NHS Property Services

NHS Property Services Limited

Annual Report

for
the year ended

31 March 2016

NHS Property Services Limited
85 Gresham Street
London
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Registered in England and Wales, No. 07888110

Contents

Chairman and Chief Executive Officer Report

We are pleased to introduce our Annual Report for 2015/16, which reflects a year of transformation, amid some continuing challenges, for NHS Property Services.

Our portfolio covers around 10 per cent of the NHS estate in England, inherited from former Primary Care Trusts and Strategic Health Authorities. It comprises mostly clinical premises such as health centres, GP practices and community hospitals.

We are creating an exciting new property company model and delivering real transformation for the health system. At a time of major change and increasing demand on the NHS, the company is reducing costs, unlocking value and reinvesting directly in the future of the estate to improve frontline patient care.

Although we are still on a journey to transform the business, our third year saw us breaking through some of the barriers we inherited and making progress as a company to add value to our customers and our Shareholder. We still have some way to go but are advanced in our transformation plan.

Looking back on the massive scale of the health reforms that led to the creation of NHS Property Services in 2013, it remains pertinent to recognise the complexities of the estate and systems we inherited from 161 predecessor organisations. Many of the properties had no formal leases or documentation, the billing arrangements were unclear and there were significant issues with backlog maintenance and underinvestment. The company is addressing these issues.

In-Year Achievements

NHS Property Services has been transforming its business in 2015/16, with demonstrable success in a number of key areas, as highlighted below:

Customers

- Setting up an account management approach with some 40 Account Managers focusing on our biggest 125 customers.
- Redesigning some of our processes and procedures to improve delivery, as part of a Ten Point Operational Fix Plan.
- Implementing a new customer relationship management database that holds up-to-date information on all customer engagement and contacts.
- Enhancing how we manage complaints and feedback from customers.

Financial

- The core operating costs for NHS Property Services in 2015/16 were £743.0 million, which is a reduction of £30.6 million compared to a total of £773.6 million in 2014/15. This means that in the last two years the operating costs have reduced by £84.6 million.

Property

- Disposing of 59 surplus assets, completing sales of £67 million and exchanging on a further 22 properties with a total contracted sales price of an additional £35 million.
- Supporting in excess of 166 housing units through land sales in 2015/16.
- Managing around 100 new development and improvement projects, which either transform local services or unlock value.
- Continuing the professional management of the estate, with a big focus on leases and a move to market rentals.
- Agreeing with the British Medical Association a new standard lease for General Practitioners.

Services

- The scale and reach of NHS Property Services has allowed us to address the wasteful anomaly of fragmented facilities management contracts across England in the primary care estate, varying enormously in scope, quality and cost.
- In one of the largest FM rationalisation projects ever undertaken, we have restructured around 2,300 different FM contracts to just 20, of which five relate to 'hard' FM services.

- FM rationalisation of the £200 million worth of outsourced contracts is incrementally mobilised throughout the year. Savings of around 10% are planned with additional savings of 10% expected from further efficiencies.

Corporate

- Revised delegated financial limits agreed with the Department of Health as part of the wider governance review.
- Refresh of the work of the Board Committees.
- *Creation of an Executive Committee and Operational Committee to manage business and* monitor delivery.

People

- The company's top team has been reshaped and strengthened with the appointment of new property professionals including: ourselves as Chairman and Chief Executive Officer; Non-Executive Director, Michael Strong; Director of Asset Management, John Westwood and Chief Information Officer, Kelly Olsen.
- Strong investment in our people through offering training and a qualification through British Institute of Facilities Management (BIFM) membership to 1,500 of our colleagues; an online training academy and a graduate programme for trainee town planners and chartered surveyors.

Transformation and Innovation

The way the company operates is steadily being transformed. Eight major transformation programmes have helped drive new business approaches during the year.

One example is a new trading model for vacant space, which shares cost and risk and enables clinical teams to use their space on a more agile, flexible basis.

Another is the launch of a nationwide local strategic estates planning programme which has already identified potential disposal opportunities of circa £100 million and created local transition plans to re-configure the estate in line with changing healthcare needs.

Our work to secure leases for our occupants continues. This is important in providing clarity and transparency over costs and terms, allowing better planning.

The company has developed a strategic and proactive approach to lease event management, with a new expert team of property professionals whose sole focus is lease expiries and breaks. The dedicated project team has the specialised skill set and experience to deliver significant savings by driving maximum value through rental reductions and tenant incentives. This modernising approach removes onerous lease terms and limits future liabilities such as dilapidations and service charges. The team is currently focusing on a pipeline of 155 lease events with a current total rent passing of circa £9.4 million in 2016. Terms have been agreed with landlords that will provide rent savings over five years to the commissioners in excess of £2.5 million.

We are on a journey working to a clear Three Year Strategic Business Plan. This sets out our vision and priorities to build an expert company that is viewed as an exemplar by both the NHS and the property sector. The three phases of the plan include:

- Phase 1 - fix, deliver and transform.
- Phase 2 - develop and grow the business.
- Phase 3 - realise the value.

Recognising the challenges we face, the company set in place a Ten Point Operational Fix Plan to address the most pressing issues. This covers:

- **Customer interface:** reorienting the company around the client organisations we support.
- **Billing / debt management:** clear, accurate and timely billing to support income recovery.
- **Governance:** changing our internal processes so that decisions can be made more quickly.
- **Capital projects:** enhancing construction project management to deliver new developments / refurbishments more efficiently.

- **Lease regularisation:** to create clear landlord/tenant relationships.
- **New trading model:** to incentivise the right space behaviours.
- **Strategic estates planning:** to reconfigure the estate to meet future needs.
- **Procurement:** improving our processes so we can be more responsive to customer needs.
- **Improving our data:** ensuring that we have up to date information.
- **Better systems:** so that our business information can be used more efficiently.

These priorities are now being fully addressed as detailed elsewhere in this report and we look forward to reporting our progress next year.

Customer Focus

We have a clear strategy that puts our customer at the heart of everything we do. We consider this customer focus as a quality standard for our teams and the principle is embedded in a fundamental business redesign that came into effect in May 2016.

We are continuing to develop an account management model, through virtual teams, so that customers know who to contact and which of our team members supports them. We firmly believe that the new structure will best serve the needs of the business, our customers and partners, and we look forward to an even more ambitious and successful year ahead.

Financial Focus

From a financial perspective 2015/16 was a year in which we met or exceeded many of our financial targets with the exception of debt recovery. NHS Property Services invoices over 7,000 occupations so this is a complex and volume activity. Challenges around our billing data and processes had a clear impact on our ability to manage debt and cash collection, resulting in a higher debt position at the end of the year. We have a clear focus on billing which forms part of our Ten Point Operational Fix Plan. This includes better data collection, improved systems and re-engineering of the billing process. These changes sit alongside the move to market rental charging for our freehold and long leasehold estate.

An important NHS partner

In 2015/16, we performed strongly financially and operated as an important partner to the NHS. We are supporting delivery of the *NHS Five-Year Forward View*, enabling transformation of the NHS. We have much work still to do, but are driving the creation of a new health estate to deliver changing models of care and release scarce resources back into the NHS.

Progress in our first three years

We have a clear duty in driving not only our own efficiencies, but supporting the wider NHS at a time of unprecedented financial challenge and rising demand on services. The property portfolio has much to contribute and we are determined to continue building close and effective links with commissioners and customers to deliver improvements and efficiencies.

There is still much to do, particularly addressing historic debt and operating a more effective billing and income recovery process but we are tackling the issues that have challenged the organisation since inception and adding valuable support to the National Health Service.

NHS Property Services has and will continue to make a significant contribution to an improved NHS, providing more cost effective, sustainable estate in more patient friendly locations and releasing surplus land and buildings to generate capital receipts and sites for housing.

Our vision is to grow the business and realise more value for the health system. We are delighted to lead a business that has such exciting potential.

I. D. Ellis

Ian Ellis
Chairman of the Board

Elaine Hewitt

Elaine Hewitt
Chief Executive Officer

Board and Executive Committee Members

A diverse and experienced Board is an essential component to the success of the company. The leadership team brings together a wide range of expertise in the property, finance, health and wider business areas, from both public and private sectors, in the UK and overseas.

Ian Ellis, Chairman of the Board

Photo

Ian joined the company as Chairman of the Board on 14 March 2016. He brings a wealth of property expertise, having worked in the real estate industry for 42 years.

His executive career included an equity partnership in Richard Ellis (now CBRE) with his final role as Head of the Investment Management division. In 1998 he joined the founding management team of Trillium, the first integrated real estate, construction and facilities management business in the UK. Ian then became Chief Executive of Land Securities Trillium and was appointed as a Board Director of Land Securities plc. In 2009 he was appointed as Executive Chairman of Telereal Trillium, becoming a Non-Executive Director on that Board in 2014. He is also Chairman of Arcus Solutions Ltd and is an independent Director of Portman Settled Estates. He sits on the Real Estate Advisory Boards of Kings College London and the Natural History Museum.

As Chairman, Ian is an ex-officio member of all Board Committees and is Chairman of both the Nomination and Remuneration Committees.

Pat Mills, Shareholder Director

Photo

Pat is Commercial Director at the Department of Health and is the nominated Shareholder Director acting on behalf of the Secretary of State for Health.

A former partner at Accenture, the global consulting, technology services and outsourcing company, Pat brings wide-ranging commercial experience from working with many different industries and sectors. He is also an owner/Director of Aventap Ltd, Bio Products Laboratory Holdings Ltd, Capricorn Ventis Ltd, Naga UK Bidco Ltd, Naga UK Topco Ltd and Porton Biopharma Ltd.

He is Non-Executive Director of Capricorn Ventis Ltd, a Dublin based, BI & CRM consulting firm.

Martin West, Non-Executive Director

Photo

Martin is an independent consultant in strategy, finance and governance.

In addition to experience in international engineering consulting in Europe, the Arabian Gulf States and South-East Asia, Martin was a Partner at chartered surveyors Drivers Jonas LLP and most recently a Director in the corporate finance function at Deloitte LLP. He has held a number of Non-Executive positions in the healthcare, affordable housing and IT sectors, as well as being a member of the Department of Health's Foundation Trust Financing Facility Credit Committee.

Details of Martin's other Directorships are listed on the NHS Property Services website www.property.nhs.uk.

In addition to chairing the Audit and Governance Committee, Martin is a member of the Remuneration Committee and Nomination Committee.

Chris Kane, Non-Executive Director

Photo

Chris was the Head of Corporate Real Estate at the BBC from 2004 to 2012 before leading BBC Commercial Projects until early 2015. He led the delivery of a £2 billion property transformation to support the move to digital production and modernisation of the estate. He has a long-term commitment to place making and encouraging new ways of working for an increasingly agile workforce.

Prior to joining the BBC, Chris's roles included Vice-President of International Corporate Real Estate for the Walt Disney Company and Partner in Corporate Real Estate Services at Jones Lang Wootton. He is also a Director of Chris Kane Associates Ltd and a Board member of the Network Housing Group.

Chris graduated from Trinity College Dublin, has an MBA from the Henley Management College, holds a Masters Degree in Corporate Real Estate and is a Fellow of the Royal Institution of Chartered Surveyors.

In addition to chairing the Facilities Management Committee, Chris is also a member of the Assets and Investment Committee and the Nomination Committee.

Michael Strong, Non-Executive Director

Photo

Michael has worked in the property sector for over 40 years and has held a number of high-profile leadership roles in international property businesses.

A Fellow of the Royal Institution of Chartered Surveyors, Michael started his career in the Estates Division of Prudential Assurance Company in 1965, before moving to Healey Baker (now Cushman & Wakefield). He joined Richard Ellis in 1972, leading on many major UK property developments and the expansion of the business in the UK and abroad.

Michael held the post of Executive Chairman of the Europe Middle East and Africa division of CBRE from 2000 until the end of 2015, including seven years as Chief Executive (2005-2012). CBRE (formerly CB Richard Ellis) is one of the world's largest commercial real estate services and investment firms and a Fortune 350 business.

In addition to chairing the Assets and Investments Committee, Michael is a member of the Remuneration Committee and the Nomination Committee.

Neil Sachdev, Non-Executive Director

Photo

Neil brings a wealth of experience in leading and delivering change in the property, retail and wider business.

Neil joined Tesco plc in 1978, rising to the position of Property Director, before joining J Sainsbury plc as Commercial Director in March 2007. He was subsequently appointed Property Director in June 2010, a position he held until leaving in March 2014.

Neil holds a number of other senior appointments. He is Chairman of Market Tech Limited (Camden Market) and Martins Properties (Chelsea Limited), and is a Non-Executive Director of Intu Properties plc. He was also Chairman of the Institute of Grocery Distribution until April 2014. Neil is a visiting professor at Salford University, sits on the Board of Grantham Institute at Imperial College, London and in February 2016 was appointed to the University of Warwick Council.

Neil is a member of the Audit and Governance Committee, Facilities Management Committee and the Nomination Committee.

Elaine Hewitt, Chief Executive Officer

Photo

Elaine joined NHS Property Services in 2015 following a long and successful career in BT Group plc. As BT Group Property Director, Elaine managed the largest corporate property portfolio in the UK and real estate across 70 countries.

In addition to her considerable private sector experience in real estate and facilities management, Elaine worked as Crown Representative for Property and Facilities Management for the Cabinet Office.

Elaine is a member of the Assets and Investment Committee, Facilities Management Committee, Remuneration Committee and attends other Board Committees on request.

Dennis Markey, Chief Operating Officer

Photo

Dennis joined NHS Property Services from Serco Group plc, where he was Integrated Services Director for four years, with responsibility for IT, real estate and facilities management business contracts across the UK, Ireland and Europe.

Dennis holds qualifications as both a Fellow of the Royal Institute of Chartered Surveyors and Certified Member of the British Institute of Facilities Management (CBIFM). He is also on the Board of the Royal Institution of Chartered Surveyors (RICS) FM Committee.

Dennis is a member of the Facilities Management Committee and attends the Audit and Governance Committee.

John Westwood, Director of Asset Management

Photo

John has over 20 years' experience in corporate real estate within the pharmaceutical, technology and financial services sectors. He joined the company from Devonshire Investors International (Fidelity), and has previously held senior roles in Pfizer Inc, Citigroup, BT, IBM and DTZ.

He has a strong track record of successfully delivering major asset programmes, including significant divestment and acquisition of commercial and research and development real estate, cost reduction consolidation strategies, process development and improvement, and workplace transformation initiatives across the globe.

John's contribution is key in re-shaping the approach to strategic asset management which meets the future needs of the NHS and delivery of the Three Year Strategic Business Plan.

John is a member of the Assets and Investment Committee.

Simon Finley, Chief Financial Officer

Photo

Simon is a chartered accountant, with more than 25 years' experience in finance, including 20 years in Chief Financial Officer/ Finance Director roles in large multinational groups, including the Manpower Group and AP Moller Maersk.

Simon is a member of the Assets and Investment Committee and the Facilities Management Committee. He also attends the Audit and Governance Committee.

Andrew Millward, Director of Communications and Corporate Affairs

Photo

Andrew has experience of managing internal and external communications for a range of public and private sector organisations, including Reed Business Publishing, the United Kingdom Atomic Energy Authority and AEA Technology plc. Before joining NHS Property Services, Andrew worked at the Department of Health and as Director of Communications for NHS South of England.

Andrew holds an honorary appointment as visiting fellow in Health Communications at Buckinghamshire New University and is Chairman of the Friends of Eggesford All Saints Trust.

Andrew is a regular attendee at the Audit and Governance Committee and is the company's appointed Freedom to Speak Up Guardian and Caldicott Guardian.

Kelly Olsen, Chief Information Officer

Photo

Kelly has almost 30 years of experience in business operations, technology and business transformation, operational excellence and programme management. Kelly worked for the consulting, technology and outsourcing services firm, Capgemini plc where she spent four years working with clients such as BAA, the Environment Agency and Rolls-Royce.

Her last role was as International Chief Information Officer and Global Head of the Programme Management Office at Cushman & Wakefield, the commercial property and real estate consultancy. There her focus was on providing a global asset management and property finance solution, as well as market leading software-as-a-service solution for HR and corporate finance.

Kelly's role is to oversee delivery of the company's business systems strategy, lead the information management and technology function and develop a new Corporate Programme Management Office.

Linda Burton, Interim HR Director

Photo

Linda undertook this role on an interim basis, during the year, until a permanent appointment was made.

Linda has been Head of Organisational Development and HR policy since the company launch in April 2013. Prior to that, Linda worked for ten years in NHS acute trusts, latterly as Associate Director of HR. She has experience leading HR in a number of commercial industries including Whitbread, Price WaterhouseCoopers and Tesco.

Linda is a member of the Chartered Institute of Personnel and Development, has a BA (Hons) in Business Management and PG cert in Organisational Change management.

Strategic Report

This section outlines our strategy, focus and activity in our main business areas, highlighting in particular information about our asset portfolio and the facilities management services we provide.

Our business performance and risk management measures are covered in more detail in the Governance and Risk Report, pages 26 to 34.

Background

NHS Property Services is a limited company, wholly owned by the Secretary of State for Health.

The company's portfolio consists of around 3,500 legal interests, with a total value of circa £3.6 billion, which represents around 10% of the entire NHS estate.

The company has four main business areas:

- Strategic Estates Planning.
- Asset Management.
- Construction Project Management.
- Facilities Management Services.

Our portfolio

The majority of NHS Property Services properties fall into the following three categories:

- Health centres and GP surgeries.
- Hospitals/hospital-related properties.
- Offices.

The breakdown of our properties, by size, is as follows:

- 69% of our holdings are less than 1,000 square metres in size.
- 31% are larger than 1,000 square metres, of which about 15% are more than 2,500 square metres.

The large number of smaller holdings the company controls reflects, in part, the pattern of health centres in particular, where accessibility to the population that they serve is important. However, this may make economies of scale and efficiencies more challenging for the company to realise.

The age of our properties

The highest proportion of the company's estate, around 20%, comprises properties dating back to pre-1948, while around 17% of its estate has been developed within the last 10 years.

A high proportion of our oldest properties are hospital and hospital-related buildings.

While around two thirds of the company's health centres were developed after 1974, only about a half of our offices and one third of our hospital/hospital-related holdings were developed after that date.

A significant number of our properties comprise heritage assets – mainly statutorily or locally listed buildings that are designated by English Heritage or the local authority because of their architectural and/or historic interest.

