HEALTH & SAFETY LABORATORY

Health & Safety Laboratory

Annual Report & Accounts 2005/06

Accounts 2005/06

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, HSC and 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 Executive has instructed the Chief Executive of the Laboratory to prepare an annual report and accounts for each financial year in the form and on the basis determined by the Executive.
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, total 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 for the Executive 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 Government Accounting.

Mr E Morland
Chief Executive, Health and Safety Laboratory
accounting officer, 16 June 2006

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 Government Accounting.

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 myself and the former Chief Executive have also formally met twice with the Executive, and external advisers to the Executive, appointed to advise on issues related to HSL (Note: With effect from 1 April 2006 the arrangements changed, with the two HSL non-executive directors also providing the advisory role at my formal meetings with the Executive).

With effect from February 2006, I was appointed to the HSE Board.

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 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 2006, and up to the date of approval of the annual report and accounts, 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 of Group Head, Section Head and Section 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 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 High, Medium or Low;

- 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 Committee meets at least three times each year and is made up of a non-executive Chairman, a member of the HSL Board, and HSE's Head of Internal Audit and Assurance.

Risk management is firmly embedded into the culture of HSL. The Risk Register is considered quarterly by the HSL Board, with particular consideration being given to whether new risks have arisen. The process enables HSL to identify and review the main risks to HSL as a business. As at 31 March 2006, thirteen main risks have been identified, four of which are regarded as high priority. These are: the potential for a major health, safety or environmental incident; the potential failure to maintain sufficient levels of science and technology business; the failure to control effectively HSL's business systems; and the breach of HSL's IT security arrangements. The latter of these was increased to a High level risk during the current financial year, as a result of review by the HSL Board. For all risks, specific potential weaknesses have been identified and systems put in place either to reduce the likelihood of occurrence of an event or to mitigate the effects should one occur. In addition HSL formally reviews its Risk Register on an annual basis, and this was done during 2005/06 by seeking the views of all Group Heads (via internal meetings). This review incorporates consideration of the relative priority of the risks to HSL as a business.

5 Review of effectiveness

In light of the key external risks to the business of a potential over-reliance on HSE funding and the associated need to grow non-HSE revenues, I have decided to strengthen the commercial and operational experience and capability of the HSL Board and its senior executive management. In addition to two new and highly experienced non-executive directors, we are in the process of appointing three new operational directors (previously only one sat on the board) with commercial and technical experience spanning all of the major elements of HSL's business. These appointments will be implemented early into the new financial year.

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, and 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 of the effectiveness of the system of internal control by the Board and the Audit Committee, and plans are in place to address weaknesses and ensure continuous improvement of the system.

In addition:

- The HSL Board meets monthly, and on a quarterly basis its agenda includes the subject of Corporate Governance, incorporating work on risk management and internal control; an important development during the year ended 31 March 2006 has been the increase in the number of non-executive directors on the Board to two, and for them to attend all Board meetings and perform a fuller role in the direction of the Laboratory. In this regard, Mr S Sampson, who attended Board meetings up to and including January 2006, steps down this year. The two new non-executive directors, who were appointed in open competition, and whose appointments were ratified by the HSL Board, are Dr P Watson, whose contract with HSL runs from 1 March 2006, and who attended the February 2006 Board meeting as an observer, and Dr S Ion, who also sits on the HSL Ownership Board, has a contract with HSL running from 1 April 2006, and attended the March 2006 Board meeting, also as an observer.

- The Audit Committee is attended by HSL's internal auditors (PricewaterhouseCoopers (PwC) for the year ended 31 March 2006) and external auditors (National Audit Office). It reports 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 considers all audit reports and recommendations and the formal management responses by the HSL Board. It also considers additional regular reports that may indicate potential risks to HSL on issues including Health and Safety, Quality, Environment, Science Audit, Professional Standards, IiP and Customer Surveys;

- HSL's Head of Internal Audit has a direct line of communication to the accounting officer. In addition the Head of Internal Audit regularly reports to the HSL Audit Committee in accordance with Government Internal Audit Standards, incorporating 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 produces an annual statement which in respect of 2005/06 includes the following formal opinion: "On the basis of our audit work completed, we conclude that established procedures are adequate to meet management's overall control objectives for the systems we have reviewed. We have made a number of recommendations to improve controls and are satisfied with the planned management action. On the basis of our selective testing of key controls, and with some minor exceptions, we conclude that these controls were generally operating satisfactorily for the period under review."

