Health & Safety Laboratory
Annual Report
& Accounts 2008/2009

Working together. Providing solutions.

HEALTH & SAFETY LABORATORY

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Accounts 2008/09

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.

Mr E Morland
Chief Executive, Health and Safety Laboratory
Accounting Officer 10 June 2009

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 twice per annum 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 responsibilities, I am a member of the HSE Senior Management Team and Director of HSE's Science and Technology Group.

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 2009 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 of Group Director, Unit/Section Head and Unit/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's Audit Committee normally meets three times each year, with extraordinary meetings being held as and when required. As at 31 March 2009, the Committee comprised a non-executive Chairman and two other non-executive directors, following the appointment of Dr Richard Stephenson as a non-executive director with effect from 1 July 2008. 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. During the year, the Audit Committee reviewed its Terms of Reference and membership taking account of:

    i) The HMG Security Policy Framework issued by the Cabinet Office;

    ii) The relationship between the HSE and HSL Audit Committees.

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.

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.

Over the course of 2008/09, HSL has taken steps to improve the management of its information assets. These include the appointment of the Director responsible for IT as its Senior Information Risk Owner (SIRO), and the creation of a team that brings together key staff to aid planning and the management of information related risk. A gap analysis on the range of actions required by central Government has been completed and priorities have been identified. Actions taken include revising our information assurance policies, producing updated risk assessments and providing practical suggestions to help secure improved performance.

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 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 year, the HSL Board met each month, excluding August, and on a quarterly basis its agenda included the subject of Corporate Governance, incorporating work on risk management and internal control.

The Audit Committee met in June 2008, October 2008 and March 2009, and the meetings were attended by HSL's internal auditors (PKF (UK) LLP) and external auditors (National Audit Office). It 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, Science Audit, Professional Standards, Investors in People and Customer Surveys. In addition, an extraordinary meeting was held in January 2009 to discuss the quality of facilities management services from the PFI provider (more details in section 6).

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, 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 produced an annual statement which in respect of 2008/09 included the following formal opinion: "Based on the audit work carried out during the year ended 31 March 2009 in our opinion the system of internal control is satisfactory for the purposes of HSL. 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, control failures were noted during the facilities management audit and the project review audit which could put certain control objectives at risk. We are satisfied that the action plans put in place should address these. It should also be noted that a small number of recommendations have been made in most other areas audited."

As at 31 March 2009, the agreed audits from the internal audit programme for the year had been performed, with two final reports expected to be tabled at HSL's April 2009 Board meeting. The completed reports contained 41 (2007/08: 60) recommendations, of which 26 (2007/08: 43) were at high or medium level.

The Cabinet Office issued version 1.0 of the Security Policy Framework (SPF) in December. It is based on an overarching policy that states: "Protective Security, including physical, personnel and information security, is an essential enabler to making government work better. Security risks must be managed effectively, collectively and proportionately, to achieve a secure and confident working environment." HSL has been liaising closely with the Departmental Security Officer in HSE and has agreed how responsibility for information assurance in HSL, will be divided between HSE and HSL. HSL has also joined HSE's Information Assurance Forum that is working to ensure compliance with the SPF across the wider organisation. HSL undertook an initial gap analysis against the draft SPF and this identified a number of key priority areas where immediate action was agreed and progressed. A recent review of this analysis against version 1.0 of the SPF has been undertaken which indicates no significant control gaps are present. This gap analysis is reviewed regularly and a quarterly submission made to the HSL Board.

6 Significant Control Challenges

HSL's Risk Register at 31 March 2009 identifies 8 main risk families, of which six are ranked Amber and two Green. This is an overall improvement from 12 months earlier, at which time two of the risk families were considered to pose more significant risks to the business, these resulting from significant concerns over the performance of the PFI contractor, Investors in the Community (Buxton) Ltd (ICB Ltd), in relation to facilities management services and IT services.

The Head of Internal Audit's annual statement for 2007/08 remarked that: "control failures were noted during the facilities management and maintenance audit, the IT audit, and the project review audit, which could put certain control objectives at risk". Of six high level internal audit recommendations in 2007/08, four related to the Facilities Management and Maintenance audit.