The occupiers of our properties

NHS Property Services manages almost 6,700 different occupations, comprising NHS service providers (2,851 occupancies), Arm's Length Bodies (2,008 occupancies); General Practitioners (1,216); and commercial providers (543). The remainder relates to space being occupied or controlled by NHS Property Services.

Supporting the NHS

The company is facing huge challenges and, as a consequence, is undergoing significant change. One of our priorities is to ensure we support the wider NHS.

Diagram of how NHS Property Services Ltd.

supported some of the challenges

facing the NHS

The table above highlights how we are working to support some of the main challenges facing the NHS. Our Three Year Strategic Business Plan is designed to drive value and efficiency; ultimately realising capital back to frontline patient care and creating the real estate infrastructure local health economies need to deliver new models of care.

Strategy

Our Three year Strategic Business Plan sets out the company's vision, plans and priorities to 2018. It provides clarity and focus on how we are transforming the business into a professional property and services company delivering greater benefits to the NHS and the taxpayer, and growing and realising value.

The three phase journey defines priorities and key objectives at different points over the business transformation period.

- Phase 1 - fix, deliver and transform.
- Phase 2 - develop and grow the business.
- Phase 3 - realise the value.

2015/16: Fixing the Platform

Fixing the platform was the focus for 2015/16 and involved building an initial capacity for end to end service and establishing strengthened business functions where the leading challenges have been overcome.

The key service priority was to stabilise operations and deliver effective support to the system. This was driven through transformation programmes to develop functional objectives.

The key priorities for the year were:

Diagram of key priorities

2016/17: Developing the Business

In 2016/17 we are continuing to fix the platform as planned, as well as developing the business to grow its customer offer, base and potentially portfolio, as we realise the benefits of the transformational changes. Key themes will be to develop:

- Partnership approaches with a wider customer base.
- Links between capital and life-cycle costs.
- Stronger financial process, particularly in billing and debt management.
- A new pay modernisation framework.

2017/18: 'Realising our Potential'

The Three Year Strategic Business Plan is continuously under review and the final phase will be to focus on embedding best in class efficiency and performance. The company vision is to become one of the leading healthcare property providers in England.

Performance Against This Year's Objectives

The company introduced a new 'corporate scorecard' for 2015/16 so that performance on key company strategic priorities could be measured and assessed.

This performance approach was introduced by the Chief Executive Officer when she joined in 2015 and has seen all senior managers agreeing their objective set that cascades from the key company objectives and throughout the Management Team.

A Ten Point Operational Fix Plan was developed to underpin delivery of our Three Year Strategic Business Plan and provide focus on a number of critical challenges facing the business. The Corporate Programme Management Office (PMO), which was created during the latter part of 2015/16, drives delivery of the work programmes.

The scorecard for 2015/16, detailed below, shows good performance against the majority of corporate objectives with some exceeded, but further traction needed on debt management.

Objective	Measures/ method	Target	Achievements
Deliver the financial targets	Financial results reporting.	£747 million	• Reduced spend on running costs to £732 million - £15 million ahead of target. • Trading model developed, negotiated with strategic business partners and approved by the Board - see page 20 Market Based Charging.
	Financial results reporting.	60 + days - debt reduced by 35%	• Enhanced credit control processes put in place. • Validation of data to produce bills for true up completed. • Target not achieved.
Improve customer perception/ satisfaction	6 monthly customer tracking survey against standard 10 point evaluation.	Overall score of 6	• Score of 6 - increase from 3.94. • Interim Customer Relationship Management system in place. • Account managers allocated (page 10). • March 2016 customer survey. • Customer and communication plan approved by the Board.
Review resource balancing and skills gap across organisation	Net 10-20% management team cost reduction.	31 Mar-16	• Management Team restructure and redesign implemented 30 April 2016.
Three year asset cost savings pipeline agreed with classification of estate and multi level property strategies	Board approval.	31-Mar-16	• Property strategies agreed by the Board. • Lease event management on target for those leases expiring. • Agreed standard GP lease. • Strategic estates plans delivered in partnership with Community Health Partnerships (page 12).
FM strategy and transition plan agreed	Board approval.	31-Mar-16	• FM strategy agreed at the 12 November 2015 Board meeting. • In year savings realised. • External FM contractors reduced to under 20 (page 14). • Procurement - review of current practice completed. • Renewed focus on delivery of capital projects.

Customer Service

Improving customer engagement and service is one of the company's top priorities, and much work was undertaken during 2015/16.

This plan saw major improvements being put in place across the company, including:

- Implementing a new customer relationship management system, holding up-to-date information on all customer engagement and contacts.
- Setting up an account management approach for the company – with some 40 Account Managers focusing on our biggest 125 customers, based on income.
- Creating virtual teams – so that we have teams of people who now work together to manage building and customer issues.
- Redesigning some of our processes and procedures across our functional directorates to aid customer delivery.
- Enhancing how we manage complaints and feedback from customers.

This work is just the start, as our new Customer Strategy for 2016/17 will see even broader changes and improvements for customers.

Results from our latest customer survey, carried out in March 2016, show improvement in key areas, and also where further work can be prioritised. The survey targeted our biggest 125 customers, based on income.

The highest scores were for customer engagement, strategic estates planning, facilities management, understanding the needs of customers and helping reduce costs. Further work is needed to improve levels of satisfaction in finance and billing. Customers also wanted quicker responses to urgent requests and a more solution-focused approach.

All of these are being addressed in the new Customer Strategy, which will be rolled out in 2016/17. A major development will be the expansion of the successful Account Manager network, an initiative which was introduced during the year, for the biggest 125 customers, based on income. The Account Manager role provides our customers with a named person within the company, who is a direct point of contact and someone who can work with them to understand their needs and liaise with colleagues in specialist roles. At the start of 2016/17 the network will be extended to provide greater support to our 500 biggest customers, who account for about 90% of our income.

The customer priority for 2016/17 is to enhance our customer experience, which includes improving:

Accuracy	Detailed and accurate billing/ data.
Collaboration	Working together to find solutions, not being driven by process.
Strategic expertise	Working to develop new forward looking estate plans.
Service delivery	Delivering the agreed service on time and to specification.
Responsiveness	Responding effectively and in a timely way to customers' issues.
Service clarity	A clear understanding of what is /is not included in a service and the service portfolio generally.
Ease of contact	Knowing who to contact in the company and accessibility.
Value	The services being commercially competitive in terms of value for money.

Our Four Main Business Areas

The company has four main business areas:

- **Strategic Estates Planning** - supporting our customers to deliver healthcare premises that meet future needs for patient services.
- **Asset Management** - acting as landlord; disposing of surplus properties that commissioners decide are no longer needed; regularising leases and developing new facilities.
- **Construction Project Management** - managing the development of new buildings and refurbishment of existing buildings, along with investment in our estate to ensure it is safe; warm and operates efficiently.
- **Facilities Management Services** - including health and safety, maintenance, electrical services, cleaning and catering.

Strategic Estates Planning

This Department of Health led programme started in June 2015 with the aim of improving the management of the NHS-owned and occupied estate to support the challenges set out in the NHS 'Five Year Forward View', with specific focus on:

- Using the existing estate more effectively.
- Reducing running and holding costs.
- Reconfiguring the estate to better meet commissioning needs.
- Sharing property (particularly with social care and the wider public sector).
- Disposing of surplus estate to generate capital receipts for reinvestment.
- Ensuring effective future investment.

We successfully led the engagement across the local health economies and produced interim estates plans for 107 of the Clinical Commissioning Groups, by the end of December 2015. Community Health Partnerships led and delivered for the remaining 101 Clinical Commissioning Groups. The programme is ongoing and we have:

- Ongoing development of strategies for Clinical Commissioning Groups and initiating strategy work at sustainability transformation plan level, to ensure the best possible alignment between clinical strategies and real estate provision for the system.
- Established sound foundations across the country from areas where engagement started from scratch through to more developed local health systems.
- Provided active support for One Public Estate and devolution initiatives.
- Identified a significant number of new opportunities that have potential to deliver substantial running cost savings in the healthcare and administrative estate and transform the estate to meet the needs of the 'Five Year Forward View' and new models of care.
- Adopted a proactive lease management process, which together with our new vacant space policies, complements the local estate planning and provides direction to commissioners and providers.
- Identified a significant number of potential new disposal prospects with a future disposal value in excess of £100 million that is additional to our existing pipeline. This will release land for redevelopment and support the Department of Health's housing target.

Local estate planning is also supporting national strategies and has enabled the company to categorise its estate between short, medium and long-term holds. This in turn creates the opportunity to align maintenance life-cycle strategies and extract value from the estate.

In 2016/17, we will continue to work with commissioners, NHS England and the Department of Health to further develop the scope of local estate strategies, including support for NHS England's Estates and Technology Transformation Fund (formerly the Primary Care Transformation Fund), and Sustainability and Transformation Plans. This will involve finalising delivery of the specific projects that have been identified within the existing estate plans and implementing them.

Asset Management

Disposal of Surplus and Vacant Properties

Disposal of properties happens when NHS commissioners identify that a property is surplus to NHS healthcare needs, both now and in the future. Most often this is because healthcare services have been relocated and re-provided in other settings that are more appropriate for modern healthcare. The disposal team's activities are closely aligned with the strategic estates plans.

Our remit is to dispose of these holdings for optimum value to secure capital receipts for reinvestment in the NHS and to realise cost savings.

The team has and continues to develop the most appropriate disposal strategy on a property-by-property basis, having regard to local market conditions, town planning, value and time frames.

A key component of the individual property disposal strategies is the approach to town planning. Where additional value can be unlocked by securing an outline planning consent for redevelopment the team works with planning and design professionals to secure an optimal consent.

We continue to use a number of routes to market, including sale by auction, private treaty and informal tender. The most appropriate route to market is dependent on local market conditions, value and time frames.

In 2015/16 the company completed on the sale of 59 properties, completing sales of £67 million and exchanging on a further 22 properties with a total contracted sales price of an additional £35 million, which are anticipated to complete during the next 24 months.

Transactions in London accounted for 48% of total sales proceeds. The largest transaction completed was the sale of Bassets Campus, Orpington, to London Square Development at £16 million. Outside London, the average transaction value was £700,000.

On an annualised basis, completed sales will deliver £2.5 million of cost savings, with a further £2.3 million of annualised revenue savings forecast on completion on those contracts exchanged during the financial year. In total, the Asset Management team delivered annualised cost savings of £26 million across the portfolio, including rates.

Many disposals released land suitable for residential redevelopment and contributed to the wider Government's housing policy. Land sales in 2015/16 supported in excess of 166 housing units.

Lease Regularisation

For legacy reasons, many of the occupancies within the portfolio do not have formal lease contracts in place. This means that the terms of occupation, including the obligations of landlord and tenant are not always clear, and tenants may have no security of tenure. This compounds the challenges we have with real estate data, which in turn make it more difficult to actively manage the portfolio.

To address these issues there are two major programmes underway; one to regularise all occupations with formal leases on market terms and another to implement a comprehensive property database to support all Asset Management activity and wider portfolio and company activities.

Construction Project Management

NHS Property Services capital programme expenditure, excluding acquisitions, was £55.4 million in 2015/16. £21.1 million of this investment related to developing new buildings and refurbishment of existing buildings to meet changing NHS clinical needs. The remaining £34.3 million of capital expenditure was invested in existing estate to ensure it is safe, warm and operates efficiently.

Significant projects in the year included:

- Townlands Hospital in Henley-on-Thames, South region.
- Walsall Walk-in Centre, Midlands and East region.
- Refurbishment of East Barnet Health Centre, London region.
- Refurbishment of Cherry Tree House community mental health facility in York.

A construction project to double the size of Westminster Surgery in Ellesmere Port, Cheshire, is also now complete. The £350,000 programme, commissioned and managed by NHS Property Services, extended and transformed the surgery by utilising space from two adjacent vacant retail units.

The Clinical Commissioning Groups' strategic estates plans outline some of the priorities for 2016 and beyond. The company will work with the Clinical Commissioning Groups to invest in new premises and refurbish our current healthcare buildings, where needed. NHS England's *General Practice Forward View* presents further opportunities for the company to invest in improvements to the primary care estate.

Facilities Management Services

In tandem with Asset Management, the delivery of Facilities Management (FM) services is another core business delivery stream. NHS Property Services provides FM and support services to about 2,700 properties across England.

The company employs more than 3,700 people of whom about 2,900 work in a wide range of FM roles. FM services are divided into:

- **Health and Safety** – to maintain safe environments for our people to work in, customers to provide services from and ultimately for patients to feel safe.
- **Hard FM** – planned and reactive services, such as mechanical and electrical maintenance, building fabric and grounds maintenance, snow and gritting services and garden maintenance.
- **Soft FM** – including cleaning services, window cleaning, pest control, waste management, feminine hygiene services, FM support services and security.

Streamlining facilities management contracts

A major programme of change and success for the business was the rationalisation of circa 2,300 historic and complex legacy contracts to just 20. The success in reducing the number of contracts has received much interest from the market.

The journey started in 2015 when the FM team carried out a company-wide review of these contracts to identify where quality improvements and cost efficiencies could be made through efficiencies of scale available to a national company. The benefits of reducing the number of contracts include:

- **Clarity of services** – with standardised company-wide processes across our customer base.
- **Standardised contracts** – with consistent performance measures across the company.
- **Reduced costs and value for money** – with savings being passed back to customers and tenants to benefit patients, service users and the taxpayer.

In 2015/16 the FM rationalisation programme was launched and delivered in three stages. The first stage was to bring in-house over 900 contracted-out people to work directly for NHS Property Services. The business case for the in-housing confirmed that a saving of at least 18% could be achieved by the removal of the historic agency arrangements that pre-dated the formation of the company. The second stage was the completion of the national procurement exercise to streamline the company's facilities management contracts. This will not only reduce the £200 million total contracted spend but also ensure consistency in quality of FM services across the country and an end to the historic wide disparity in costs charged to occupiers of the company's properties.

The hard FM contracts have now been reduced to five, and this was undertaken via an extensive tendering and procurement process that was conducted through a system of local 'lots'. The procurement process for soft FM services – including cleaning, pest control, window cleaning, feminine hygiene, catering, car parking, gardens and landscaping, security, waste, asbestos surveys, hot and cold water surveys, medical gasses and FM support services – was concluded by the middle of April 2016.

FM rationalisation commenced during the year and will continue to be mobilised incrementally. Savings of around 10% will be delivered in year with additional savings of 10% expected from further efficiencies, consistency in the quality of FM services and an end to the historic disparity in costs charged to our occupiers. The rationalisation of FM services has never before been achieved on this scale and has attracted strong media interest across the industry.

Throughout the year we have continued to focus on the professional development of our people and have established an online training academy as part of the new company intranet. The academy offers links to FM courses run by the British Institute of Facilities Management and the Royal Institution of Chartered Surveyors as well as many colleges and universities. This ensures the most useful and appropriate courses are offered to support career development.

By fully realising potential we promote professional recognition and raise standards. Professionalism will enhance the reputation of Facilities Management and attract younger people who can benefit from the array of career opportunities that exist within the FM sector.

Sustainability

One of the company's biggest challenges is to make the estate fit for the future. In partnership with stakeholders, we are committed to supporting the changing needs of the NHS in a sustainable way.

We continue to look at ways of improving our sustainability and have worked closely with our energy providers to reduce carbon emissions in our sites, reducing the amount of energy consumed in peak hours. An energy bureau and bill validation service has been procured. This service will enable us to have a clear footprint of CO_2 emissions and allow tenants to access their data easily. During 2015/16 the data was sourced manually and the bureau will become fully operational during 2016/17.

We are actively reviewing our energy certification and as part of the capital programme we are working with the ReFit initiative to improve the sustainability of our buildings.

We continue to be an active member of the Cross System Sustainability and Adaptation Group which drives the sustainability agenda throughout the many organisations within the public sector.

Business Continuity

Business continuity is integrated into the operational work of the FM managers. During this financial year we undertook a major regional desktop test exercise in Peterborough, with 25 attendees and managers from all areas in the Midlands and East region. Five smaller exercises were undertaken in October 2015 with Health and Safety teams and FM teams.

Multi-agency desktop exercises were undertaken to simulate a hospital evacuation and a wide-spread power failure. While NHS Property Services is not responsible for our tenants' business continuity plans, it is important to support our customers in such extreme situations.

These were valuable exercises to satisfy ourselves that our crisis response plans are robust and can be executed on a real-time basis in response to a catastrophic external event. As well as giving us confidence that we are well prepared to handle such an event, the exercises also gave us the opportunity to refine and further enhance our response plans for the future.

Health and Safety

Maintaining the health and safety of our people and ensuring the provision of safe, secure and clean properties for our tenants, patients and visitors is a top priority for the company. We endorse the main aims of the Health and Safety Executive 2012 - 2015 Plan to:

- Improve health and safety in the workplace.
- Ensure compliance with the law.
- Reduce the likelihood of low-frequency high-impact catastrophic incidents.

In 2015/16 the focus was assessing and managing the high risks well. The top 12 building risks were actively monitored in the regions and overseen by the Facilities Management Committee. These included risk assessments and management plans for the following areas: fire safety, asbestos, legionella, electrical safety, gas safety, pressure systems, generators, window restraints, lifts, piped medical gas, lightning protection and hot surfaces.

Our continued partnership with Tyne and Wear Fire Authority under the Primary Authority Scheme (Fire) has enabled the company to have a nationally consistent approach to fire safety management across the 46 national fire authorities. The company has built a strong in-house team of competent health, safety, security and fire professionals who have continued to drive safety forward.

In 2016/17, active monitoring of risk priority actions will continue to be developed to bring a greater level of assurance to our customers. As part of the continued FM rationalisation, many safety-related contracts such as asbestos and hot and cold water management will be procured. This will enhance consistency and further improve safety standards. The 2016/17 safety plan will continue to be monitored and reported at FM Committee and Board level.

Our People

NHS Property Services employs over 3,700 people working in many different roles at locations across England. We want to attract, retain and develop a high-calibre workforce and support our people to fulfil their potential. Our main aims as an employer are:

- To have the right resource, right skills and right leadership capability.
- To provide a framework for good employee relations in order to enable our people to grow, develop and be engaged in business success.
- To develop a culture that encourages professionalism and collaboration: One Company One Team.
- To ensure that our people are appropriately and fairly rewarded, and recognised for outstanding achievements that support the company's ethos and values.
- To promote fairness and consistency for all.