- Following the internal audit completed in January 2005 by PwC on HSL's Corporate Governance (which resulted in only one recommendation, classified as Low priority), PwC carried out a further audit in January 2006, which produced no recommendations.

- Other PwC internal audits during 2005, aimed particularly at those risks already identified by HSL, have established that there is scope to improve project management skills within HSL, in order to mitigate the risk of ineffective control of resources, particularly on those projects with longer timescales. HSL has raised the ranking of this risk from Low to Medium.

Mr E Morland
Chief Executive, Health and Safety Laboratory
accounting officer, 16 June 2006

Health & Safety Laboratory - The Certificate of the Comptroller and Auditor General to the Health and Safety Executive

I have audited the financial statements of Health and Safety Laboratory (HSL) for the year ended 31 March 2006. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Chief Executive of the Health and Safety Laboratory and Auditor

The Chief Executive is responsible for preparing the Annual Report, the Management Commentary, the Remuneration Report and the financial statements in accordance with the directions issued by the Health and Safety Executive and for ensuring the regularity of financial transactions. These responsibilities are set out 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.

My responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the directions issued by the Health and Safety Executive. I report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Health and Safety Laboratory has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 35 and 36 reflects the Health and Safety Laboratory's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Chief Executive's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Health and Safety Laboratory's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only HSL background information, service performance, safety targets, training and development, diversity, employee involvement, health and safety, environment and HSL management structure.
I consider the implications for my opinion if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Health and Safety Laboratory's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

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 2006 and of its results, total recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the directions issued by the Health and Safety Executive; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Colin Wilcox
Director For Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road, Victoria, London SWIW 9SP
21 June 2006

Income and expenditure account

For the year ended 31 March 2006

		Note	2006 £'000	Re-Stated 2005 £'000
Turnover		**2**	**31,651**	**26,956**
Cost of sales		3 (a)	(2,419)	(2,625)
Gross surplus			**29,232**	**24,331**
Expenses	- Administrative	3 (b)	(23,816)	(20,554)
	- Programme	3 (c)	(3,284)	(3,121)
Total Expenses			(27,100)	(23,675)
Other operating income		4	79	180
Operating surplus			**2,211**	**836**
Interest payable & similar charges		5	(5,875)	(2,648)
(Deficit)/Surplus on ordinary activities			**(3,664)**	**(1,812)**
Exceptional Item - Transitional Funding		12 (b)	3,664	1,812
SURPLUS FOR THE FINANCIAL YEAR		**12 (a)**	**0**	**0**

Administrative expenses and Miscellaneous income have been re-stated to reflect the netting off of recoveries from outward secondments (of £25,000) against payroll costs, rather than showing this under miscellaneous income.

All operations were continuing operations and there were no acquisitions or disposals affecting operations during 2005/06.

Statement of total recognised gains and losses

For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net Surplus for the financial year		0	0
Net Gain /(Loss) on revaluation of tangible fixed assets	12	1,087	5,621
TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR		**1,087**	**5,621**

The notes on pages 40 to 52 form part of these accounts.

Balance sheet

As at 31 March 2006

	Note	**2006 £'000**	**2006 £'000**	2005 £'000	2005 £'000
Fixed assets					
Tangible assets	8		68,116		67,980
Debtors falling due after more than 1 year	9		4,311		4,550
Current assets					
Stocks: Work in Progress		348		491	
Debtors	9	1,708		1,410	
		2,056		1,901	
Creditors falling due within 1 year	10	(2,012)		(2,419)	
Net current assets/(liabilities)			44		(518)
Total assets less current liabilities			72,471		72,012
Creditors falling due after more than 1 year	10	(59,139)		(57,607)	
Provision for liabilities and charges	11	(488)		(932)	
			(59,627)		(58,539)
			12,844		**13,473**
Taxpayers' equity					
General reserve	12(a)		5,481		7,057
Revaluation reserve	12(a)		7,363		6,416
			12,844		**13,473**

The notes on pages 40 to 52 form part of these accounts.