Following further audits on facilities management and IT services in 2008/09, HSL's Audit Committee was not satisfied with the progress being made to implement the recommendations, and as a result held an extraordinary meeting in January 2009, attended by HSL & ICB Ltd Board members. This subsequently resulted in a joint, written assurance that all previous audit recommendations had been effectively actioned. HSL's management will have to retain constant vigilance on this issue to ensure good performance from the PFI contractor.

Two high level recommendations were made within the 2008/09 internal audit reports. The first related to security of the Buxton site, for which a detailed action plan has been put in place, with six of the eight actions completed by 31 March and the remaining actions ongoing. The second high priority recommendation related to the evidencing of the risk assessment process on individual projects which take place within HSL.

The new Project Management System, introduced from April 2009, will prompt the assessment process and will record its completion, as well as facilitating improvements in some of the areas of weakness identified in the 2007/08 project review audit.

Over the course of the year the following adverse changes were made to the risk rankings of the key risk areas:

"Delivering It – HSE Business" moved from Green to Amber, as a result of a significant unplanned carry over of work into 2009/10, which it is considered may be, in part, because of poor project management. In addition to the implementation of the new Primavera Project Management System from 1 April 2009, HSL's Senior Management Team will give increased attention to project progress in 2009/10, and work more closely with HSE budget holders to improve project specification and commissioning processes.

"Delivering It – External Business" moved from Green to Amber, resulting from HSE pressure to increase delivery in the Major Hazards and Nuclear areas, whilst recruitment constraints existed at HSL.

"Looking After It – People" moved from Green to Amber, driven by concern over HSL's ability to continue to refresh its skills mix in response to changes in market requirements, in the face of a significant slowing in staff turnover resulting from the economic slowdown.

These latter two risks are directly related to decreased flexibility in HSL's full-time staff resource. Senior management is actively exploring alternative resourcing options and these will be reviewed in a pan-HSL resource 'conference' in the first part of the next financial year.

Mr E Morland
Chief Executive, Health and Safety Laboratory
Accounting Officer 10 June 2009

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

I have audited the financial statements of the Health and Safety Laboratory for the year ended 31 March 2009. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses 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 and auditor

The Chief Executive as Accounting Officer is responsible for preparing the Annual Report, which includes 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 and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and 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 to you whether, in my opinion, the information, which comprises the Chief Executive's foreword, Management Commentary and the unaudited part of the Remuneration Report included in the Annual Report, is consistent with the financial statements. I also 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.

In addition, I report to you 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Health and Safety Laboratory's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's foreword, Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report 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 opinions

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.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the directions issued by the Health and Safety Executive, of the state of the Health and Safety Laboratory's affairs as at 31 March 2009 and of its surplus, 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
- information, which comprises the Chief Executive's foreword, Management Commentary and the unaudited part of the Remuneration Report, included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Colin Wilcox
Director, for Amyas C E Morse, Comptroller and Auditor General, National Audit Office
151 Buckingham Palace Road, Victoria, London SWIW 9SS
22 June 2009

Income and expenditure account
For the year ended 31 March 2009

	Note	**2009** £'000	2008 £'000
Turnover	2	**38,744**	**35,407**
Cost of sales	3A	**(2,754)**	(2,331)
Gross surplus		**35,990**	**33,076**
Expenses: Administrative	3B	**(26,394)**	(24,542)
Programme	3C	**(3,070)**	(2,839)
Total Expenses		**(29,464)**	(27,381)
Other operating income	4	**90**	104
Operating surplus		**6,616**	**5,799**
Interest payable & similar charges	5	**(6,245)**	(6,102)
Surplus/(Deficit) on ordinary activities		**371**	**(303)**
Exceptional Item – Transitional Funding	12	**0**	303
Surplus for the financial year	12	**371**	**0**

Note:
All operations were continuing operations and there were no acquisitions or disposals affecting operations during 2008/09.

Statement of recognised gains and losses
For the year ended 31 March 2009

	Note	**2009** £'000	2008 £'000
Net Surplus for the financial year		**371**	0
Net (Loss)/Gain on revaluation of tangible fixed assets	12	**(2,524)**	3,874
Recognised (Loss)/Gain for the financial year		**(2,153)**	**3,874**

The notes on pages 46 to 58 form part of these accounts.