Our Equality and Human Rights Policy reinforces our commitment to ensuring our people and customers are treated fairly and respectfully.

Resource planning

As a property and facilities management company providing services to NHS organisations, we have seen an increasing need for a range of specialist skills and knowledge in property project management and certain specific FM specialisms.

We have introduced a graduate training scheme for property managers and town planners. This will increase the number of professionally qualified Royal Institution of Chartered Surveyors (RICS) and Royal Town Planning Institute (RTPI) colleagues working for the company.

It is the intention of the company, as we progress further into 2016/17, to develop our talent management approach and our ability to effectively plan for succession going forward. Strategic human resource planning will improve the business proposition for our employees as well as utilising our resource to contribute to the achievement of organisational goals.

The talent of our people will ensure we can provide those facilities and services that meet the needs of our customers in the delivery of patient care.

People engagement

We continue to engage with our people through a range of channels and during 2015/16, we carried out our second full people engagement survey, giving everyone across the company the opportunity to give feedback on their experience of working for the company. There was a 35% increase in the number of people taking part in the survey. Our overall engagement score increased by 3% to 659 out of 1000.

Within the survey areas specifically showing a positive trend include:

- People having greater understanding of their role and how it contributes to the business.
- Confidence to suggest improvements.
- Evidence of improvements being made.
- Better communication.
- Opportunities to progress careers.
- All dignity and respect questions rated highly.

The survey was followed up with seven open space events involving around 130 people from across the country. The events provided further discussion around ongoing issues and challenges, as well as ideas for improvement. The outputs from the sessions have helped to inform the action plan going forward.

Training and development

We offer a range of training, development and leadership opportunities to ensure our people are equipped with the skills they need for their current role and are supported to progress in their career and fulfil their potential.

Nearly 130 people working in FM have completed the NEC training programme to support the FM procurement process. The training provides essential preparation for the mobilisation stage which started in April 2016, equipping teams to ensure the work runs smoothly.

The training courses included:

- NECv3 - industry-recognised, standard project management contracts for FM services.
- SGF20 - a tool for safety compliance and planned maintenance.
- FM Cleaning Services - guidance and instruction to ensure compliance to industry standards.

This is a great example of partnership working. It is through our strong links with the BIFM that we have managed to create and deliver this training programme so effectively. As part of the company's commitment to the continued development of the workforce, these courses will be updated and repeated annually for all FM people. We are also working with colleagues at RICS to cover whole systems training leading to professional qualifications.

To increase awareness, understanding and compliance with mandatory and statutory training a number of specially produced leaflets were distributed to our people. Leaflets are just one way of ensuring our people are safe within their job roles. We are also delivering mandatory training in other blended learning approaches. A full training programme will be launched with follow up training programmes being implemented throughout 2016/17 and beyond.

Other training is progressing well, with professional and career path development being explored with Directors and Heads of Functions. We have established links with the London and Manchester Business Schools, the London School of Finance and Business and the City Law School.

Programmes being explored includes professional qualifications; personal development; resilience, business and change management skills; customer service delivery and engagement; leadership skills and advanced negotiation skills.

The commitment to our people encourages personal and continuous professional development.

Supporting the health and wellbeing of our people

We aim to support the physical and mental wellbeing of all our people. We have contracted external specialist providers for occupational health and employee assistance programmes. The employee assistance helpline offers our people 24-hour access to free and confidential support and advice from qualified counsellors on issues affecting them at work or in their personal lives.

We encourage and support people to take up physical activity challenges on a local, regional or national basis and promote regular exercise as a means to improving mental and physical health and wellbeing. A number of our people have taken up the Cycle to Work Scheme, which enables people to buy a bicycle and or cycle equipment worth up to £1,000 through monthly contributions direct from their salary.

Our people in patient-facing roles received a flu vaccination in our 2015/16 free immunisation programme. Other benefits we offer to our people include:

- Childcare vouchers.
- Free eye tests for people who use computers and other VDUs in their work.
- HASSRA membership, giving them access to a wide range of leisure, sporting and cultural activities and discounts.

Sickness absence

Sickness absence for 2015/16 was 4.83%, which is slightly higher than 4.38% recorded in 2014/15. The increase may partly be due to the improvements in recording procedures.

Trade union partnership working

NHS Property Services works closely with four trade unions (Unison, GMB, Unite, and MiP) and was the first national NHS organisation to sign a Union Learning Agreement with trade union partners. This agreement is designed to support the development of all employees, both union and non-union members.

Communications

During the year, we continued to strengthen our communications so that we reached our people, our customers, our stakeholders and the market. Some of the progress included:

- **Our people:** we introduced new communication channels to engage with our people, including a monthly web meeting for 150 of our senior managers, a senior management event to discuss company priorities and a series of roadshows to share the company strategy.
- **Our customers**: we sent a regular bulletin to all customers, sharing developments, and we introduced a series of guides on billing and charging so our customers better understand how we work. A series of events were also organised to share developments and discuss issues with customers. Future guides will be created during 2016/17 e.g. how to access capital.
- **Our stakeholders:** a number of important meetings were arranged with key stakeholders, such as NHS Clinical Commissioners and the Community Hospital Association, so that we could share learning and discuss issues with groups that are important to our business. We also spoke and exhibited at key events throughout the year, including the NHS Commissioning Show, NHS Confederation and property industry events.
- **Our market:** we held briefings and meetings with key media in our market place, such as the Health Service Journal, Property Week, Estates Gazette and a range of national newspapers, such as the Financial Times and the Independent. Key coverage appeared in most of these titles.
- **Digital communications:** to engage with customers, influencers and colleagues, the company applied a range of digital communication techniques during the year. The company website had 900,000 visitors (average 2,400 per day). A new Intranet was built and launched for our people and email bulletins were sent to more than 6,000 customer contacts.

We continued to operate in an open and transparent manner, publishing all key data on our website, which was revised and updated during the year.

Information Management Technology and Business Systems

Access to professional solutions to create a more productive, efficient and collaborative environment has been the key focus for IM&T through 2015/16. Access to meaningful information and the security of that information remains a key objective for 2016/17. IM&T will play a significant role in supporting our business information strategy.

In order to do this, a comprehensive strategic programme for change, taking us from an analogue business to a fully digital business, has been developed in 2015/16. The strategy is predicated on providing the company with the solutions it requires to run an efficient, productive and professional business. This strategy fully enables the delivery of our key business solutions through a cloud-based model. We have started to restructure our team to align with the Service Integration and Management (SIAM) operating model. Internally we have agreed a strategy to ensure that our people can be fully supported as mobile workers and provide the tools to further enhance a collaborative working culture. Through the development of the IM&T Infrastructure and Collaboration strategy we will also move towards full cost transparency of IT services.

Key achievements in 2015/16 were:

- **Systems and Solutions** - development of the strategy and Board approval for the key business systems transformation programme. The process to select a supplier is complete and individual system projects are underway.
- **Business Intelligence and Analytics** – delivered interim solutions to support tactical data collection activities. A three-phased plan commenced to ensure that data is of the right quality, validity and accuracy into the future. The challenges of improving data quality are not under estimated and will not complete until 2016/17. Phase 2 includes fast track data governance activities. Phase 3 work has commenced on strategic data governance.
- **Technology Support and Operations** - developed the strategy to move from a largely analogue and fragmented environment to a fully digital environment including updated network provision and proposed implementation of collaboration tools to support cultural change and the restructure.

Corporate Programme Management Office

In 2016/17 we will further develop the Corporate Programme Management Office to deliver a mature, stable, robust and value-enhancing function that allows the business to benefit from consistent, easy to understand programme and project management methodologies, provide integrated reporting i.e. consistency, version control, prioritisation, benefits tracking, objective risk and issue management.

The PMO drives delivery of key programmes across the business.

Finance

The Financial Highlights for the year, on page 20, directly follow this Strategic Report.

The report was approved by the Board on 18 July 2016 and signed for and on behalf by:

Elaine Hewitt
Chief Executive Officer
18 July 2016

Financial Highlights

Income and expenditure

The company provides Property Management and Facilities Management services to a wide range of clients including NHS England and Clinical Commissioning Groups. The cost of operating the property portfolio and providing related services is charged to customers largely on a basis designed to recover the cost of providing these services.

The direct property expenses for NHS Property Services in 2015/16 were £584.6 million, which compares to a total of £622.6 million in 2014/15. The administrative expenses in 2015/16 were £118.4 million, which compares to a total of £112.2 million in 2014/15.

The net finance costs of the company, excluding unwinding of discounts, in 2015/16 were £40.0 million, which compares to a total of £38.8 million in 2014/15.

Taken together, the direct property expenses, administrative expenses and net finance costs are considered to be the core operating costs of the company. The core operating costs for NHS Property Services in 2015/16 were £743.0 million, which is a reduction of £30.6 million compared to a total of £773.6 million in 2014/15.

This reduction of £30.6 million in core operating costs has been driven through three main focus areas:

- Rationalising the estate by exiting leases and disposing of owned properties that are surplus to NHS requirements.
- Rationalising the corporate overheads and operational management structure.
- Using the increased NHS Property Services scale to drive improved efficiency.

The operating revenue for NHS Property Services in 2015/16 was £684.7 million, which compares to a total of £745.9 million in 2014/15. The £61.2 million decrease in revenue reflects the reduction in core operating costs together with a change in the amounts funded directly via equity.

The company receives direct equity funding from the Department of Health to fund non-operating costs incurred during the year. These costs include taxes payable, restructuring costs and other non-operating costs. The equity funding process was designed to ensure that the property costs payable by commissioners were not fundamentally impacted by the creation of NHS Property Services. NHS Property Services received £28.5 million of equity funding during 2015/16.

Market based charging

The company began trading on 1 April 2013 and agreed with the Department of Health to continue charging tenants in the same way as the previous property owners. It was always intended that these arrangements would be temporary and that the company would in time move to a new charging policy that reflected market norms.

The company has worked closely with the Department of Health throughout 2015/16 to develop and implement a new market based charging policy. This approach is consistent with initiatives being introduced more widely in central government to improve property utilisation and value for money. The new market based charging arrangements have been implemented from 1 April 2016.

Under the new market based charging arrangements, the market rental for freehold buildings is determined by an external valuer applying market recognised valuation standards. Rental for leasehold buildings will be charged in line with the existing head lease rental charge plus a management fee. Service charges for all buildings will continue to be charged on a pass through basis plus a management fee.

The benefits to the customer of the new arrangements include an improved understanding of the true cost of occupation. This is expected to lead to better informed decisions about the best location for services and clear incentives to encourage more efficient use of space. The Department of Health has agreed with NHS England that any rental cost increases are mitigated by funding adjustments.

Receivables

The company's trade receivables have increased to £485.7 million at March 2016 from £291.6 million at March 2015. The provision for doubtful debts has also increased to £106.2 million at March 2016 from £50.6 million at March 2015.

The key to timely cash collection is the securing of revenue via lease agreements and service contracts. This establishes a legal basis for charging together with agreed credit terms. The amount of rental income from tenants secured under non-cancellable operating leases is set out in note 22(b) of the financial statements.

In the absence of valid lease agreements or service contracts, the company's invoicing and collections are supported by charging policies agreed annually with the Department of Health and NHS England. The company can only initiate legal debt recovery with non-NHS bodies. Debt recovery processes for NHS bodies are escalated through the Department of Health and NHS England.

Capital investment

NHS Property Services invested £55.4 million through the capital programme in 2015/16 to improve the property portfolio. Of this, £21.1 million related to new or refurbished buildings requested by customers within the NHS, and £34.3 million related to ensuring the estate managed by NHS Property Services is safe, warm, secure, and operates efficiently.

In 2015/16, the company completed the sale of 59 surplus properties to realise gross capital receipts of £75.2 million and exchanged contracts for the sale of a further 22 properties that are expected to realise further receipts of circa £34.7 million. In 2014/15 the company sold 119 surplus properties realising capital receipts of £65.8 million and exchanged contracts for the sale of a further 32 properties expected to realise further receipts of circa £41.0 million.

Revaluation

In line with NHS Property Services' accounting policies, the land and buildings are subject to a periodic rolling programme of revaluations. The revaluation programme has been undertaken by an external valuer applying market recognised valuation standards. This programme has resulted in a total increase in the value of the portfolio of £183.5 million.

In line with accounting standards, the reduction in valuation of assets is shown as an expense in the income statement; and the increase in valuation of assets is recognised in other comprehensive income. A total loss on revaluation of £113.5 million has been reported in other operating expenses and a total gain on revaluation of £297.0 million has been recognised in other comprehensive income.

Capital contribution reserve

Following the Health and Social Care Act 2012, Strategic Health Authorities and Primary Care Trusts in England were abolished and replaced with General Practitioner-led commissioning consortia in April 2013. All properties previously owned by the SHAs and the PCTs, not passed to the commissioning groups were transferred to the company. This investment in the company by the Department of Health was reflected in the capital contribution reserve.

During 2015/16, the Secretary of State created two new transfer schemes to amend the original transfers made in April 2013. These new schemes came into effect in March 2016, the result being the transfer of some properties from the Secretary of State to NHS Property Services; and the transfer of some properties from NHS Property Services to NHS Trust organisations. In addition, the company completed a review of its inherited operating lease arrangements and finance lease position.

Following the transfers of properties and reclassification of finance leases, the capital contribution reserve has been updated to reflect the increase in the Department of Health's capital investment in the company.

Details of changes in the capital contribution reserve are set out in note 17 of the financial statements.

Directors' Report for the Period 1 April 2015 to 31 March 2016

The Directors present their annual report and financial statements for the period ended 31 March 2016.

Principal activities

The company started trading on 1 April 2013 and manages some of the assets of the former Primary Care Trusts and Strategic Health Authorities in England.

The principal activities of the company are the provision of property management and facilities management services. The company works closely with NHS England and Clinical Commissioning Groups, managing a property portfolio that covers circa 10% of the total NHS estate in England. The company continually invests in the estate in order to maintain the overall condition of the estate; ensure continuity of service; and to provide an estate that is operationally safe.

The company does not enter into any research or development activities.

Business review

The company reported a loss for the year ended 31 March 2016 of £207.0 million - a significant reduction from the loss of £480.8 million reported in the year ended 31 March 2015.

Total comprehensive income for the year ended 31 March 2016 was £90.0 million - a significant increase from the £2.2 million income reported in the year ended 31 March 2015.

A review of the business and future developments is contained in the Chairman and Chief Executive Officer's Report on pages 1 to 3 and the Financial Highlights Report on pages 20 to 21.

The principal risks and uncertainties are detailed on page 30.

Results and dividends

The results for the year are shown in the Statement of Comprehensive Income on page 46.

The company has not paid any dividends during the year and no dividends are proposed by the Directors.

Share capital

The company issued 28,500,000, £1 ordinary shares for a consideration of £28.5 million on 8 February 2016.

Following the issue of shares, the issued share capital of the company is 253,800,000 £1 ordinary shares. The Secretary of State for Health owns 100% of the issued share capital.

Details of changes in share capital are set out in note 16 of the financial statements.

Governance, internal controls and risk management

The Board accepts and acknowledges that it is both accountable and responsible for ensuring that the company has in place appropriate and effective systems, procedures, policies and processes for internal controls.

Throughout the period covered by this report and up to the date of this report the Board believes that there have been appropriate internal controls and risk management processes in place.

A report on governance and risk management can be found on pages 26 to 34.

Financial risk

The company's cash assets are held within the Government Banking Service. The company does not hold investments other than cash and does not utilise financial instruments in its operations.

The company's trade receivables are with a large number of customers spread across various geographical areas. Government-funded entities, NHS England and Clinical Commissioning Groups make up a significant portion of the company's receivables.

The company manages liquidity risk by continuously monitoring cash flow requirements and managing the borrowings under the flexible loan facility provided by the Secretary of State for Health.

Pension liabilities

Details of the pension liabilities and administration of the pension schemes are shown in the notes to the accounts – note 1, paragraph 'm' and note 15. Further details on individual Directors' pensions and the associated schemes can be found in the Remuneration Report pages 39 to 41.

Market risk

The company manages the level of market risk in the property portfolio by revaluing its estate on a regular basis. The company policy is to complete a full revaluation of its freehold property portfolio in a three-year rolling programme. Properties representing circa 57% of the freehold property portfolio were revalued as at 31 March 2015 and properties representing circa 37% of the freehold property portfolio have been revalued as at 31 March 2016. A new three-year property revaluation programme is planned to commence in the year ending 31 March 2017.

Directors

The details of Board Directors who held office during the period and their remuneration are shown in the Remuneration Report on page 36.

Company Directorships and other significant interests held by Board members, which may conflict with their management responsibilities, are published on the NHS Property Services website www.property.nhs.uk. The register is updated as and when members advise the company secretary of any changes in their circumstances. A positive signed declaration is made each financial year.

The table below details the appointments and resignations of Directors who held office in 2015/16:

Directors of the Board	Appointment to the Board	Resignation from Board
Ian Ellis	14-Mar-16	n/a
Michael Strong	01-Feb-16	n/a
John Westwood	06-Jul-15	n/a
Elaine Hewitt	03-Feb-15	n/a
Neil Sachdev	12-Jan-15	n/a
Pat Mills	05-Jan-15	n/a
Simon Finley	01-Aug-14	n/a
Robin Williams	01-Apr-14	31-Mar-16
Dennis Markey	22-Jul-13	n/a
Douglas Blausten	26-Mar-13	30-Sep-15
Martin West	26-Mar-13	n/a
Chris Kane	26-Mar-13	n/a
Andrew Millward *	01-Oct-12	14-May-15
Alan Farmer *	01-Oct-12	14-May-15
Simon Holden	01-Sep-12	07-Apr-15

* In May 2015 the Board was restructured. These individuals remained as Executive Directors of the company but are no longer formal members of the Board.

Employees

As a national company with a focus on providing an efficient estate to support high quality health care employees are encouraged to maximise their contribution to the company and wider NHS.

NHS Property Services is committed to openness and transparency. Employees are provided with regular information regarding company policies, business performance and other matters of concern to them as employees. The views of employees are taken into account when making decisions that might affect their interests.

All employees are eligible to participate in a defined contribution pension scheme. Details of the pension arrangements are set out in note 15 of the financial statements.

Equality and diversity

The company maintains a policy of employing the best candidates available in every position, regardless of gender, ethnic group or background. This includes equality in recruitment and ongoing promotion within the company.