Mr E Morland
Chief Executive, Health and Safety Laboratory
accounting officer, 16 June 2006

Cash flow statement

For the year ended 31 March 2006

	Note	**2006 £'000**	Re-stated 2005 £'000
Cash generated from operating activities	13 [a]	3,729	2,531
Servicing of Finance	13 [b]	(3,736)	(827)
Capital expenditure and financial investment	13 [c]	(1,508)	(693)
Financing	13 [d]	1,515	(1,011)
Movement in cash in the period		-	-

2004/05 re-stated to show "Servicing of Finance" separately.

Notes To The Accounts

1 Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) (www.financial-reporting.gov.uk) issued by HM Treasury, which replaced the Resource Accounting Manual with effect from 2005/06.

The accounting policies contained in the FReM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

The particular accounting policies adopted by HSL are those judged to be the most appropriate for the purpose of giving a true and fair view and have been applied consistently in dealing with the items considered material in relation to the accounts.

a) Direction on the annual accounts

In accordance with a direction issued by HSE, HSL has prepared an Income and Expenditure Account, a Balance Sheet, a Cash Flow Statement and a Statement of Total Recognised Gains and Losses for the financial year.

b) Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of land and buildings and specialist plant and the current replacement cost of other fixed assets. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Acts and accounting standards issued or adopted by the Accounting Standards Board and accounting disclosure requirements issued by HM Treasury from time to time, in so far as those requirements are appropriate.

c) Tangible fixed assets

Items of equipment costing less than £2,000 are charged to expenditure in the year of purchase, except for computer equipment costing over £500 but less than £2,000 and items of furniture costing less than £2,000, which are grouped for capitalisation by year of acquisition.

Fixed assets are capitalised at cost of acquisition, including installation where relevant.

All land and building assets are assessed each year for the likelihood of a material change in value as at 31st 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. All other assets are subject to revaluation each year at 31st March, using a professional valuation or appropriate indices. Professional revaluations, where appropriate, are undertaken at least every five years, in accordance with the FReM and FRS 15.

All land and buildings were professionally revalued as at 31 March 2005, in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Standards by an independent surveyor, Jones Lang LaSalle. The buildings on the Buxton estate, because of their specialist nature and location, are all valued on the basis of Depreciated Replacement Cost (DRC), with the exception of that part of the estate which HSL rent to Sheffield University on a lease with over 10 years left to run, which is valued as an investment property in the context of SSAP 19, at a figure of £210,000. Land is included at market value in existing use. For 2005/06, the DRC for buildings has been updated using indices. As the accounting officer is not aware of any material change in value of the land comprising the Buxton estate, the land valuation remains unchanged.

The indices used for the revaluation of property assets are produced by the RICS. The indices used for the revaluation of non-property assets are the MM17 indices produced by the Office for National Statistics (ONS).

Items acquired under a finance lease are capitalised as an asset. Repayments of interest on leased items are charged to the Income and Expenditure Account over the period of the lease.

All assets are held by HSE on behalf of HSC, and in turn are used by HSL in its day to day activities. HSL is responsible for meeting the capital and other charges associated with its usage of the assets.

d) Depreciation

Freehold land is not depreciated. Depreciation is provided from the month of acquisition on all other tangible fixed assets that are in use. Assets under construction are not depreciated until the asset is brought into use.

Depreciation is calculated to write-off the lower of replacement cost or valuation of an asset, less any estimated residual value, evenly over its expected useful life.

HSL re-estimate the remaining lives of assets where the initial estimate of life is due to expire within two years. These estimates are adjusted to take account of normal wear and tear etc.

Indicated average lives are:

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
Non-PFI Furniture	up to 15 years
Office Machinery, Major Scientific Equipment	up to 10 years
Telecommunications Equipment, Computers and Vehicles	up to 7 years
Micro Computers	up to 5 years
Cars leased to staff	up to 3 years

e) Revaluation reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments. In accordance with FRS15, surpluses arising on the revaluation of fixed assets are credited to a revaluation reserve. Deficits are charged to the reserve in respect of amounts previously credited; the balance of any deficit is charged to the Income and Expenditure Account.

f) Stocks and work in progress

Consumable stores items are expensed on receipt.

