NHS
Property Services

NHS Property Services Limited

Annual Report for the year ended 31 March 2018

Registered Address
NHS Property Services Limited
99 Gresham Street
London
EC2V 7NG

Registered in England and Wales No: 07888110
www.property.nhs.uk

Contents

Chairman and Chief Executive Officer Report

Welcome to the 2017/18 Annual Report and Accounts for NHS Property Services ("the company"). We are responsible for around 10% of the NHS estate in England and own and manage some 3,500 properties, including GP Surgeries, Health Centres and Community Hospitals.

The NHS is changing due to increasing demand and intense financial and clinical pressures. In line with the plans set out in the Five Year Forward View, the NHS is becoming more efficient, more productive and better integrated. Our role is to ensure the estate supports changes in the NHS, and actively enables them.

Our journey over the past five years has seen the business transform significantly. In 2016/17, we set out to build a platform of improved systems, data processes and capability to provide a sound and robust base from which to develop our services to the NHS.

In 2017/18 we have continued to evolve the business for the benefit of our customers, people, shareholder and ultimately patients. We are well underway with the implementation of our new systems platform and begun the next phase of leveraging this platform to deliver further benefit. Now we are at the end of this year, we are able to outline a year of strong performance against our corporate scorecard and strategic plan. A great deal of this has been achieved through the introduction of new initiatives which give our customers better access, more choice and increased flexibility. Much has been achieved in the year with key highlights including:

- **Implementation of new systems and the introduction of a Customer Support Centre** – both have significantly enhanced the quality of service we are able to provide our customers. The launch of a national Customer Support Centre provides a central portal into the business to help us respond to customers quickly and effectively.
- **Innovative new occupational models** – introduction of the Vacant Space Handback Scheme, to allow commissioners to release the cost of empty space leaving them to focus on frontline care. We have also developed a pilot of a Sessional Space room booking system to allow flexible use of space which also reduces cost.
- **Optimising the estate** – we have been working with our NHS partners to optimise the estate by reducing vacant space cost across the portfolio and passing the benefit back to the NHS.
- **Disposal** of 51 properties no longer required by the NHS, releasing land for a forecasted 970 units of new housing and generating £56.8 million in capital funds to reinvest in the health estate.
- **Service delivery** - A new strategic operational delivery model for FM has been developed for implementation through 18/19 which will improve service experience and reduce cost.
- **Investing** £65.8 million through our construction programme to upgrade, maintain and develop new facilities.
- **Supporting the wider health estate** – this year, we supported projects across the NHS and health economy beyond our own portfolio with office strategies for the Department of Health and Social Care (DHSC), NHS Improvement and NHS England.

Our successes are largely due to the commitment and hard work of our people, who are driving positive change to help the NHS transform.

Chairman and Chief Executive Officer Report (continued)

2017/18 achievements

We have achieved a great deal across all business areas in the last twelve months, as highlighted below:

Customer

- Customer satisfaction scores have improved to 7.3 out of 10 in FY2017/18.
- New Customer Support Centre launched in July 2017 handled over 40,000 customer interactions in the first 6 months alone.
- Introduced partnership engagement with key representative stakeholder groups including NHS Clinical Commissioners (Clinical Commissioning Groups), NHS Confederation (Foundation Trusts), Local Medical Committees (GPs), NHS England and NHS Improvement.
- Reduced complaints profile – 1.2% of 2,124 customers.

Financial

- Our focus in 2017/18 has been on cost efficiency, reducing our operating cost base from £809.0 million to £791.3 million. Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was £159.7 million (2017: £132.3 million).
- Total comprehensive income for the year was £381.5 million (2017: £220.1 million). This was driven by the revaluation of one third of our property portfolio with a net increase of £422.4 million to £3,933.1 million. The loss for the year of £40.9 million driven primarily by a £12.2 million impairment to our fixed asset portfolio.
- Improved liquidity with a year-end cash position of £179.1 million, together with net cash inflow from operating activities of £97.5 million.
- Achieved a net profit on disposal of £33.0 million which will be reinvested into the estate.
- Total capital investment in the healthcare estate of £65.8 million.

Asset Management

- Introduced the Vacant Space Handback Scheme which allows commissioners to pass liability for vacant space to NHSPS. Currently 80 Property Vacation Notices have been received in the year. Vacant space stood at 9.4% at the end of the period, against a year end target of 10%.
- Successfully piloted our Sessional Space model on 19 sites across our portfolio. Circa 27,000 bookings have been made, with positive feedback from NHS users on the ability to use space flexibly and avoid fixed cost commitments.
- Disposed of 51 surplus assets, generating capital receipts of £56.8 million. Aggregate gross proceeds for these disposals plus properties exchanged in the year totalled £100.4 million. Our disposal pipeline in 17/18 released land for an estimated 970 housing units.
- Identified a development pipeline of part surplus sites for 23,400 square metres of new healthcare accommodation, £121 million value release and potentially 1,000 plus housing units over 3 to 5 years.
- Completed on the largest disposal in our corporate history, St George's Hospital Hornchurch, generating £42.5 million for reinvestment in the NHS estate.
- During the year we took on the ownership and management of a further 9 properties in Devon and Wiltshire.

Chairman and Chief Executive Officer Report (continued)

Facilities Management and Operations

- Developed a new strategic operational delivery model for implementation through 18/19 which will improve service experience and reduce cost.
- Delivered programmes across the estate to reduce backlog maintenance and improve technical compliance.
- Worked with our key suppliers to develop savings and efficiency targets for next year as part of our cost transformation programme.
- Created an inclusive Corporate Social Responsibility strategy, underpinned by a broad range of initiatives, launched in Q1 18/19.
- Introduced new expertise and capability into leadership roles to drive transformation across operational functions.

Systems and Data

- Delivered new systems to enable better data management and customer service levels including the Customer Support Centre, Capital Projects system, HR system and financial data management (including credit control, purchase to pay and billing).
- Introduced new data warehouse and dashboard reporting across the business, leveraging Asset Management, Facilities Management, customer and financial data and generating important business intelligence.

People

- Embedded new 'Vision and Values' across the company, supported by a performance management framework.
- Developed a new approach to people engagement.

These achievements have been delivered at pace and in a constantly evolving operating environment. There are areas where we can further improve what we do - in particular, how we partner with our customers, how we recover income and how we deliver operational services and this is the focus of our 18/19 operational plan. Our strategy for the year ahead is as ambitious and challenging as in previous years, with more still to deliver. We will continue to work with our people, customers and stakeholders to deliver further transformation for the benefit of the NHS.

Looking ahead to 2018/19, NHS Property Services will develop the business to fulfil our vision to be the best property and facilities provider to the NHS in England by:

- **Partnering with our customers** to better support their needs, broadening our customer engagement and improving collaborative working.
- **Improving what we do** through developing our people, refining data and processes and advising on estates solutions.
- **Developing and growing** through optimisation of our portfolio, investing in new and existing buildings, improving service delivery and managing more of the NHS estate.
- **Realising the value** by delivering innovative solutions, driving efficient and effective service delivery and making a positive community impact.

Chairman and Chief Executive Officer Report (continued)

During the past five years, a significant amount of progress has been made but there is more to be done to optimise value, further reinvest in the NHS estate and improve the service experience for our NHS customers and stakeholders.

Signed 20 November 2018

Ian Ellis
Chairman of the Board

Signed 20 November 2018

Elaine Hewitt
Chief Executive Officer

Board 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

Ian Ellis joined the company on 14 March 2016.

Ian has worked in the real estate and facilities management industry for 43 years. His career included an equity partnership in Richard Ellis (now CBRE), where his final role was head of the investment management division. He left in 1998 to join 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 following the acquisition of Trillium by Land Securities, and was also appointed a main Board Director of Land Securities plc. Following the sale of Trillium to Telereal in 2009, he took on the role of Executive Chair of Telereal Trillium and remained a non-executive until 2018.

Ian is also Chairman of Arcus Solutions Ltd and an Independent Director of Portman Settled Estates.

Ian is a Fellow of the Royal Institution of Chartered Surveyors.

At NHS Property Services, Ian is the Chairman of the Board, Remuneration and Nomination Committees.

Ben Masterson, Shareholder Representative Director

Ben Masterson became Shareholder Representative Director on the Board of NHS Property Services on 31 January 2017.

Ben is an accountant by profession, previously working in financial planning at the Department of Health and Social Care and in a variety of accounting and financial management roles in the NHS. He recently managed the Department's property team and its construction procurement team.

