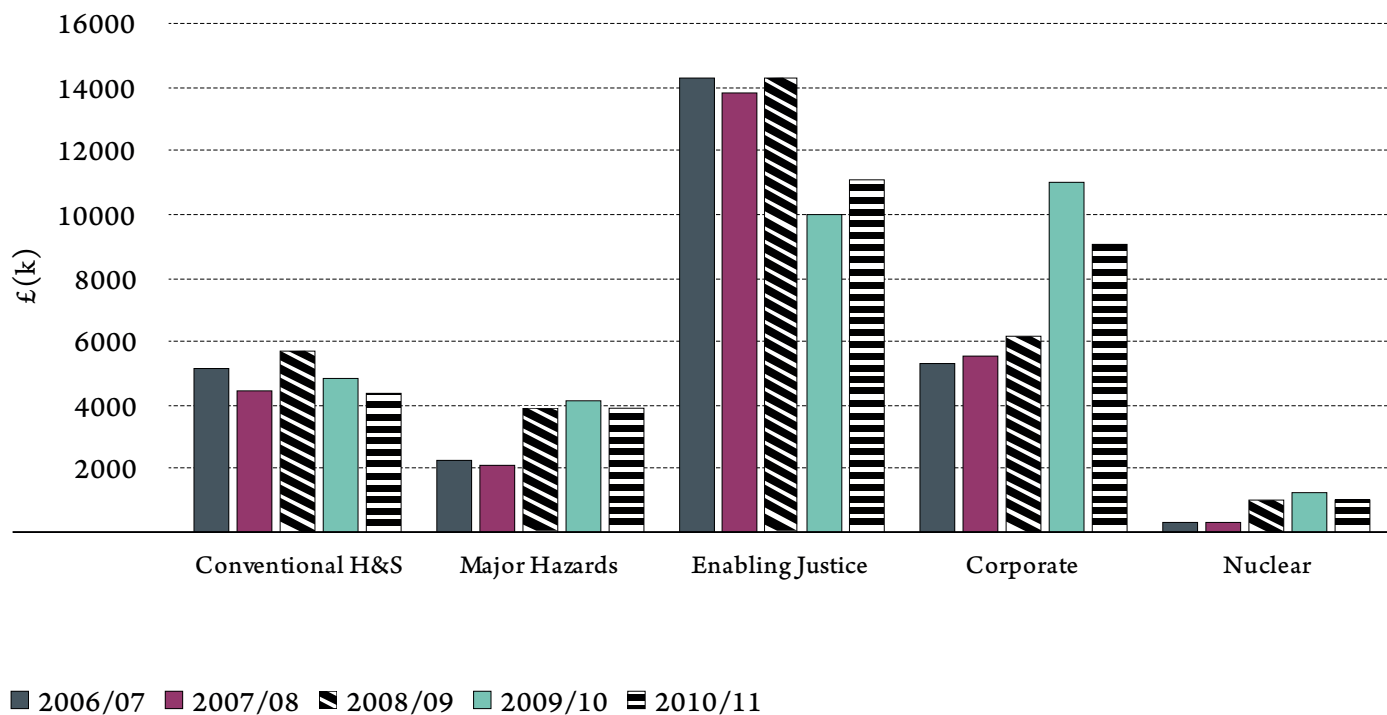
- Conventional Health and Safety - aimed at reducing injuries, ill-health and working days lost from work-related injury and ill-health.
- Major Hazards Strategic Programme - this regulates and assures safe management of those industries where failure to manage risks can have catastrophic effects.
- Enabling Justice Programme - this supports front-line and regulatory work and includes forensic support to investigations.
- Corporate Programme - this includes underpinning work to ensure HSE's effectiveness, where such work cuts across the strategic programmes. Examples are evaluation, epidemiology and statistics, horizon scanning and cross-cutting research.

- Nuclear Safety Programme - this is designed to achieve effective and efficient nuclear safety regulation.

The figure indicates that:

- Delivery in Conventional Health and Safety was broadly in line with the average of the last 5 years
- Major Hazards continues the level of spend of the last 3 years which is virtually double that of the preceding 2 years
- An increase over last year in the Enabling Justice Programme spend but this is still well down on the preceding 3 years due to the Core Activity Projects being moved to the Corporate Programme
- A decrease in Corporate Programme spend in year due mainly to resource issues in some HSL units and low demand on some call-off contracts
- Delivery in the Nuclear Programme was down slightly on the previous year but broadly in line with the previous 2 years

Note: Figures exclude investment research and key facilities spend.



### Safety Targets

To have no more than two RIDDOR events.

There were no reportable events in 2010/11 (2009/10: one) under the Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR).

### Financial Targets

Recover Full Economic Costs (FEC) on an accruals basis taking one year with another.

HSL is required to at least cover its FEC for the services it provides to HSE and other public and private sector customers, taking one year with another. In year, HSL made a surplus on ordinary activities of

£973,000 (2009/10 restated: £250,000) including a gain on revaluation of £592,000 (2009/10: loss of £845,000).

## DEVELOPMENTS AT HSL

In this section last year I described operation 'Beagle' which resulted in new pan-HSL roles for each member of the senior management team. The roles were designed to provide even greater focus in the key areas of the business; keeping it healthy, safe, secure and environmentally friendly, winning new business, delivering existing business and 'looking after it' for the future. These new roles have proven their worth this year with a really balanced result across all four key areas. Having bedded in these changes, our principal development this year was to articulate and implement a clear strategy for the long-term. This we have done. Last year I also outlined the recommendations from a joint HSE/HSL working group that HSL should be granted some additional commercial freedoms under an enhanced Agency status. However, in the light of various planned Governmental reviews and of new spending constraints, these recommendations were not able to be implemented.

Following a series of workshops, research and analysis by the wider leadership team within HSL, earlier this year we formulated a simple yet sustainable strategy designed to promote financial sustainability as the means of enabling long-term

fulfilment of our mission. It does this by recognising and building upon the following;

- the inherent sustainability of our business model: continuous, sequential, generation and transfer of relevant knowledge to the wider health and safety system of Great Britain
- the fundamental, service-based, nature of our offering, and
- the need for continuous improvement in both the efficiency and effectiveness of our organisation.

The strategy has four key elements

1. Improve our acquisition and generation of new knowledge
2. Systematically improve access to our own knowledge
3. Improve our ability to transfer this knowledge to others
4. Develop long-term relationships with leading organisations in both the private and public sectors

The actions which result from this strategy are activities to improve efficiency and effectiveness, not only in generating and acquiring new knowledge but also

in managing that knowledge better, so that it can be packaged and transferred more easily to those who need it. By focusing on long-term relationships with 'leading organisations' we hope to accelerate the dissemination of good practice (e.g. through peer recognition and supply chain improvements) as well as getting closer to the key objectives of our client base. As a consequence, this year we embarked on an 18-month programme of process improvement, incorporating such proven approaches as lean six sigma, 5S, etc. The aim is to ensure that our business processes support the strategy rather than inhibit it. Accordingly, we diverted some of our best managers on to this programme, some full-time. Results are already visible in terms of enhanced ownership (and re-design) of processes by staff (reducing waste in time and materials) and in greater focus on alternative channels for transferring knowledge, such as our new software and hardware tools.

Combining these developments with the culture change programme mentioned in the Foreword, I believe that HSL now not only has a clear roadmap for the future but also the operational machinery to pursue it, to the benefit of all those who work in Britain.

## WORKFORCE MATTERS: HUMAN RESOURCES (HR)

In order to update understanding of the resources available to deliver our business, the Science and Resources Director, and the HR Business Partner undertook the annual human capital and competence audit of all HSL staff in consultation with Unit Heads, and Senior Management Team colleagues. The assessment framework, developed by the Cabinet Office, was again used to facilitate the review. In addition, career path aspirations (both individual and Unit Heads' views) were captured and a forward look was taken at the organisation's resource requirements for all competency areas over a 5-year time frame to assist with work force planning.

A review of all HSL's Line Managers was undertaken and the subsequent results showed that 77% of our Line Managers achieved an overall rating of either good or excellent. It is of particular note that all those identified within Units as being, or potentially being, a "Professional Line Manager" achieved either a good, or in most cases, an excellent overall rating. Line Managers who were rated overall as being poor received support and advice from HR to help them achieve the required standard. As a result all

Line Managers have received a Certificate of Competence. It is intended that the review will be undertaken on an annual basis.

HSL have introduced a pilot scheme, whereby a small number of our professional Line Managers are managing staff in higher bands. If the trial is successful this will enable us to remove line management responsibility (usually inherited) from some of the higher band staff who are trying to be both Line Managers and technical experts, leaving them free to concentrate on their technical work. We have used the analysis obtained from the Line Manager Review to identify the Line Managers and staff who will participate in the pilot, and are monitoring the project closely to ensure that any issues are identified and resolved quickly

## EMPLOYEE NUMBERS

As a result of recruitment restrictions in place across the civil service, HSL has only recruited 6 new staff despite 22 staff having left over the year. This gives an end of year total staff in post figure of 389 (2009/10: 405), which is the lowest number of staff HSL has had for the last 5 years, equating to a Full Time Equivalent number of staff of 364 (2009/10: 382). The turnover rate (calculated using the average staff in post of 397 staff for the 12 month period) still continues to be affected by the economic situation and is less than expected at 5.5% for the full year (2009/10: 5% and 2008/09: 8%). In response to these recruitment restrictions, we have been more flexible with our resources. We have retrained some staff in areas of high demand (e.g. geographical information systems, and occupational hygiene), and we have introduced an "opportunities shop" which advertises short term (a few weeks to a few months) secondments. The opportunities shop has identified a total of 23 opportunities in the year, with 26 staff experiencing a different job as a result. Approximately 550 hours of additional chargeable work has been undertaken as a consequence of these short term moves via this process.