Work in progress represents the value of work carried out on contracts but not yet invoiced, unless there is reason to believe that any part of this sum is irrecoverable. It is shown in the accounts at the lower of cost (including related overheads) or net realisable value.

g) Research & development

Expenditure on research and development is charged to the Income and Expenditure Account in the year in which it is incurred.

h) Foreign currency transactions

Amounts paid or received in foreign currency are converted to sterling at the rate ruling on the day of the transaction. Assets and liabilities denominated in foreign currency at the year end are translated into sterling at the exchange rates prevailing at that date. Any differences on exchange are dealt with through the Income and Expenditure Account.

i) Capital charge

A notional charge, reflecting the cost of capital utilised by HSL, has been included in the Income and Expenditure Account. This is calculated using the Government's standard rate of 3.5% (2004/05: 3.5%) on the average total net assets, except for donated assets and cash balances held with the Paymaster General, of which HSL has none.

j) Pension costs

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

HSL operates an early retirement scheme which gives retirement benefits to certain qualifying employees. These benefits conform to the rules of the PCSPS. HSL meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. See Note 11.

k) VAT

HSL comes within the scope of the HSE registration. Costs are included net of recoverable VAT. Operating income is stated net of any VAT thereon.

l) Liquid resources

HSL has no liquid resources as defined in FRS1 (Revised).

m) Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No.1 (Revised), entitled "How to Account for PFI Transactions" as required by the FReM. Where the balance of risks and rewards of ownership of the PFI property is borne by HSL, rather than the PFI provider, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Where HSL has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract, ownership of a property reverts to HSL, the expected fair value of the residual asset on reversion, net of any agreed payment on reversion, is built up over the life of the contract. Contract payments are apportioned between an imputed finance lease charge and a service charge.

n) Provisions

HSL provides for legal or constructive obligations of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. 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% (2004/05 3.5%) in real terms.

o) Contingent liability

Disclosure conforms to FRS 12, including discounting where the time value of money is material.

Provision is made for any potential liabilities where we believe that it is more than 50% probable that there will be a monetary transfer and the amount can be reliably estimated.

Potential liabilities that may arise but are less likely to do so or cannot be reliably estimated as to their value are disclosed as contingent liabilities.

2 Turnover

Turnover represents the invoiced amount of services (net of VAT) provided from the ordinary activities of the business, and is analysed as follows:

	2006 **£'000**	Re-stated 2005 £'000
HSE	27,037	23,276
EU	278	442
Other non-HSE	4,336	3,238
TOTAL	**31,651**	**26,956**

In the course of the year HSL, as lead partner on a number of European Union contracts, received £244,000 (2004/05 £56,000) from the European Union, which was subsequently paid out to partners working with HSL. None of these receipts have been included within Turnover in the Income & Expenditure Account, as HSL felt that to do so would mislead the reader.

3 Cost of sales and expenses

	Notes	2006 £'000	Re-Stated 2005 £'000
(a) Cost of sales			
Administrative		569	671
Programme		1,850	1,954
TOTAL		**2,419**	**2,625**

	Notes	2006 £'000	Re-Stated 2005 £'000
(b) Administrative expenses			
Staff costs (see note on 2004/05 under Income and Expenditure)	6	13,671	11,876
Depreciation	8	2,423	2,010
Loss on revaluation of fixed assets		150	66
Net (gain) / loss on disposal of fixed assets		(8)	(626)
Travel, subsistence & hospitality – HSL Board		40	23
Travel, subsistence & hospitality – other staff		810	841
Rates, maintenance, other premises costs & PFI service element	15	5,628	4,727
Provisions not required written back	11	(184)	(70)
Audit fee		36	37
Discount unwound in year re Early Departure	11	7	12
Other administrative expenses		1,243	1,658
TOTAL ADMINISTRATIVE EXPENSES		**23,816**	**20,554**
(c) Programme expenses			
Extramural research & support		2,135	1,895
Central overhead		1,007	1,047
Other programme expenditure		142	179
TOTAL PROGRAMME EXPENSES		**3,284**	**3,121**
TOTAL EXPENSES (b) + (c)		**27,100**	**23,675**

Notes

For comparative purposes, £122,000 of PFI Consultancy costs for 2004/05 has been included under Other administrative expenses.
The figure for Rates included above for 2004/05 is net of rebates of £529,000 accounted for within that financial year, relating to the period April to March 2005 inclusive.
The auditors received no remuneration for other assurance services or non-audit services.