The company supports the recruitment of staff with disabilities having full regard to their aptitudes and abilities. The company will offer individual support to staff who become disabled during the course of their employment and where appropriate offer opportunities for retraining and redeployment.

Political and charitable contributions

No political or charitable contributions were made by the company during the period ended 31 March 2016.

Going concern

The company's business activities, together with the factors likely to affect its future development and performance, are set out in the Chairman and Chief Executive Officer's Report on pages 1 to 3 and the Financial Highlights Report on pages 20 to 21. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described on pages 20 to 21 and note 13.

The company is wholly owned by the Secretary of State for Health who has given an undertaking that supports the 'going concern' view of the company. Specifically an indemnity has been issued that commits the Secretary of State to provide funding, in the event of other sources of income being insufficient, for all property related liabilities and obligations either inherited by the company or which arise in relation to future projects.

The Directors believe that the company is well placed to manage its business risks successfully. Having reviewed the company's current financial position, cash flow projections and its actual and prospective loan facilities, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor appointed is the Comptroller and Auditor General.

Pursuant to the Articles of Association section 5 the approval and or change of the auditors is a matter reserved to the Shareholder Director.

The report was approved by the Board on:

18 July 2016 and signed for and on behalf of the Board by:

Simon Finley
Chief Financial Officer
18 July 2016

85 Gresham Street
London
EC2V 7NQ

Statement of Directors' Responsibilities in Respect of the Company Financial Statements

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that these give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Make judgements and estimates that are reasonable and prudent.
- State whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for ensuring that the financial statements and the remuneration report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statements under the disclosure and transparency rules

Each of the current Directors confirms that, to the best of their knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- The strategic report and Directors' report include a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In addition, having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Directors are satisfied that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the Shareholder Director to assess the company's performance, business model and strategy.

For and on behalf of the Board

Elaine Hewitt

Elaine Hewitt
Chief Executive Officer
18 July 2016

Governance and Risk Report

NHS Property Services is committed to achieving high standards of business integrity in all its activities and is accountable to the Secretary of State for Health in this respect. The company is not required to comply with the UK Corporate Governance Code, September 2014 (the Code).

The Board recognises that this represents good practice and has developed processes during the year to comply with the Code in so far as is practicable. The company has undertaken a voluntary review of governance against the Code, the results of which have been incorporated into an action plan to enhance arrangements in 2016/17.

Board composition

At 31 March 2016, the Board comprised of the Chairman, Shareholder Director, four Non-Executive Directors, the Chief Executive Officer and three Executive Directors. The Board is supported by an executive team which includes a further three Executive Directors. The diversity and experience of the Board and Executive Committee are essential to the leadership and success of the company. Their biographies are detailed in the Board and Executive Committee section, pages 4 to 6, and demonstrate a range of property, investment, corporate, financial, IM&T and NHS experience relevant to the company's business.

Directors must demonstrate independence of mind, integrity and willingness to challenge constructively on issues of strategy and performance. The Nolan principles are core to the Board's ethos.

The roles of the Chairman and the Chief Executive Officer are distinct and have been agreed by the Board. The Chairman chairs the Board and general meetings of the company, sets the agenda of such meetings and promotes the highest standards of integrity, probity and corporate governance throughout the company. He ensures that the Board receives timely and clear information, communicates effectively with the Shareholder Director, Shareholder and significant customers, and facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors.

There is a clear structure for, and the effective running of, Board Committees.

The Chief Executive Officer is accountable for the management of the company.

Appointments are made first and foremost on the basis of merit, using objective criteria and taking into account the recognised benefits of all types of diversity. The Board will continue to ensure this is taken into account when considering any new appointments.

The Board meets bi-monthly, with seven meetings held during the year. All members of the Board are supplied in advance with appropriate, clear and accurate information covering matters which are to be considered.

Board diversity

The terms of reference of the Nomination Committee state that potential candidates for the Board should be considered on merit and against objective criteria with due regard for the benefits of diversity on the Board, including gender.

The Directors consider the background and experience brought to the Board by each individual to contribute to its diversity. In any recruitment, the Board prefers to select the best qualified candidate to provide the Board with the expertise to implement its long-term strategy, rather than to fulfil any fixed quota. Subject to that overriding principle, the Directors believe that the Board's perspective and approach can be greatly enhanced through gender, age and cultural diversity. In recommending new appointments to the Board, the Nomination Committee considers the existing balance of skills, knowledge and experience and the time candidates have available to commit to the role.

The Chairman, together with members of the Nomination Committee, evaluates the composition and range of skills on the Board. During the year the Committee met to discuss changes to the Board, which are covered in more detail below.

Board and Executive Committee changes

During 2015/16, there were four changes to the Non-Executive Directors on the Board. Ian Ellis was appointed on 14 March 2016 as Chairman of the Board and Michael Strong was appointed on 1 February 2016. Douglas Blausten resigned on 30 September 2015 and Robin Williams, Chairman, left on 31 March 2016.

Robin Williams, Chairman since April 2014, is also Chairman of NHS Professionals, which is going through major phases of transformation. Each company requires unreserved support from their Chairman and as a consequence, from 1 April 2016, Robin stepped down as Chairman of NHS Property Services to devote more time to his leadership at NHS Professionals.

Robin and Douglas contributed a significant amount to the company in its evolution as a substantial real estate business, making tireless efforts to increase the professionalism and visibility of the company in both the family of the NHS and the commercial property market. In addition to the disposals made and cost reductions achieved, the company now has a management team recruited from the property market, a forward vision and plan, a substantial improvement programme and a rationalised FM supplier base. Thanks were recorded for their leadership during these important phases of the company's evolution.

There were three further Board changes: on 7 April 2015 Simon Holden, Chief Executive stepped down, and in May 2015, the Board was restructured. Andrew Millward and Alan Farmer remained as Executive Directors of the company, but no longer registered at Companies House. Kelly Olsen, Chief Information Officer joined the company as an Executive Director on 12 October 2015.

Full biographies can be found in the Board and Executive Committee section pages 4 to 6.

Directors' conflicts

The 2006 Companies Act provides that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. Any potential conflict of interest between the role of an officer working for the Department of Health and their role as either the Shareholder Director or his representative in the company is registered and managed in an appropriate way.

The company maintains a register, which is available for inspection, to ensure potential conflicts of interest can be identified and addressed in advance of Board and Board Committee discussions. Where potential conflicts exist, these are recorded in the Board or Board Committee minutes, along with any appropriate action taken to address them. All Board members have completed and signed an in-year and year-end declaration of interest form. Full details can be found on the company website, www.property.nhs.uk

Governance structure

The duty of the Board is to act in good faith and in a way most likely to promote the success of the company for the benefit of its members as a whole. As a unitary Board, all Directors are involved in, and responsible for leading and steering the company on business strategy; development; oversight and control; and corporate governance. It also sets the strategic aims, ensuring that resources are available to enable the company to meet its objectives.

The Board delegates day-to-day responsibility to executive management. There remain, however, a number of matters that are reserved for the Shareholder Director and the Board. The entire Board must have sufficient engagement with the business to allow it to lead the company with an in-depth understanding of its strengths and capabilities, and the challenges it faces. The Board reviewed with the Shareholder Director the financial delegated responsibilities within the governance structure to ensure that there is sufficient oversight of all key aspects of the business, with well-established reporting lines and accountability.

The Shareholder Director and Board approve: strategic business plans; the annual budget and capital expenditure budgets; large capital expenditure and proposals over £10 million; and matters of major strategic importance. The Board also sets the direction for the company's values, ethics and business policies and practices. It also oversees operating and financial performance; risk management and internal controls; compliance and major policy issues and reviews annually the corporate risk register.

There are five Board Committees that support the work of the Board and enable Non-Executive Directors to share their expertise more widely with the Executive and Senior Management Team. All Board Committees are chaired by a Non-Executive Director. The work of the Committees was refocused, in year, to add value on strategy, policy and governance. Revised terms of reference and delegated financial limits were approved by the Board in July 2015.

Set out below is a summary of the role and composition of the Board and its Committees, with details of membership and attendance.

Board	**Develops strategy and leads NHS Property Services to achieve long-term success.** *Comprises the Chairman, Shareholder Director, four independent Non-Executive Directors, the Chief Executive Officer, and three further Company Directors.* *The Board has a formal schedule of matters reserved for the Shareholder Director which are outlined within the Articles of Association. The Board retains responsibility for strategic, major financial and key operational issues. Defined terms of reference for Board Committees, formal documentation of powers delegated to Executive Directors and clear reporting lines ensure that the Board receives all relevant information about the business, and that decisions are made by people at the right level with the authority to do so.* *Membership and attendance *: There were six scheduled meetings and one additional meeting.* *Robin Williams (7/7), Ian Ellis (1/1), Douglas Blausten (2/3), Shareholder Director (7/7), Martin West (7/7), Chris Kane (7/7), Neil Sachdev (6/7), Michael Strong (1/1), Elaine Hewitt (6/7), Dennis Markey (7/7), Simon Finley (7/7), John Westwood (6/6)* **Attendance is shown in brackets against the available meetings that members could attend.*
Audit and Governance Committee	**Oversight of financial and narrative reporting, internal control, risk management systems, internal and external audit processes.** *The Committee has an annual cycle of business to ensure that all aspects of the duties are covered. The Committee also reviews the Annual Report and other published information for regulatory compliance. It assesses the performance of the external auditors annually. It also monitors the external auditors' independence.* *The main responsibilities of the Committee are:* *a) Integrated governance, internal controls, and risk management.* *b) Systems of financial control.* *c) Compliance, raising concerns (whistleblowing) policy and counter-fraud.* *d) Internal audit and external audit.* *f) Other assurance functions.* *g) Financial reporting and accounts.* *h) Compliance with the Articles of Association and Governance Framework.* *Membership and attendance *: Comprises independent Non-Executive Directors:* *Martin West (7/8), Shareholder Director representative (8/8) and Neil Sachdev (7/8).* **Attendance is shown in brackets against the available meetings that members could attend.*
Assets and Investment Committee	**Review the estates strategy and policies and development of implementation plans for running the company's portfolio.** *Membership at Director level and attendance *: Douglas Blausten (3/4), Michael Strong (1/1), Chris Kane (6/6), Shareholder Director representative (5/6), Robin Williams (1/1), Elaine Hewitt (5/6), John Westwood (3/3), Simon Finley (5/6), Dennis Markey (3/5), Stuart Diggles (1/1).* **Attendance is shown in brackets against the available meetings that members could attend.*
Remuneration Committee	**The Committee will also oversee appropriate contractual arrangements for all people and make recommendations to the Shareholder Director on all aspects of the performance, remuneration and terms of service.** *Membership and attendance *: Shareholder Director Representative (3/3), Martin West (3/3), Robin Williams (3/3), Elaine Hewitt (3/3)* *Invited Executive Directors –Alan Farmer (2/2). This officer is not present for any discussions about their own remuneration or terms and conditions of service.* **Attendance is shown in brackets against the available meetings that members could attend.*

Facilities Management Committee	**To oversee all aspects of facilities management strategy and policy within the established strategies and business plan approved by the Board.** *The Committee provides leadership in the management of resources for the maintenance, compliance, sustainability and facilitation of all NHS Property Services' property and related infrastructure assets.* *Membership at Director level and attendance *: Chris Kane (5/5), Neil Sachdev (4/5), Dennis Markey (5/5), Elaine Hewitt (1/5), Simon Finley (5/5).* **Attendance is shown in brackets against the available meetings that members could attend.*		
Nomination Committee	**To keep the Board's skill and experience base under continued review, oversees searches and selection processes for new Directors and recommends new appointments to the Board.** *The Committee makes sure that the Board has an appropriate balance of skills and experience, independence and knowledge. It makes recommendations to the Shareholder Director and Board on new appointments and re-appointments to the Board and oversees executive succession planning to ensure continuity of senior management at and below Board level.* *Membership comprises the Chairman and Non-Executive Directors and is called as and when required.*		
Executive Committees			
Executive Committee	Meets monthly Membership - all Executive Directors and chaired by the Chief Executive Officer. Ongoing management of the company considering day to day operational matters for running the business. Review performance of significant programmes to ensure risks are managed.	Operational Committee	Meets monthly Membership - all Executive Directors and chaired by the Chief Operating Officer. Assists the Executive Committee with the detailed performance monitoring of the Ten Point Operational Fix Plan and delivery of key projects.

Directors' immunities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity, which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Directors' and officers' liability insurance

NHS Property Services is a member of the NHS Risk Pooling Scheme which includes Directors' and officers' liability as permitted by the Companies Act 2006. The Shareholder has granted rolling indemnity to the Chairman, Executive Directors and Non-Executive Directors in relation to certain losses and liabilities which they may incur in the course of acting as officers of the company.

Openness and transparency

The company's whistleblowing policy has been in place since inception and has been reviewed by counter fraud specialists with minor amendments being made in-year. The Board is committed to the national Freedom to Speak Up initiative, which makes it easier for our people to raise issues. The Director of Communications and Corporate Affairs was appointed as the Freedom to Speak Up Guardian. A 24-hour confidential reporting line is in place so that our people can raise concerns at any time.

Risk governance

The Board is responsible for the company's systems of internal control and risk management and for reviewing each year the effectiveness of those systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing the systems of internal control includes procedures designed to identify and evaluate failings and weaknesses.

The Audit and Governance Committee assesses the principal risks facing the company, and is responsible for overseeing the effectiveness of risk management and internal control systems.

Risk management framework

The Executive Directors are responsible for delivering the company's strategy and managing operational risk. The Directors in turn place reliance on their teams to monitor and manage operational risks on an ongoing basis, as well as identifying emerging risks. The risk appetite and tolerance remains broadly unchanged with the main focus being on performance against long term solutions both in terms of operational systems and pay modernisation.

Our integrated approach combines a top-down strategic view with a complementary bottom-up operational process. Risk management is a dynamic process and has been refreshed in-year to ensure that local management and health and safety can integrate into the corporate process. Corporate risks are reviewed at Board Committee level and must be considered when producing documents for all Board level and Executive Committees.

Underpinning functional risk registers provide a framework for all people to feed into this process, recognising their shared responsibility for effective management of risk in delivering our strategy. At an operational level, risks are reviewed together with the level of control necessary to mitigate, where possible, the level of risk.

The financial impact of certain risks has been transferred through insurance arrangements. The company is a member of the NHS Litigation Authority Risk Pooling Scheme, which covers third party and employer liabilities, and property-related risk exposure.

Principal risks

Our principal risks fall in the financial, reputational, capability and transformation areas. To deliver in line with customer expectations, we have redesigned the management team structure to ensure that we recruit, develop and retain the right talent with appropriate commercial property expertise.

Programmes are in place to mitigate against the principal risks shown below:

- **Data quality and systems** - Improvements are needed to enhance our data and data systems to help the company improve services and drive innovation. Poor data could result in incorrect billing information, disputes and delays in receipts.
- **People** - The company has this year revised its management structure. There are some gaps and a need to recruit people with the right skills to perform the functions required to deliver the core business.
- **Customer needs** - Customer needs are changing to meet the challenge of providing modern 24/7 clinical services for patients. It is important the company delivers a good service for customers, and feedback suggests the company has some way to go before it delivers first class service.
- **Compliance** - The provision of safe, clean and warm environments is important to our customers and tenants. More work is needed to ensure we can demonstrate consistent compliance across all health and safety standards.
- **Financial** - Poor income recovery impacts on cash flow.
- **Commercial controls** - The absence of formal occupation arrangements increases the risk of dispute over billing and increases transaction costs. Uncertainty over occupation will impact on the company's ability to forward plan, secure funding streams and may materially affect company value.
- **Changes in government policy, legislation and regulation** - Healthcare reforms may change the climate in which our tenants operate and also how estates are managed across the health and social care environments.

Internal controls

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore, only provide reasonable 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 the policies, aims and objectives.

On formation, the company was in receipt of a large amount of base data from predecessor organisations and since then there has been a significant amount of due diligence to check the base data and to form and refine our business processes and procedures. Much of the activity, with respect to internal control, has focused on building suitable control environments within which to operate. Significant programmes of work have been commissioned during the year but have not yet concluded; as such the control environment is still developing. The programmes included reviews of the following systems and processes:

- Procurement.
- Billing and credit control.
- Data.
- Lease regularisation and negotiation of undocumented leases.
- Customer management.
- Capital projects.

In addition proactive work has been undertaken to develop new processes, details of which are included in the relevant sections of the annual report, for:

- Strategic estates planning.
- New trading model, which included the development of market rent charging and vacant space trading models.
- Lease event management.
- Business systems.

The Board has conducted an annual review of the effectiveness of the system of internal control, under the auspices of the Audit and Governance Committee. This included systems and controls in relation to financial reporting processes and preparing the accounts. The Audit and Governance Committee monitors the effectiveness of controls through the receipt of written and verbal reports from the Director of Communications and Corporate Affairs, Chief Financial Officer, Chief Operating Officer, internal auditors and the external auditors.

The Committee confirms that it has kept a watching brief on issues such as:

- Valuation of the property portfolio.
- Risks to cashflow and debt management.
- The consequences of inaccurate data on the delivery of timely billing to our customers and cashflow.
- Accounting policies and the potential impact from proposed changes.
- Ordering and financial transactions and adherence to procurement processes.
- Finance transformation and change to charging policies.
- Management's own assessment of the strengths and weaknesses of the overall control environment and the action plans to address any weaknesses.

Internal audit

The internal audit plan was approved by the Audit and Governance Committee at the start of the year with reviews covering, billing; business continuity; contract management; changes in environmental management legislation; health and safety; payroll and follow up. The reviews covered business processes and identified actions to address identified control or process weaknesses.

Two emergent themes, which were already known and being worked on by management, related to poor planning / delivery of projects and inaccurate / incomplete data. This affected billing, environmental management, health and safety evidence and contract management. The implementation of a new IT system and central PMO will address many of the issues identified in the reviews; however these were not in place during the year, and will take time in 2016/17 to further develop and implement. Short term measures are in place or being developed to improve the timeliness and accuracy of billing and to pre-empt the future commitment on resources in a planned and structured way.

Other issues identified were:

- Insufficient evidence to show that the company complies with existing Display Energy Certificates and Energy Performance Certificates regulations, for freehold buildings in the portfolio.
- Business impact assessments have not been completed across the company for non-IT functions and the potential impact in the event of business disruption is not clearly defined.