Balance sheet
As at 31 March 2009

		2009	2009	2008	2008
	Note	**£'000**	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	7		**67,723**		71,122
Intangible assets	8		**315**		109
			68,038		71,231
Debtors falling due after more than one year	9		**3,859**		3,945
Current assets					
Stocks: Work in Progress		**617**		558	
Debtors	9	**2,115**		2,051	
		2,732		2,609	
Creditors falling due within one year	10	**(2,650)**		(1,971)	
Net current assets			**82**		638
Total assets less current liabilities			**71,979**		75,814
Creditors falling due after more than one year	10	**(61,582)**		(60,870)	
Provision for liabilities and charges	11	**(237)**		(350)	
			(61,819)		(61,220)
Total net assets			**10,160**		**14,594**
Taxpayers' equity					
General reserve	12		**699**		2,364
Revaluation reserve	12		**9,461**		12,230
			10,160		**14,594**

The notes on pages 46 to 58 form part of these accounts.

Cash flow statement
For the year ended 31 March 2009

		2009	2008
	Note	**£'000**	£'000
Cash generated from operating activities	13A	**9,604**	8,494
Servicing of Finance	13B	**(5,053)**	(4,855)
Capital expenditure and financial investment	13C	**(1,807)**	(1,645)
Financing	13D	**(2,744)**	(1,994)
Movement in cash in the period		-	-

Mr E Morland
Chief Executive, Health and Safety Laboratory
Accounting Officer 10 June 2009

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, incorporating the first time adoption of the Financial Instrument standards.

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 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. Fixed assets

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

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 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. All other assets are subject to revaluation each year at 31 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 8 years left to run, which is valued as an investment property in the context of SSAP 19, at a figure of £240,000 (2007/08 £240,000). Land is included at market value in existing use. For 2008/09, the DRC for buildings has been updated using indices. As the Accounting Officer is not aware of any material change in the overall 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 as a basis for the revaluation of non-property assets are the MM17 indices produced by the Office for National Statistics (ONS).

Software assets, being those over the capitalisation limit of £500, which can be separately identified and used independently of a particular tangible fixed asset, have been capitalised as Intangible Fixed Assets.

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 owned by HSE, 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 and amortisation

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 commissioned for use. Amortisation is provided from the month of acquisition on any intangible fixed assets that are in use.

Depreciation or amortisation as appropriate 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.

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
Software Assets	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% (2007/08: 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. Financial assets and liabilities

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 assesses at each balance sheet date 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 the balance sheet date and whether such events have had an impact on the estimated future cash flows of the financial instrument and can be reliably estimated.

O. Derivative financial instruments and hedging

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

P. Other provisions

HSL also 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% (2007/08 2.2%) in real terms.

Q. 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.

R. Cash at bank

HSL does not report a figure for Cash at Bank within its Balance Sheet as HSL's banking facility is only a sub-account of the main HSE account, with the sub-account being cleared to zero at the end of each working day.

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:

	2009	2008
	£'000	£'000
HSE	**31,084**	28,338
EU	**235**	190
Other non-HSE	**7,425**	6,879
Total	**38,744**	**35,407**

In the course of the year HSL, as lead partner on a number of European Union contracts, received £403 (2007/08 £140,445) from the European Union, which was subsequently paid out to partners working with HSL. None of these receipts are included within Turnover in the Income & Expenditure Account, as it is considered that to do so might mislead the reader.