4 Other operating income

	2006 £'000	Re-Stated 2005 £'000
Services to HSE tenants	-	31
Royalties	25	44
Other services	36	62
Miscellaneous (2004/05 figure re-stated to exclude £25k received for secondments outward)	16	39
Interest on prefunded pension payments (Note 11)	2	4
TOTAL	**79**	**180**

5 Interest payable and similar charges

	2006 £'000	2005 £'000
Interest on capital (notional)	433	383
Finance charges payable under finance leases	5,442	2,265
TOTAL	**5,875**	**2,648**

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 those on inward secondment or loan from other organisations, temporary agency staff and contract staff, reduced by any recoveries for HSL staff on outward secondment.

	2006 £'000	2005 £'000
Payments to staff with a permanent (UK) contract		
Wages and salaries	10,627	9,556
Other pension costs	2,041	1,393
Social security costs	894	762
Sub-total	**13,562**	**11,711**
Payments to other staff engaged on HSL objectives*	110	190
Total Gross Staff Cost	13,672	11,901
Less: Recovery in respect of outward secondment*	(1)	(25)
TOTAL NET STAFF COST	**13,671**	**11,876**

* Split of Pension & social security cost not available.

b) Pensions

The PCSPS is an unfunded multi-employer defined benefit scheme which prepares its own scheme statements. HSL is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005/06 employer's contributions of £2,031,988 (2004/05: £1,301,080) were payable to the PCSPS at one of four rates in the range 16.2 to 24.6 percent (2004/05: 12 to 18.5 percent) of pensionable pay, based on salary bands. Employer contributions are reviewed every four years following a full scheme valuation by the Government Actuary, and rates were increased with effect from 2005/06 following the most recent review. 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 2005/06 employer's contributions of £8,549 (2004/05 £2,719) were paid to appointed stakeholder pension providers.

During the financial year, one person (2004/05: two persons) retired early on ill-health grounds; the accrued pension liability relating to this in year was £2,870 (2004/05: £2,461).

Notes on Pension Schemes

Pension benefits are provided through the Civil Service pension 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). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality "money purchase" stakeholder-based arrangement with a significant employer contribution (partnership pension account).

Classic Scheme: Benefits 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. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Premium Scheme: Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus Scheme: This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic. Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with the Retail Prices Index.

Partnership Pension Account: This is a stakeholder-type arrangement where the employer pays 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. The employee does not have to contribute, but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (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). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

7 Related party transactions

HSE is regarded as a related party. During the year, HSL carried out science and technology projects for HSE to a value of £27,037,000 (2004/05: £23,276,000). In addition, HSL received £3,664,000 (2004/05: £1,812,000) of transitional funding from HSE within the year. 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.

In addition, HSL had a number of transactions with other Government Departments and other central government bodies. These were mainly related to HSL working as a contractor undertaking scientific and technological activity, and were not of material value. The only significant transaction, for the year as a whole, has been with Royal Mail, belonging to the category of Public Corporation & Trading Funds, from whom Turnover of £471,000 (2004/05: £172,000) was earned, which relates to the provision of health and safety services. The figure included in Debtors relating to Royal Mail at 31 March was £159,000 (2004/05: £12,000).

For the period from 1 April 2005 until his retirement, Dr David Buchanan no longer acted as an unpaid external advisor to the Engineering and Physical Sciences Research Council's User Panel.

A register of any potential conflicts of interests declared by senior staff, including company directorships, is maintained by the Human Resources section at HSL.