The Head of Internal Audit provided an annual audit opinion that took into account assurance ratings and recommendations made at the end of audit assignments conducted in 2015/16, management's responsiveness to internal audit recommendations and the direction of travel with regard to internal control, governance and risk management. The level of development during the year was noted, particularly in terms of the transformation programmes and the roll out of the Ten Point Operational Fix Plan. In addition it was concluded that there are clear governance arrangements and an operating risk management process at the corporate level.

However, the audit work indicated that there were significant internal control weaknesses in year. This is based on the findings of the audit work completed this year in specific business areas. For this reason, a limited assurance opinion was given and it was noted that whilst much work has gone on to make improvements to the control environment, there remain some key issues, as outlined above, which have not been resolved adequately during 2015/16.

External audit

The issues identified by the National Audit Office during the year through their management letter and audit reports have highlighted:

- Protecting and assuring income streams: until formal contracts are in place for all tenancies there are risks to the company's ability to determine and legally enforce income due.
- Integrated accounting records: detailed accounting records relating to assets are highly dependent on manual intervention and maintenance leading to risks of error and inconsistency. This covered issues raised following the 2014/15 accounts process and how data quality should be improved for the 15/16 process.
- The company has a significant number of ongoing projects, any delay or unexpected issues with one or more of these projects could have unintended impact on the company's ability to deliver a good quality annual report and account to the planned timetable, which is already very challenging. A project management approach is being followed to monitor delivery.
- The company's debtors have increased since March 2015.

Other assurances

Procurement process

The company commissioned Capita to undertake an end-to-end review of the purchase ledger processes. Responsibility for purchase order processing recently moved to Finance. Capita recommended changes to the processes which are currently being implemented.

Fire safety

The company and Tyne and Wear Fire and Rescue Authority (FRA) entered into a partnership agreement on 6 April 2014 under the terms and conditions of the Primary Authority Scheme. The partnership covered the fire safety category, while the Regulatory Reform (Fire Safety) Order 2005 is enforced by the local Fire Authority. The scheme is administered by the Government's "Better Regulation Delivery Office". The reviews were completed in year one together with the FRA Template and guidance completed for use by Health, Safety, Security and Fire colleagues and third party fire risk assessors where applicable. A report was received in April 2016 that covers the last two financial years; the following was outlined:

- Notable systems are still being established. Quality assurance will be carried out when the system is fully embedded.
- 17 premises across England were audited during the year. The audits focussed on high risk sleeping accommodation type premises such as community hospitals, care homes, hospice premises etc. Individual reports were forwarded to the relevant parties for consideration and action where necessary. Analysis was fed back to the area managers to recognise good practice and trends where areas of improvement need to be considered.
- Advice on the provision, maintenance and training of evacuation aids has been produced for our people to use in our buildings.

Fraud detection and investigation

The counter fraud specialist has delivered a full programme of proactive work that included:

- 'Green' ratings for both the Standards for Providers and Fraud and Bribery Risk Assessment.
- Review of the counter-fraud, bribery and standards of business conduct policies.
- Awareness sessions at the health, safety, security and fire leads meeting and at regional operational meetings.
- Fraud training leaflets developed for mandatory training and induction.
- Guidance on procurement, food, financial and property maintenance fraud.

Eight new investigations were undertaken during the year. Although no standout trends were identified in 2015/16, there was some continuation of trends from the previous financial year; namely false documents, timesheet and car parking fraud. Where system weakness or non-compliance has reduced the effectiveness of the overall control environment, actions have been agreed with management to address the issues raised and sanctions taken, as appropriate.

Information governance

Information governance and records management are important for any business to ensure it complies with current legislation. The Secretary of State for Health mandated the use of an Information Governance Toolkit, in 2008, for all NHS organisations.

The company is registered as a data controller of personal data with the Information Commissioner's Office. The company does not manage clinical data however, as part of our work in reception and other NHS patient areas it is important to provide assurance to our Shareholder and customers that we are meeting these standards. This is because we:

- Access the NHS network (N3).
- Currently use NHS systems such as the Electronic Staff Record and Shared Business Services.
- Partner and share networks with NHS organisations.

The toolkit is a subset of the ISO27000 standards (Information Security), which has been customised by the Department of Health.

The company met level two (the required standard) in all but one of the 19 categories, which was mandatory training. This issue is being addressed as part of the company-wide training and development programme. The company continues to consolidate the data sources and registers that contribute towards effective records management. The roll out of the asset administrator duties is being co-ordinated with the revised management team structure and the information systems transformation programme.

There were no significant reportable information incidents during the year.

Looking forward

Building on work plans started in 2014/15, there are still demanding challenges for the year ahead. The most significant risk areas we are focused on for delivering improvements are:

- IT systems transformation and roll out of the Programme Management Office.
- Billing and customer financial information.
- Improvements to cash flow.
- Improving our data and management of information.
- Continued improvements to the way we support and deliver customer developments.
- Documenting tenancies where no formal agreements are in place and putting leases in place to safeguard the company and its tenants.

Projects have been in place during the year to start the transformation process and, whilst inroads have been made and short term solutions put in place, there is still much to do.

The governance framework was reviewed in year and the revised management team structure, which came into effect from 1 May 2016, will support greater flexibility with accountability across all functions.

For and on behalf of the Board

Andrew Millward
Director of Communications and Corporate Affairs
18 July 2016

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Remuneration Report

Remuneration policy

This Remuneration Report covers members of the NHS Property Services Board. The following elements of the Remuneration Report are subject to audit:

- Salaries (including performance pay) and allowances.
- Compensation for loss of office.
- Non-cash benefits.
- Pension increases and values.
- Cash Equivalent Transfer Values (CETV) and increases.
- Checks on contract length.
- Amounts payable to third parties for the services of senior managers.

The Articles of Association state that the Secretary of State for Health, or any senior civil servant acting with the Secretary of State's authority, must approve all appointments to the Board. The Secretary of State is represented by the Shareholder Director and their nominated representatives from the Department of Health. Nominated individuals who support the work of the Board and its Committees are recorded in the Governance Report.

The Nomination Committee keeps the Board's skill and experience base under continued review, oversees searches and selection processes for new Directors and recommends new appointments to the Board. The remuneration and terms and conditions of the Chairman and all Directors are approved by the Shareholder, taking into account relevant market data and benchmarking against other similar positions.

During the year, there have been three Board Director appointments that have been managed through open competition - the Chairman of the Board, a Non-Executive Director and Director of Asset Management. A firm of recruitment consultants managed the appointment process. Refer to Directors' Report page 23 and Governance and Risk Report, pages 26 to 34.

The Remuneration Committee oversees appropriate contractual arrangements for our people. The Committee met three times during the financial year and was chaired by the Chairman of the Board.

In July 2015 the Shareholder Director and Board approved revised delegated financial limits. Remuneration approval for all Directors and people earning more than £120,000 base salary per year is reserved to the Secretary of State for Health or any senior civil servant acting with the Secretary of State's authority.

Executive salary surveys and periodic assessments are conducted by independent remuneration consultants. Affordability is also taken into account and researched as and when required. Uplift to salary for Directors is approved at the Remuneration Committee which is attended by the Shareholder Director Representative. Salary awards and terms and conditions applying to NHS staff groups were applied in-year.

NHS Property Services is not bound by NHS pay-scales; however we are currently expected to implement the pay award decisions within the NHS framework. People appointed post 1 April 2013 have been employed on company terms and conditions of service, which broadly mirror the NHS terms under Agenda for Change.

A company-wide bonus or performance-related pay scheme is not in place but is planned to be introduced during 2016/17. An executive bonus was endorsed by the Remuneration Committee in June 2015 and is based on delivery of corporate and personal objectives. Two Executive Directors transferred into the company on 1 April 2013 with inherited terms and conditions which include the provision for the payment of a bonus under the terms of the Department of Health Pay Framework for Very Senior Managers.

Company structure

Since inception the company has undertaken a series of function by function re-structures. This has resulted in a reduction in salary cost from £97.8 million in 2013/14 to £90.8 million in 2015/16; this despite additional salary costs incurred in 2015/16 related to delivering business transformation projects.

Since appointment, the Chief Executive Officer has taken the lead in describing the future requirements of the business in line with Shareholder expectations. The executive team has reviewed the existing operating structure and proposes to implement a series of changes to ensure the organisational design is fit for purpose for the company's future needs. This will result in a targeted revision to the management team numbers with associated reduction in staffing costs. The new structure was approved by ministers with appointments to new roles during 2016/17.

Service contracts

The individual contracts for Non-Executive Directors set out the fees and duration for their term of office. Fees are not pensionable. There is also no compensation provision for early termination. Notice periods are shown in the table below.

The details of Directors' service contracts, unexpired term and notice periods are shown in the following table. Executive Directors hold open-ended appointments. Early termination, other than for misconduct, would result in the individual receiving compensation, which is a reserved matter as set out in the Articles of Association section 5.3.2(c) and the company's Delegated Authorities.

Company Directors	Period as a Company Director	Unexpired term (months) at 1 April 2016	Notice periods
Elaine Hewitt	12 January 2015	n/a	Terminable by either party giving 6 months' notice. Notice given by the Executive may be reduced to 3 months with written consent of the company. No less than 3 months if dismissed or incapacitated.
Dennis Markey	22 July 2013	n/a	Terminable by the company on 6 months' notice and by the Director on three months' notice. No less than 3 months if dismissed or incapacitated.
Simon Finley	1 August 2014	n/a	Terminable by either party giving 6 months' notice. No less than 3 months if dismissed or incapacitated.
John Westwood	6 July 2015	n/a	Terminable by either party giving 6 months' notice. No less than 3 months if dismissed or incapacitated.
Andrew Millward	1 April 2013 to 14 May 2015	n/a	Seconded from predecessor organisation prior to contract date with the company - 1 April 2013. The agreement is terminable by the employee giving 3 months' notice or the employer giving 6 months' notice.
Alan Farmer	1 April 2013 to 14 May 2015	n/a	
Simon Holden	1 April 2013 to 7 April 2015	0.25	Seconded from predecessor organisation prior to company contract. Terminable by the company on 6 months' notice and by the Director on 3 months' notice.
Chairman, Shareholder Director and Non-Executive Directors			Letter of appointment – notice periods
Robin Williams	1 April 2014 to 31 March 2016	0	Initial period of three years. Either party can give 3 months' notice.
Ian Ellis	14 March 2016	35.5	Initial period of three years. Either party can give 2 months' notice.
Pat Mills	5 January 2015	n/a	The Shareholder Director is a senior civil servant at the Department of Health and receives no remuneration from the company. There were also no recharges. Any potential conflict of interest is registered and managed in an appropriate way – see Directors' conflict section.
Martin West	26 March 2013	18	Contract extended to 30 September 2017. Either party can give 3 months' notice.
Chris Kane	1 March 2013	24	Contract extended to 31 March 2018. Either party can give 3 months' notice.
Neil Sachdev	12 January 2015	21.5	Initial period of 3 years. Either party can give 3 months' notice.
Michael Strong	1 February 2016	34	Initial period of 3 years. Either party can give 3 months' notice.
Douglas Blausten	26 March 2013 to 30 September 2015	0	Initial period of 12 months, extended for further 6 months to 30 September 2014, extended for further period of 2 years. Either party can give 3 months' notice.

There are no other service agreements, letters of appointment or material contracts, between the company and any of the Directors. There are no arrangements or understandings between any Director and any other person pursuant to which any Director was selected to serve. There are no family relationships between the Directors.

Remuneration of Board members

The following table provides details of the remuneration and pension of Board members. The information in tables 1 to 5 inclusively has been subject to audit.

	2015/16					2014/15			
Name	Salary	Bonus	Benefits in kind	Pension benefits	Total remuneration	Salary	Benefits in kind	Pension benefits	Total remuneration
		(1)	(2)		(3)		(2)		(3)
	£'000	£'000	£	£'000	£'000	£'000	£	£'000	£'000
	(Bands of £5,000)	(Bands of £5,000)			(Bands of £5,000)	(Bands of £5,000)			(Bands of £5,000)
Chairman and Non-Executive Directors									
Robin Williams (4)	75 - 80	n/a	Nil	n/a	75 - 80	75 - 80	Nil	n/a	75 - 80
Ian Ellis (5)	0 - 5	n/a	Nil	n/a	0 - 5	n/a	n/a	n/a	n/a
Douglas Blausten (6)	15 - 20	n/a	Nil	n/a	15 - 20	25 - 30	Nil	n/a	25 - 30
Martin West	25 - 30	n/a	Nil	n/a	25 - 30	20 - 25	Nil	n/a	20 - 25
Chris Kane	25 - 30	n/a	Nil	n/a	25 - 30	25 - 30	Nil	n/a	25 - 30
Neil Sachdev (7)	20 - 25	n/a	Nil	n/a	20 - 25	5 - 10	Nil	n/a	5 - 10
Rachel Kentleton (8)	n/a	n/a	n/a	n/a	n/a	5 - 10	Nil	n/a	5 - 10
Michael Strong (9)	0 - 5	n/a	Nil	n/a	0 - 5	n/a	n/a	n/a	n/a
Executive Directors									
Elaine Hewitt (10) (11)	200 - 205	65 - 70	3,500	12	280 - 285	40 - 45	1,500	3	45 - 50
Dennis Markey (11)	140- 145	30 - 35	Nil	8	180 - 185	135 - 140	7,000	8	150 - 155
Simon Finley (11)	155 - 160	n/a	7,000	9	170 - 175	100 - 105	4,700	6	110 - 115
John Westwood (11)(12)	115 - 120	20 - 25	5,200	7	150 - 155	n/a	n/a	n/a	n/a
Simon Holden (13)	350 - 355	15 - 20	100	n/a	370 - 375	140 - 145	6100	5	150 - 155
Andrew Millward (14)	15 - 20	n/a	400	n/a	15 - 20	130 - 135	4,800	9	145 - 150
Alan Farmer (15)	10 - 15	n/a	n/a	n/a	10 - 15	90 - 95	Nil	5	95 - 100
Pamela Chapman (16)	n/a	n/a	n/a	n/a	n/a	60 - 65	Nil	7	70 - 75
David Avis (17)	n/a	n/a	n/a	n/a	n/a	55 - 60	n/a	n/a	55 - 60

Table 1 – Directors remuneration 2015/16 compared with 2014/15

(1) Executive Director bonus introduced in 2015/16. Bonus paid in 2016/17 relating to performance during 2015/16.

(2) Benefits are noted to the nearest £100.

(3) Pension contributions and value of pension benefits are shown in Tables 3, 4 and 5.

(4) Salary was temporarily increased in October 2014 to reflect additional time commitment - w.t.e. range £90,000 - £95,000. In October 2015 the salary reverted to w.t.e. range £60,000 - £65,000.

(5) Appointed 14 March 2016: w.t.e. range £60,000 - £65,000.

(6) Resigned 30 September 2015: w.t.e. range £25,000 - £30,000.

(7) Appointed 12 January 2015: w.t.e. range £20,000 - £25,000.

(8) End of contract 30 September 2014: w.t.e. range £10,000 - £15,000 - comparator purposes only.

(9) Appointed 1 February 2016: w.t.e. range £25,000 - £30,000.

(10) Worked with the company from 12 January 2015 and was appointed on 2 February 2015 w.t.e. range £195,000 - £200,000.

(11) The benefit figure stated relates to employer contributions to the personal pension plan and has been included in this column for completeness, alongside the pension benefit calculation for those in defined benefit schemes.

(12) Appointed 6 July 2015: w.t.e range £155,000 - £160,000.

(13) Resigned 7 April 2015 - the salary includes a voluntary settlement payment of £369,000 that was based on inherited contractual terms and conditions. £70,000 of this relates to pay in lieu of notice and £19,000 bonus reflected the fact that the objectives set at the time the company was set up have been achieved.

(14) On 14 May 2015 the Board was restructured to improve governance arrangements. While remaining an Executive Director of the company is no longer a Board Director registered at Companies House: w.t.e range £130,000 - £135,000.

(15) On 14 May 2015 the Board was restructured to improve governance arrangements. While remaining an Executive Director of the company is no longer Board Director registered at Companies House: w.t.e range. £90,000 - £95,000.

(16) Seconded from the Department of Health and paid by their employing authority and reimbursed on the basis of invoices received. Pamela returned to the Department of Health on 30 November 2014: w.t.e. salary range £75,000 - £80,000 - comparator purposes only.

(17) Pro-rata contractor from 20 January 2014 to 10 July 2014: w.t.e. 250,000 - £255,000 (based on 220 days per annum).

Salary includes gross salary, overtime and any allowances to the extent that it is subject to UK taxation excluding voluntary settlements. The monetary value of benefits in kind covers any payments or other benefits provided by the company, which are treated by HM Revenue and Customs as taxable emolument.

The types of benefit in kind relate to lease car, mileage for lease-car users that are paid over the HMRC advisory fuel rates, fuel benefit charge (lease-car users who have been reimbursed for excess mileage), relocation packages over £8,000, bridging loans (will include weekly to monthly transfers), and any other types of loan (excluding overpayments).

Median earnings

Reporting bodies are required to disclose the relationship between the remuneration of the most highly paid individual in their organisation and the median earnings of the organisation's workforce. The table below details median earnings for the company.

	2015/16	2014/15
Highest earner's total remuneration (£)	270,000 - £275,000	£205,000 - £210,000
Median total remuneration (£)	£18,660	£19,422
Ratio	14.6	10.7

Table 2 – Analysis of median earnings
Salaries for senior management are disclosed in bands of £5,000, in accordance with EPN 430 guidance

The average salary level has reduced by approximately 4% from the previous year, this reflecting the in-housing of circa 900 facilities management staff in the period.

Total remuneration includes salary, non-consolidated performance-related pay, and benefits in-kind. It does not include voluntary settlements, employer pension contributions and the cash equivalent transfer value of pensions.

The median calculation does not include agency workers or other non-permanent workers.

Pension

NHS Pension Scheme

Pension benefits are provided through the NHS Pension Scheme for all employees who TUPE transferred to NHS Property Services on 1 April 2013. Table 3 below provides details of the pension interests of Board members in the NHS Pension Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions.

The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities.

Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period. In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the scheme is subject to a full actuarial valuation every four years. Full details of this are included in the notes to the accounts.