Ben is also a Non-Executive Director of the Department of Health and Social Care owned company, Community Health Partnerships Ltd which manages the Department of Health and Social Care's interests in the NHS LIFT Public Private Partnerships and provides property for primary care and community services. Ben Is also a Director of NHS Shared Business Services Ltd in which the DHSC holds a substantial minority shareholding,

Ben is a member of the Assets and Investment, Remuneration, Facilities Management and Nomination Committees.

Martin West, Non-Executive Director

Martin West has been a Non-Executive Director at NHS Property Services since the company was launched in April 2013.

Martin is an independent consultant in strategy, finance and governance. He is a Chartered Civil Engineer (retired) and Chartered Management Accountant.

In addition to several years of international engineering consulting experience in Europe, the Arabian Gulf States and South East Asia, Martin was a Partner at Drivers Jonas LLP, the Chartered Surveyors, for five years, 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. He is an experienced Chair of Audit at King's College Hospital NHS Foundation Trust and has been an adviser to, or member of, the Audit Committee at Ashley House plc, Cambridge University Hospitals NHS Foundation Trust and the Network Housing Group.

Martin is Chair of the Audit and Governance Committee and a member of the Remuneration Committee and Nomination Committee.

Board Members (continued)

Michael Strong, Non-Executive Director

Michael Strong became a Non-Executive Director of NHS Property Services on 1 February 2016.

Michael has worked in the property sector for over 40 years and has held several high-profile senior leadership roles in international property. Michael was most recently Executive Chairman of CBRE's Europe Middle East and Africa (EMEA) division, a post he held from 2000 until the end of 2015, including seven years as Chief Executive.

Michael is Chair of LocatED, a Government owned property company, established to acquire and develop sites, for the provision of new schools across England. He also holds several other appointments as a Director, including Osborne Group Holdings and Rosewood Group Holdings. He is also a Fellow of the Royal Institution of Chartered Surveyors.

At NHS Property Services Michael is Chair of the Asset and Investments Committee and a member of the Remuneration Committee.

David Godden, Non-Executive Director

David Godden joined the company on 26 July 2018.

David brings wide ranging strategic and operational leadership skills and has a track record of developing integrated property and FM solutions and strong stakeholder relationships. His previous senior positions include Chief Operating Officer at LandSecuritiesTrillum and Group Client Director at Telereal Trillium, Operations Director at Johnson Controls Ltd, and he has worked in international business, including for BAE Systems in Australia and the UK. He is currently a Trustee Director of Power to Change, an organisation which is seeking to build a movement of community-run businesses across England, and is Chair of Metropolitan Housing Association's in-house maintenance subsidiary.

David is the Chair of the Facilities Management Committee and a member of the Nomination Committee.

Jane Kennedy, Non-Executive Director

Jane Kennedy joined the company on 26 July 2018.

Jane brings a wealth of experience leading high-performing operational divisions in the financial services sector. Her experience includes a wide range of product areas including Head of Customer Service roles at Saga Services, Colonial Mutual Life Assurance, GHL Group and Barclays Retail mortgages. She was also Head of Inforce Business at Scottish Widows Life and Pensions and is a serving trustee of Age UK (Hythe and Lyminge).

Jane is a member of the Nomination Committee.

Board Members (continued)

Elaine Hewitt, Chief Executive Officer

Elaine Hewitt joined the company as Chief Executive Officer on 3 February 2015.

Prior to this role, Elaine had a long and successful career in BT Group plc. As Group Property Director, Elaine managed the largest corporate property portfolio in the UK and real estate across 70 countries. Elaine delivered major portfolio and service transformation over a period of significant business change for BT. She has a strong focus on making change happen, delivering results and taking a commercial but collaborative approach. As well as having considerable private sector experience, Elaine also spent some time as Crown Representative for Property and Facilities Management for the Cabinet Office. She is also Senior Board advisor to the property company Dorrington PLC and a Fellow of the Royal Institution of Chartered Surveyors.

Julian Pearce, Chief Financial Officer

Julian Pearce joined the company on 3 September 2016.

Julian has considerable experience in the financial industry. Before joining NHS Property Services, Julian was a Senior Partner at KPMG LLP, where he was responsible for corporate finance, transaction services and restructuring advice and support to banking and other financial sector clients. Julian also spent time working at Lloyds Banking Group where he became Finance Director for their real estate banking business before leading the finance function for the non-core commercial banking business.

At NHS Property Services Julian is a member of the Assets and Investment and Facilities Management Committees.

John Westwood, Director of Asset Management

John Westwood joined the company on 6 July 2015.

John has over 20 years' experience in corporate real estate, holding senior positions within the pharmaceutical, technology and financial services sectors, for companies including Devonshire Investors International (Fidelity), Pfizer Inc, Citigroup, BT, IBM and DTZ. John has a strong track record of successfully delivering major asset programmes, including significant divestment and acquisition of commercial and R&D real estate, cost reduction consolidation strategies, process development and improvement, and workplace transformation initiatives across the globe.

John is reshaping the approach to strategic asset management to meet the needs of the NHS going forward. John is a member of the Assets and Investment Committee.

Martin Steele, Chief Operating Officer

Martin Steele joined the company on 4 July 2017.

Martin has significant operational and commercial management experience. He has a strong track record of designing and implementing hard and soft FM strategies and delivering complex client services across a range of blue-chip commercial organisations. Martin has worked for leading companies including BT, Andersens, Northern Foods and Debenhams. His functional expertise, commerciality and leadership skills have consistently added value and driven transformation in fast-paced and intricate operating environments.

At NHS Property Services Martin sits on the Asset and Investment and Facilities Management Committees.

Strategic Report

NHS Property Services realises value, re-invests in the NHS estate and delivers services for our customers throughout England. We aim to provide best in class property solutions and facilities management services to the healthcare system and be recognised for our customer focus and operational excellence.

We have been transforming the organisation, growing the property opportunity and strengthening our contribution to the NHS through the execution of a comprehensive change programme designed to professionalise the business and support our customers more effectively. In 2017/18 our three distinct, but mutually inclusive, strategic delivery goals were as follows:

- *Leverage the platform:* Where we utilise our transformed data, systems, processes and protocols in asset management, operations and finance to increase the efficiency and effectiveness of Business-As-Usual activities, creating a robust and professional business.
- *Develop the business*: Where we continue to develop and grow into a successful and expansive business, supporting a larger, more complex portfolio, and wider service and client base.
- *Realise the value*: Where greater value is added to our customers, our shareholder and the wider healthcare estate.

Significant progress has been made across each strategic delivery goal throughout the year, including:

- *Leverage the platform:*
    - New property, asset, capital and finance systems architecture implemented.
    - New Business Intelligence and reporting capability; and
    - Customer Contact Centre launched on-plan in July 2017.
- *Develop and grow:*
    - Visions and Values developed and rolled out to the business;
    - £65.8 million invested in new and existing buildings; and
    - Successful roll-out of space utilisation management programmes to the healthcare estate; reduced vacant space baseline from 12% to 9.4%, exceeding our target by 0.6%.
- *Realise the value:*
    - £56.8 million in disposal proceeds for re-investment back into the NHS system.
    - Successfully piloted our Sessional Space model on 19 sites across our portfolio.

Strategic Report (continued)

Corporate and Social Responsibility

During the year we continued to put in place the systems and processes that will enable us to deliver sustainable economic, social and environmental benefits for our stakeholders. The quality of the environmental data generated from our property portfolio has continued to improve and in the coming year we anticipate being able to establish energy, carbon, water and waste minimisation performance targets based on accurate baselines. These targets will help us focus on making the best use of scarce resources and implement efficiency programmes that lower our costs and reduce our environmental impacts.

During the year we recruited a national Environment & Energy Manager and established a network of champions to help ensure the issue is addressed across the whole business. Successes to date have included providing our customers with a smoother environmental data reporting process for their own Annual Report and Accounts, acceleration of our Energy Performance Certificate and Display Energy Certificate programme, procurement of a new Energy Bureau Service provider and the development of new standard operating procedures for the complex waste streams we manage.

We are also committed to supporting those local communities within which we operate. We encourage and support our employees to raise money for, and volunteer with, community organisations on issues which are important to them. In the coming year we will be launching our first Corporate Social Responsibility strategy with a focus on Community Health & Wellbeing and the role we can play in supporting better patient outcomes and strategic change across the NHS. As part of the strategy, we will be supporting a small number of charities through fundraising, providing internal and external space to community organisations for health and wellbeing activities and offering even more support to our employees to volunteer in the local community.