8 Tangible fixed assets

	Land & Buildings	Transport & Equipment	Plant & Machinery	Information Technology	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 April 2005	61,298	399	11,173	1,306	2,889	42	77,107
Additions	82	102	555	595	63	241	1,638
Revaluation	1,070	4	52	(245)	24	0	905
Disposals	(480)	(22)	(206)	(232)	0	0	(940)
Re-classification	0	0	288	0	(275)	(13)	0
AT 31 MARCH 2006	**61,970**	**483**	**11,862**	**1,424**	**2,701**	**270**	**78,710**
Depreciation							
At 1 April 2005	866	216	7,290	627	128	0	9,127
Charged in year	1,093	56	831	354	89	0	2,423
Revaluation	26	2	41	(102)	1	0	(32)
Disposals	(480)	(15)	(196)	(233)	0	0	(924)
Re-classification	0	0	89	0	(89)	0	0
AT 31 MARCH 2006	**1,505**	**259**	**8,055**	**646**	**129**	**0**	**10,594**
Net book value at 31 March 2005	**60,432**	**183**	**3,883**	**679**	**2,761**	**42**	**67,980**
Net book value at 31 March 2006	**60,465**	**224**	**3,807**	**778**	**2,572**	**270**	**68,116**
Asset Financing							
Owned	3,921	224	3,807	778	17	270	9,017
On-balance sheet PFI contract	56,544	0	0	0	2,555	0	59,099
Net book value at 31 March 2006	**60,465**	**224**	**3,807**	**778**	**2,572**	**270**	**68,116**

Depreciation charged in the year on assets under the PFI contract was £1.036m (2004/05: £0.419m)

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

Net book value of land and buildings at 31 March 2006 comprises

	2006	2005
	£'000	£'000
Freehold	3,921	3,940
Short leasehold – PFI Contract for 30 years – See note 15 re accounting for PFI	56,544	56,492
TOTAL NET BOOK VALUE	**60,465**	**60,432**

9 Debtors

9 (a) Analysis by type

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade debtors	837	476
Accrued income	405	406
Other debtors	84	77
Prepayments	382	451
	1,708	**1,410**
Amounts falling due after more than one year		
Prepayment of fair value of Sheffield buildings (Note 15)	4,230	4,384
Staff Lump Sums re Excess Daily Fares	39	98
Early departure prepayment	13	38
Long term staff loans re house moves	26	30
Prepayments – Other	3	0
	4,311	**4,550**
TOTAL	**6,019**	**5,960**

The debtor for the net recovery of VAT from HM Revenue & Customs has been passed to HSE under whose VAT registration these amounts are recoverable.

9 (b) Intra-Government Balances

	Amounts falling due within one year **2006 £000**	Amounts falling due within one year 2005 £000	Amounts falling due after more than one year **2006 £000**	Amounts falling due after more than one year 2005 £000
Balances with other central government bodies	332	78	0	0
Balances with local authorities	51	124	0	0
Balances with NHS Trusts	15	9	0	0
Balances with public corporations and trading funds	188	71	0	0
Balances with bodies external to government	1,122	1,128	4,311	4,550
TOTAL DEBTORS AT 31 MARCH 2006	**1,708**	**1,410**	**4,311**	**4,550**

10 Creditors

10 (a) Analysis by type

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade creditor	312	209
Trade accruals	1,224	1,504
Other accruals	75	314
Payments on account	401	392
Finance leases including On-Balance Sheet PFI Contract (see Note 15)	0	0
	2,012	**2,419**
Amounts falling due after more than one year		
Imputed finance lease element of on-balance sheet PFI contract (see Note 15)	59,139	57,607
TOTAL	**61,151**	**60,026**

Liability for the payment of tax and social security contributions has been passed to HSE who are responsible for paying these amounts to HM Revenue & Customs.

10 (b) Intra-Government Balances

	Amounts falling due within one year 2006 £000	Amounts falling due within one year 2005 £000	Amounts falling due after more than one year 2006 £000	Amounts falling due after more than one year 2005 £000
Balances with other central government bodies	0	39	0	0
Balances with local authorities	3	247	0	0
Balances with NHS Trusts	29	33	0	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	1,980	2,100	59,139	57,607
TOTAL CREDITORS AT 31 MARCH 2006	**2,012**	**2,419**	**59,139**	**57,607**