NHS Pension Scheme

Name	Accrued pension at age 60 at 31 March 2016 £'000	Accrued lump sum at age 60 at 31 March 2016 £'000	Real increase in annual pension £'000	Real increase in lump sum £'000	CETV at 31 March 2016 £'000	CETV at 31 March 2015 £'000	Real increase in CETV £'000
	(Bands of £5,000)		(Bands of £2,500)				
Simon Holden *	n/a	n/a	n/a	n/a	n/a	970	n/a
Alan Farmer *	n/a	n/a	n/a	n/a	n/a	712	n/a
Andrew Millward *	n/a	n/a	n/a	n/a	n/a	677	n/a

Table 3 shows the pension details relating to Board members who are in the NHS Pension Scheme. As none of these Directors were registered with Companies House after 14 May 2015 the values are not applicable for 2016. Figures have been included for comparator purposes only.

Classic Civil Service Pension Scheme

Name	Accrued pension at age 60 at 31 March 2016 £'000	Accrued lump sum at age 60 at 31 March 2016 £'000	Real increase in annual pension £'000	Real increase in lump sum £'000	CETV at 31 March 2016 £'000	CETV at 31 March 2015 £'000	Real increase in CETV £'000
	(Bands of £5,000)		(Bands of £2,500)				
Pam Chapman *	n/a	n/a	n/a	n/a	n/a	422	n/a

Table 4 shows the pension details relating to Board members who are in the Classic Civil Service Pension Scheme
* Part year. Figures have been included for comparator purposes only.

Cash Equivalent Transfer Values (CETV)

This is the actuarially-capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken. See tables 3 and 4.

The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the scheme member. It is worked out using common market valuation factors for the start and end of the period. See tables 3 and 4.

Employer contributions to group personal pension scheme

People directly employed by NHS Property Services on or after 1 April 2013 are not eligible to be members of the NHS Pension Scheme. NHS Property Services has established a new group personal pension scheme provided by Scottish Widows. All NHS Property Services employees who join the company on or after 1 April 2013 are automatically contracted into the group personal pension scheme and can enjoy this benefit without needing to sign up individually for the pension. Our people are automatically contracted to pay a minimum 1% employee contribution of pay and NHS Property Services matches employee contributions up to a maximum of 6%. Staff have the option to contribute more than 6%, or can decide to opt out.

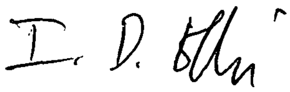
In March 2014, the company put in place a Life Assurance Plan to provide a lump sum benefit payable on a member's death. This arrangement will provide members of the company's personal pension scheme with similar benefits to those people who are on the wider NHS Pension Scheme.

Where a senior manager has a group pension scheme account, the employer's contribution to the scheme is a maximum of 6%. This applied to three Board members.

Table 5 provides details of pension interests of Board members who are in the group pension scheme - Scottish Widows Pension Scheme.

Name	Title	31 March 2016 £'000	31 March 2015 £'000
Elaine Hewitt	Chief Executive Officer	12	3*
Dennis Markey	Chief Operating Officer	8	8
Simon Finley	Chief Financial Officer	9	6 *
John Westwood	Director of Asset Management	7*	n/a
Table 5 shows the employer contributions made for Board members who are in the group pension scheme - Scottish Widows Pension Scheme * part year			

The report was approved by the Board on 18 July 2016 and signed for and on behalf by:



Ian Ellis
Chairman of the Board
18 July 2016

Independent Auditor's Report to the Members of NHS Property Services Limited

I have audited the financial statements of NHS Property Services Ltd for the year ended 31 March 2016 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report which is described in that report as having been audited.

Respective responsibilities of the Directors and the auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion:

- The financial statements give a true and fair view of the state of the NHS Property Services Ltd.'s company's affairs as at 31 March 2016 and of the profit/loss for the year then ended; and
- The financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- The information given in the Financial Highlights section and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- Adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Hilary Lower (Senior Statutory Auditor)

19 July 2016

Hilary Lower

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

NHS Property Services Limited

2015/16 Annual Accounts

Financial Statements and Notes to the Accounts

Contents

Statement of Comprehensive Income

for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Operating revenue	2	684,653	745,942
Direct property expenses	3	(584,551)	(622,589)
Administrative expenses	4	(118,360)	(112,204)
Other operating expenses	5	(169,547)	(465,515)
Operating loss		**(187,805)**	(454,366)
Finance income	7	610	459
Finance costs	7	(42,091)	(39,279)
Gain/(loss) on disposal of property, plant and equipment		16,908	14,013
Loss before tax from continuing operations		**(212,378)**	(479,173)
Taxation expense	8	5,398	(1,658)
Loss for the year		**(206,980)**	(480,831)
Other comprehensive income, net of income tax			
Items that will not be recycled to profit and loss:			
Revaluation of property, plant and equipment		296,972	482,999
Other comprehensive income, net of income tax		296,972	482,999
Total comprehensive income for the year		**89,992**	2,168

The above relates wholly to continuing operations.

Notes 1 to 25 form part of this account.

Statement of Financial Position

as at 31 March 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	9	3,575,995	3,390,010
Trade and other receivables	10	12,818	12,534
		3,588,813	3,402,544
Current assets			
Trade and other receivables	10	448,072	351,055
Cash and cash equivalents		93,193	92,910
Inventory		11	9
		541,276	443,974
Assets classified as held for sale	11	14,892	63,781
Total assets		**4,144,981**	3,910,299
Current liabilities			
Trade and other payables	12	131,516	148,469
Borrowings	13	120,603	45,289
Provisions	14	22,697	18,139
		274,816	211,897
Non-current liabilities			
Trade and other payables	12	6,194	5,907
Borrowings	13	609,720	561,824
Provisions	14	96,990	106,575
		712,904	674,306
Total liabilities		**987,720**	886,203
Net assets		**3,157,261**	3,024,096
Equity			
Share capital	16	253,800	225,300
Retained earnings		(835,622)	(640,487)
Revaluation reserve		766,349	481,222
Capital contribution reserve	17	2,972,734	2,958,061
Total equity		**3,157,261**	3,024,096

Notes 1 to 25 form part of this account.

These financial statements were approved by the Board of Directors on 18 July 2016 and signed on its behalf by:

Elaine Hewitt
Chief Executive Officer
Company Registered Number: 07888110

Statement of Cash Flows

for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Operating activities			
Loss for the year		(206,980)	(480,831)
Adjustments for non-cash transactions:			
(Gain)/loss on disposal of property, plant and equipment		(16,908)	(14,013)
Depreciation and amortisation	9	136,964	105,409
Non-current assets adjustments	5	(1,724)	-
Provisions arising and reversed unused	14	(419)	(2,754)
Impairments of non-current assets	5	113,522	455,780
Adjustments for:			
Interest received (shown below)	7	(610)	(459)
Interest paid (shown below)	7	40,657	39,279
(Increase)/decrease in inventories		(2)	(3)
(Increase)/decrease in investments		-	2,830
(Increase)/decrease in trade and other receivables		(107,598)	(15,814)
Increase/(decrease) in trade and other payables	12	(2,362)	34,033
Increase/(decrease) in tax payable	12	(5,398)	1,658
Increase/(decrease) in other liabilities		-	(218)
Provisions utilised	14	(4,608)	(19,027)
Net cash inflow/(outflow) from operating activities		**(55,466)**	105,870
Investing activities			
Interest received	7	610	459
(Payments) for property, plant and equipment		(56,838)	(83,181)
Proceeds from disposal of property, plant and equipment		75,165	56,714
Net cash inflow/(outflow) from investing activities		**18,937**	(26,008)
Financing activities			
Proceeds from the issue of share capital	16	28,500	52,300
Increase/(decrease) in loans	13	70,000	(211,000)
Capital element of payments in respect of finance leases and PFI		(21,031)	(15,622)
Interest paid	7	(40,657)	(39,279)
Net cash inflow/(outflow) from financing activities		**36,812**	(213,601)
(Decrease)/increase in cash and cash equivalents for the year		**283**	(133,739)
Cash and cash equivalents at start of year		**92,910**	226,649
Cash and cash equivalents at end of year		**93,193**	92,910

Notes 1 to 25 form part of this account.

Statement of Changes in Equity

for the year ended 31 March 2016

	Share capital	Retained earnings	Capital contribution reserve	Revaluation reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2015	225,300	(640,487)	2,958,061	481,222	3,024,096
Total comprehensive income for the period					
Retained profit/(loss)for the year	-	(206,980)	-	-	(206,980)
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	296,972	296,972
Net gain/(loss) on revaluation of assets held for sale	-	-	-	-	-
Transfers between reserves	-	11,845	-	(11,845)	-
In year transfer	-	-	26,293	-	26,293
Legacy adjustments	-	-	(11,620)	-	(11,620)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(195,135)	14,673	285,127	104,665
Transactions with owners, recorded directly in equity					
Issue of shares	28,500	-	-	-	28,500
Total contributions by owners	28,500	-	-	-	28,500
Balance at 31 March 2016	**253,800**	**(835,622)**	**2,972,734**	**766,349**	**3,157,261**
Balance at 1 April 2014	173,000	(161,433)	3,050,562	-	3,062,129
Total comprehensive income for the period					
Retained profit/(loss)for the year	-	(480,831)	-	-	(480,831)
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	482,999	482,999
Net gain/(loss) on revaluation of assets held for sale	-	-	-	-	-
Transfers between reserves	-	1,777	-	(1,777)	-
In year transfer	-	-	-	-	-
Legacy adjustments	-	-	(92,501)	-	(92,501)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(479,054)	(92,501)	481,222	(90,333)
Transactions with owners, recorded directly in equity					
Issue of shares	52,300	-	-	-	52,300
Total contributions by owners	52,300	-	-	-	52,300
Balance at 31 March 2015	225,300	(640,487)	2,958,061	481,222	3,024,096

Notes 1 to 25 form part of this account.

Notes to the Financial Statements

Note 1 – Accounting Policies

Corporate information

NHS Property Services Limited (the company) is a company incorporated and domiciled in the UK. The company's registered office is at 85 Gresham Street, London, EC2V 7NQ.

The company was incorporated on 20 December 2011. However, it did not start trading until 1 April 2013. The company is wholly owned by the Secretary of State for Health.

The principal activities of the company are to manage, maintain and improve NHS properties and facilities, working in partnership with NHS organisations to create safe, efficient, sustainable and modern healthcare and working environments.

The company's financial statements for the year ended 31 March 2016 were approved by the Board of Directors on 18 July 2016.

Accounting policies

Basis of preparation
The financial statements have been prepared on the historical cost basis, except where modified by the revaluation of land and buildings measured at fair value.

The company's financial statements are presented in Sterling, which is the company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Statement of compliance
The company's financial statements have been prepared under International Financial Reporting Standards ("IFRS") as adopted by the European Union and applied in accordance with the Companies Act 2006.

Going concern
The financial statements are prepared on a going concern basis as explained in the Directors' Report on page 22.

Comparatives
When presentation or classification of items in the financial statements is amended, comparative figures have been restated to ensure consistency with the current period.

Significant accounting policies

a) Segmental reporting
The Directors are of the opinion that the company is engaged in a single segment of business, being managing properties in the United Kingdom leased principally to GPs, NHS Organisations and other associated health care users.

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

The company as lessee
At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the company will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are initially recognised as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred. Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the movement in the market rentals.

Where a lease is for land and buildings, the land and building components are separated and individually assessed as to whether they are operating or finance leases.

The company as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight- line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight- line basis over the lease term.

Contingent rentals are recognised as revenue when earned.

c) Income
Revenue is recognised to the extent that performance has been provided and it is probable that economic benefits will flow to the Company which can be reliably measured. Revenue is measured at the fair value of the consideration receivable.

The main source of revenue for the company is from rental income and grant funding.

d) Grant income
The substantial shortfall between the costs required to provide the company's services and the income derived from rental is funded through a recharge to NHS England and the Clinical Commissioning Groups. This recharge is in the nature of a grant and does not have any conditions attached to it, thus it is credited to the statement of comprehensive income upon receipt or when there is reasonable assurance that the grant will be received.

The company has received government grants in order to carry out capital investment in its own premises to support the provision of healthcare. The company has adopted the deferred income model per IAS 20 to account for these grants, whereby deferred income from the grant is credited to the statement of comprehensive income in a pattern equal to the consumption of value of the capital investment created by the grant.

e) Finance income and expenses
Finance income is mainly comprised of interest income on finance lease receivables.

Finance costs are comprised of interest expense on borrowings, finance lease and PFI liabilities. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Interest income and interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

f) Other expenses
Operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

g) Financial assets
Financial assets are recognised when the company becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value.

Cash and cash equivalents
Cash and cash equivalents are defined as cash balances with original maturities of three months or less. The company has no other investments with the banks or bank overdrafts.

Trade and other receivables
Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount.

A receivable is impaired when there is objective evidence that the company will not be able to collect amounts due according to the original terms of the receivable. Balances are written off when the probability of recovery is assessed as being remote.

h) Non-current assets held for sale
Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of comprehensive income. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

The gain or loss arising on disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in the statement of comprehensive income.

i) Property, plant and equipment

Recognition and measurement
Property, plant and equipment asset classes predominantly consist of land, buildings, plant and equipment and furniture and fittings.

Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation and impairment losses. All other asset classes are measured at cost, less accumulated depreciation and impairment losses.

The company has recognised its property, plant and equipment in accordance with IAS 16.

Assets under construction are carried at cost. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. An impairment review is performed when the asset is ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for intended use.

Revaluation
Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.

The company has adopted a periodic rolling programme of revaluations across its portfolio. The company has adopted the following bases of valuation:

- Specialised buildings – depreciated replacement cost (modern equivalent asset)
- Land and non-specialised buildings – market value (existing use value)

Buildings are considered specialised where they are constructed, laid out and/or contain specialised plant and engineering services, specifically to deliver healthcare services (including, where applicable, ancillary support services to healthcare).

Non-specialised buildings are generally office accommodation or residential accommodation.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

Additions
The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the statement of comprehensive income as they are incurred.

Disposals
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the statement of comprehensive income. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to retained earnings.

Impairment
Property, plant, and equipment and intangible assets that have a finite useful life are reviewed for indicators of impairment as at each balance date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the company shall estimate the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Value in use is depreciated replacement cost for an asset where the service potential of the asset is not primarily dependent on the asset's ability to generate net cash inflows and where the company would, if deprived of the asset, replace its remaining service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. For revalued assets, the impairment loss is treated as a revaluation decrease (see above).

For assets not carried at a revalued amount, the impairment loss is recognised in the profit or loss.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant, and equipment other than non-leased land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Buildings	
• Buildings main structure	50 - 60 years
• Engineering works	25 years
• External works	15 years
Plant and equipment	5 – 15 years
Furniture and fittings	5 – 10 years

Depreciation is charged monthly, and additions are depreciated from the beginning of the quarter following the date it is brought into use.

j) Private Finance Initiatives (PFI) transactions
The company accounts for infrastructure PFI schemes where it controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The company therefore recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The fair values of services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:
- The service charge
- Repayment of capital
- The interest element (using the interest rate implicit in the contract)

Services received
The fair value of services received in the year is recorded under the relevant expenditure headings within operating expenses.

Assets
Assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at the present value of the minimum lease payments in accordance with IAS 17.

Where the operator enhances assets already recognised in the statement of financial position, the fair value of the enhancement in the carrying value of the asset is recognised as an asset.

Where the PFI asset is owned by the PFI company and the company has an option to purchase the asset at the end of the term, the company has assumed that this option would be exercised. The asset is held as a financial instrument which is off-set against the lease liability and depreciated for the length of the contract period.

Liabilities
A PFI liability is recognised at the same time as the assets are recognised. It is measured initially at the present value of the minimum lease payments and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to finance costs within the statement of comprehensive income.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

Lifecycle replacement
Components of the asset replaced by the operator during the contract (lifecycle replacement) are capitalised where they meet the company's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

k) Financial liabilities
Financial liabilities are recognised on the statement of financial position when the company becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are derecognised when the liability has been discharged, that is, the liability has been paid or has expired.

The company has financial liabilities, comprising finance lease liabilities, PFI liabilities, loans and trade and other payables.

Trade and other payables
Trade and other payables are recorded at their face value.

Borrowings
Borrowings are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method.

l) Employee benefits

Short-term employee benefits
Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees.

m) Superannuation schemes

Defined benefit scheme
Employees who have been TUPE transferred over to the company are covered by the provisions of the NHS Pension Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme. The cost to the company of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time the company commits itself to the retirement, regardless of the method of payment.

Defined contribution plan
Employees who join the company on or after 1 April 2013 are automatically contracted into the Scottish Widows group personal pension scheme. This is a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

n) Provisions
Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where the effect is material, when a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rate.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The company's onerous contracts consist of vacant and partly vacant properties.

Dilapidations
In respect of a number the company's leased premises, the company is required at the expiry of the lease term to make good any damage caused to the premises and to remove any furniture and fittings installed by the company.

Restructuring
A restructuring provision is recognised as the company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

o) Equity and reserves

Share capital
Ordinary share capital is classified as equity and dividends are recognised as a liability in the period in which they are approved.

Capital contribution
The capital contribution reserve is not a distributable reserve and cannot be applied to fund expenditure. This is in line with section 830(2) of the Companies Act 2006, as this reserve does not consist of realised profits.

p) Contingencies
A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably. A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. A contingent asset is disclosed where an inflow of economic benefits is probable.

q) Taxation

Corporate tax
Tax on the statement of comprehensive income for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Value added tax (VAT)
Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT. Where input tax is not recoverable, VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

r) Significant accounting estimates and judgements
The preparation of the company financial statements requires management to make a number of estimates and judgements that affect the reported amounts of assets and liabilities and may differ from future actual results. The estimates and judgements that are considered most critical and that have a significant inherent risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Estimating useful lives and residual values of property, plant, and equipment
At each balance date, the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates requires the company to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the company, and expected disposal proceeds (if any) from the future sale of the asset.

Provisions
Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the company.

Refer to Note 14 for further detail.

Classification of properties
IAS 40 investment properties require that properties be classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. Judgement needs to be exercised in determining whether the freehold and leasehold properties should be classified as investment properties in accordance with IAS 40. As investment properties are valued at fair value with movements in the fair value being recorded in the statement of comprehensive income, this could have a significant effect on the financial performance of the company.

Management have concluded that all properties held by the company are treated as property, plant and equipment in accordance with IAS 16. The company has reviewed its portfolio of properties and determined that that the properties that meet the recognition criteria of IAS 40 are not significant. As a result, these properties have been valued in accordance with IAS 16.

Revaluation of land and buildings
The company has adopted a periodic rolling programme of revaluations across its portfolio. The company obtains valuations performed by external property valuers in order to determine the fair value of its property portfolio.