3 Cost of sales and expenses

	Notes	2009 £'000	2008 £'000
(A) Cost of sales			
Administrative		**520**	569
Programme		**2,234**	1,762
Total		**2,754**	**2,331**
(B) Administrative expenses			
Staff costs	6	**15,378**	14,391
Depreciation and amortisation	7 & 8	**2,614**	2,526
Loss on revaluation of fixed assets		**32**	92
Net (gain) / loss on disposal of fixed assets		**15**	1
Travel, subsistence & hospitality – HSL Board		**45**	40
Travel, subsistence & hospitality – other staff		**965**	792
Rates, maintenance, other premises costs & PFI service element		**6,090**	5,497
Audit fee		**43**	41
Other administrative expenses		**1,212**	1,162
Total administrative expenses		**26,394**	**24,542**
(C) Programme expenses			
Extramural research & support		**1,936**	1,760
Central overhead		**1,027**	1,007
Other programme expenditure		**107**	72
Total programme expenses		**3,070**	**2,839**
Total expenses (B) + (C)		**29,464**	**27,381**

4 Other operating income

	2009 £'000	2008 £'000
Royalties	**33**	51
Other services	**29**	31
Miscellaneous	**28**	22
Total	**90**	**104**

5 Interest payable and similar charges

	2009 £'000	2008 £'000
Cost of capital (notional)	**463**	415
Finance charges payable under finance leases	**5,782**	5,687
Total	**6,245**	**6,102**

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.

	2009	2008
	£'000	£'000
Payments to staff with a permanent (UK) contract		
Wages and salaries	**12,123**	11,280
Other pension costs	**2,329**	2,240
Social security costs	**922**	896
Sub-total	**15,374**	**14,416**
Payments to other staff engaged on HSL objectives	**30**	0
Total Gross Staff Cost	**15,404**	**14,416**
Less: Recovery in respect of outward secondment*	**(26)**	(25)
Total Net Staff Cost	**15,378**	**14,391**

* 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, but 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).

For 2008/09 employer's contributions of £2,313,709 (2007/08: £2,231,887) were payable to the PCSPS at one of four rates in the range 17.1 to 25.5 percent 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 2008/09 employer's contributions of £14,980 (2007/08 £8,085) were paid to appointed stakeholder pension providers.

During the financial year, there were no early retirements on ill-health grounds (2007/08: none); consequently there was no accrued pension liability relating to this in year (2007/08: £ Nil).

The notes on Civil Service Pensions on page 36 are relevant to all members of staff.

7 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 2008	**67,214**	**652**	**13,557**	**1,855**	**2,874**	**12**	**86,164**
Additions	196	77	761	455	67	202	**1,758**
Revaluation	(2,865)	41	52	(48)	77	0	**(2,743)**
Disposals	0	(19)	(122)	(493)	0	0	**(634)**
Re-classification	0	0	12	0	0	(12)	**0**
At 31 March 2009	**64,545**	**751**	**14,260**	**1,769**	**3,018**	**202**	**84,545**
Depreciation							
At 1 April 2008	**4,062**	**343**	**9,187**	**1,124**	**326**	**0**	**15,042**
Charged in year	1,208	72	822	379	98	0	**2,579**
Revaluation	(229)	17	34	(20)	11	0	**(187)**
Disposals	0	(11)	(109)	(492)	0	0	**(612)**
Re-classification	0	0	0	0	0	0	**0**
At 31 March 2009	**5,041**	**421**	**9,934**	**991**	**435**	**0**	**16,822**
Net book value at 31 March 2008	63,152	309	4,370	731	2,548	12	71,122
Net book value at 31 March 2009	**59,504**	**330**	**4,326**	**778**	**2,583**	**202**	**67,723**
Asset Financing							
Owned	3,801	330	4,326	778	66	202	9,503
On-balance sheet PFI contract	55,703	0	0	0	2,517	0	58,220
Net Book Value at 31 March 2009	**59,504**	**330**	**4,326**	**778**	**2,583**	**202**	**67,723**

Depreciation charged in the year on assets under the PFI contract was £1.143m (2007/08: £1.078m).