## SICKNESS ABSENCE

HSL lost an average of 3.9 (2009/10: 3.8) sick days per employee over the 12 month period which is well within the HSL target of 5.0 days. To put this in context, the CIPD Annual Survey of Absence Management (2010) reports that the average level of employee absence in the 573 organisations they surveyed in the period 1 January to 31 December 2009 was 7.7 days per employee, with a public sector average of 9.6 days per employee per year, and a private sector service organisation average of 6.6 days per employee per year. The HSL Health, Work and Wellbeing Unit continues to take appropriate action with Line Managers when absence triggers are reached. HSL have a number of initiatives to help keep sickness absence levels to a minimum, which benefits both staff and the business. These include an ongoing wellbeing strategy, HSL HR absence management, monitoring and control together with Line Manager training and support.

## LEARNING AND DEVELOPMENT (L&D)

HSL is recognised as an Investors in People (IiP) organisation and focuses its investment in L&D through L&D priorities which are agreed annually by the HSL Board. An annual corporate L&D Plan is produced against these priorities which reflects the individual L&D needs identified as part of the Performance Management process. Despite the current restrictions, spend on L&D remained consistent with 2009/10.

From April 2010, all staff were provided with a "Professional Portfolio" in which they are required to keep their CPD records, and any other useful information regarding their professional development. Candidates for promotion are expected to provide this at interview. This process is working well and HSL hope to build on this approach with the introduction of an internal HSL CPD scheme.

## DIVERSITY

HSL is actively participating in HSE's "Equal" forum, as part of the HSE Equality Schemes Vision. Diversity is discussed at the monthly HSL Board meeting and, as an equal opportunities employer, HSL ensures everyone is treated fairly irrespective of gender, age, ethnic origin, religious belief, sexual orientation or disability. An HSL Board member serves on the HSE Women's Network committee and continues to contribute to the development and delivery of diversity initiatives and events for HSE and HSL staff. HSL has a policy on young people, allowing HSL to offer work experience opportunities to those aged 16 to 18 who have a family member at HSL who is willing to take full responsibility for them. In addition, HSL supports individual employees working with school-age people to promote scientific careers and hosts visits for school parties.

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## EMPLOYEE INVOLVEMENT

HSL operates a system of quarterly meetings with the recognised trade unions. Between meetings the unions are consulted on appropriate issues as they arise. In addition, there are various arrangements for communicating with staff. For example, the Chief Executive makes half-yearly addresses to staff during which he updates people on plans, achievements and challenges, and issues frequent "Communication Briefs" through the bi-monthly internal HSL electronic newsletter. The Chief Executive and Group Directors visit units on a regular basis to discuss work issues and listen to staff views. In addition, the Science and Resources Director has held a number of "Let's Talk" sessions and feedback from these has resulted in this approach being extended across other areas of the business, including specific events for particular career paths.

There are quarterly meetings of the Safety, Health and Environment (SHEFS) committee, comprising management and staff safety representatives, to discuss progress on the Health and Safety Plan, accident and near miss statistics and other SHE issues of concern to staff. In addition, HSL has revitalised and

re-energised its approach to health, work and wellbeing. The Health, Work and Wellbeing Group presented the new strategy at a launch event for all staff which was well attended and received excellent feedback. HSL will continue to drive forward its new approach, which has also attracted external customer interest.

## HEALTH AND SAFETY

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Health and safety issues continue to be given a high priority as HSL seeks to remain a Beacon of Excellence in Health and Safety; we can report good progress towards the objective this year.

In conducting its scientific activities, HSL needs to control a wide range of risks, ranging from those normally associated with the operation of a laboratory through to those associated with large-scale field trials. Control of these activities is achieved using a safety management system based on Health and Safety Executive guidance publication HS(G)65. Over the last 12 months, we have worked towards achieving OHAS 18001 certification, the internationally recognised assessment specification for occupational health & safety management systems. This work is continuing, with certification planned towards the end of 2011. Every year, the HSL Board agrees a robust Health and Safety Plan with challenging targets, and this year, the majority of our targets have been met.

We use near misses as a leading indicator to help target our health and safety activities. Transport accounted for 54% of all reported near miss incidents, a reduction on

the previous 12 months. There has been an overall drop in near miss reporting compared with the previous 12 months and reporting awareness campaigns will continue to be run on a regular basis.

There were no incidents reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) in the year. Our target for the year was to have no more than two RIDDOR events. Our reportable accident incident rate for the year was 0 (2009/10: 245) per 100,000 employees and our all accident & ill-health frequency rate was 34.2 (2009/10: 40.6) per million hours worked.

To enhance safety for visitors and members of the public on the wider site, we have completed a programme of erecting additional security fencing around our experimental facilities to help prevent unauthorised access into the areas.

HSL has implemented a health, work and wellbeing strategy in the year in consultation with staff from across all areas of the business. The aim of the strategy is to ensure that staff are healthy, happy and at work, and that HSL becomes one of the best

places to work within the public sector. The continued low absence rate is one measure of the beneficial impact of this approach.

HSL continues to invest in health and safety training by both internal and external providers. This year HSL staff received approximately 247 days of health and safety training, which is approximately five hours for each member of staff. Courses included first aid, safe driver training, environmental auditing, overhead crane training and manual handling.

## ENVIRONMENT

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We have continued our commitment to sustainability over the year and have continued to make key steps forward in terms of our systems and structures for environmental management.

We have successfully completed two 6-monthly certification reviews of our Environmental Management System (EMS) against the requirements of ISO 14001 and continue to integrate the environmental control procedures with health and safety control procedures, thereby avoiding duplication of effort.

Every year, the HSL Board now agrees a robust Environmental Management plan with challenging targets, and this year, the majority of our targets have been met.

We have expanded recycling arrangements on site, have produced an energy savings plan and continue to investigate avenues to reduce our energy consumption.

We have continued a programme of woodland management aimed at improving the wildlife habitats on the site and we actively monitor rare species and remain vigilant in monitoring invasive non-native species.

HSL's 2010/11 environmental plan reflects the targets for sustainable operations on the Government estate (SOGE targets) launched by the Prime Minister in June 2006, and HSL's policy commitment to, "make environmental considerations an integral part of its business activities."

These targets include:

- Reductions in carbon emissions associated with travel and the estate as well as in absolute terms.
- Increases in energy efficiency and in the renewables share.
- Reductions in waste arisings and increases in recycling.
- Reduction in water consumption.

SOGE targets will expire 2010/11 and will be replaced with the more demanding 'Sustainable Development in Government (SDiG) framework' targets that were announced in March 2010.

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## **PROMPT PAYMENTS**

HM Treasury currently requires that all Government entities make payments to suppliers within ten working days of the receipt of the goods or services on presentation of a valid invoice or similar demand, whichever is later. In 2010/11, HSL achieved a performance of 99.7% (2009/10: 99.7%) compliance.

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## **DECLARATION**

So far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that HSL's auditors are aware of the information.

## FINANCIAL POSITION AND RESULTS FOR THE YEAR

With effect from 1 April 1996, HSL has been controlled on the basis of its Net Administration Costs. HSL is required as a minimum to recover its full costs, taking one year with another, through charges it makes for the services it provides to HSE and other public and private sector customers.

### Results for the year - Statement of Comprehensive Income

During the year, HSL generated revenue of £38,269,000 (2009/10: £39,186,000) against net costs of £33,333,000 (2009/10: £34,930,000),

to achieve an operating surplus of £4,936,000 (2009/10: £4,256,000). After deducting Finance costs of £3,963,000 (2009/10 restated: £4,006,000), HSL reported a surplus on ordinary activities of £973,000 (2009/10 restated: £250,000) for the financial year.

	Note	Outturn £'000	Budget £'000	Variance £'000
<b>REVENUE</b>	2	<b>38,269</b>	<b>39,902</b>	<b>(1,633)</b>
Cost of sales	3	(11,404)	(11,864)	460
<b>GROSS SURPLUS</b>		<b>26,865</b>	<b>28,038</b>	<b>(1,173)</b>
Other income	4	59	57	2
Administrative expenses	3	(22,580)	(24,216)	1,636
<b>OPERATING SURPLUS pre revaluation</b>		<b>4,344</b>	<b>3,879</b>	<b>465</b>
Gain on revaluation		592	0	592
<b>OPERATING SURPLUS</b>		<b>4,936</b>	<b>3,879</b>	<b>1,057</b>
Finance costs	5	(3,963)	(3,963)	0
<b>SURPLUS / (DEFICIT) FOR THE FINANCIAL YEAR</b>		<b>973</b>	<b>(84)</b>	<b>1,057</b>

### Statement of Financial Position

Property, plant and equipment with a net book value of £64m are a significant component of the statement of financial position, including £55m of buildings (see PFI details below).

HSL has a PFI contract for the provision of serviced accommodation for laboratory and support services at the Buxton site, the finance element of which is represented in the statement of financial position by the long-term liability to pay finance lease charges, and hence HSL's statement of

financial position shows payables of £54m, of which £51m relates to PFI obligations.

### Statement of Cash Flows

The statement of cash flow shows cash generated from operating activities of £8,173,000 (2009/10: £7,349,000). The increase in cash generated from ordinary activities in 2010/11 reflects mainly the decrease in working capital. Net cash outflow of £1.5m (2009/10: £3.1m) from investing activities has, as the most significant constituents, expenditure on plant & machinery and new facilities.

### Removal of notional cost of capital charge

The impact of the removal of the notional cost of capital charge from these accounts, as explained in notes 1 and 5, is detailed under each primary statement.



**Mr E Morland**  
Chief Executive,  
Health and Safety Laboratory  
Accounting Officer  
7 June 2011

## REMUNERATION REPORT - UNAUDITED INFORMATION

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### **HSL MANAGEMENT STRUCTURE**

The Chief Executive was appointed in open competition and is retained on an open-ended contract, which may be terminated on 13 weeks notice from either side.

The remuneration of those Board members who are Senior Civil Servants (SCS) is in line with the recommendations by Cabinet Office and the Senior Salaries Review Body. Performance management and reward, and the proportion of remuneration subject to performance conditions for SCS, are managed within HSL in line with the relevant recommendations by the Senior Salaries Review Body. The standard terms and conditions defined by Cabinet Office for SCS apply where appropriate, including those applicable to the provision of compensation for early retirement.