11 Provisions for liabilities and charges

	Early Departure £'000	Estates Rationalisation £'000	Others £'000	Total £'000
Provision at 1 April 2005	284	551	97	932
Provided in the year	3	0	0	3
Discount unwound in the year	7	0	0	7
Provision utilised in year	(117)	(142)	(9)	(268)
Provision not required written back	(3)	(181)	0	(184)
Interest on prefunded pension payments	(2)	0	0	(2)
PROVISION AT 31 MARCH 2006	**172**	**228**	**88**	**488**

Early departure costs

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 departure and normal retirement date. HSL provides for this in full when the early retirement programme becomes binding on them, by establishing a provision for the estimated payments discounted (per note 1 (n)) in real terms. Previously, HSL paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England. The balance of this pre-funding, representing future pension payments, is treated in these accounts as a prepayment.

Estates rationalisation costs

This provision represents the reducing balance of the provision established in earlier accounting years for costs relating to the collocation, which remain based on best estimate figures for those costs.

Other provisions

Provisions have been made for other miscellaneous items, in accordance with Note 1(n). No reimbursement is expected in respect of any such claim.

12 Reserves

12 (a) Movements in Reserves

	Revaluation Reserve £'000	General Reserve £'000	TOTAL £'000
Balance at 1 April 2005	6,416	7,057	13,473
Realised elements of revaluation reserve	(140)	140	0
Cash surplus retained by HSE	0	(2,149)	(2,149)
Net gain on revaluation of fixed assets	1,087	0	1,087
Notional Interest on capital	0	433	433
Surplus for the financial year	0	0	0
BALANCE AT 31 MARCH 2006	**7,363**	**5,481**	**12,844**

12 (b) Cumulative Surplus on ordinary activities

		£ '000
Surpluses/(Deficits) on ordinary activities	1996/97	(894)
	1997/98	1,818
	1998/99	1,266
	1999/00	3,570
	2000/01	1,682
	2001/02	1,778
	2002/03	2,274
	2003/04	2,241
Cumulative surplus at 31 March 2004	**TOTAL**	**13,735**
Transitional Funding	2004/05	(1,812)
Cumulative surplus at 31 March 2005	**TOTAL**	**11,923**
Transitional Funding	2005/06	(3,664)
CUMULATIVE SURPLUS AT 31 MARCH 2006		**8,259**

Notes:

Annual surpluses/deficits are shown after charging Notional interest on capital

As previously agreed with HSE, HSL has utilised an amount equal to the calculated in-year deficit from the previously accumulated surplus of £13,735,000, by way of transitional funding, such that HSL showed no surplus or deficit for the financial year.

13 Notes to the Cash Flow Statement

	2006 £'000	Re-Stated 2005 £'000
[a] Reconciliation of operating surplus to cash generated from operations		
Operating surplus	**2,211**	**836**
Interest receivable	(2)	(4)
Depreciation	2,423	2,010
Loss on revaluation of fixed assets	150	66
(Profit)/Loss on disposal of assets	(8)	(626)
Working capital adjustments relating to operating activities		
(Increase)/decrease in stock	143	(43)
(Increase)/decrease in debtors	(60)	(275)
Increase/(decrease) in creditors	(684)	592
Increase/(decrease) in provisions	(444)	(25)
CASH INFLOW GENERATED FROM OPERATING ACTIVITIES	**3,729**	**2,531**
[b] Servicing of Finance		
Interest element of finance lease payments	(3,736)	(827)
CASH OUTFLOW FROM SERVICING OF FINANCE	**(3,736)**	**(827)**
[c] Capital expenditure and financial investment		
Interest received from early retirement prepayments release of discount	2	4
Payments to acquire tangible fixed assets	(1,535)	(1,657)
Net receipts from sale of tangible fixed assets	25	960
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(1,508)**	**(693)**
[d] Financing		
Capital element of finance lease & on-balance sheet PFI repayments	0	(10)
Cash surplus retained by HSE	(2,149)	(2,813)
Transitional Funding	3,664	1,812
NET CASH IN/(OUT)FLOW	**1,515**	**(1,011)**

2004/05 re-stated to show "Servicing of Finance" separately.

14 Capital commitments

Capital expenditure contracted for at 31 March 2006 for which no provision has been made in these accounts was £105,360 (2004/05: £56,973).