This report was approved by the Board on 20 November 2018 and signed for and on behalf of the Board by:

Elaine Hewitt

Elaine Hewitt
Chief Executive Officer
20 November 2018

Registered Address: NHS Property Services Limited, 99 Gresham Street, London, EC2V 7NG
Company Registration Number: 07888110

Financial Highlights

Income and expenditure

EBITDA significantly improved to £159.7 million for the year (2017: £132.3 million). The underlying operations of the company continue to improve as the business has implemented cost saving and expenditure reduction initiatives over the year. The focus on cost efficiency resulted in a £17.7 million reduction to the operating cost base excluding fixed asset impairment to £791.3 million (2017: £809.0 million). The table below contains a reconciliation of EBITDA to the Statutory result for the year. (Note in calculating EBITDA impairments to fixed assets have also been excluded as this is also not part of the company's core business operations).

	Source	2018 £m	2017 £m
EBITDA		159.7	132.3
Gain on disposal	SOCI	33.0	13.4
Impairment charge	Note 5	(12.3)	40.5
Depreciation expense	Note 3	(170.4)	(149.0)
Tax expense	SOCI	(9.9)	-
Interest Expense	SOCI	(41.1)	(42.7)
Statutory loss for the year		**(40.9)**	(5.5)

Key: SOCI represents Statement of Comprehensive Income

Direct property expenses decreased by 2% to £619.1 million (2017: £632.6 million) as the company streamlined its supply chain and benefitted from a change in systems surrounding property management. Operating revenue is driven through our cost base and so decreased by 1% to £780.5 million (2017: £792.3 million). Administrative costs increased by 2% to £142.3 million reflecting the investment made by the company in the capability of its people. Other operating expenses have increased by £45.8 million driven primarily by movements in impairments in our fixed asset portfolio of £52.8 million offset by a £4.3 million reduction in dilapidations expenditure and a £5.3 million reduction of the doubtful debt expenditure. In addition to these activities, a taxation charge of £9.9 million has resulted in the statutory loss for the year increasing to £40.9 million (2017: £5.5 million).

The fixed asset impairments were driven by the annual revaluation exercise which is also the cause for an increase in depreciation. The revaluation also generated unrealised net gains of £422.4 million (2017: £222.3 million) recorded in the revaluation reserve.

The company achieved significant value in disposing of surplus assets with the gain on disposal increasing to £33.0 million (2017: £13.4 million). This large gain has resulted in a tax charge for the year of £9.9 million (2017: Nil) whilst interest expenditure was consistent year on year.

Cashflow, funding and debt position

The company's sustained strategic focus on debt recovery and improvements to credit control has maintained a strong cash flow from operating activities of £97.5 million (2017: £156.6. million).

The company's loan facility with the Department for Health and Social Care has been utilised to improve the liquidity position throughout the year resulting in a higher cash and cash equivalents position at the year end up £55.7 million to £179.1 million (2017: £123.4 million).

Financial Highlights (continued)

Capital receipts and investment

During the year, the company completed the sale of 51 surplus properties which realised gross capital receipts of £56.8 million (2017: £54.1 million) generating an accounting profit of £33.0 million (2017: £13.4 million). The sale of St George's Hospital in Hornchurch was the biggest disposal the company has made to date with a sales value of £42.5 million and a recognised gain of £18.3m. This has allowed the company to continue funding its ongoing capital estate investment programme from properties which were surplus to requirements while also reducing running costs to the estate.

The company invested a further £65.8 million (2017: £67.5 million) back into the estate during the period. The investment programme delivers improvements to the property portfolio for our customers and ensures that the estate under our management is safe, secure and operates efficiently.

This report was approved by the Board on 20 November 2018 and signed for and on behalf of the Board by:

Julian Pearce
Chief Financial Officer
20 November 2018

Registered Address: NHS Property Services Limited, 99 Gresham Street, London, EC2V 7NG
Company Registration Number: 07888110

Directors' Report for the Year Ended 31 March 2018

The Directors present their Annual Report and Accounts for the year ended 31 March 2018.

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 asset 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 support clinical transformation, 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 2018 of £40.9 million.

Total comprehensive income for the year ended 31 March 2018 was £381.5 million compared to £220.1 million income reported in the year ended 31 March 2017.

A review of the business and future developments is contained in the Chairman and Chief Executive Officer's Report on pages 2 to 5 and the Financial Highlights Report on pages 11 to 12.

The principal risks and uncertainties are detailed on pages 22 and 23.

Results and dividends

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

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

Share capital

The issued share capital of the company is 256,200,001 £1 ordinary shares. The Secretary of State for Health and Social Care owns 100% of the issued share capital. The company did not issue any shares in the period.

Details of the company's 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 governance and risk management frameworks in place. Where frameworks need to be more robust to maintain effective internal controls the Board has implemented additional processes whilst these frameworks are fully implemented and embedded.

A report on governance and risk management can be found on pages 18 to 26.

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.

Directors' Report (continued)

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 and Social Care.

Pension liabilities

Details of the pension liabilities and administration of the pension schemes are shown in note 15 to the accounts. Further details on individual Directors' pensions and the associated schemes can be found in the Remuneration Report pages 27 to 31.

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. The financial year 2017/18 represents the second year of the second cycle.

Directors

The details of Board Directors who held office during the period and their remuneration are shown in the Remuneration Report starting on page 27.

A register of Company Directorships and other significant interests held by Board members, which may conflict with their management responsibilities, is maintained by the company. 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 2017/18:

Directors of the Board	Appointment to the Board	Resignation from Board
Martin Steele	04-Jul-2017	n/a
Benjamin (Ben) Masterson	31-Jan-2017	n/a
Julian Pearce	03-Sept-2016	n/a
John Edward (Ed) Smith	01-Jun-2016	25-Jul-2017
Ian Ellis	14-Mar-2016	n/a
Michael Strong	01-Feb-2016	n/a
John Westwood	06-Jul-2015	n/a
Elaine Hewitt	03-Feb-2015	n/a
Nilesh (Neil) Sachdev	12-Jan-2015	26-Jul-2018
Martin West	26-Mar-2013	n/a
Christopher Kane	26-Mar-2013	26-Jul-2018

Details of indemnities provided to the Directors are included in the Governance and Risk Report on page 21.

Directors' Report (continued)

Employees

The company is committed to openness and transparency. Employees have access to information regarding company policies, business performance and other matters of concern to them as employees. The views of employees are considered when making decisions that might affect their interests.

All employees have access to a 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 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 2018.

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 2 to 5 and the Financial Highlights Report on pages 11 to 12. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the financial statements.

The company is wholly owned by the Secretary of State for Health and Social Care 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.

Directors' Report (continued)

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.

This report was approved by the Board on 20 November 2018 and signed for and on behalf of the Board by:

Julian Pearce
Chief Financial Officer
20 November 2018
Registered Address: NHS Property Services Limited, 99 Gresham Street, London, EC2V 7NG
Company Registration Number: 07888110

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.

This report was approved by the Board on 20 November 2018 and signed for and on behalf of the Board by:

Elaine Hewitt
Chief Executive Officer
20 November 2018

Registered Address: NHS Property Services Limited, 99 Gresham Street, London, EC2V 7NG
Company Registration Number: 07888110

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 and Social Care in this respect.

The company is not required to comply with the UK Corporate Governance Code, September 2014 (the Code), however 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 Board

The Board sets the strategic direction of NHS Property Services and works to improve the success of both the company, and 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, although a number of matters are reserved for the Shareholder Director and the Board. The Board has 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 oversees operating and financial performance; risk management and internal controls; compliance and major policy issues and the corporate risk register every six months.

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. A Non-Executive Director chairs all Board Committees. The work of the Committees continues to be reviewed to ensure that they focus on strategy, policy and governance and add value and expert knowledge and oversight to these areas. Committee terms of reference are currently being reviewed and delegated financial limits were approved by the Board in June 2017.