The remuneration of those Board members who are not SCS is dealt with as part of HSE's annual pay negotiations. Their performance management and reward, and the proportion of remuneration subject to performance conditions, are managed in line with the HSE appraisal policies and procedures. The standard terms and conditions defined by Cabinet Office for Civil

Servants apply where appropriate, including those applicable to the provision of compensation for early retirement.

## REMUNERATION REPORT - AUDITED INFORMATION

The HSL Board is responsible for the day to day running of the Agency's operations and for ensuring that customers' requirements are met.

Membership of the HSL Board in 2010/11, together with details of the service contract for each Board member who has served on the

Board during 2010/11, are shown below.

Name	Position at 31 March	Board Membership		Contract Date	Unexpired Term @ 31 March	Notice period
		From	To			
Mr Eddie Morland	Chief Executive *	01/04/2010	31/03/2011	19/09/2005	Open ended	13 weeks
Dr Karen Russ	Project Delivery Director	01/04/2010	31/03/2011	04/09/2006	Open ended	13 weeks
Dr Andrew Curran	Science and Resource Director	01/04/2010	31/03/2011	07/10/1991	Open ended	13 weeks
Mr Peter Davies	Corporate Information and Services Director	01/04/2010	31/03/2011	05/11/2007	Open ended	13 weeks
Mr Chris Neilson	Finance Director	01/04/2010	31/03/2011	23/03/2009	Open ended	13 weeks
Dr Bill Nixon	Commercial Director	01/04/2010	31/03/2011	01/11/2007	Open ended	13 weeks
Dr Peter Watson	Non-Executive Director	01/04/2010	31/03/2011	03/02/2010	11 months	13 weeks
Dr Sue Ion	Non-Executive Director	01/04/2010	31/03/2011	03/02/2010	11 months	13 weeks
Dr Richard Stephenson	Non-Executive Director	01/04/2010	31/03/2011	01/07/2008	3 months	13 weeks

Note: \* Mr Morland is also a member of the HSE Senior Management Team.

	<b>Salary Band</b>	<b>Bonus within Salary Band</b>	<b>Taxable Benefits in Kind</b>	<b>Member Pension Contribution</b>	<b>Real increase in pension &amp; lump sum at 60</b>	<b>Total accrued pension at 60 at 31 March</b>	<b>CETV at 31 March</b>	<b>Real increase in CETV</b>
<b>2010/11</b>	<b>£'000</b>	<b>£'000</b>	<b>£</b>	<b>£</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Mr E Morland	130-135	5-10	4,100	4,300	0 - 2.5 +0 lump sum	70 - 75 + 0 lump sum	1,091	0
Dr K Russ	80-85	5-10	0	2,700	0 - 2.5 +0 lump sum	5 - 10 + 0 lump sum	69	11
Dr A Curran	70-75	5-10	0	1,000	0 - 2.5 +0 - 2.5 lump sum	15 - 20 + 45 - 50 lump sum	204	4
Mr P Davies	75-80	5-10	0	2,600	0 - 2.5 +0 lump sum	5 - 10 + 0 lump sum	46	11
Mr C Neilson	55-60	0-5	0	1,900	0 - 2.5 +0 lump sum	0 - 5 + 0 lump sum	35	16
Dr W Nixon	55-60 See Note	0-5	0	1,300	See Notes	See Notes	See Notes	See Notes
Dr P Watson	10-15	N/A	0	See Notes	See Notes	See Notes	See Notes	See Notes
Dr S Ion	10-15	N/A	0	See Notes	See Notes	See Notes	See Notes	See Notes
Dr R Stephenson	10-15	N/A	0	See Notes	See Notes	See Notes	See Notes	See Notes

	<b>Salary Band</b>	<b>Bonus within Salary Band</b>	<b>Taxable Benefits in Kind</b>	<b>Member Pension Contribution</b>	<b>Real increase in pension &amp; lump sum at 60</b>	<b>Total accrued pension at 60 at 31 March</b>	<b>CETV at 31 March</b>	<b>Real increase in CETV</b>
<b>2009/10</b>	<b>£'000</b>	<b>£'000</b>	<b>£</b>	<b>£</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Mr E Morland	135-140	10 -15	3,900	3,900	2.5 - 5 +0 lump sum	65 - 70 + 0 lump sum	1,023 *	76
Dr K Russ	80-85	5-10	0	2,700	0 - 2.5 +0 lump sum	0 - 5 + 0 lump sum	51 *	15
Dr A Curran	70-75	5-10	0	1,000	0 - 2.5 +2.5 - 5 lump sum	10 - 15 + 40 - 45 lump sum	184 *	22
Mr P Davies	75-80	5-10	0	2,600	0 - 2.5 +0 lump sum	0 - 5 + 0 lump sum	31 *	14
Mr C Neilson	50-55	0-5	0	1,900	0 - 2.5 +0 lump sum	0 - 5 + 0 lump sum	17 *	16
Dr W Nixon	50-55 See Note	0-5	0	1,200	See Notes	See Notes	See Notes	See Notes
Dr P Watson	10-15	N/A	0	See Notes	See Notes	See Notes	See Notes	See Notes
Dr S Ion	10-15	N/A	0	See Notes	See Notes	See Notes	See Notes	See Notes
Dr R Stephenson	10-15	N/A	0	See Notes	See Notes	See Notes	See Notes	See Notes

## REMUNERATION REPORT - AUDITED INFORMATION

### Notes:

- "Salary" includes gross salary; performance pay or bonuses paid in year in respect of the prior year; overtime; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation.
  - The taxable benefit amount for the Chief Executive relates to the provision of a car under the Private User Scheme for the year 2010/11.
  - As members of the Premium pension scheme, no lump sums are payable to Mr Eddie Morland, Dr Karen Russ or Mr Peter Davies.
  - Dr Bill Nixon works part time and the full year equivalent salary for his post is in the band £65-70,000.
  - Dr Bill Nixon is a member of a Partnership Pension arrangement (see below). For 2010/11, employer's contributions of £8,300 (2009/10: £8,000) were made on his behalf.
  - All the Non-Executive Directors' appointments are non-pensionable.
- Dr Andrew Curran's eligibility for Excess Daily Fares (EDF) payments ended on 31 October 2009. HSL therefore made no EDF payments to Dr Curran during 2010/11 (2009/10: £2,111). Such payments were available to all HSL staff eligible for a move at public expense.
  - No significant awards were made to past senior managers, nor was any compensation payable to former senior managers, nor were any amounts payable to third parties for services of a senior manager.
  - The factors used in calculating CETVs were revised mid year, and as a result the opening CETV for the 2010/11 calculations may differ from the closing CETV figure for 2009/10. Hence, the 2009/10 comparative shown above may differ from the figures shown in last year's published accounts (those affected are marked \*).

### Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus).

The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Consumer Price Index. New entrants after 1 October 2002 may choose between membership of the Premium scheme or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership Pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for Classic and 3.5 per cent for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

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The Partnership Pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill-health retirement).

Further details about the CSP arrangements can be found at the website:

[www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

### **The Cash Equivalent Transfer Value (CETV)**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement

to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement, which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **The real increase in the value of the CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another

pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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**Mr E Morland**  
Chief Executive,  
Health and Safety Laboratory  
Accounting Officer  
7 June 2011

### **Statement of responsibilities of the Accounting Officer of the Health and Safety Executive and the Chief Executive of the Health and Safety Laboratory**

Under paragraphs 14(1) and 20(1) of Schedule 2 of the Health and Safety at Work etc Act 1974, HSE are required to prepare statements of accounts for each financial year in the form and on the basis determined by the Secretary of State with the consent of the Treasury. HSL was established as an in-house Agency of HSE on 1 April 1995.

The Chief Executive of the Laboratory is required by HSE to prepare an annual report and accounts for each financial year in the form and on the basis instructed. The accounts are prepared on an accruals basis and must show a true and fair view of the Laboratory's affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing its accounts the Laboratory is required to:

- observe the accounts direction issued by HSE, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that HSL will continue in operation.

The former Director General of HSE appointed the Chief Executive of HSL as Accounting Officer for the Laboratory. As such, HSE's Chief Executive's relevant responsibilities as Accounting Officer have been delegated to the HSL Chief Executive in respect of the Laboratory. These responsibilities, including those for the propriety and regularity of the public finances of the Laboratory and for the keeping of proper records, are set out fully in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in *Managing Public Money*.

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**Mr E Morland**  
Chief Executive,  
Health and Safety Laboratory  
Accounting Officer  
7 June 2011

## **Statement on Internal Control (SIC)**

### **1 Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HSL's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

As Accounting Officer and Chief Executive of HSL I am appointed by HSE and supported by the HSL Board. The primary role in respect of Corporate Governance rests with the HSL Board, which meets regularly to review performance (including risk management) and strategy.

I produce a formal quarterly progress report, which I submit to HSE for consideration and resolution of any issues of concern, and I also formally meet with the HSE Partnership Board (Chaired by HSE's Chief Executive and Accounting Officer). HSL's three non-executive directors also fulfil an advisory role at my formal meetings with the Partnership Board, which addresses both ownership and customer issues.

In addition to the above, I am a member of the HSE Senior Management Team.

### **2 The purpose of the system of internal control**

The system of internal control is designed to manage short, medium and long term risks to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed:

- to identify and prioritise the risks to the achievement of HSL's policies, aims and objectives;
- to evaluate the likelihood of those risks being realised and the potential impact should they be realised; and
- to manage them efficiently, effectively and economically.

The system of internal control has been in place in HSL for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **3 Capacity to handle risk**

HSL gives leadership to the risk management process through regular HSL Board and Audit Committee meetings. The importance of risk awareness is communicated to staff in specific internal training courses. In addition, staff utilise the existing cascade and feedback arrangements between Directors and Unit Heads, and Unit meetings to identify risks.

HSL, as a part of HSE, is very much aware of the importance of risk awareness – it is this that underpins much of health and safety policy and procedures. But HSL also does much to emphasise the need for the consideration of risk through the formal HSL Quality and Safety Management Systems, both of which are subject to significant audit scrutiny.

### **4 The risk and control framework**

HSL's Audit Committee normally meets three times each year, with extraordinary meetings being held as and when required.