Refer to Note 9 for further detail.

Leases classification
Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the company.

Undocumented occupancy arrangements
A large number of the company's tenants have undocumented occupancy arrangements or a business transfer arrangement without an end date. Although income from such property arrangements is expected to continue, there is no formal legal entitlement.

Management have concluded that based on the agreements in place with Department of Health and NHS England that income will continue to be received for these undocumented occupancy arrangements.

The Company has implemented a process to seek formal documentation for these undocumented occupancy arrangements.

Trade receivables
The company is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. Significant financial difficulties of the debtor and default in payments are considered indicators for impairment.

s) Standards adopted during the year
The accounting policies adopted are consistent with those of the previous financial year.

There have been no revisions to accounting standards during the financial year which have had an effect on the company's financial statements.

Standards issued but not yet effective
Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the company, are:

- IFRS 9 'Financial Instruments' on 'Classification and Measurement' of Financial Assets and Liabilities
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

IFRS 16 will change how the Company recognises, measures, presents and discloses leases that it holds. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The full impact of IFRS 16 on the Company has yet to be determined and will not be until it has been adopted.

The company does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

Note 2 – Operating Revenue

The following is an analysis of the company's revenue for the year from continuing operations.

	2016	2015
	£000	**£000**
Rental income	519,714	547,929
Finance lease contingent rent income	120	80
Grant income	144,204	166,043
Other fees and charges	20,615	31,890
	684,653	745,942

Rental income above includes service charges received by the company as it is not practicable for the company to disclose these amounts separately.

Note 3 – Direct Property Expenses

		2016	2015
	Note	**£000**	**£000**
Depreciation and amortisation	9	136,964	105,409
Rental expense		124,213	138,052
Finance lease contingent rent expense		5,433	6,128
PFI contingent rent expense		9,968	10,365
Facilities management		195,873	199,153
Utilities		44,040	53,021
Rates		40,521	67,218
Repairs and maintenance		25,158	40,834
Insurance		2,381	2,409
		584,551	622,589

Note 4 – Administrative Expenses

		2016	2015
	Note	**£000**	**£000**
Staff costs	6	90,825	87,857
Legal and professional fees		14,894	13,123
Chair and Non-Executive Directors' costs		195	188
External audit fees[1]		381	234
Internal audit fees		168	358
Taxation compliance fees		101	378
Other administrative expenses		11,796	10,066
		118,360	112,204

[1] The external audit fees relates solely to the statutory audit. This comprises the current year fee of £261k plus an additional fee of £120k for the 2014-15 audit.

Note 5 – Other Operating Expenses

	Note	2016 £000	2015 £000
Impairment of property, plant and equipment		113,522	452,178
Impairment on assets held for sale	11	-	3,602
Net impact in dilapidation provision [2]	14	(12,158)	7,246
Net impact in onerous provision [2]	14	1,315	(17,363)
Legacy write-offs		(577)	(7,629)
Doubtful debts expense	10	60,463	20,433
Restructuring costs	14	8,706	7,048
Non-current assets adjustments	9	(1,724)	-
		169,547	465,515

Note 6 – Staff Costs

	Note	2016 £000	2015 £000
Wages and salaries		66,895	64,152
Agency staff costs		13,348	12,625
Social security costs		4,901	4,800
Contributions to defined contribution plans	15	5,681	6,280
		90,825	87,857

The average number of staff employed by the company (including Directors) during the year was:

Average Number	Headcount 2016	Headcount 2015
Permanent staff	3,320	3,062
Agency staff	420	340
	3,740	3,402

Note 7 – Finance Income and Costs

	2016 £000	2015 £000
Finance income		
Interest on finance leases	576	459
Interest income	34	-
	610	459
Finance costs		
Interest on loans	228	832
Interest on obligations under PFI contracts and finance leases	40,429	38,447
Unwinding of discounts on provision	1,434	-
	42,091	39,279

[2] The net impact of the provision on the statement of comprehensive income consists of the provision arising during the year and reversed unused.

Note 8 – Corporate Tax

	2016	2015
	£000	£000
Recognised in the statement of comprehensive income		
Current tax expense		
In respect of the current year	-	5,398
In respect of prior years	(5,398)	(3,740)
	(5,398)	1,658
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Reconciliation of effective tax rate		
Loss before tax from continuing operations	(212,378)	(479,173)
Income tax expense calculated at 20% (2015: 21%)	(42,476)	(100,626)
Effect of income that is exempt from taxation	-	-
Effect of expenses that are not deductible in determining taxable profits	43,696	114,841
Unutilised losses for which no deferred tax asset has been provided	(1,220)	(8,817)
Tax credit in respect of prior years	(5,398)	(3,740)
	(5,398)	1,658

As at 31 March 2016, the company has a corporation tax creditor of £0 (2015: £5,398k). The company does not have any deferred tax assets or liabilities (2015: £0).

Note 9 – Property, Plant and Equipment

	Land	Buildings	Assets under construction	Plant & equipment	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2015	995,625	2,450,556	36,423	5,429	2,713	3,490,746
Reclassifications	1,419	22,787	(25,216)	1,116	(106)	0
Additions	726	20,196	34,460	-	-	55,382
Revaluation increase	122,238	155,908	-	-	-	278,146
Disposals	(15,454)	(1,057)	-	(34)	(207)	(16,752)
In year transfer to / from other bodies and other transfers	7,220	70,509	-	20	-	77,749
Impairment	(65,512)	(69,002)	-	-	-	(134,514)
Adjustments	-	(981)	2,416			1,435
Reclassifications to / from assets held for sale	19,936	(1,826)	-	-	-	18,110
As at 31 March 2016	**1,066,198**	**2,647,090**	**48,083**	**6,531**	**2,400**	**3,770,302**
Depreciation as at 1 April 2015	25	98,951	-	858	902	100,736
Reclassifications	-	152	-	(47)	(105)	(0)
Charged during the year	25	135,748	-	787	404	136,964
Revaluation	-	(20,407)		-	-	(20,407)
Disposals	-	(152)	-	(15)	(91)	(258)
In year transfer to / from other bodies and other transfers	-	(2,709)	-	-	-	(2,709)
Impairment	-	(19,410)	-	-	-	(19,410)
Adjustments	-	(289)	-	-	-	(289)
Reclassifications to / from assets held for sale	-	(320)	-	-	-	(320)
As at 31 March 2016	**50**	**191,564**	**-**	**1,583**	**1,110**	**194,307**
Net book value as at 31 March 2016	**1,066,148**	**2,455,526**	**48,083**	**4,948**	**1,290**	**3,575,995**
Asset financing						
Owned	1,001,334	1,784,132	48,083	4,948	1,290	2,839,787
Held on finance lease	6,755	252,385	-	-	-	259,140
Held on PFI contracts	58,059	419,009	-	-	-	477,068
	1,066,148	**2,455,526**	**48,083**	**4,948**	**1,290**	**3,575,995**
As at 1 April 2014	1,022,566	2,472,030	28,244	5,860	5,043	3,533,743
Reclassifications	(10,055)	32,282	(20,660)	(1,576)	9	-
Additions	1,809	188,878	28,839	2,675	352	222,553
Revaluation increase	239,636	206,212	-	-	-	445,848
Disposals	-	-	-	(94)	(12)	(106)
In year transfer to / from other bodies and other transfers	(14,440)	(68,560)	-	(963)	(1,952)	(85,915)
Impairment	(165,691)	(344,590)	-	(473)	(727)	(511,481)
Adjustments	-	-	-	-	-	-
Reclassifications to / from assets held for sale	(78,200)	(35,696)	-	-	-	(113,896)

As at 31 March 2015	995,625	2,450,556	36,423	5,429	2,713	3,490,746
Depreciation as at 1 April 2014	-	95,912	-	629	964	97,505
Reclassifications	-	-	-	-	-	-
Charged during the year	25	104,554	-	412	418	105,409
Revaluation	-	(37,151)	-	-	-	(37,151)
Disposals	-	-	-	(13)	(2)	(15)
In year transfer to / from other bodies and other transfers	-	(5,016)	-	(99)	(341)	(5,456)
Impairment	-	(59,095)	-	(71)	(137)	(59,303)
Adjustments	-	-	-	-	-	-
Reclassifications to / from assets held for sale	-	(253)	-	-	-	(253)
As at 31 March 2015	25	98,951	-	858	902	100,736
Net book value as at 31 March 2015	995,600	2,351,605	36,423	4,571	1,811	3,390,010
Asset financing						
Owned	927,247	1,731,724	36,423	4,571	1,811	2,701,776
Held on finance lease	6,357	190,092	-	-	-	196,449
Held on PFI contracts	61,996	429,789	-	-	-	491,785
	995,600	2,351,605	36,423	4,571	1,811	3,390,010

The company has adopted a periodic rolling programme of revaluations across its portfolio. 2015/16 represents the third year of the Company's three-year rolling programme. The company obtains valuations performed by external property valuers, Montagu Evans LLP, in order to determine the fair value of its property portfolio. The effective date of the revaluation is 31st March 2016.

All valuations are undertaken in accordance with the following Standards:

- International Financial Reporting Standards published by the International Accounting Standards Board;
- Valuation - Professional Standards (January 2014) of the Royal Institution of Chartered Surveyors;
- International Valuation Standards published by the International Valuation Standards Committee.

Specialist buildings, for which there is no external market, are valued at depreciated replacement cost. Land and non-specialist buildings are valued at fair value, interpreted as market value for existing use.

Had the cost model been used the carrying amount of the land and buildings assets as at 31st March 2016 would have been £915 million (2015: £958 million) for Land and £2,145 million (2015: £2,280 million) for Buildings.

Fair value hierarchy
The different valuation method levels are defined below. These levels are specified in accordance with IFRS 13 'Fair Value Measurement':

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

There were no transfers between fair value hierarchy levels during the year.

Where land and buildings are considered to be non-specialised, level 2 inputs are used to calculate Existing Use Value. The determination of fair value is based on market values for comparable properties, if they were to be sold between two parties, without compulsion, but with a view that they would remain in their current (existing) use.

Where buildings are considered to be specialised by their nature, level 3 inputs are used as there is little or no market data available for valuation inputs. The determination of fair value is based on the current cost of replacing the asset with its modern equivalent asset (depreciated replacement cost), less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

97% of the buildings revalued were derived from the BCIS indices (level 3 inputs) adjusted for location and condition.

Unobservable inputs

- BCIS Indices which provide the "mean UK new build figures per sq ft". The Indices are broken down across various building types and provide an accurate average figure across the UK.
- BCIS location weighting the construction costs. This weighting reflects regional differences in build costs.

Assumptions

- The construction of the replacement buildings are assumed to be undertaken on a cleared site, ready for development, and an 'instant build' basis. As such, there is no allowance for site clearance and preparation, or for finance on the build costs.
- The replacement buildings would be constructed at the date of valuation without phasing or lead in periods.
- The replacement buildings will be constructed in compliance with current building standards and requirements which are likely to differ in appearance and construction type from those buildings that presently exist on site(s).
- The replacement buildings being of the same floor area as those existing and offering the same service potential.

Sensitivity of measure of significant unobservable inputs

A decrease (increase) in the BCIS indices will decrease (increase) the fair value.
A decrease (increase) in the BCIS location weighting will decrease (increase) the fair value.

Note 10 – Trade and Other Receivables

		Current		**Non-current**	
		2016	**2015**	**2016**	**2015**
	Note	**£000**	**£000**	**£000**	**£000**
Trade receivables		485,715	291,606	-	-
Less: provision for doubtful debts		(106,203)	(50,561)	-	-
Capital receivables		7,841	16,126	-	-
Other receivables		6,993	24,198	871	939
Accrued income		4,106	31,284	-	-
Prepayments		42,255	35,131	1,388	1,681
VAT receivables		7,149	3,122	-	-
Finance lease receivables	18	216	149	10,559	9,914
		448,072	351,055	**12,818**	12,534

The carrying value of trade and other receivables approximate their fair value.

The aging profile of trade receivables at year end is detailed below:

	Not past due	**1-30 days**	**31 – 180 days past due**	**More than 180 days past due**
	£000	**£000**	**£000**	**£000**
As at 31 March 2016				
Not impaired	132,748	(23,968)	230,687	40,045
Impaired	-	-	61,395	44,808
	132,748	**(23,968)**[3]	**292,082**	**84,853**
As at 31 March 2015				
Not impaired	86,267	32,607	97,718	24,453
Impaired	5,779	5,542	7,668	31,572
	92,046	38,149	105,386	56,025

[3] Cash receipts are aged on the date the cash is received and credit notes are aged on the credit note creation date until matched to the corresponding invoice.

All trade receivables greater than 30 days in age are considered to be past due.

The company has recognised a provision for doubtful debts based on an assessment of the recoverability of receivables. Provisions have been applied to receivables where events or circumstances indicate that the carrying amounts may not be recoverable. Management have specifically assessed the recoverability of receivables on a customer by customer basis. Management have then overlaid an additional assessment of recoverability based on the customer type, age of the receivables and the nature of the debt. The company has assessed that a provision of £106.2 million against trade receivables is appropriate.

Movements in the provision for doubtful debts are as follows:

	2016	2015
	£000	£000
As at 1 April	50,561	32,491
Increase in provision	89,707	36,168
Amounts written off during the year	(4,821)	(2,363)
Reversed unused	(29,244)	(15,735)
As at 31 March	**106,203**	50,561

Note 11 – Assets Classified as Held for Sale

	Land	Buildings	Total
	£000	£000	£000
As at 1 April 2015	46,598	17,183	63,781
Reclassifications	4,055	(4,055)	-
Assets no longer held for sale	(23,329)	(2,816)	(26,145)
Plus: assets classified as held for sale in the year	3,393	4,322	7,715
Less: assets sold in the year	(20,817)	(9,642)	(30,459)
Less: impairment of assets held for sale	-	-	-
As at 31 March 2016	**9,900**	**4,992**	**14,892**
As at 1 April 2014	3,489	3,279	6,768
Reclassifications	2,040	(2,040)	-
Assets no longer held for sale	-	-	-
Plus: assets classified as held for sale in the year	78,200	35,443	113,643
Less: assets sold in the year	(34,782)	(18,246)	(53,028)
Less: impairment of assets held for sale	(2,349)	(1,253)	(3,602)
As at 31 March 2015	46,598	17,183	63,781

The company has 24 properties (2015: 69 properties) held for sale. The decision as to whether one of the company's properties is surplus to NHS operational requirements resides with the commissioners, i.e. NHS England or a Clinical Commissioning Group. A property will only be released for disposal once commissioners have confirmed that it is no longer required for the delivery of NHS services. The disposals are planned to take place at various dates during the next financial year.

Refer to note 25 - events after the end of the reporting period, where the company has disclosed the number of properties that have become held for sale since 31 March.

Note 12 – Trade and Other Payables

	Current		Non-current	
	2016	**2015**	**2016**	**2015**
	£000	**£000**	**£000**	**£000**
Trade payables	45,031	34,148	-	-
Capital payables	5,080	13,986	-	-
Other payables	167	1,449	37	512
VAT payables	7,798	-	-	-
Accruals	69,926	87,816	-	-
Deferred income	1,305	3,614	6,157	5,395
Social security costs	2,209	2,058	-	-
Tax	-	5,398	-	-
	131,516	148,469	**6,194**	5,907

Note 13 – Borrowings

		Current		Non-current	
		2016	**2015**	**2016**	**2015**
	Note	**£000**	**£000**	**£000**	**£000**
Loans		100,000	30,000	-	-
PFI liabilities	19	11,552	9,558	327,844	339,556
Finance lease liabilities	18	9,051	5,731	281,876	222,268
		120,603	45,289	**609,720**	561,824

Repayment of principal falling due in:

	2016	**2015**
	£000	**£000**
Within one year	120,603	45,289
Between one and five years	90,886	76,486
After five years	518,834	485,338
	730,323	607,113

In the 2014 financial year, the company entered into flexible loan facility agreement with the Secretary State of Health on 19 November 2013 for an amount up to £350 million. The company has since entered into amended flexible loan facility agreements with the Secretary State of Health on 17 March 2015 for an amount up to £195 million and on 31 of March 2016 for an amount up to £160 million. The final repayment date of the loan is 31 March 2017. Until that date no part of the loan is repayable until the company has an operational cash balance of over £90 million (2015: £60 million).

The company has not had any default on its principal and interest payment during the period. The rate of interest applicable to this flexible loan facility is the interest rate determined by the reference to the National Loan Fund rate for loans up to one year prevailing on the day of the first utilisation of this facility.

Note 14 – Provisions

	Onerous leases	Dilapidations	Restructuring	Legal claims	Total
	£000	£000	£000	£000	£000
As at 1 April 2015	7,457	113,706	2,595	956	124,714
Arising during the year	7,133	8,185	9,330	431	25,079
Utilised during the year	(1,008)	(1,586)	(1,970)	(44)	(4,608)
Reversed unused	(5,818)	(20,343)	(624)	(147)	(26,932)
Unwinding of discounts on provision	18	1,416	-	-	1,434
As at 31 March 2016	**7,782**	**101,378**	**9,331**	**1,196**	**119,687**
Current	1,126	11,044	9,331	1,196	22,697
Non-current	6,656	90,334	-	-	96,990
	7,782	**101,378**	**9,331**	**1,196**	**119,687**
As at 1 April 2014	27,000	108,548	10,253	694	146,495
Arising during the year	6,348	31,883	7,048	623	45,902
Utilised during the year	(2,180)	(2,088)	(14,706)	(53)	(19,027)
Reversed unused	(23,711)	(24,637)	-	(308)	(48,656)
Unwinding of discounts on provision	-	-	-	-	-
As at 31 March 2015	7,457	113,706	2,595	956	124,714
Current	850	13,738	2,595	956	18,139
Non-current	6,607	99,968	-	-	106,575
	7,457	113,706	2,595	956	124,714

Onerous leases
The provision for onerous leases represents the value of the future lease payments that the company is presently obligated to make under non-cancellable onerous operating lease contracts exceeding the economic benefits expected to be received from the contracts.

Dilapidations
On the expiry of operating leases and finance leases where title does not pass, the company is required to make good any damage caused to the premises and to remove any furniture and fittings installed by the company.

The company's provision is calculated based on an average rate per square metre of floor space. The rate is calculated by averaging the rates provided by an independent valuer engaged to value dilapidations on a selection of properties.