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

	2009	2008
	£'000	£'000
Net book value of land and buildings at 31 March 2009 comprises		
Freehold	3,801	3,872
Short leasehold – PFI Contract for 30 years - See Note 15 re accounting for PFI	55,703	59,280
Total net book value	**59,504**	**63,152**

8 Intangible fixed assets

	£'000
Cost	
At 1 April 2008	**138**
Additions in year	241
At 31 March 2009	**379**
Amortisation	
At 1 April 2008	**29**
Charge in year	35
At 31 March 2009	**64**
Net Book Value at 31 March 2009	**315**
Net Book Value at 31 March 2008	**109**

9 Debtors

9A Analysis by type

	2009	2008
	£'000	£'000
Amounts falling due within one year		
Trade debtors	**1,579**	1,202
Accrued income	**120**	468
Other debtors	**7**	12
Prepayments (inc.£153k re Sheffield buildings (Note 15))	**409**	369
	2,115	2,051
Amounts falling due after more than one year		
Prepayment of fair value of Sheffield buildings (Note 15)	**3770**	3,923
Early departure prepayment	**0**	0
Long term staff loans re house moves	**14**	18
Prepayments – Other	**75**	4
	3,859	3,945
Total	**5,974**	5,996

Note: HSE has settled with HSL the liability for VAT, as at 31 March 2009, removing the need to show the outstanding VAT Debtor figure explicitly in these Accounts; HSE will subsequently recover this amount under their registration with HMRC. The debtor position for work done for HSE was similarly settled, as at 31 March 2009, and hence does not appear in these accounts.

9B Intra-government balances

	Amounts falling due within one year	Amounts falling due within one year	Amounts falling due after more than one year	Amounts falling due after more than one year
	2009	2008	**2009**	2008
	£000	£000	£000	£000
Balances with other central government bodies	365	387	0	0
Balances with local authorities	7	8	0	0
Balances with NHS Trusts	33	17	0	0
Balances with public corporations and trading funds	381	428	0	0
Balances with bodies external to government	1,329	1,211	3,859	3,945
Total debtors at 31 March	**2,115**	**2,051**	**3,859**	**3,945**

10 Creditors

10A Analysis by type

	2009	2008
	£'000	£'000
Amounts falling due within one year		
Trade creditors	95	251
Trade accruals	1,697	1,011
Other accruals	492	143
Payments on account	366	566
	2,650	1,971
Amounts falling due after more than one year		
Imputed finance lease element of on-balance sheet PFI contract (see Note 15)	61,582	60,870
Total	**64,232**	**62,841**

Note:
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.

10B Intra-government balances

	Amounts falling due within one year	Amounts falling due within one year	Amounts falling due after more than one year	Amounts falling due after more than one year
	2009	2008	**2009**	2008
	£000	£000	£000	£000
Balances with other central government bodies	0	0	0	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	24	32	0	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	2,626	1,939	61,582	60,870
Total creditors at 31 March	**2,650**	**1,971**	**61,582**	**60,870**

11 Provisions for liabilities and charges

	Early Departure	Estates Rationalisation	Others	Total
	£'000	£'000	£'000	£'000
Provision at 1 April 2008	**71**	**143**	**136**	**350**
Provided in the year	3	8	57	**68**
Discount unwound in the year	1	2	0	**3**
Provision utilised in year	(22)	(41)	(109)	**(172)**
Provision not required written back	0	(12)	0	**(12)**
Provision at 31 March 2009	**53**	**100**	**84**	**237**

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 (P)) in real terms.

Estates rationalisation costs

This provision represents the reducing balance of the provision established in earlier accounting years for costs relating to the collocation, increased within the year, based on the best estimated figures available for those costs.

Other provisions

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

12 Reserves

Movements in reserves	Revaluation Reserve	General Reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2008	**12,230**	**2,364**	**14,594**
Realised elements of revaluation reserve	(245)	245	**0**
Cash surplus retained by HSE	0	(2,744)	**(2,744)**
Net loss on revaluation of fixed assets	(2,524)	0	**(2,524)**
Notional Cost of capital (Note 5)	0	463	**463**
Surplus for the financial year	0	371	**371**
Balance at 31 March 2009	**9,461**	**699**	**10,160**

13 Notes to the cash flow statement

	2009	2008
(A) Reconciliation of operating surplus to cash generated from operations	**£'000**	£'000
Operating surplus	**6,616**	**5,798**
Depreciation and amortisation (Notes 7 & 8)	2,614	2,526
Loss on revaluation of fixed assets	32	92
(Profit)/Loss on disposal of assets	15	1
Working capital adjustments relating to operating activities		
(Increase)/decrease in stock	(59)	127
(Increase)/decrease in debtors (Note 9)	22	121
Increase/(decrease) in creditors	477	(150)
Increase/(decrease) in provisions (Note 11)	(113)	(21)
Cash inflow generated from operating activities	**9,604**	**8,494**