For the year ended 31 March 2011 the Committee comprised a non-executive Chairman and two other non-executive directors. HSL's Chief Executive, in his Accounting Officer role, and HSE's Head of Internal Audit and Assurance participate in Audit Committee meetings, but as attendees rather than members.

Risk Management is firmly embedded into the culture of HSL. A key strand of the process is the HSL Risk Register, which has been in place in various forms since 1999/2000. HSL's current Risk Register is aligned with the four main HSL business elements (Keeping It Safe, Winning It, Delivering It and Looking After It), such that it clearly identifies the main risks to HSL, the processes in place to prevent the occurrence of problems or to mitigate the effects should problems emerge. The Register also identifies agreed actions, the officers responsible to undertake these actions and the intended timescales. This helps to assess the inherent and residual risks.

HSL has an overall risk management strategy, and utilises the following processes to identify, evaluate, and control risk:

- The continued development and maintenance of HSL's risk register. This includes reviewing

the major risks facing the organisation and ranking these Red, Amber or Green.

- Risk management has been incorporated fully into the corporate planning and decision-making processes of HSL.
- The Audit Committee serves to co-ordinate the derivation and assessment of assurances regarding the quality of corporate governance in HSL.

The Senior Management Team reviews the Risk Register monthly on a rolling programme and the up-to-date situation is reported to the HSL Board at their monthly meetings. The Risk Register is also reviewed at each meeting of the HSL Audit Committee.

HSL's Risk Register at 31 March 2011 included four new risk categories within Risk Family 6 Looking After it for various reasons compared to the previous year end. As a result of the review of HSL approved by the HSE Board in January 2010, new operational freedoms in finance and human resources were agreed. Category D - Preparing for the Future was created as a risk category to monitor risk to HSL as these freedoms are introduced. HSL has reviewed its strategy and risk categories E on Science and F on

Knowledge have been introduced to reflect the importance of these aspects to HSL's strategy. Finally, a risk category G on Security has been introduced as a result of internal audit reports and the increasing emphasis on this area of operation by Government.

Prior to the start of the year, the Audit Committee agrees a programme of internal audit work taking account of HSL's Risk Register. For each audit assignment, Internal Audit provides an opinion on the adequacy and effectiveness of the system of internal control under review and makes recommendations for improvement. Recommendations arising from audits are followed up promptly to ensure that appropriate action is taken and improvements in the risk management, governance and internal control processes are achieved where necessary. The Audit Committee actively monitors the effective implementation of recommendations.

During 2010/11, HSL continued to take steps to improve the management of its information assets, under the supervision of its Corporate Information and Services Director, who is the Director responsible for IT and all aspects of HSL's security. In particular, all HSL staff satisfactorily completed the Cabinet Office's e-learning package on Protecting Information.

## 5 Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within HSL who have responsibility for the development and maintenance of the internal control framework, as well as comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review by the Board and the Audit Committee, and plans are in place to address weaknesses and ensure continuous improvement of the system.

In year, the HSL Board met each month, excluding August and December, on the latter occasion due to adverse weather. The Board are advised of changes to the Top Level risk register at every Board meeting and are updated on progress on the Internal Audit programme as required.

The Audit Committee met in June 2010, October 2010 and March 2011, and HSL's internal auditors (PKF (UK) LLP) and external auditors (National Audit Office) attended the meetings. The Committee reported to the Accounting Officer on the adequacy of audit arrangements and on the

implications of assurances provided in respect of risk and control in HSL. It considered all audit reports and recommendations and the formal management responses by the HSL Board. It also considered additional regular reports which might indicate potential risks to HSL on issues including Health and Safety, Quality, Environment and a Science Audit.

Throughout the year HSL's Head of Internal Audit had a direct line of communication to the Accounting Officer. In addition the Head of Internal Audit reported regularly to the HSL Audit Committee in accordance with Government Internal Audit Standards, providing the Head of Internal Audit's independent opinion on the adequacy and effectiveness of HSL's system of internal control. The Head of Internal Audit also produced an annual statement, which in respect of 2010/11 included the following formal opinion:

"Based on our audit work carried out, in our opinion HSL's system of internal control was sound during the year ended 31 March 2011. On the basis of our selective testing of key controls, we conclude that these controls were generally operating effectively for the period under review. However, it should also be noted that a small number of recommendations to strengthen the control in place have been made in most areas audited."

As at 31 March 2011, the agreed audits from the internal audit programme for the year had been performed. The completed reports contained one high priority recommendation (2009/10: none) and two medium priority recommendations (2009/10: nine).

The Cabinet Office issued version 5.0 of the Security Policy Framework (SPF) in February 2011. A gap analysis has been performed and quantified using red/amber/green rankings to enable a prioritised action plan to be agreed. As at 31 March 2011 no red gaps remain and there are no significant weaknesses at this time. In addition, there were no incidents during the year related to personal data which require disclosure.

## 6 Significant Control Challenges

Last year a significant control challenge was highlighted wherein a small number of projects had resulted in irrecoverable costs, which significantly outweighed surpluses achieved on other jobs. HSL has been improving its project management activity and controls as supported by the Sound rating of the framework of controls on project management in the Internal Audit Report. Additionally, HSL has placed greater emphasis on the pricing of

jobs and the risks of external contracts in the process when submitting bids for contracts. The instances of irrecoverable costs on contracts no longer outweigh the surpluses generated on the majority of contracts undertaken by HSL for external customers.

Three main risk families were ranked at Red, “Delivering It – External Business”, “Looking After It Category B - Business” and “Looking After It Category C – People and Services”. Eight of the remaining families were ranked as amber and two were green. Over the course of the year the following significant changes were made to the risk rankings of the key risk areas:

- “Winning It – External Business” was Amber for six months because the conversion of the sales funnel into orders was below the level necessary to achieve the sales budget. During November and December the family was ranked as Red because the secured sales did not support the achievement of the sales forecast for 2010/11. The family was taken back to Amber for the rest of the financial year to reflect a strengthening of sales prospects for 2011/12.
- “Delivering It – External Business” started the year at Amber, because of the losses made on one key contract in the previous financial year. It has been Red since June 2010 because of potential resourcing problems in some technical areas.
- “Looking After It - Category A – Infrastructure PFI” was Green at the beginning of the financial year because of good progress on legacy issues being achieved by the PFI service provider. However in December 2010 the status was changed to Amber because of management changes and resource issues at the PFI service provider which may impact on its ability to deliver the improvement plan.
- “Looking After it – Category B Business and Category C People” were both moved to Red in the second half of the year because of the need to slow down activity in some areas due to tighter resourcing.

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**Mr E Morland**  
Chief Executive,  
Health and Safety Laboratory  
Accounting Officer  
7 June 2011

### **Independent auditor's report to the Health and Safety Executive**

I have audited the financial statements of the Health and Safety Laboratory for the year ended 31 March 2011. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Chief Executive of the Health and Safety Laboratory and auditor**

As explained more fully in the Statement of Responsibilities of the Accounting Officer of the Health and Safety Executive and the Chief Executive of the Health and Safety Laboratory, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements. I conducted my audit in accordance

with the International Standards on Auditing (UK and Ireland). Those standards require me and my staff 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 Health and Safety Laboratory's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Health and Safety Laboratory; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I

consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### ***Opinion on Regularity***

In my opinion, 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.

## HEALTH AND SAFETY LABORATORY

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### ***Opinion on financial statements***

In my opinion:

- the financial statements give a true and fair view of the state of the Health and Safety Laboratory's affairs as at 31 March 2011 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the directions issued by the Health and Safety Executive.

### ***Opinion on other matters***

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the directions issued by the Health and Safety Executive; and
- the information given in the sections entitled Chief Executive's foreword and Management Commentary within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### ***Matters on which I report by exception***

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

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### **Neil Sayers**

Director, for  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

17 June 2011

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

		2011	2010
			Restated
	Note	£'000	£'000
<b>REVENUE</b>	2	<b>38,269</b>	<b>39,186</b>
Cost of sales	3	(11,404)	(11,702)
<b>GROSS SURPLUS</b>		<b>26,865</b>	<b>27,484</b>
Other income	4	59	69
Administration expenses	3	(22,580)	(22,452)
<b>OPERATING SURPLUS before revaluation</b>		<b>4,344</b>	<b>5,101</b>
Gain/(Loss) on revaluation of property assets		592	(845)
<b>OPERATING SURPLUS</b>		<b>4,936</b>	<b>4,256</b>
Finance costs	5	(3,963)	(4,006)
<b>SURPLUS ON ORDINARY ACTIVITIES</b>		<b>973</b>	<b>250</b>

Notes:

All operations were continuing operations and there were no acquisitions or disposals affecting operations during 2010/11.

The above figures have been restated for 2009/10 to reflect the change in the accounting treatment of the notional cost of capital. Please refer to notes 1 and 5 for further details.

The notes on pages 33 to 56 form part of these accounts.

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Note	2011 £'000	2010 £'000	2009 £'000
<b>NON CURRENT ASSETS</b>				
Property, plant and equipment	7	64,451	62,824	67,691
Intangible assets	8	390	360	347
Other receivables	9	104	49	89
<b>TOTAL NON CURRENT ASSETS</b>		<b>64,945</b>	<b>63,233</b>	<b>68,127</b>
<b>CURRENT ASSETS</b>				
Inventories: Work in Progress		195	534	617
Trade and other receivables	9	1,791	2,591	1,962
Cash and cash equivalents	10	34	0	0
<b>TOTAL CURRENT ASSETS</b>		<b>2,020</b>	<b>3,125</b>	<b>2,579</b>
<b>TOTAL ASSETS</b>		<b>66,965</b>	<b>66,358</b>	<b>70,706</b>
<b>CURRENT LIABILITIES</b>				
Trade & other payables	11	(3,886)	(3,919)	(3,472)
<b>NON CURRENT ASSETS PLUS NET CURRENT ASSETS</b>		<b>63,079</b>	<b>62,439</b>	<b>67,234</b>
<b>NON CURRENT LIABILITIES</b>				
Trade and other payables	11	(49,988)	(50,658)	(51,331)
Provision for liabilities and charges	12	(50)	(52)	(84)
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>(50,038)</b>	<b>(50,710)</b>	<b>(51,415)</b>
<b>ASSETS LESS LIABILITIES</b>		<b>13,041</b>	<b>11,729</b>	<b>15,819</b>
<b>TAXPAYERS' EQUITY</b>				
General reserve		6,073	6,961	6,358
Revaluation reserve		6,968	4,768	9,461
<b>TOTAL TAXPAYERS' EQUITY</b>		<b>13,041</b>	<b>11,729</b>	<b>15,819</b>

The notes on pages 33 to 56 form part of these accounts. Notes 1 and 5 report the impact on General Reserves of the removal of the notional cost of capital charge.