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

Governance and Risk Report (continued)

Board	**Develops strategy and leads NHS Property Services to achieve long-term success.** *Comprises the Chairman, Shareholder Director Representative, five 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.* *Ian Ellis (7/7), Shareholder Director (7/7), Martin West (7/7), Chris Kane (6/7), Neil Sachdev (6/7), Michael Strong (5/7), Ed Smith (2/3), Elaine Hewitt (7/7), Martin Steele (6/6), John Westwood (7/7) and Julian Pearce (6/7).* **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 (7/7), Shareholder Director representative (7/7) and Neil Sachdev (7/7).* **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 *: Michael Strong (4/4), Chris Kane (3/4), Shareholder Director representative (2/4), Elaine Hewitt (4/4), Martin Steele (2/2) John Westwood (4/4) and Julian Pearce (4/4).* **Attendance is shown in brackets against the available meetings that members could attend.*
Remuneration Committee	**The Committee oversees 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 *: Ian Ellis (2/2), Shareholder Director Representative (2/2), Martin West (1/2), Michael Strong (2/2), Elaine Hewitt (2/2) and Robbie Wheeler (2/2).* **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 (4/4), Neil Sachdev (4/4), Elaine Hewitt (0/4), Julian Pearce (4/4), Shareholder Director Representative (4/4) and Martin Steele (3/3).* **Attendance is shown in brackets against the available meetings that members could attend.*

Governance and Risk Report (continued)

<table>
<tr><td>Nomination Committee</td><td colspan="3">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 at Director level and attendance *: Ian Ellis (1/1) Chris Kane (1/1), Neil Sachdev (1/1), Shareholder Director Representative (1/1), Martin West (0/1), Mike Strong (1/1) and Elaine Hewitt (1/1).
*Attendance is shown in brackets against the available meetings that members could attend.</td></tr>
<tr><td colspan="4">Executive Committees</td></tr>
<tr><td>Executive Committee</td><td>Meets monthly
Membership - all Executive Directors (including Board 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.</td><td>Operational Committee</td><td>Meets monthly
Membership - all Executive Directors and chaired by the Chief Operating Officer.
Assists the Executive Committee with the detailed performance monitoring and delivery of key programmes.</td></tr>
</table>

Board composition

At 31 March 2018, the Board comprised of the Chairman, Shareholder Director, four Non-Executives, the Chief Executive Officer and three Executive Directors.

The Board is supported by an Executive Team which includes a further three Executives. The diversity and experience of the Board and Executive Team are essential to the effective leadership and success of the company. The biographies of the Board members are shown on pages 6 to 8, and demonstrate a range of property, investment, corporate, financial, information management and technology and NHS experience relevant to the company's business.

The Board held seven meetings 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.

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.

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

Board diversity

Appointments are made first and foremost based on 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. This is supported by the terms of reference of the Nomination Committee which 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.

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. 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.

Governance and Risk Report (continued)

Board changes

During 2017/18, there was one change to the Non-Executive Directors on the Board. Ed Smith resigned from the Board on 25 July 2017. No Executive Directors left throughout the year. Martin Steele was hired as Chief Operating Officer and was appointed to the Board on 4 July 2017. There have since been two further Non-Executive Director resignations and two appointments. Neil Sachdev and Chris Kane resigned from the Board and David Godden and Jane Kennedy were appointed to the Board on 26 July 2018.

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 Social Care and their role as either the Shareholder Director or his representative in the company is registered and managed in an appropriate way.

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.

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.

Directors' indemnities

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.

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 Company Secretary is 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 is responsible for overseeing the effectiveness of risk management and internal control systems and regularly assess the principal risks facing the company.

Risk management framework

Risk management is the formal process of identifying and mitigating risk. It enables us to identify the possibility of future events happening which will impact the achievement of objectives, as well as the controls in place to mitigate this and develop action plans which will enable us to make better business decisions that take into account the effect of uncertainty (positive or negative).

NHS Property Services is committed to creating and enabling a risk management culture that seeks to enhance the value delivered to customers, position the company for growth and protect our reputation. Thinking about risk consciously and manging it in a planned and effective way will support our objective of delivering a consistently good service.

We have reviewed our risk framework in-year to enhance awareness and place greater emphasis on our Directorate Risk Registers that feed into our Corporate Risk Register. We have also reviewed and enhanced our risk appetite which was approved by the Executive Team in March 2018.

Corporate risks are reviewed at Board level and are a consideration when producing documents for all Board level and Executive Committees.

The Executive Directors are responsible for delivering the company's strategy and managing risks which may stop this being achieved. The Executive Directors in turn place reliance on their teams to monitor and manage operational risks on an ongoing basis, as well as identifying emerging risks.

Directorate risk registers provide a framework for 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.

A Risk Forum has been established to review all directorate risk registers and discuss cross-directorate risks. This should ensure that the approach to risk management is integrated, embedded and proactive, and that risk management is a driver for improvement in controls and performance across the organisation.

The financial impact of certain risks has been transferred through insurance arrangements. The company is a member of the NHS Resolution Risk Pooling Scheme (Previously NHS Litigation Authority), 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 to customers this year we have continued to strengthen the capability of our people and have made progress implementing our new corporate finance system.

The principal risks are below; we have mitigating programmes and actions where appropriate:

Principal Risks	Key mitigating actions
Data quality and systems- There is a risk that we will continue to have billing disputes with customers and delays in payment due to issues with our systems and data or not being notified of occupation changes.	A number of initiatives are in progress to further improve the quality of the billing information including: • Operational data steering groups established; • Core system data sets are being analysed with new data quality software; • New systems becoming embedded in the process. During the year, the company implemented a number of new systems. These systems are taking time to embed; to maintain adequate control, management implemented a number of additional processes whilst system enhancements are implemented. • Management continue to monitor the control environment.

Governance and Risk Report (continued)

Principal Risks	Key mitigating actions
Financial - Our core customer base has increasing funding pressures which increases the risk of non-payment for services provided. This, together with our own internal pressures on funding, may negatively impact our cash flow and liquidity.	• Continued engagement with DHSC and NHS England; • Cashflow forecasts provided monthly to DHSC • Arbitration process being rolled out; • Regular reviews of debt portfolio; • Maximising the effectiveness of billing and debt processes; • Enhanced policies and procedures being drafted.
People -Retention and attraction of key talent remains a risk which may impact our capability to deliver the business plan including key change projects and the delivery of our strategic objectives.	• Talent management and succession planning is being embedded throughout the company; • Refreshed induction programme focusing on the vision and values of the company; • Plan to utilise apprenticeship levy; • In-house recruitment function established.
Customer -There is a risk that customer needs are not met as healthcare strategies and models of care rapidly evolve to address challenges such as providing modern 24/7 clinical services for patients. Feedback recognises that improvements are being delivered but there is work still to be done.	Our focus is on delivering good service for customers. We have rolled out a suite of programmes to improve service levels such as: • New Customer Relationship Management system rolled out which will improve responsiveness to customer issues and queries; • Improved customer communications highlighting customer initiatives and the value these are delivering; • Increased engagement with key customers and partners.
Compliance - We remain committed to operating in a compliant and customer focused manner in a continually changing regulatory and legislation landscape. There is a risk we are not legally compliant in all of our occupied premises from a health and safety and technical perspective.	• Asset condition surveys are being obtained for sites for which the company has a repairing and insuring liability. These surveys have begun to highlight a need for remedial works which will have a direct impact to cost and funding requirements; • Technical lead and operational compliance manager recruited; • Increased customer engagement and transparency to share levels of compliance and differentiate landlord and tenant compliance responsibilities.
Commercial - Formal occupation arrangements not being in place across the entire portfolio increases the risk of dispute over billing and uncertainty over occupation.	• An Occupation Regularisation Programme is in progress to formalise all occupation arrangements; • Ongoing discussions with tenants to document agreements.
Contract -There is a risk of a third-party supplier contract failure as well as contract vendor performance.	• Improved engagement at senior level with key critical suppliers; • Monitoring of supplier business performance in market; • Deep dive cost builds by service type to help determine value for money represented by contract; • Deep dive review of existing contract to assess current obligations.

Governance and Risk Report (continued)

Internal Controls

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.

During 2017/18, the organisation has continued to undertake significant transformation. The implementation of the new asset management and finance systems has been completed, which has required significant time investment from key individuals to help embed these in day-to-day operations. Further, considerable work has been undertaken in the year to develop a new strategic operational delivery model, due to be implemented in FY2018/19.

We continue to work with our Internal and External Audit partners to strengthen our internal control framework. The 2017/18 internal audit plan has been focussed on key risk areas, covering the efficiency and effectiveness of the governance, risk management and internal control frameworks.

The Audit and Governance Committee monitors the effectiveness of controls through the receipt of written and verbal reports from directorates, 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; and
- 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 plays a key role in providing independent assessment and challenge of the governance, risk and internal control frameworks at NHS Property Services.