While holding all other assumptions constant if the average rate per square metre of floor space was 10% higher (lower), the Company's dilapidation provision will increase (decrease) by £10 million .

Restructuring
The company has reviewed its organisation structure in order to improve the efficiency of its business. The provision represents the obligation to pay employee exit costs.

Legal claims
The provision for legal claims represents the estimated cost of settling outstanding claims against the company. It has been created due to the uncertainty over these cases as the liability depends on the likelihood of the claims being paid. Where the likelihood of the claims being paid is low, the company has disclosed it as a contingent liability (refer to note 24).

Note 15 – Employee Benefits

Employees transferred to the company are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the scheme is subject to a full actuarial valuation every four years, with approximate assessments in intervening years. An outline of these follows:

Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2016 is based on valuation data as 31 March 2015, updated to 31 March 2016 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19 and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates payable by employees and employers.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

The Scheme Regulations allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

Scottish Widows

All NHS Property Services employees who join the company on or after 1 April 2013 are automatically contracted into the Scottish Widows group personal pension scheme. This is a defined contribution plan.

Note 16 – Share Capital

	2016	2015
	£000	£000
On issue at 31 March – fully paid	28,500	52,300
Allotted, called up and fully paid		
Ordinary shares of £1 each	253,800	225,300
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	253,800	225,300

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

The company issued 28,500,000 (2015: 52,300,000), £1 ordinary shares for a consideration of £28.5 million (2015: £52.3 million), settled in cash and no preference shares were issued.

The company has one shareholder which is the Secretary of State for Health.

Dividend

The Company has not paid dividends this period and after the statement of financial position date no dividends were proposed by the Directors (2015: nil).

Note 17 - Capital Contribution Reserve

The capital contribution reserve is not a distributable reserve and cannot be applied to fund expenditure. This is in line with section 830(2) of the Companies Act 2006.

The substantive review by the Company of the inherited balances continued during the year ended 31 March 2016. The Company also received further properties from the original portfolio, that initially went to other bodies within the NHS, where as per the legal transfer documentation when the healthcare services provided have reduced below levels set the properties revert to the Secretary of State who nominates a new receiver. The results of this review and of the property transfer of £14.7 million (2015: £92.5 million) were up-dated within the capital contribution reserve to reflect the Department of Health's revised capital investment within the Company. Further explanation is in the notes below:

	2016	2015
	£000	£000
Balance at 1 April	2,958,061	3,050,562
Transfers and adjustments	14,673	(92,501)
Balance at 31 March	**2,972,734**	2,958,061

	2016	2015
	£000	*£000*
Transfer of properties	26,293	(35,470)
Reversal of capitalisation of legal charges	-	(38,812)
Transfer of legacy receivables	-	(5,561)
Reclassified finance leases	(11,620)	(11,308)
Other	-	(1,350)
	14,673	(92,501)

Transfer of properties

In compliance with the legal transfer documentation a realignment of asset ownership has resulted in a movement in properties from the original portfolio of £26.3 million (2015: - £35.5 million).

Legal charges
Capitalised legal charges were transferred to the Company on 1 April 2013. The Company determined in financial year 2015 that it was not correct to hold these inherited legal charges as it does not meet the recognition criteria.

Transfer of legacy receivables
A substantive review of the Company's inherited legacy receivables in financial year 2015 identified instances whereby the Company inherited receivable balances which relate to other bodies.

Reclassified finance leases
The Company undertook a review of its inherited operating lease arrangements to ensure it has been appropriately classified in accordance with IAS 17. As a result of this review the Company has reclassified 44 (2015: 165) head leases and 1 (2015: 0) sub-tenant leases as finance leases. Also reviewed were the accompanying inherited finance lease models to ensure they are in compliance with IAS 17. The resulting net difference of -£11.6 million (2015: -£11.3 million) between the finance lease asset and liability or removal of asset and creation of receivable as at 1 April is accounted for through the capital contribution reserve.

Other
This predominantly relates to transfer of unsubstantiated inherited lease incentives.

Note 18 – Finance Lease Obligations

(a) Finance lease obligations as lessee

The company is party to 239 (2015: 203) finance lease arrangements, where the terms of the lease transfers substantially all the risks and rewards of ownership to the Company, as a lessee. These arrangements are accounted for in accordance with IAS 17.

The company recognises finance lease assets as items of property, plant and equipment together with a liability to pay for them (refer to note 9 for details of finance lease assets).

		Minimum lease payments		Present value of minimum lease payments	
		2016	2015	2016	2015
	Note	£000	£000	£000	£000
Amounts payable under finance leases (Buildings)					
Within one year		28,601	23,113	9,051	5,731
Between one and five years		114,085	92,598	41,794	26,702
After five years		405,592	358,941	239,802	195,286
Less: future finance charges		(257,631)	(246,933)		
		290,647	227,719	**290,647**	227,719

Amounts payable under finance leases (Land)					
Within one year		30	30	-	-
Between one and five years		118	118	1	1
After five years		1,880	1,910	279	279
Less: future finance charges		(1,748)	(1,778)		
		280	280	**280**	280

Included in		2016	2015
		£000	£000
Current borrowings	13	9,051	5,731
Non-current borrowings	13	281,876	222,268
		290,927	227,999

Rental expenses		2016	2015
		£000	£000
Contingent rental payments	3	5,433	6,128

(b) Finance lease obligations as lessor

The company leases 3 (2015: 1) properties under a finance lease arrangement.

		Minimum lease payments		Present value of minimum lease payments	
		2016	**2015**	**2016**	**2015**
	Note	**£000**	**£000**	**£000**	**£000**
Amounts receivable under finance leases (Buildings)					
Within one year		813	702	205	149
Between one and five years		3,250	2,808	951	697
After five years		15,837	14,042	9,619	9,217
Less: future finance charges		(9,125)	(7,489)		
		10,775	10,063	**10,775**	10,063

Included in		2016 £000	2015 £000
Current finance lease receivables	10	216	149
Non-current finance lease receivables	10	10,559	9,914
		10,775	10,063

Rental revenue		2016 £000	2015 £000
Contingent rental	2	120	80

Note 19 – Private Finance Initiatives

The company is party to 26 (2015: 26) private finance initiative (PFI) arrangements, where the company controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. These arrangements are treated as service concession arrangements and are accounted for in accordance with IFRIC 12 service concession arrangements (IFRIC 12).

The company therefore recognises PFI assets as items of property, plant and equipment together with a liability to pay for them (refer to note 9 for details of PFI assets). The fair values of services received under the contract are recorded as operating expenses.

Contract name	Start dates	End dates
Willesden Centre for Health and Care	2006	2035
Queen Mary's Hospital	2005	2035
Mansfield Community Hospital	2006	2043
Johnson Hospital	2008	2039
Danetre Hospital	2006	2037
City Care Centre	2006	2043
Epping Forest Unit, St Margaret's Hospital	2006	2035
Brentwood Community Hospital	2007	2039
Bishops Stortford Hertfordshire	2003	2034
Whitegate Health Centre	2009	2040
Batley Health Centre	2005	2036
Cleckheaton Health Centre	2005	2036
Dewsbury Health Centre	2005	2036
Eddercliffe Health Centre	2005	2036
Ravensthorpe Health Centre	2005	2036
Sedgefield Community Hospital	2009	2032
Stanley Primary Care Centre	2009	2039
Cornerstone Centre	2013	2035
Friary Hospital	1999	2024
Redcar Primary Care Hospital	2009	2038
Gravesham Community Hospital	2005	2036
New Forest Lymington Hospital	2007	2037
Bicester Community Hospital	2015	2039
West Mendip Community Hospital	2005	2035
Liskeard Hospital	2003	2034
Farnham Hospital and Centre For Health	2003	2029

	Note	2016 £000	2015 £000
Service element charged to in-year operating expenses		28,478	28,256
Total obligations for PFI contracts due:			
Within one year		31,021	29,169
Between one and five years		120,378	121,360
After five years		439,702	453,291
Less: future finance charges		(251,705)	(254,706)
		339,396	349,114
Payments committed to in respect of the service element:			
Within one year		28,432	27,293
Between one and five years		123,232	114,998
After five years		621,821	634,366
		773,485	776,657
Included in			
Current borrowings	13	11,552	9,558
Non-current borrowings	13	327,844	339,556
		339,396	349,114

Note 20 – Financial Instruments

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities.

The company is not exposed to significant financial risk factors arising from financial instruments. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the entity in undertaking its activities.

Categories of financial assets and liabilities	2016 £000	2015 £000
Loans and receivables		
Trade and other receivables	410,098	323,655
Cash and cash equivalent	93,193	92,910
	503,291	416,565
Financial liabilities measured at amortised cost		
Trade and other payables	120,241	137,911
Loans	100,000	30,000
PFI and finance lease liabilities	630,323	577,113
	850,564	745,024

(a) Fair value of financial instruments
The fair value of financial instruments is equivalent to the carrying amount disclosed in the statement of financial position.

(b) Credit risk
Credit risk is the risk that a third party will default on its obligations to the company causing it to incur a loss.

In the normal of course of business, exposure to credit risk arises from cash and investments with banks and trade and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

The company's cash assets are held within the Government Banking Service only. As the company does not hold investments other than necessary cash, the company is not exposed to significant credit risk in this regard.

The company's trade receivables are with a large number of customers spread across various geographical areas. Government funded entities, NHS England and Clinical Commissioning Groups make up a significant portion of the company's receivables. The company has assessed these entities as low risk due to being government funded.

The Company has recognised a provision for impairment of trade receivables for certain receivables balances. The Company have implemented a credit vetting process for new tenants and guarantors.

No collateral or other credit enhancements are held for financial instruments that give rise to credit risk.

(c) Liquidity risk
Liquidity risk is the risk that the company will encounter difficulty raising liquid funds to meet commitments as they fall due.

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding.

The company mostly manages liquidity risk by continuously monitoring forecast cash flow requirements and management of the flexible loan facility with the Department of Health. Refer to note 13 - borrowings for further information on the loan.

Contractual maturity analysis of financial liabilities
The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount	Contractual cash flow	Within one year	1-5 years	After 5 years
	£000	£000	£000	£000	£000
2016					
Trade and other payables	120,241	120,241	120,204	37	-
Finance leases	290,927	550,305	28,630	114,203	407,472
PFI	339,396	591,101	31,021	120,378	439,702
Loans	100,000	100,000	100,000	-	-
	850,564	**1,361,647**	**279,855**	**234,618**	**847,174**
2015					
Trade and other payables	137,911	137,911	137,399	512	-
Finance leases	227,999	476,710	23,143	92,716	360,851
PFI	349,114	603,820	29,169	121,360	453,291
Loans	30,000	30,000	30,000	-	-
	745,024	1,248,441	219,711	214,588	814,142

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

The company's transactions are all undertaken in sterling and so it is not exposed to foreign exchange risk. It holds no significant investments other than bank deposits. Other than cash balances, the company's financial assets and liabilities are carried at fixed rates of interest and its operating cash flows are consequently independent of changes in market interest rates.

However, the company is exposed to movements in the property market as the company's assets consist predominantly of land and buildings. Refer to the Directors' Report on page 22 as to how the company has managed this risk.

Note 21 – Related Party Transactions

The company is required to disclose transactions with related parties. Related parties are entities or individuals who have the potential to control, indirectly control or significantly influence the company or to be controlled, indirectly controlled or significantly influenced by the company.

NHS Property Services is a private limited company, wholly owned by the Secretary of State for Health, making it the company's ultimate controlling party.

As at 31 March 2016, the company owed the Department of Health £100 million (2015: £30 million) in respect of the flexible loan facility. Refer to note 13 for further information on the loan.

The company maintains an interest's register for the Directors, to record any interests they may have in any organisations which the company transacts with.

Details of related party transactions are as follows:

Director	**Organisation**	**Payments to related party**	**Receipts from related party**	**Amounts owed to related party**	**Amounts due from related party**
		£000	**£000**	**£000**	**£000**
2016					
Neil Sachdev	HSS Hire Service Group Ltd	62	-	-	-
Stuart Diggles	Task Finance Ltd	89	-	-	-
Douglas Blausten	Cyril Leonard	68	-	-	-
Martin West	London North West Healthcare NHS Trust	-	2,758	-	3,020*
		219	**2,758**	**-**	**3,020**
2015					
Peter Coates	NHS Shared Business Services	863	-	19	-
Douglas Blausten	Cyril Leonard	140	-	-	-
Martin West	London North West Healthcare NHS Trust	-	4,110	-	4,597*
		1,003	4,110	19	4,597

*The Company has a provision for doubtful debts of £0.8 million (2015: £1.4 million) of which the expense recognised in 2016 is £0.8 million (2015: 0.8 million). In 2016, the Company has also written off £0.6 million (2015: £0) of the debt outstanding related to the previous year.

All transactions incurred are no more favourable than the company would have adopted if there were no relationship to key management personnel.

The Department of Health is regarded as a related party. During the year, the company has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. These entities are listed below and include all significant transactions with other NHS and non-NHS bodies at an arm's length basis.

Organisation	Payments to related party	Receipts from related party	Amounts owed to related party	Amounts due from related party
	£000	£000	£000	£000
2016				
Department of Health	489	2,108	24	2,031
Community Health Partnerships Limited	-	1,304	4	6,563
Public Health England	-	324	2	-
Special Health Authorities	336	2,023	88	906
NHS England	2,051	224,333	7,475	162,873
NHS trusts	15,889	84,439	7,664	56,549
NHS foundation trusts	49,161	165,801	20,199	120,490
	67,926	**480,332**	**35,456**	**349,412**
2015				
Department of Health	1,703	9,804	528	9,024
Community Health Partnerships Limited	-	16,416	-	2,417
Public Health England	-	490	-	-
Special Health Authorities	467	8,029	117	3,042
NHS England	6,195	281,710	11,211	121,835
NHS trusts	25,532	130,115	7,716	43,411
NHS foundation trusts	53,262	143,233	18,856	70,676
	87,159	589,797	38,428	250,405

In conducting its activities, the company is required to pay various taxes and levies to the HM Revenue and Customs. The payment of these taxes and levies, is based on the standard terms and conditions that apply to all tax and levy payers.

Note 22 – Operating Leases

(a) The company as a lessee
The company's operating lease commitments relate to property leases entered into on commercial terms.

	Note	2016 £000	2015 £000
Payments recognised as an expense			
Minimum lease payments	3	124,213	138,052
Non-cancellable operating lease commitments			
No later than one year		86,639	91,529
Between one and five years		273,294	304,767
After five years		408,836	469,764
		768,769	866,060
Total of future sublease payments expected to be received		139,042	95,148

All lease commitments disclosed are for payments which we are legally required to make over the term of the lease. We inherited a number of properties that have undocumented lease arrangements. We consider these to be cancellable lease arrangements. For those leases with break clauses we have assumed we will occupy the property for the term of the lease except in instances where the lease is vacant by more than 50%. When onerous we have assumed the break date clause will be exercised where possible.

(b) The company as a lessor
The company earns rental income by leasing its operating properties to tenants under non-cancellable operating leases.

		2016	2015
	Note	**£000**	**£000**
Recognised as revenue			
Rental revenue	2	519,714	547,929
Total future minimum receipts			
No later than one year		11,574	10,970
Between one and five years		42,903	21,097
After five years		119,144	56,078
		173,621	88,145

All future minimum lease receipts disclosed relate to revenue for which we hold legal entitlement through a valid lease. A large number of the company's tenants have undocumented occupancy arrangements or a business transfer arrangement without an end date. Although income from such property arrangements is expected to continue, in the absence of a formal document affirming legal entitlement, we have not included them as expected revenue from future periods.

Note 23 – Commitments

Capital commitments

Contracted capital commitments at 31 March not otherwise included in these financial statements:

	2016	2015
	£000	**£000**
Property, plant and equipment	12,886	2,311
	12,886	2,311
No later than one year	12,886	2,311
Between one and five years	-	-
After five years	-	-
	12,886	2,311

Other commitments

The company has entered into several contracts for the management and maintenance of its properties which will give rise to the following commitment:

	2016	2015
	£000	**£000**
No later than one year	3,582	15,876
Between one and five years	691	1,929
After five years	42	1,294
	4,315	19,099

Operating lease commitments have been disclosed in note 22.

Note 24 – Contingencies

(a) Quantifiable contingencies

	2016 £000	2015 £000
Contingent liabilities		
Legal claims	113	110
Rent disputes	408	408
	521	518
Contingent assets		
Legal claims	31	677
	31	677

Legal claims
The contingent liability relates to legal claims which have been brought to the company through the National Health Service Litigation Authority (NHSLA) and are in varying stages of being settled. The liability depends on the outcome which at present is uncertain.

Rent disputes
The contingent liability relates to disputed rent with landlords who are seeking to claim rent relating to properties leased by the company.

Contingent assets
The contingent asset relates to legal claims that the company has against third parties. The likelihood of the claim being received by the company depends on the outcome of the claim which at present is uncertain.

(b) Unquantifiable contingencies

Contingent liabilities
As at 31 March 2016, the company has no unquantifiable contingent liabilities (2015: nil).

Contingent assets

Legal charges
On 1 April 2013, the Company inherited a legal charge portfolio, the majority of which secured grants made by legacy organisations to service providers to enable them to purchase and refurbish suitable properties for the provision of care. The remaining legal charges predominately secured Section 106 obligations and overage payments.

As at 31 March 2015, the portfolio comprised of 1,522 legal charges. On 1 April 2015, 1,161 legal charges securing grants to service providers were transferred by statutory transfer to NHS England.

As at 31 March 2016, the portfolio consisted of 359 legal charges securing planning obligations and overage payments. 2 legal charges were realised during the year.

An overage payment is a sum which the Company may be entitled to receive after the completion of the sale if a specified condition is satisfied and the condition may be:

- The grant of a new planning permission; or
- The grant of planning permission for a new (perhaps more valuable) use of the land; or
- The construction of a larger than specified commercial development on the land

The Company will recognise a contingent asset when one of the conditions specified above is met and the contingent asset is based on an estimate stipulated in the contract.

Note 25 – Events After the Reporting Period

Assets held for sale
Since the end of the reporting period, the company has classified two properties (2015: 14 properties) as held for sale with a total market value of £3.3 million (2015: £7.6 million). In total, these properties have a net book value of £4.5 million (2015: £11.5 million), resulting in an impairment of £1.2 million (2015: £3.9 million).

EU Referendum
On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

The financial statements of NHS Property Services Ltd were authorised for issue on 18 July 2016.