**Mr E Morland**  
Chief Executive,  
Health and Safety Laboratory  
Accounting Officer  
7 June 2011



## STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

	2011	2010
	£'000	Restated £'000
<b>Cash flows from operating activities</b>		
Surplus on Ordinary Activities	973	250
Adjustments for non cash transactions & finance costs:		
Depreciation and amortisation (Notes 7 & 8)	2,650	2,669
(Gain) or Loss on revaluation of non current assets	(592)	845
Impairment of non current assets	169	6
Finance costs	3,963	4,006
(Profit) or Loss on disposal of assets	(3)	35
<b>Operating profit before changes in working capital &amp; provisions</b>	<b>7,160</b>	<b>7,811</b>
(Increase)/decrease in inventory	339	83
(Increase)/decrease in receivables (Note 9)	745	(589)
Increase/(decrease) in payables	(69)	76
Use of provisions (Note 12)	(2)	(32)
<b>Cash generated from operating activities</b>	<b>8,173</b>	<b>7,349</b>
<b>Cash flows from investing activities</b>		
Purchase of Property Plant & Equipment	(1,437)	(3,016)
Purchase of Intangible Assets	(110)	(89)
Proceeds from disposal of property, plant and equipment	24	25
<b>Net cash outflow from investing activities</b>	<b>(1,523)</b>	<b>(3,080)</b>
<b>Cash flows from financing activities</b>		
Capital element of on balance sheet finance lease payments	(599)	(474)
Interest element of finance lease payments	(3,966)	(4,009)
Cash transferred (to) / from DWP/HSE	(2,051)	214
<b>Net financing</b>	<b>(6,616)</b>	<b>(4,269)</b>
<b>Net movement in cash and cash equivalents</b>	<b>34</b>	<b>0</b>

The above figures have been restated for 2009/10 to reflect the change in the accounting treatment of the notional cost of capital.

Please refer to notes 1 and 5 for further details.

## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	General Reserve	Revaluation Reserve	Total Reserves
	Restated		
	£'000s	£'000s	£'000s
<b>Brought forward at 1 April 2009</b>	6,358	9,461	15,819
<b>Movements in Reserves in 2009/10</b>			
Realised elements of revaluation reserve	139	(139)	0
Cash funding by HSE	214	0	214
Reduction in reserve on revaluation of property	0	(4,554)	(4,554)
Surplus for the financial year	250	0	250
<b>Balance at 31 March 2010</b>	<b>6,961</b>	<b>4,768</b>	<b>11,729</b>
<b>Movements in Reserves in 2010/11</b>			
Realised elements of revaluation reserve	190	(190)	0
Cash surplus to DWP/ HSE	(2,051)	0	(2,051)
Movement in reserve on revaluation of property	0	2,390	2,390
Surplus for the financial year	973	0	973
<b>Balance at 31 March 2011</b>	<b>6,073</b>	<b>6,968</b>	<b>13,041</b>

Please see also notes 1 and 5 regarding the impact on General Reserves of the removal of the notional cost of capital charge.

## NOTES TO THE ACCOUNTS

### 1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounts direction issued by HSE and the 2010/11 Government Financial Reporting Manual (FRoM) ([www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk)) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) adapted or interpreted for the Public Sector context.

Where the FRoM permits a choice of accounting policy, the policy judged to be most appropriate to the particular circumstances of HSL for the purpose of giving a true and fair view has been selected. The particular policies adopted by HSL are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### Accounting convention

The financial statements are prepared under the historical cost convention modified for the revaluation of non current assets.

#### Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The nature of estimation means that actual outcomes could differ from those estimates.

The key source of estimation uncertainty that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the financial year is the estimate of total costs to be incurred to complete a contract. HSL reviews cost to complete by reference to its project management system and an assessment of the cost of outstanding tasks.

#### Accounting standards, interpretations and amendments to published standards

Adopted in these Financial Statements

All International Financial Reporting Standards, Interpretations and Amendments to published

standards, effective at 31 March 2011, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included within the FRoM.

IAS 7 Statement of Cash Flows (effective for periods beginning on or after 1 January 2010) – This requires that only expenditure which results in a recognised asset in the Statement of Financial Position can be classified within investing activities. HSL is compliant with IAS 7 in that the only recognised investing activities are the purchase of property, plant and equipment and intangible assets within the Statement of Financial Position.

The HM Treasury Clear Line of Sight Project aims to align budgets, Estimates and accounts. As a result of amendments to the budgetary regime, cost of capital charges have been removed from financial statements with effect from 1 April 2010 in line with corresponding changes to budgets and Estimates. Comments as to the specific impacts on HSL's financial statements are provided at note 5.

## NOTES TO THE ACCOUNTS

An additional amendment to the FReM, effective from 1 April 2010, has been made in respect of IAS 36 Impairment of Assets. This requires impairments of property, plant and equipment that arise from a clear consumption of economic benefits to be taken direct to the Statement of Comprehensive Income.

### Effective for future Financial Years

The IASB and IFRIC issued certain standards and interpretations with an effective date after the date of these financial statements. Where these changes are relevant to HSL's circumstances they are listed below and will be adopted at the effective date. They have not been adopted early and their adoption is not expected to have a material impact on HSL's reported income or net assets in the period of adoption.

**IAS 24 Related Party Transactions** (effective for periods beginning on or after 1 January 2011) – The amendment provides exemption for full disclosure of transactions with state-controlled entities and does not impact the current exemption allowed within the FReM. IAS 24 also clarifies the definition of a related party.

**IFRS 7 Financial Instruments: Disclosures** (effective for periods beginning on or after 1 July 2011) – Detailed disclosures are required for financial assets transferred to another entity but not derecognised in their entirety and financial assets derecognised in their entirety but in which the reporting entity has an involvement. HSL does not expect there to be any transactions requiring disclosure but will assess further as appropriate for the 2012-13 financial statements.

**IFRS 9 Financial Instruments: Classification and Measurement** (effective for periods beginning on or after 1 January 2013) – IFRS 9 is a replacement for IAS 39 and introduced new requirements for the classification and measurement of financial assets, together with the elimination of two categories. Further proposals were introduced in October 2010 in respect of the derecognition of financial assets and liabilities. IFRS 9 is due to be expanded further in June 2011 with regard to the impairment of financial assets measured at amortised cost. HSL will undertake an assessment of the impact of IFRS 9 once the full requirements are known.

### **Impact of HSL's relationship with HSE and DWP on reporting in the Annual Accounts**

In accordance with an accounts direction issued by HSE, HSL has prepared a Statement of Comprehensive Income, a Statement of Financial Position, a Statement of Cash Flows and a Statement of Changes in Taxpayers' Equity for the financial year.

All non current assets are owned by HSE, but are used by HSL in its day-to-day activities, and are included in these accounts. HSL is responsible for meeting the charges associated with its usage of the assets.

HSL comes within the scope of HSE's VAT registration, and therefore HSL's revenue from HSE is not subject to VAT, resulting in a net VAT receivable position. HSE subsequently recovers this amount under its registration with HMRC. HSE settles the receivable for VAT with HSL, as at 31 March each year, removing the need to include the outstanding VAT Receivable figure in these Accounts. HSL's receivable position for work done for HSE is similarly settled (see below) as at 31 March each year and hence does

In conjunction with DWP and HSE, changes to Government banking arrangements were implemented during the year. Previously, HSL's bank account was funded or de-funded to a nil balance on a daily basis by HSE. Under the new arrangements, funding or de-funding is performed by DWP based on an estimated month end balance, and from 2010/11 is therefore likely to result in bank balances being shown within HSL's accounts.

The liability for the payment of tax and social security contributions at 31 March each year rests with HSE which is responsible for paying these amounts to HM Revenue & Customs.

HSL receives cash in return for services from non-HSE customers. HSE's trading indebtedness to HSL is not settled in cash, but is settled in part by the offset of expenses which HSE pays out to employees and suppliers on HSL's behalf. Any additional cash funding required as a result is provided by DWP as described above.

HSL's financial remit is to at least break even on an annual basis by recovering its full economic cost from both HSE and external customers. Since HSL became an

Agency of HSE, both surpluses and deficits have been made from operating activities, which have been transferred to the General reserve. When HSL recovers its full costs from its customers, including non-cash items such as depreciation, this may result in cash surpluses depending on the level of investment in capital expenditure. Since 31 March 1999, any cash surpluses have been deducted from the General reserve, and any deficits added to the General reserve, to reflect the funding arrangements between HSL and HSE / DWP.

Under the present funding arrangements HSE and DWP have a commitment to support HSL financially and therefore the preparation of HSL's account on a going concern basis is sustainable as a result of this support.

## **Revenue**

Revenue represents the value of completed services, net of any VAT, provided from the ordinary activities of the business.

## **Operating Segments**

Revenue is analysed between HSL's main revenue streams, being work

contracted with HSE and work with parties external to HSE, which may also be outside the public sector. These streams attract different risks and returns. However, the Board manages the Health and Safety Laboratory as one entity, and makes strategic decisions on that basis. The Board therefore considers that under IFRS 8 Operating Segments, the laboratory as a whole comprises one operating segment and further segmental analysis would not be appropriate.

## **Expenses**

### **Operating lease payments**

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases and the rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

## **Staff Costs**

Past and present employees are covered by the provisions of the Civil Service Pension Schemes described at Note 6. The defined benefit scheme is unfunded and is non-contributory except in respect of dependents' benefits.

## NOTES TO THE ACCOUNTS

HSL recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution element of the schemes, HSL recognises the contributions payable for the year.