The internal audit plan for the year ended 31 March 2018 focussed on known risk areas for the organisation and was approved by the Audit and Governance Committee at the start of the year. The audits have covered key business processes and, in a number of the areas, management had already developed and started to implement action plans to address known weaknesses. The audit work has identified additional actions which have been agreed with management, to address control or process weaknesses. The implementation status of these agreed actions is being monitored by the Audit and Governance Committee.

Internal Audit provide update reports to each Audit and Governance Committee with key findings from completed reviews as well as an update on the status of implementation of agreed management actions. Further, they have provided an annual report, including the Head of Internal Audit Opinion, in relation to the organisation's framework of governance, risk management and internal control.

The Head of Internal Audit has informed NHS Property Services that, based on their work for the year ended 31 March 2018, governance and risk management frameworks were in place, but actions were required to be implemented to make sure they were robust to meet the organisation's needs. As a result, a limited assurance assessment was given for the adequacy and effectiveness of the frameworks for governance and risk management for the year ended 31 March 2018. A significant number of actions in relation to the governance framework have been completed and actions to strengthen the risk management framework are currently being implemented.

Governance and Risk Report (continued)

In respect of the framework of internal control, the FY2017/18 internal audit plan was focussed, at NHS Property Services' direction, on known risk areas for the organisation. Internal audit reported assessments at the point in time when the work was undertaken, when remediation plans which had been put in place by the organisation had not been completed. The audit work undertaken identified an evolving internal control environment with progress being made throughout the year, through the delivery of remediation plans to design and embed the framework of internal control. In addition to the actions plans already in place, management actions were agreed for all of the recommendations made by internal audit and significant effort has been focussed on ensuring that these have been actioned by year end as far as possible. On the basis of the work undertaken during the year, internal audit were not able to provide assurance over the efficiency and effectiveness of the internal control framework for FY2017/18, given the implementation status of the ongoing action plans in place to address the known weaknesses. The Head of Internal Audit concluded that the implementation of the agreed action plans should provide the basis for a robust internal control framework for FY2018/19.

Fire safety

The company and Tyne and Wear Fire and Rescue Authority first entered into a partnership agreement on 6 April 2014 under the terms and conditions of the Primary Authority Scheme (Fire Safety). The Regulatory Reform Order 2005 is enforced by the local Fire Authorities. The scheme is administered by the Government's "Better Regulation Delivery Office". The initial reviews were completed in year one together with the Fire Risk Assessment Template and guidance completed for use by the Safety Team. Regular reports are received throughout the year.

Fraud detection and investigation

Reducing the risk of financial and reputational losses because of fraud, bribery and corruption is a key concern of the Board and Executive Team. NHS Property Services outsource their counter fraud work to Moore Stephens who undertake a range of proactive initiatives and reactive investigations to embed a strong anti-fraud culture and create a robust control framework to prevent fraud occurring. Over the last year Moore Stephens has delivered a programme of proactive work that has included:

- Local proactive exercise on the Gifts and Hospitality /Declarations of Interest process;
- Fraud and Bribery Awareness sessions provided to the Finance team and Facilities department
- Fraud and Bribery awareness posters designed and disseminated to all sites nationally.

Information governance and General Data Protection Regulation

Information governance and records management is important for any business to ensure it complies with current legislation. The Secretary of State for Health and Social Care has mandated the use of an Information Governance Toolkit for all NHS organisations.

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. The toolkit is a subset of the ISO27000 standards (Information Security), which has been customised by the Department of Health and Social Care. The company met level two (the required standard) on 31 March 2018 for the 2017/18 measures.

For 2018/19, the company will continue to evolve its systems and processes to ensure ongoing compliance with the additional requirements of the General Data Protection Regulation. A significant amount of work was undertaken to prepare for this which went live in May 2018. A project has been overseeing implementation of the enhancements needed to meet the key requirements of the new Data Protection Act.

The company is registered as a data controller with the Information Commissioner, and complies with the requirements of the acts that are regulated by her. There were no significant reportable information incidents during the year.

Governance and Risk Report (continued)

Slavery and Human Trafficking statement

NHS Property Services fully supports the Government's objectives to eradicate modern slavery and human trafficking and recognises its role in both combatting it, and supporting victims. We are strongly committed to ensuring our supply chains and business activities are free from ethical and labour standards abuses.

We confirm the identities of all new employees and their right to work in the United Kingdom, and our policies additionally give a platform for our employees to raise concerns about poor working practices.

Our staff can raise concerns about inappropriate activity with us directly and confidentially. We have assigned the responsibilities of a Raising Concerns Guardian to the Company Secretary. We consider any concerns for further investigation and offer support to individuals that have suffered fiscal or professional detriment as a result of whistleblowing.

Our procurement approach follows good practices such as the Crown Commercial Service standard, which includes a mandatory exclusion question regarding the Modern Slavery Act 2015. When procuring goods and services, we expect our suppliers to comply with the Modern Slavery Act 2015.

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and applies to NHS Property Services Limited.

The report was approved by the Board on 20 November 2018 and signed for and on behalf of the Board by:

Elaine Hewitt
Chief Executive Officer
20 November 2018

Registered Address: NHS Property Services Limited, 99 Gresham Street, London, EC2V 7NG
Company Registration Number: 07888110

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 contributions.
- 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 and Social Care, 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 and Social Care. 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 has been one Board Director appointment that has been managed through open competition - the Chief Operating Officer. A firm of recruitment consultants managed the appointment process.

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

In May 2018, the Shareholder Director and Board approved revised delegated financial limits. Remuneration approval for all Directors and people earning more than £130,000 base salary per year is reserved to the Secretary of State for Health and Social Care 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. 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 for those on NHS terms. People appointed post 1 April 2013 have been employed on company terms and conditions of service.

A company-wide bonus or performance-related pay scheme is now in place and was introduced during 2016/17. Executive bonuses were endorsed by the Remuneration Committee in May 2018 and is based on delivery of corporate and personal objectives.

Remuneration Report (continued)

Company structure

The company has undertaken a further series of function by function re-structures since last year in order to align more closely with NHS and business needs.

Since appointment, the Chief Executive Officer has taken the lead in shaping the future requirements of the business in line with Shareholder expectations. The Executive Team regularly reviews the existing operating model.

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	Date of Appointment as a Company Director	Unexpired term (months) at 31 March 2018	Notice periods
Elaine Hewitt	03 February 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.
John Westwood	06 July 2015	n/a	Terminable by either party giving 6 months' notice. No less than 3 months if dismissed or incapacitated.
Julian Pearce	03 September 2016	n/a	Terminable by either party giving 6 months' notice.
Martin Steele	04 July 2017	n/a	Terminable by either party giving 6 months' notice.
Chairman, Shareholder Director and Non-Executive Directors			**Letter of appointment – notice periods**
Ian Ellis	14 March 2016	11.5	Initial period of three years. Either party can give 2 months' notice.
Ben Masterson	31 January 2017	n/a	The Shareholder Director is a senior civil servant at the Department of Health and Social Care 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	6	Contract extended to 01 October 2018. Either party can give 3 months' notice.
Chris Kane	26 March 2013 – 26 July 2018	n/a	Either party can give three months' notice.
Neil Sachdev	12 January 2015 – 26 July 2018	n/a	Initial period of 3 years. Either party can give 3 months' notice.
Michael Strong	01 February 2016	10	Initial period of 3 years. Either party can give 3 months' notice.

Service contract details for Executive and Non-Executive Director's as at 31 March 2018.

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 Report (continued)

Remuneration of Board members

The following table provides details of the remuneration and pension of Board members in post during the reporting period.