	2009	2008
(B) Servicing of Finance	**£'000**	**£'000**
Interest element of finance lease payments	**(5,053)**	(4,855)
Cash outflow from servicing of finance	**(5,053)**	**(4,855)**

	2009	2008
(C) Capital expenditure and financial investment	**£'000**	**£'000**
Payments to acquire fixed assets	**(1,814)**	(1,673)
Net receipts from sale of tangible fixed assets	**7**	28
Net cash outflow from investing activities	**(1,807)**	**(1,645)**

	2009	2008
(D) Financing	**£'000**	**£'000**
Cash surplus retained by HSE (Note 12)	**(2,744)**	(2,297)
Transitional Funding	**0**	303
Net cash in/(out) flow	**(2,744)**	**(1,994)**

14 Capital commitments

Capital expenditure contracted for at 31 March 2009 for which no provision has been made in these accounts was £1,256,000 (2007/08: £23,000).

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), 2 years and 29 weeks being the design and build period prior to occupation.

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 disposed of 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 2009 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 7, Tangible Fixed Assets.

The total amount charged in HSL's Income and Expenditure Account in respect of the service element of on-balance sheet PFI transactions was £3,589,809 (2007/08: £3,455,847), both figures including release of prepayment of £153,400 (see Note 9(A)). 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:

	2009	2008
	£'000	£'000
Expiry within 26 to 30 years	3,444	*3,439

* Restated to exclude the prepayment element, for which no commitment to payment exists.

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:

	2009	2008
	£'000	£'000
Rentals due within 1 year	5,157	5,069
Rentals due after 1 year but within 2 years	5,294	5,085
Rentals due after 2 years but within 5 years	16,690	16,283
Rentals due after 5 years but within 10 years	31,576	30,627
Rentals due after 10 years but within 15 years	36,133	35,169
Rentals due after 15 years but within 20 years	41,096	40,045
Rentals due after 20 years but within 25 years	46,686	45,547
Rentals due after 25 years but within 30 years	5,712	15,517
Sub-total	188,344	193,342
Less interest element	(126,762)	(132,472)
	61,582	60,870

16 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 for its cash requirements, having no power itself to borrow or invest surplus funds and HSL's main financial assets and liabilities have either a nil or a fixed rate of interest related to the cost of capital (currently 3.5%). 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

	2009	2008
	£'000	£'000
Trade debtors	**1,579**	1,202
Accured income	**120**	468
Other debtors	**7**	12
Staff loans - interest free loans against relocation expense	**14**	18
TOTAL	**1,720**	**1,700**

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 2009, HSL has not deemed it necessary to impair the value of any trade receivable.

Financial liabilities by category

	2009	2008
	£'000	£'000
Trade debtors	**95**	251
Trade accruals	**1,697**	1,011
Other accruals	**492**	143
TOTAL	**2,284**	**1,405**

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

17 Contingent liability

There were no contingent liabilities at 31 March 2009.

18 Related parties

HSE is regarded as a related party. During the year, HSL carried out science and technology projects for HSE to a value of £31,084,000 (2007/08: £28,338,000). In 2008/09, HSL required no transitional funding from HSE (2007/08: £303,000).

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 the Home Office; Royal Mail; British Nuclear Group Sellafield; Healthcare Commission; Health and Safety Authority; Department for Environment; Office of Rail Regulation; Department for Communities and Local Government; High Peak Borough Council; Health Protection Agency; Sheffield Teaching Hospital 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 Notice 43, senior members of 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.

19 Losses and special payments

(i) Losses Statement

In the year there were 35 cases, valued at £10,000 (2007/08: 36 cases, £16,000).

(ii) Special Payments

In the year there were no cases, valued at £ Nil (2007/08: no cases, £ Nil).

20 Events after the balance sheet date

There were no adjusting events after the balance sheet date.

The financial statements were authorised for issue on 22 June 2009.

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The Health and Safety Laboratory
is an Agency of the
Health and Safety Executive

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