Short-term employee benefits, such as salaries and paid absences, are accounted for on an accruals basis over the period for which employees have provided services in the year. General staff bonuses are recognised to the extent that HSL has a present obligation that can be measured reliably. Bonuses in relation to Senior Civil Service (SCS) employees are not recognised until payments to individuals have been determined.

### Foreign Currency Transactions

Transactions denominated in a foreign currency are converted to sterling at the exchange rate prevailing on the day of the transaction, with any gains or losses on exchange being taken to the Statement of Comprehensive Income.

### Notional cost of capital charge

No longer required under the 2010/11 FReM. See note 5.

### Property, Plant and Equipment

Property, plant and equipment are stated at fair value. However, as permitted by the FReM, HSL has elected to adopt a depreciated historical cost basis as a proxy for fair value where non-property assets have a short useful life or are of relatively low value. This has therefore been applied to the following asset categories: Transport & Equipment, Plant & Machinery, Information Technology and Furniture & Fittings.

On initial recognition assets are measured at cost, including installation and provisional disposal costs where relevant. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to HSL and the cost of the item can be measured reliably.

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds the

capitalisation threshold. Where an item costs less than the capitalisation limit, but forms an integral part of a package whose total value is greater than the capitalisation level, the item is treated as a capital asset. Items costing less than £5,000 are charged to expenditure in the year of purchase, except for computer equipment costing over £1,000 but less than £5,000 and items of furniture costing less than £5,000 which are grouped for capitalisation.

### Land and Buildings

HSL's land and buildings are accounted for in accordance with IAS 16 Property, Plant and Equipment, with the exception of that part of the estate leased to Sheffield University, which is classified as an investment property in accordance with IAS 40.

Land and buildings, including any specialist facilities, are measured initially at cost, restated to current value using external professional valuations at least every five years, and for buildings in the intervening years by use of appropriate published indices.

All land is assessed each year for the likelihood of a material change in value as at 31 March. Where the directors consider that it is likely that there has been a material change in value, assets are revalued using a professional valuation or appropriate indices.

Land is therefore stated at market value in existing use. Buildings on the Buxton estate are stated at Depreciated Replacement Cost (DRC) because of their specialist nature and location, with the exception of the Sheffield University site which is stated at market value in existing use.

Note: Specialist facilities are reported within the plant and machinery asset classification.

Indicated average lives are:

## Depreciation

Freehold land is not depreciated. Depreciation is provided from the month of acquisition on all other property, plant and equipment assets that are available for use. Assets under construction are not depreciated until the asset is commissioned, and thus available for use. Depreciation is calculated to write down the asset to its estimated residual value evenly over its expected useful life.

Freehold Buildings	50 years or remaining life assessed by the valuers whichever is lower
Leasehold Buildings	60 year designed life for the PFI building
Specialist Plant	remaining life
Furniture under the PFI contract	30 years
Major Scientific Equipment	up to 20 years
Non-PFI Furniture and Fittings	up to 15 years
Vehicles (excluding Cars leased to staff)	up to 9 years
Telecommunications Equipment, Computers and Office Machinery	up to 7 years
Cars leased to staff (Private User Scheme)	written down to 32% of cost over 3 years

## NOTES TO THE ACCOUNTS

### **Leases And Private Finance Initiative (PFI) Transactions**

HSL accounts for its PFI contract in accordance with IAS 17 Leases and IFRIC 12 Service Concession arrangements, as interpreted for the public sector in the FReM. It is classified as a finance lease and reported in the accounts on the basis that substantially all the risks and rewards of ownership are borne by HSL, rather than the lessor. HSL currently has no operating leases and no other finance leases.

### **Accounting for the transfer of land and buildings to the contractor**

As part of the PFI contract, HSL disposed of all of the land and buildings at the Sheffield site to ICB Ltd, at their fair value of £4.6m. This is accounted for as a contribution towards the capital repayment element of the contract at the commencement of the PFI contract occupation period. This reduces the value of the remaining obligations under the lease.

### **Accounting for the land, buildings and furniture leased to HSL under the contract**

The land, buildings and furniture leased under the contract are capitalised, and recorded within non-current assets, at the fair value of the leased assets. See Property, Plant and Equipment accounting policy note for revaluation and depreciation of these assets.

### **Accounting for payments and liabilities under the contract**

Contract payments are attributable to either the service charge element or the capital repayment and interest element of the contract.

Liabilities for the service charge element of the contract, together with the increase in capital repayment and interest element arising from annual movement in the RPI index (contingent rent) are recognised in the year in which the service charge/annual increase is incurred. The initial obligations under the capital repayment and interest element of the contract are recognised as liabilities within the accounts and valued at the present value of the minimum lease payments before RPI increases discounted at the interest rate implicit in the lease.

### **Accounting for reversionary interests due at the end of the contract in October 2034**

Under the contract, HSL leased the land (on which the contractor built) to the contractor and the contractor leased the land and buildings back to HSL under the contract. At the end of the contract, ownership of the land, and the buildings built under the contract, reverts to HSL.

Given the location of and potential uses for the Buxton site, the expected fair value of the reversionary interest in the PFI land and buildings has been assessed as not materially different from the valuations of these assets currently reflected in the accounts.

### **Intangible assets**

Purchased software with an expected life of more than one year, which can be separately identified and used independently of a particular tangible asset, is capitalised either individually, if it cost more than £1,000, or grouped with similar assets and accounted for on a pooled basis where their total value exceeds the capitalisation threshold.

Internally generated website development costs are capitalised in line with the criteria provided in IAS 38 Intangible Assets and the requirements of SIC 32 Website Costs, which requires that the estimate of a website's life should be short. Following a significant upgrade, the website has now been awarded a 6 year life (2009/10: 3 years) for amortisation purposes. Costs are categorised as research or development costs and accounted for accordingly (see below).

Internally generated expenditure incurred on a clearly defined, unique project to develop Intellectual Property assets, whose outcome can be assessed with reasonable certainty and which is expected to lead to a new product or revenue stream, is capitalised. It is initially measured at cost, and subsequently at cost less any accumulated amortisation and impairment losses. Expenditure on research activities and any other development expenditure are charged to the Statement of Comprehensive

Indicated average lives are:

Income in the year in which it is incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period. Development expenditure is considered as an asset under construction until the asset is available for use, at which time the asset is transferred to the relevant asset class.

Amortisation is charged from the month of acquisition on any intangible assets with definite lives that are available for use.

Amortisation is calculated to write down the asset to its estimated residual value evenly over its expected useful life. The amortised cost is considered to provide a reasonable estimation of fair value.

Software Assets	up to 5 years
HSL Website	6 years
Intellectual property assets	commercial life of the project, being 3-5 years

## NOTES TO THE ACCOUNTS

### Impairment of Non-Current Assets

All non-current assets are reviewed for impairment if it is ascertained that the carrying amount may not be recoverable, the recoverable amount for an asset being the higher of its value in use and its fair value less costs to sell. Impairments arising from a clear consumption of economic benefits are taken directly to the Statement of Comprehensive Income.

### Inventory and Work In Progress

Consumable inventory items are expensed on receipt.

Work in progress on contracts is valued at the lower of cost and net realisable value. Cost comprises materials, labour and attributable overhead incurred to date in delivering the contract, less any amounts already invoiced. Net realisable value represents the full contract value less the total of costs to date plus estimated costs to complete the contract.

Profit on contracts is recognised on completion. Full provision is made for anticipated future losses as soon as they are recognised, and these are accounted for within work in progress.

### Non-Derivative Financial Instruments

HSL classifies its non-derivative financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost. The fair value of trade and other receivables is usually the original invoiced amount. HSL's cash holdings comprise bank balances and petty cash only - for funding details see note 1 - "Impact of HSL's relationship with HSE and DWP on reporting in the Annual Accounts". HSL has no cash equivalents.

HSL assesses periodically whether there is objective evidence that financial assets are impaired as a result of events which occurred after the initial recognition of the asset and up to 31 March and whether such events have had an impact on the estimated future cash flows of the financial instrument and can be reliably estimated.

Assets and liabilities denominated in foreign currency at the year end are translated into sterling at the exchange rates prevailing at that date. Any gains and losses on exchange are

dealt with through the Statement of Comprehensive Income.

HSL operates an early retirement scheme, which gives retirement benefits to certain qualifying employees. These benefits conform to the rules of the Principal Civil Service Pension Schemes (PCSPS). HSL meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. HSL formally recognises this liability once the early retirement agreement becomes contractually binding on them, establishing a Payable for the anticipated payments, discounted in real terms.

HSL is committed to make payments in respect of such items as Additional Housing Cost Allowance and Excess Daily Fares (EDF) to employees affected by the collocation to the Buxton site in 2004. Such payments were available to all HSL staff eligible for a move at public expense. The eligibility for EDF payments ended in year for the remaining qualifying staff. The Payable at 31 March represents the current balance of the initial provision established in 2004/05 for costs relating to the estates rationalisation, discounted in real terms.

## Derivative Financial Instruments and Hedging

HSL does not use derivative instruments such as interest rate swaps or any other hedging facilities.

## Provisions

HSL provides for legal or constructive obligations of uncertain timing or amount as at 31 March on the basis of the best estimate of the expenditure required to settle the obligation.

Provision is made for those potential liabilities where we believe that it is more likely than not that there will be a monetary transfer and the amount can be reliably estimated. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the current Treasury discount rate of 2.2% (2009/10 2.2%) in real terms.

## Contingent Liabilities

Contingent liabilities arise out of past events and are possible obligations that will only be confirmed by uncertain future events not wholly within the control of the entity, or present obligations where the outflow of economic benefit is uncertain or cannot be reliably estimated as to its value. Contingent liabilities are not disclosed where the possibility of an outflow of economic benefits is remote

## Revaluation Reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments. In accordance with IAS 16, surpluses arising on the revaluation of non current assets are credited to the revaluation reserve to the extent that they do not reverse earlier losses.

Deficits are charged to the reserve up to the level of the existing reserve for any asset previously revalued upwards. The balance of any deficit and any reversal of previously written off revaluation losses is taken to the Statement of Comprehensive Income.