Name	2017/18 Salary £'000 (Bands of £5,000)	2017/18 Bonus £'000 (Bands of £5,000)	2017/18 Benefits in kind £ (1)	2017/18 Pension benefits £'000 (2)	2017/18 Total remuneration £'000 (Bands of £5,000)	2016/17 Salary £'000 (Bands of £5,000)	2016/17 Bonus £'000 (Bands of £5,000)	2016/17 Benefits in kind £	2016/17 Pension benefits £'000	2016/17 Total remuneration £'000 (Bands of £5,000)
Chairman and Non-Executive Directors										
Ian Ellis	60 - 65	Nil	Nil	Nil	60 - 65	60 - 65	n/a	Nil	n/a	60 - 65
Christopher Kane	25 - 30	Nil	Nil	Nil	25 - 30	25 - 30	n/a	Nil	n/a	25 - 30
Martin West	25 - 30	Nil	Nil	Nil	25 - 30	25 - 30	n/a	Nil	n/a	25 - 30
Neil Sachdev	20 - 25	Nil	Nil	Nil	20 - 25	20 - 25	n/a	Nil	n/a	20 - 25
Michael Strong	25 - 30	Nil	Nil	Nil	25 - 30	25 - 30	n/a	Nil	n/a	25 - 30
Ed Smith (3)	Nil	n/a	Nil	n/a	Nil	Nil	n/a	Nil	n/a	Nil
Executive Directors										
Elaine Hewitt	220 - 225	75-80	21,500	Nil	315-320	210 - 215	60 - 65	20,300	Nil	295 - 300
Julian Pearce (4)	170 - 175	35-40	8,000	Nil	215-220	90 - 95	15 - 20	4,000	Nil	110 - 115
John Westwood	160 - 165	40-45	8,000	10	220-225	160 - 165	30 - 35	7,000	10	210 - 215
Martin Steele (5)	130 - 135	30-35	5,900	8	175-180	n/a	n/a	n/a	n/a	n/a
Simon Finley (6)	n/a	n/a	n/a	n/a	n/a	50 - 55	Nil	2,200	3	55 - 60
Dennis Markey (7)	n/a	n/a	n/a	n/a	n/a	195 - 200	Nil	31,000	11	240 - 245

Directors Remuneration 2017/18 compared with 2016/17.

(1) Benefits are noted to the nearest £100.
(2) Pension benefits relate to employer contributions to the personal pension plan. Contributions are shown in the table on page 31.
(3) Resigned 25 July 2017: Received no remuneration in the period. Appointed in conjunction with his role as Chairman of NHS Improvement.
(4) Salary includes a payment of £3,000 in lieu of pension contributions.
(5) Appointed 04 July 2017: whole year equivalent (WYE) range £190,000 - £195,000.
(6) Resigned 26 July 2016: WYE range £155,000 - £160,000 – for comparative purposes only.
(7) Resigned 2 March 2017. Salary includes a payment in lieu of notice amounting to £37,875 - WYE range £150,000 - £155,000 – for comparative purposes only.
(8) David Godden and Jane Kennedy were appointed to the Board on 26 July 2018. No remuneration to disclose for the period.

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).

Remuneration Report (continued)

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.

	2017/18	2016/17
Highest earner's total remuneration (£)	315,000 – 320,000	295,000 - 300,000
Median total remuneration (£)	18,157	18,635
Ratio	17.5	16.0
Analysis of median earnings Salaries for senior management are disclosed in bands of £5,000, in accordance with EPN 430 guidance		

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. No current Board members have an interest 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.

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 two Board members.

Remuneration Report (continued)

Pension interests of Board members who are in the group pension scheme - Scottish Widows pension scheme are outlined below.

Name	Title	31 March 2018 £'000	31 March 2017 £'000
Elaine Hewitt	Chief Executive Officer	Nil	Nil
Dennis Markey	Chief Operating Officer	n/a	11*
Simon Finley	Chief Financial Officer	n/a	3*
Julian Pearce	Chief Financial Officer	Nil	Nil
Martin Steele	Chief Operating Officer	8*	Nil
John Westwood	Director of Asset Management	10	10
Employer contributions made for Board members who are in the group pension scheme - Scottish Widows pension scheme are outlined above. * part year			

The report was approved by the Board on 20 November 2018 and signed for and on behalf by:

I. D Ellis

Ian Ellis
Chairman of the Board
20 November 2018

Registered Address: NHS Property Services Limited, 99 Gresham Street, London, EC2V 7NG
Company Registration Number: 07888110

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

Opinion on financial statements

I have audited the financial statements of NHS Property Services Limited for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes, including the significant accounting policies. 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 that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of the loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of NHS Property Services Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Company Financial Statements, the Directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHS Property Services Limited internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NHS Property Services Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other information

Directors' are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report, Financial Highlights, or Directors' Report; and
- the information given in the Strategic Report, Financial Highlights and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

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 and the part of the remuneration report to be audited 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

Hilary Lower (Senior Statutory Auditor)

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)

20 November 2018

National Audit Office

157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP

Statement of Comprehensive Income

for the year ended 31 March 2018

	Notes	2018 £000	Restated 2017 £000
Operating revenue	2	780,541	792,269
Direct property expenses	3	(619,095)	(632,583)
Administrative expenses	4	(142,338)	(139,592)
Other operating expenses	5	(42,114)	3,712
Operating profit		**(23,006)**	23,806
Finance income	7	589	671
Finance costs	7	(41,652)	(43,358)
Gain on disposal of property, plant and equipment		33,021	13,422
Loss before tax from continuing operations		**(31,048)**	(5,459)
Taxation expense	8	(9,858)	-
Loss for the year		**(40,906)**	(5,459)
Other comprehensive income, net of income tax			
Items that will not be recycled to profit and loss:			
Revaluation of property, plant and equipment		422,395	225,602
Other comprehensive income, net of income tax		**422,395**	225,602
Total comprehensive income for the year		**381,489**	220,143

The above relates wholly to continuing operations.

Notes 1 to 25 form part of these financial statements.

Statement of Financial Position

as at 31 March 2018

	Notes	2018	Restated 2017	1 April 2016 2016
		£000	£000	£000
Non-current assets				
Property, plant and equipment	9	3,933,124	3,654,364	3,426,754
Trade and other receivables	10	25,287	11,080	12,818
		3,958,411	3,665,444	3,439,572
Current assets				
Trade and other receivables	10	463,792	396,105	448,072
Cash and cash equivalents		179,148	123,440	93,193
Inventory		9	9	11
		642,949	519,554	541,276
Assets classified as held for sale	11	12,126	8,344	14,892
Total assets		**4,613,486**	4,193,342	3,995,740
Current liabilities				
Trade and other payables	12	134,144	119,971	131,516
Borrowings	13	104,093	72,946	120,603
Provisions	14	12,248	14,099	22,697
		250,485	207,016	274,816
Non-current liabilities				
Trade and other payables	12	10,570	7,858	6,194
Borrowings	13	609,685	625,578	609,720
Provisions	14	68,292	83,603	96,990
		688,547	717,039	712,904
Total liabilities		**939,032**	924,055	987,720
Net assets		**3,674,454**	3,269,287	3,008,020
Equity				
Share capital	16	256,200	256,200	253,800
Retained earnings		(891,245)	(873,028)	(879,171)
Revaluation reserve		1,274,363	874,657	660,657
Capital contribution reserve	17	3,035,136	3,011,458	2,972,734
Total equity		**3,674,454**	3,269,287	3,008,020

Notes 1 to 25 form part of these financial statements.

These financial statements were approved by the Board of Directors on 20 November 2018 and signed on its behalf by:

Julian Pearce
Chief Financial Officer
Company Registered Number: 07888110

Statement of Cash Flows

for the year ended 31 March 2018

	Notes	2018	Restated 2017
		£000	£000
Operating activities			
Loss for the year		(40,906)	(5,459)
Adjustments for non-cash transactions:			
(Gain)/loss on disposal of property, plant and equipment		(33,021)	(13,422)
Depreciation and amortisation	9	170,426	149,020
Non-current assets adjustments		-	3,509
Provisions arising and reversed unused	14	(15,294)	(15,382)
Impairments of non-current assets	5	12,253	(40,548)
Adjustments for:			
Interest received (shown below)	7	(589)	(671)
Interest paid (shown below)	7	40,520	42,133
(Increase)/decrease in inventories		-	2
(Increase)/decrease in trade and other receivables		(52,313)	52,502
Increase/(decrease) in trade and other payables	12	8,418	(8,445)
Increase/(decrease) in tax payable	12	9,858	-
Provisions utilised	14	(1,868)	(6,603)
Net cash inflow from operating activities		**97,484**	156,636
Investing activities			
Interest received	7	589	671
(Payments) for property, plant and equipment		(65,838)	(67,493)
Proceeds from disposal of property, plant and equipment		56,798	54,085
Net cash (outflow) from investing activities		**(8,451)**	(12,737)
Financing activities			
Proceeds from the issue of share capital	16	-	2,400
Increase/(decrease) in loans	13	30,000	(50,000)
Capital element of payments in respect of finance leases and PFI		(22,805)	(23,919)
Interest paid	7	(40,520)	(42,133)
Net cash (outflow) from financing activities		**(33,325)**	(113,652)
Increase in cash and cash equivalents for the year		**55,708**	30,247
Cash and cash equivalents at start of year		**123,440**	93,193
Cash and cash equivalents at end of year		**179,148**	123,440

Notes 1 to 25 form part of these financial statements.