15 Commitments under on-balance sheet 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).

The transactions arising out of this contract have been accounted for in accordance with Technical Note No.1 (Revised), entitled “How to Account for PFI Transactions” as required by the FReM. As the balance of risks and rewards of ownership of the PFI property is borne by HSL, rather than the PFI provider, ICB Ltd, the buildings and furniture provided under the contract are recognised as fixed assets on HSL’s balance sheet, and the liability to pay for these assets is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

As part of the PFI contract, HSL handed over all of the land and buildings at the Sheffield site to ICB Ltd, and a prepayment for their fair value of £4.6m, as determined by the contract, is recognised in the accounts and amortised evenly over the life of the PFI contract.

The Accounts are prepared on the basis that the economic effect of granting a lease at Buxton to ICB Ltd is not material because the difference between the existing use value of the freehold land at Buxton as at 31 March 2006 and the value of the reversionary interest in the freehold land as at October 2034, is not significant, given the location of, and potential uses for, the Buxton site. See also Note 8.

The total amount charged in HSL’s Income and Expenditure Account in respect of the service element of on-balance sheet PFI transactions was £3,215,603, being 12 months charge (2004/05: £1,325,315, being 5 months) both figures adjusted to include release of prepayment, and, subject to ICB Ltd achieving contracted levels of service and availability, the value of the payments to which HSL is committed in respect of the following financial year, is:

	2006 **£’000**	2005 £’000
Expiry within 26 to 30 years	3,170	3,062

Future payments for all elements of the PFI contract are linked to inflation, 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, although HSL does carry out periodic reviews to ensure that its going concern status is not affected.

Imputed finance lease obligations under on-balance sheet PFI contracts comprises:

	2006 **£’000**	2005 £’000
Rentals due within 1 year	4,673	3,910
Rentals due after 1 year but within 2 years	4,764	4,648
Rentals due after 2 years but within 5 years	15,263	14,733
Rentals due after 5 years but within 10 years	28,799	27,919
Rentals due after 10 years but within 15 years	33,311	32,457
Rentals due after 15 years but within 20 years	38,092	37,121
Rentals due after 20 years but within 25 years	43,279	42,174
Rentals due after 25 years but within 30 years	34,412	43,516
Sub-total	202,593	206,478
Less interest element	(143,454)	(148,871)
	59,139	**57,607**

16 Financial instruments and financial risks

Short term debtors and creditors have been excluded from these financial instrument disclosures, as permitted by FRS13: Derivatives and Other Financial Instruments. Financial assets consist of interest free loans to employees in respect of relocation expenses, being £26,000 (2004/05: £30,000), repayable within more than one year, the average period to maturity being 100 months (2004/05: 111 months). At 31 March 2006, HSL had financial liabilities of £59,139,628 (2004/05: £57,607,183) payable beyond one year. There are no material differences between the fair and book values of these items

Liquidity Risk

HSL is not exposed to any significant liquidity risk in respect of its incomes, as it receives over 85% of its income from HSE. Since 2004/05, HSL has had an increased exposure to liquidity risk in respect of significant long term borrowings relating to the PFI contract.

Interest Rate Risk

HSL is not exposed to any interest rate risk as it does not have any cash deposits or any variable rate long term borrowings.

Foreign Currency Risk

Foreign currency transactions do not form a significant element of HSL's income and expenditure, therefore HSL's exposure to foreign currency risk is negligible.

17 Contingent liability

Claims have been received by HSL and a main contractor engaged by HSL, alleging that injuries were incurred by an employee of a sub-contractor engaged by the main contractor to work on HSL's site at Buxton. The matter is currently the subject of a criminal investigation, and HSL is awaiting further information to enable it to assess its position with regard to any potential liability.

18 Losses and special payments

(i) Losses Statement

		2006 £000			2005 £000
Total number of cases	28		Total number of cases	26	
TOTAL AMOUNT		**15**	**TOTAL AMOUNT**		**12**

Category totals

Administrative write-offs	15	12

(ii) Special Payments

		2006 £000			2005 £000
Total number of cases	3		Total number of cases	1	
TOTAL AMOUNT		**3**	**TOTAL AMOUNT**		**1**

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