Each year, the realised element of the reserve (i.e. an amount equal to the excess of current cost depreciation over historical cost depreciation) is transferred from the reserve to the General Fund. On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the General Fund. Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

## 2 REVENUE

	2011	2010
	£'000	£'000
HSE	30,435	32,125
EU	237	230
Intellectual property	159	56
Other external to HSE	7,438	6,775
<b>TOTAL</b>	<b>38,269</b>	<b>39,186</b>

### 3 COST OF SALES AND ADMINISTRATION EXPENSES

	Note	2011	2010
		£'000	£'000
<b>Cost of Sales</b>	6		
Payroll		8,820	8,856
Bought in goods and services		2,209	2,723
WIP movement		339	83
Depreciation		36	40
<b>Total</b>		<b>11,404</b>	<b>11,702</b>
<b>Administration Expenses</b>			
Payroll	6	7,942	7,744
Other Administration expenses		1,477	1,762
Provisions: Movement in year		36	(14)
Travel & Subsistence – HSL Board		46	59
Travel & Subsistence - Other Staff		646	727
Audit Fee		49	49
Other bought in goods and services		1,483	1,556
Central overhead recharged by HSE		1,296	1,250
Premises costs		6,825	6,649
Depreciation and Amortisation		2,614	2,629
Impairments of assets		169	6
(Profit) or loss on disposal of non current assets		(3)	35
<b>Total</b>		<b>22,580</b>	<b>22,452</b>

All costs are reported net of recoverable VAT.

Provisions movement in year was previously included under Other Administration expenses.

Expenditure coded to Cost of Sales represents the cost of staff hours directly incurred when carrying out

work for customers, together with the cost of materials and services specifically purchased for customer work. All PFI contract and other overhead costs, together with the remaining staff and materials costs are included within administration expenses. It is not possible to allocate the PFI contract service and interest costs meaningfully between

cost of sales and administration expenses.

Research cost in year not recoverable from customers was £809,771 (2009/10: £721,000).

## 4 OTHER INCOME

	2011	2010
	£'000	£'000
Property related income	33	38
Miscellaneous income	26	31
<b>TOTAL</b>	<b>59</b>	<b>69</b>

## 5 FINANCE COSTS

	2011	2010
	£'000	Restated £'000
Interest payable under finance leases	3,963	4,006
<b>TOTAL</b>	<b>3,963</b>	<b>4,006</b>

Note 1 reports the removal of the notional cost of capital charges from these accounts, which were previously reflected in HSL's published accounts calculated on the average total net assets at the Government's real rate of 3.5%.

The removal of this charge reduced the 2009/10 Finance costs by £555k, converting the Income Statement

deficit of £305k into a £250k surplus, a change also reflected in the Statement of Cash Flows. Closing General Reserves in the "Financial position" and "Changes to taxpayers' equity" statements were however unaffected, as previously this notional charge was added back for the purpose of calculating the in year movement in General Reserves.

## 6 STAFF COSTS

### a) Salary Costs

The cost of employing staff includes all costs incurred in respect of staff permanently employed, and all costs incurred in respect of those engaged on HSL's objectives, including any

on inward secondment or loan from other organisations, temporary agency staff and contract staff,

reduced by any recoveries for HSL staff on outward secondment.

	2011	2010
	£'000	£'000
<b>Payments to staff with a permanent (UK) contract</b>		
Wages and salaries	13,193	13,063
Other pension costs	2,526	2,496
Social security costs	1,043	1,039
<b>Sub-total</b>	<b>16,762</b>	<b>16,598</b>
Payments to other staff engaged on HSL objectives	0	2
<b>Total Gross Staff Cost</b>	<b>16,762</b>	<b>16,600</b>

Note: There were no outward secondments in year.

### b) Pensions

The PCSPS is an unfunded defined benefit scheme which prepares its own scheme statements and is run on behalf of multiple employers, and as a result HSL is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2010/11 employer's contributions of £2,494,316 (2009/10: £2,468,299) were payable to the PCSPS at one of four rates in the range 16.7 to 24.3% (2009/10: 16.7 to 24.3%) of pensionable pay, based on salary bands. Employer contributions are reviewed every four years following a full scheme valuation by the scheme actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to join a partnership pension account, a stakeholder pension with an employer contribution. For 2010/11 employer's contributions of £31,365 (2009/10 £27,941) were paid to appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent.

## 6 STAFF COSTS cont'd

During the financial year, there was one early retirement on ill-health grounds (2009/10: none); consequently there was £1,067 of additional accrued pension liability in year (2009/10: £ Nil).

These liabilities are not the responsibility of HSL but are to be paid by the PCSPS.

The notes on Civil Service Pensions on page 20-21 are relevant to all members of staff.

### Average employee numbers

The average number of full time equivalent employees during the year was made up as follows:

	2011	2010
<b>Staff with a permanent (UK) contract</b>		
Scientific, Engineering, Technical & Investigation staff	282	300
Corporate Specialist staff	56	57
Business Management	15	14
Project Management	15	11
Business Development	11	10
<b>Total Staff</b>	<b>379</b>	<b>392</b>

## 7 PROPERTY, PLANT AND EQUIPMENT

2010/11	Land	Buildings	Transport & Equipment	Plant & Machinery	Information Technology	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>								
<b>At 1 April 2010</b>	<b>1,546</b>	<b>52,945</b>	<b>826</b>	<b>14,858</b>	<b>2,105</b>	<b>3,215</b>	<b>1</b>	<b>75,496</b>
Additions	0	67	13	755	47	9	480	1,371
Revaluation	0	3,046	0	0	0	0	0	3,046
Impairments	0	0	(63)	(106)	0	0	0	(169)
Disposals	0	0	(37)	(302)	0	0	0	(339)
<b>At 31 March 2011</b>	<b>1,546</b>	<b>56,058</b>	<b>739</b>	<b>15,205</b>	<b>2,152</b>	<b>3,224</b>	<b>481</b>	<b>79,405</b>
<b>Depreciation</b>								
<b>At 1 April 2010</b>	<b>0</b>	<b>0</b>	<b>449</b>	<b>10,510</b>	<b>1,154</b>	<b>559</b>	<b>0</b>	<b>12,672</b>
Charged in year	0	1,130	92	807	385	121	0	2,535
Revaluation	0	65	0	0	0	0	0	65
Disposals	0	0	(23)	(295)	0	0	0	(318)
<b>At 31 March 2011</b>	<b>0</b>	<b>1,195</b>	<b>518</b>	<b>11,022</b>	<b>1,539</b>	<b>680</b>	<b>0</b>	<b>14,954</b>
<b>Net book value at 31 March 2011</b>	<b>1,546</b>	<b>54,863</b>	<b>221</b>	<b>4,183</b>	<b>613</b>	<b>2,544</b>	<b>481</b>	<b>64,451</b>
<b>Net book value at 31 March 2010</b>	<b>1,546</b>	<b>52,945</b>	<b>377</b>	<b>4,348</b>	<b>951</b>	<b>2,656</b>	<b>1</b>	<b>62,824</b>
<b>Asset Financing</b>								
Owned	1,546	4,006	221	4,183	613	102	481	11,152
PFI contract	0	50,857	0	0	0	2,442	0	53,299
<b>Net Book Value at 31 March 2011</b>	<b>1,546</b>	<b>54,863</b>	<b>221</b>	<b>4,183</b>	<b>613</b>	<b>2,544</b>	<b>481</b>	<b>64,451</b>

### Analysis of land and buildings between freehold, long and short leasehold

Net book value of land and buildings at 31 March 2011 comprises	2011	2010
	£'000	£'000
Freehold	5,552	5,511
Short leasehold – PFI Contract for 30 years - See Note 14 re accounting for PFI	50,857	48,980
<b>Total net book value</b>	<b>56,409</b>	<b>54,491</b>

All land and buildings were professionally revalued as at 31 March 2010, in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Standards by an independent surveyor, Jones Lang Lasalle. This appraisal included that part of the Buxton estate which HSL rents to Sheffield University on a lease expiring on 29 September 2016, and which is valued at £240,000 (2009/10 £240,000).

For the year ended 31 March 2011, all buildings were revalued using All In Tender Price indices produced by RICS. Of the net gain on revaluation of £2,981k (£3,046k - £65k) in the Property, Plant and Equipment note above, £592k has been taken to the Statement of Comprehensive Income to reverse losses charged to that Statement in earlier years, with the remainder of the gain being taken to Revaluation Reserve.

HSL's specialist facilities were professionally revalued at 31 March 2008, by Rushton International Limited, an independent firm of valuation specialists. Specialist facilities are reported within the plant and machinery asset classification.

Depreciation charged in the year on assets under the PFI contract was £0.915m (2009/10: £1.103m).