Statement of Changes in Equity

	Share capital £000	Retained earnings £000	Capital Contribution Reserve £000	Revaluation Reserve £000	Total £000
Balance at 1 April 2017	**256,200**	**(873,028)**	**3,011,458**	**874,657**	**3,269,287**
Total comprehensive income for the period					
Retained profit/(loss)for the year	-	(40,906)	-	-	(40,906)
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	422,395	422,395
Transfers between reserves	-	22,689	-	(22,689)	-
Transfers and adjustments	-	-	23,678	-	23,678
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(18,217)	23,678	399,706	405,167
Transactions with owners, recorded directly in equity					
Issue of shares	-	-	-	-	-
Total contributions by owners	-	-	-	-	-
Balance at 31 March 2018	**256,200**	**(891,245)**	**3,035,136**	**1,274,363**	**3,674,454**

		Restated		**Restated**	
Balance at 1 April 2016	253,800	(879,171)	2,972,734	660,657	3,008,020
Total comprehensive income for the period					
Retained profit/(loss)for the year	-	(32,786)	-	-	(32,786)
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	252,929	252,929
Restatement of prior period accounts	-	27,327	-	(27,327)	-
Transfers between reserves	-	11,602	-	(11,602)	-
In year transfer	-	-	44,966	-	44,966
Legacy adjustments	-	-	(6,242)	-	(6,242)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	6,143	38,724	214,000	258,867
Transactions with owners, recorded directly in equity					
Issue of shares	2,400	-	-	-	2,400
Total contributions by owners	2,400	-	-	-	2,400
Balance at 31 March 2017	256,200	(873,028)	3,011,458	874,657	3,269,287

Notes 1 to 25 form part of these financial statements.

Notes to the Financial Statements

Note 1 – Accounting Policies

Corporate information

NHS Property Services Limited ("the company") is incorporated and domiciled in the UK. The company's registered office is at 99 Gresham Street, London, EC2V 7NG.

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 and Social Care.

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 2018 were approved by the Board of Directors on 20 November 2018.

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 15.

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. Where a break clause exists within the lease agreement it is assumed that it will not be exercised, and the full term of the lease will be utilised.

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.

Note 1 – Accounting policies (continued)

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. Initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

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 the provision of facilities management and service charges. These types of income are recognised when the amount can be reliably measured, and it is probable that future economic benefits will flow to the company.

d) Grant income

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 Private Finance Initiatives (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.

Note 1 – Accounting policies (continued)

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. Assets which are being actively marketed, but where the sale is unlikely to complete within one year are recognised in line with IAS 16. Information on a potential sale price is considered as part of the fair value assessment of those properties.

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.

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. However, where an external market has been established for specialist buildings, or a more appropriate measure of market value is available for land and non-specialist buildings, then this source of information will be used for valuation purposes.

Note 1 – Accounting policies (continued)

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 net 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 sheet 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.

Note 1 – Accounting policies (continued)

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. Where the useful lives and associated depreciation rates of major classes of property, plant, and equipment have not been advised by our external property valuers, they 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.

Note 1 – Accounting policies (continued)

Lifecycle replacement

An element of the unitary fee payment is allocated to lifecycle replacement costs. This is considered to be an expense when it is paid, with any changes to asset valuations being made through our programme of professional valuations.

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 enrolled 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.

Note 1 – Accounting policies (continued)

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 Green Book 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 of 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. The reserve reflects the value of assets transferred to the company at nil cost by NHS entities. Where further information is subsequently identified about the value of the assets at the date of transfer the reserve is adjusted to reflect this.

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

Corporation 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.

Note 1 – Accounting policies (continued)

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) 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.

s) 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 9 will become effective for accounting periods starting on or after 1 January 2018. The implementation of IFRS 9 in the 2018/19 financial year is not anticipated to materially impact the financial statements as the company does not have any financial instruments that will be affected by the change in accounting standard with the exception of trade receivables. However, the accounting policy currently adopted for trade receivables is not expected to be materially different from the treatment of IFRS 9.

IFRS 15 will become effective for accounting periods starting on or after 1 January 2018. IFRS 15 requires revenue from contracts to be recognised using a principles based, five-step model to be applied to all contracts with customers. The company has undertaken a review of the contracts with customers it has in place and have identified that most of the company's revenue from contracts is recognised in accordance with the five principles set out in the new standard and therefore comply with IFRS 15. The impact of the adoption of this new accounting standard is expected to be immaterial to the financial statements.

IFRS 16 will become effective for accounting periods starting on or after 1 January 2019. 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. An indication of the impact of IFRS 16 on the company can be seen in note 22 where the value of the company's operating leases is disclosed. It is likely that a significant proportion of these operating leases will be recognised on the company's Statement of Financial Position once the new standard is 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.

	2018 £000	2017 £000
Rental income	424,340	397,572
Facilities Management and service charge income	352,739	376,519
Other fees and charges	3,462	18,178
	780,541	792,269

The above analysis of operating revenue uses different categories to that disclosed in the previous year's financial statements; the revised categories better reflect the operating divisions of the company.

Note 3 – Direct Property Expenses

	Note	2018 £000	2017 £000
Depreciation	9	170,426	149,020
Rental expense		109,532	115,253
Finance lease contingent rent expense		5,969	5,994
PFI contingent rent expense		12,433	11,735
Facilities management		233,075	235,239
Utilities		45,277	46,934
Rates		16,654	48,768
Repairs, maintenance and insurance		25,729	19,640
		619,095	632,583

Note 4 – Administrative Expenses

	Note	2018 £000	2017 £000
Staff costs	6	103,204	94,911
Legal and professional fees		29,530	32,061
Chair and non-executive directors' costs		183	200
External audit fees		426	286
Internal audit fees		361	111
Other administrative expenses		8,634	12,023
		142,338	139,592

The external audit fees relate solely to the statutory audit.

Note 5 – Other Operating Expenses

	Note	2018 £000	Restated 2017 £000
Impairment of property, plant and equipment		10,603	(40,548)
Impairment on assets held for sale	11	1,650	-
Dilapidations expense		(15,103)	(10,850)
Doubtful debts expense	10	43,726	49,037
Other		1,238	(1,351)
		42,114	(3,712)

Note 6 – Staff Costs

	Note	2018 £000	2017 £000
Wages and salaries		76,074	67,300
Agency staff costs		15,320	16,637
Social security costs		6,579	5,759
Contributions to defined contribution plans		5,231	5,215
		103,204	94,911

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

Average Number	Headcount 2018	Headcount 2017
Permanent staff	3,551	3,366
Agency staff	387	443
	3,938	3,809

Note 7 – Finance Income and Costs

	2018 £000	2017 £000
Finance income		
Interest on finance leases	589	601
Interest income	-	70
	589	671
Finance costs		
Interest on loans	119	525
Interest on obligations under PFI contracts and finance leases	40,401	41,608
Unwinding of discounts on provision	1,132	1,225
	41,652	43,358

Note 8 – Corporation tax

	2018	2017
	£000	£000
Recognised in the statement of comprehensive income		
Current tax expense		
In respect of the current year	9,637	-
In respect of prior years	221	-
	9,858	-
Deferred tax creditor	(23,279)	-

The corporation tax expense for the year can be reconciled to the accounting profit as follows:

	2018	2017
Reconciliation of effective tax rate		
Loss before tax from continuing operations	(75,774)	(32,786)
Corporation tax expense calculated at 19% (2017: 20%)	(14,397)	(6,557)
Effect of income that is exempt from taxation	(9,904)	(13,061)
Effect of expenses that are not deductible in determining taxable profits	33,938	22,493
Unutilised losses for which no deferred tax asset has been provided	-	(2,875)
Tax credit in respect of prior years	-	-
	(9,637)	-

As at 31 March 2018, the company has a corporation tax creditor of £9.9 million (2017: £nil). The company recognises deferred tax assets of £23.3 million (2017: £nil).