2009/10	Land Buildings		Transport & Equipment	Plant & Information Machinery Technology	Furniture & Fittings	Payments on Account & Assets under Construction	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>								
<b>At 1 April 2009</b>	<b>1,232</b>	<b>63,313</b>	<b>751</b>	<b>14,260</b>	<b>1,737</b>	<b>3,018</b>	<b>202</b>	<b>84,513</b>
Additions	0	1,532	154	849	565	75	1	3,176
Revaluation	314	(11,924)	0	0	0	0	0	
Impairments	0	0	0	(6)	0	0	0	(6)
Disposals	0	(8)	(79)	(293)	(197)	0	0	(577)
Re-classification	0	32	0	48	0	122	(202)	0
<b>At 31 March 2010</b>	<b>1,546</b>	<b>52,945</b>	<b>826</b>	<b>14,858</b>	<b>2,105</b>	<b>3,215</b>	<b>1</b>	<b>75,496</b>
<b>Depreciation</b>								
<b>At 1 April 2009</b>	<b>0</b>	<b>5,041</b>	<b>421</b>	<b>9,934</b>	<b>991</b>	<b>435</b>	<b>0</b>	<b>16,822</b>
Charged in year	0	1170	91	833	360	124	0	2,578
Revaluation	0	(6,211)	0	0	0	0	0	(6,211)
Disposals	0	0	(63)	(257)	(197)	0	0	(517)
Re-classification	0	0	0	0	0	0	0	0
<b>At 31 March 2010</b>	<b>0</b>	<b>0</b>	<b>449</b>	<b>10,510</b>	<b>1,154</b>	<b>559</b>	<b>0</b>	<b>12,672</b>
<b>Net book value at 31 March 2010</b>	<b>1,546</b>	<b>52,945</b>	<b>377</b>	<b>4,348</b>	<b>951</b>	<b>2,656</b>	<b>1</b>	<b>62,824</b>
<b>Net book value at 31 March 2009</b>	<b>1,232</b>	<b>58,272</b>	<b>330</b>	<b>4,326</b>	<b>746</b>	<b>2,583</b>	<b>202</b>	<b>67,691</b>

## 8 INTANGIBLE ASSETS

2010/11	Software Licences	Intellectual Property Assets	Website	Development expenditure	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 April 2010	451	32	32	0	515
Additions in year	69	0	24	52	145
At 31 March 2011	520	32	56	52	660
<b>Amortisation</b>					
At 1 April 2010	142	3	10	0	155
Charge in year	93	11	11	0	115
At 31 March 2011	235	14	21	0	270
Net Book Value at 31 March 2011	285	18	35	52	390
Net Book Value at 31 March 2010	309	29	22	0	360
<b>2009/10</b>					
2009/10	Software Licences	Intellectual Property Assets	Website	Development expenditure	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 April 2009	229	0	32	150	411
Additions in year	82	22	0	0	104
Reclassifications	140	10	0	(150)	0
At 31 March 2010	451	32	32	0	515
<b>Amortisation</b>					
At 1 April 2009	64	0	0	0	64
Charge in year	78	3	10	0	91
At 31 March 2010	142	3	10	0	155
Net Book Value at 31 March 2010	309	29	22	0	360
Net Book Value at 31 March 2009	165	0	32	150	347

## 9 RECEIVABLES

### 9 (a) Analysis by type

	2011	2010	2009
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
Trade receivables	867	1,540	1,579
Other receivables	9	12	6
Prepayments and accrued income	915	1,039	377
	<b>1,791</b>	<b>2,591</b>	<b>1,962</b>
<b>Amounts falling due after more than one year</b>			
Long term staff loans re house moves	8	11	14
Prepayments	96	38	75
	<b>104</b>	<b>49</b>	<b>89</b>
<b>TOTAL</b>	<b>1,895</b>	<b>2,640</b>	<b>2,051</b>

### 9(b) Intra-Government Balances

	Current	Current	Non Current	Non Current
	2011	2010	2011	2010
	£000	£000	£000	£000
Balances with other central government bodies	302	455	0	0
Balances with local authorities	87	26	0	0
Balances with NHS bodies	5	17	0	0
Balances with public corporations and trading funds	77	213	0	0
Balances with bodies external to government	1,320	1,880	104	49
<b>Total receivables at 31 March</b>	<b>1,791</b>	<b>2,591</b>	<b>104</b>	<b>49</b>

## 10 CASH AND CASH EQUIVALENTS

	2011	2010	2009
	£000	£000	£000
Balances at 1 April	0	0	0
Net change in cash and cash equivalent balances	34	0	0
<b>Balances at 31 March</b>	<b>34</b>	<b>0</b>	<b>0</b>

The balance at 31 March was represented by cash and cash equivalents held at Government Banking Services. As noted under Accounting policies at page 35, the 2010/11 change in banking arrangements has resulted in a cash balance being included in the account for the first time.

## 11 PAYABLES

### 11 (a) Analysis by type

	2011	2010	2009
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
Trade payables	403	328	95
Trade and other accruals	2,142	2,440	2,522
Finance lease obligations under PFI contracts (Note 14)	651	603	489
Payments on account	690	548	366
	<b>3,886</b>	<b>3,919</b>	<b>3,472</b>
<b>Amounts falling due after more than one year</b>			
Finance lease obligations under PFI contracts (Note 14)	49,974	50,625	51,228
Relocation expenses	11	21	71
Early Retirements	3	12	32
	<b>49,988</b>	<b>50,658</b>	<b>51,331</b>
<b>TOTAL</b>	<b>53,874</b>	<b>54,577</b>	<b>54,803</b>

### 11 (b) Intra-Government Balances

	Current	Current	Non Current	Non Current
	2011	2010	2011	2010
	£000	£000	£000	£000
Balances with other central government bodies	0	0	0	0
Balances with local authorities	13	8	0	0
Balances with NHS bodies	77	27	0	0
Balances with public corporations and trading funds	1	2	0	0
Balances with bodies external to government	3,795	3,882	49,988	50,658
<b>Total payables at 31 March</b>	<b>3,886</b>	<b>3,919</b>	<b>49,988</b>	<b>50,658</b>

## 12 PROVISIONS FOR LIABILITIES AND CHARGES

	2011	2010
	£'000	£'000
<b>Provision at 1 April</b>	<b>52</b>	<b>84</b>
Provided in the year	58	20
Discount unwound in the year	0	0
Provision utilised in year	(33)	(18)
Provision not required written back	(27)	(34)
<b>Provision at 31 March</b>	<b>50</b>	<b>52</b>

### Other provisions

Provisions have been made for miscellaneous items, in accordance with Note 1. No reimbursement is expected in respect of any such claim. It is considered quite feasible that all of the provisions noted above will have been utilised by the end of the next financial year. No discounting has therefore been applied. No further detail of any of the above provisions is given here in the interests of commercial confidentiality.

### 13 CAPITAL COMMITMENTS

Capital expenditure contracted for at 31 March 2011 for which no provision has been made in these accounts was £555,698 (2009/10: £350,350).

### 14 COMMITMENTS UNDER PFI CONTRACTS

With effect from 28 October 2004, HSL took occupation of serviced accommodation for laboratory and support functions provided under a 32 years and 29 weeks term, "design, build, finance and operate" contract with Investors in the Community (Buxton) Limited (ICB Ltd), 2 years and 29 weeks being the design and build period prior to occupation.

The PFI contract is accounted for both as a finance lease and as a service concession arrangement (see Note 1 on Accounting Policies for more detail).

For 2010/11, costs under the contract consisted of repayment of finance lease principal £603k (2009/10: £489k) and interest of £3,963k (2009/10: £4,006k), plus the service element of PFI transactions of £4,487k (2009/10: £4,137k), including Contingent Rent of £868k (2009/10 £663k).

## 14 COMMITMENTS UNDER THE PFI CONTRACT

Finance lease obligations under HSL's PFI contract comprise:

	2011	2010
	£'000	£'000
Not later than one year	4,565	4,565
Later than one year and not later than five years	18,472	18,331
Later than five years	88,397	93,104
Total gross liabilities	111,434	116,000
Less interest element	(60,809)	(64,772)
Present value of obligations	50,625	51,228

### Total obligations under on-balance sheet service concession arrangements

Subject to ICB Ltd achieving contracted levels of service and availability HSL is committed to make payments in future years up to October 2034:

	2011	2010
	£'000	Restated £'000
Not later than one year	4,993	4,529
Later than one year and not later than five years	19,971	18,118
Later than five years	92,743	88,667
Present value of obligations	117,707	111,314

Future payments for all elements of the PFI contract are linked to inflation based on the Retail Price Index, and hence the payments to be made in future years may become significantly

higher than those at the present time. No estimates have been included here, because of the uncertainty over the likely impact of inflation on payments.

## 15 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

HSL does not face the degree of exposure to financial risk that commercial businesses do. In addition financial assets and liabilities generated by day-to-day operational activities are not held in order to change the risks facing HSL in undertaking its activities. HSL relies upon HSE and DWP for its cash requirements, having no power itself to borrow or invest surplus

funds and HSL's main financial assets and liabilities have a nil rate of interest. The short-term liquidity and interest rate risks are therefore slight, and there is no foreign currency risk, as material income, expenditure, assets and liabilities, are denominated in sterling.

### Financial Assets by Category

	2011	2010
	£'000	£'000
Trade receivables	867	1,540
Other receivables	17	23
Accrued income	542	742
Cash and cash equivalents	34	0
<b>TOTAL</b>	<b>1,460</b>	<b>2,305</b>

Trade receivables represent HSL's maximum exposure to credit risk in relation to financial assets. HSL

assesses the recoverability of trade receivables on an individual basis by reference to age and credit control feedback.

At 31 March 2011, HSL has completed a full review and deemed it necessary to impair the value of trade receivables by £4k.

### Financial Liabilities by Category

	2011	2010
	£'000	£'000
Trade payables	403	328
Trade and other accruals	2,156	2,473
<b>TOTAL</b>	<b>2,559</b>	<b>2,801</b>

There are no material differences between the fair and book values of any of the above items.

## 16 CONTINGENT LIABILITIES

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There were no contingent liabilities at 31 March 2011.

## 17 RELATED PARTY TRANSACTIONS

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HSL is an Agency of HSE, which in turn is an NDPB of DWP, and both are therefore regarded as related parties. During the year, HSL carried out science and technology projects for HSE to a value of £30,435,000 (2009/10: £32,125,000).

HSL also had a number of material transactions with other Government Departments and other central government bodies. These mainly related to HSL working as a contractor undertaking scientific and technological activity including the provision of health and safety services. The significant transactions, for the year as a whole, were with: Department for Environment, Food and Rural Affairs, Royal Mail, NHS, Home Office, Ministry of Defence, Office of Rail Regulation, Department for Transport, High Peak Borough Council, Sheffield Teaching Hospitals, Health Protection Agency and Sheffield City Council.

None of the HSL Board or senior managers, or any person connected with these, had any interest in any material transactions with HSE, or have undertaken transactions with key suppliers and contractors to HSL, or received benefits from HSL suppliers during the year, with the exception of declared hospitality.

Under HSL Finance Notice 7, all staff are required to declare any potential conflicts of interests, including company directorships, and a register of these is maintained by the Human Resources section at HSL.

## 18 LOSSES AND SPECIAL PAYMENTS

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There were no losses or special payments in the year requiring disclosure.

## 19 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

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There were no adjusting events after 31 March. The financial statements were authorised for issue on 17 June 2011. This is the date of the Certificate and Report of the Comptroller and Auditor General.





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