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 2017	1,077,912	2,682,565	78,228	6,583	2,174	3,847,462
Reclassifications	-	49,506	(49,506)	-	-	-
Additions	271	24,130	59,791	-	-	84,192
Revaluation increase	278,063	155,622	-	-	-	433,685
Disposals	(1,798)	(14,670)	-	(39)	(40)	(16,547)
In year transfer to / from other bodies and other transfers	9,067	30,296	-	-	-	39,363
Impairment	(18,448)	(172,618)	-	(2,649)	(396)	(194,111)
Adjustments	-	-	-	-	-	-
Reclassifications to / from assets held for sale	(28,909)	(10,239)	-	-	-	(39,148)
As at 31 March 2018	**1,316,158**	**2,744,592**	**88,513**	**3,895**	**1,738**	**4,154,896**
Depreciation as at 1 April 2017	81	189,289	-	2,371	1,357	193,098
Reclassifications	-	-	-	-	-	-
Charged during the year	25	169,279	-	749	373	170,426
Revaluation	(1)	(97,201)	-	-	-	(97,202)
Disposals	-	(2,436)	-	(16)	(25)	(2,477)
In year transfer to / from other bodies and other transfers	-	-	-	-	-	-
Impairment	-	(38,936)	-	(1,277)	(334)	(40,547)
Adjustments	-	-	-	-	-	-
Reclassifications to / from assets held for sale	-	(1,526)	-	-	-	(1,526)
As at 31 March 2018	**105**	**218,469**	-	**1,827**	**1,371**	**221,772**
Net book value as at 31 March 2018	**1,316,053**	**2,526,123**	**88,513**	**2,068**	**367**	**3,933,124**

Asset financing						
Owned	1,193,903	1,780,613	88,513	2,068	367	3,065,464
Held on finance lease	26,178	275,150	-	-	-	301,328
Held on PFI contracts	95,972	470,360	-	-	-	566,332
	1,316,053	**2,526,123**	**88,513**	**2,068**	**367**	**3,933,124**

Note 9 – Property, Plant and Equipment (continued)

	Restated Land £000	Restated Buildings £000	Assets under construction £000	Plant & equipment £000	Furniture & fittings £000	Total £000
As at 1 April 2016	1,026,933	2,522,820	48,083	6,531	2,400	3,606,767
Reclassifications	279	34,522	(34,801)	113	(113)	-
Additions	548	32,932	64,946	-	-	98,426
Revaluation increase	88,578	122,316	-	-	-	210,894
Disposals	(8,815)	(12,080)	-	(70)	-	(20,965)
In year transfer to / from other bodies and other transfers	5,741	45,210	-	24	-	50,975
Impairment	(26,363)	(50,724)	-	(15)	(113)	(77,215)
Adjustments	(731)	(6,739)	-	-	-	(7,470)
Reclassifications to / from assets held for sale	(8,258)	(5,692)	-	-	-	(13,950)
As at 31 March 2017	1,077,912	2,682,565	78,228	6,583	2,174	3,847,462
Depreciation as at 1 April 2016	50	177,270	-	1,583	1,110	180,013
Reclassifications	7	(4)	-	75	(78)	-
Charged during the year	25	147,809	-	783	403	149,020
Revaluation	-	(54,034)	-	-	-	(54,034)
Disposals	(1)	(1,522)	-	(62)	-	(1,585)
In year transfer to / from other bodies and other transfers	-	-	-	-	-	-
Impairment	-	(78,350)	-	(7)	(78)	(78,435)
Adjustments	-	(1,542)	-	(1)	-	(1,543)
Reclassifications to / from assets held for sale	-	(338)	-	-	-	(338)
As at 31 March 2017	81	189,289	-	2,371	1,357	193,098
Net book value as at 31 March 2017	1,077,831	2,493,276	78,228	4,212	817	3,654,364
Asset financing						
Owned	994,694	1,770,724	78,228	4,212	817	2,848,675
Held on finance lease	6,791	269,342	-	-	-	276,133
Held on PFI contracts	76,346	453,210	-	-	-	529,556
	1,077,831	2,493,276	78,228	4,212	817	3,654,364

The company has adopted a periodic rolling programme of revaluations across its portfolio. The year ended 31 March 2018 represents the second year of the company's second three-year rolling programme. To date, circa 97% of the company's freehold land and buildings by value has undergone a revaluation review. The company obtains valuations performed by external property valuers, Montagu Evans LLP, in order to determine the fair value of its land and building portfolio. The effective date of the revaluation is 31 March 2018.

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.

Note 9 – Property, Plant and Equipment (continued)

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.

The company has not applied any indexation on the portfolio that is not subject to revaluation in the period.

Had the cost model been used the carrying amount of the land and building assets as at 31 March 2018 would have been £877 million for Land (2017: £904 million) and £1,945 million for Buildings (2017: £2,068 million).

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 are 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 primarily 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; or, when this is not appropriate for buildings, the income approach is used.

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.

96% 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.
- There is a minimum ten year residual useful life for all assets subject to revaluation.

Note 10 – Trade and Other Receivables

	Note	Current 2018 £000	Current 2017 £000	Non-current 2018 £000	Non-current 2017 £000
Trade Receivables		439,109	431,810	-	-
Less: impairments of receivables		(111,600)	(105,000)	-	-
Capital receivables		21,799	6,718	14,500	-
Other receivables		18,306	22,421	746	809
Accrued income		67,904	4,872	-	-
Prepayments		27,207	34,314	-	-
VAT receivables		837	753	-	-
Finance lease receivables	18	230	217	10,041	10,271
		463,792	396,105	**25,287**	11,080

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

The impairment of receivables figure includes £6.5 million relating to accrued income which is not disclosed in the aging profile of trade receivables table below.

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

	Not Past Due 2018 £000	Not Past Due 2017 £000	Past Due 2018 £000	Past Due 2017 £000
As at 31 March 2018				
Not impaired	15,074	18,172	318,949	308,638
Impaired	1,632	-	103,454	105,000
	16,706	18,172	**422,403**	413,638

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

The company has impaired trade receivables based on an assessment of their recoverability. Impairments has 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 for each customer as follows; each customer is given a risk rating and then a recovery percentage based on the age of debt and risk rating is applied. In assessing the risk rating, management split the portfolio into (a) large debts and NHS customers where management's judgement based on previous experience is applied and (b) non-NHS customers where, in addition, external credit risk ratings are also used.

The company has assessed that an impairment of £111.6 million against trade receivables and related accrued income is appropriate.

Note 10 – Trade and Other Receivables (continued)

Movements in the impairment of receivables are as follows:

	2018
	£000
As at 1 April 2017	**105,000**
Increase in provision	43,726
Amounts written off during the year	(37,126)
Reversed unused	-
As at 31 March 2018	**111,600**

	2017
	£000
As at 1 April 2016	106,203
Increase in provision	49,037
Amounts written off during the year	(50,240)
Reversed unused	-
As at 31 March 2017	105,000

Note 11 – Assets Classified as Held for Sale

	Land	Buildings	Total
	£000	£000	£000
As at 1 April 2017	**3,825**	**4,519**	**8,344**
Reclassifications	-	-	-
Assets no longer held for sale	(515)	(216)	(731)
Plus: assets classified as held for sale in the year	29,375	8,978	38,353
Less: assets sold in the year	(24,409)	(7,781)	(32,190)
Less: impairment of assets held for sale	(225)	(1,425)	(1,650)
As at 31 March 2018	**8,051**	**4,075**	**12,126**
As at 1 April 2016	9,900	4,992	14,892
Reclassifications	-	-	-
Assets no longer held for sale	(25)	(95)	(120)
Plus: assets classified as held for sale in the year	8,283	5,449	13,732
Less: assets sold in the year	(14,333)	(5,827)	(20,160)
Less: impairment of assets held for sale	-	-	-
As at 31 March 2017	3,825	4,519	8,344

The company has 18 properties (2017: 11 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.

Note 12 – Trade and Other Payables

	Current		Non-current	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade payables	17,911	46,211	-	-
Capital payables	2,253	3,644	-	-
Other payables	608	151	-	37
Accruals	99,759	62,032	-	-
Deferred income	1,193	5,657	10,570	7,821
Social security costs	2,562	2,276	-	-
Tax	9,858	-	-	-
	134,144	119,971	**10,570**	7,858

Note 13 – Borrowings

		Current		Non-current	
		2018	2017	2018	2017
	Note	£000	£000	£000	£000
Loans		80,000	50,000	-	-
PFI liabilities	19	13,128	12,250	312,677	318,155
Finance lease liabilities	18	10,965	10,696	297,008	307,423
		104,093	72,946	**609,685**	625,578

Repayment of principal falling due in:

	2018	2017
	£000	£000
Within one year	104,093	72,946
Between one and five years	175,174	168,237
After five years	434,511	457,341
	713,778	698,524

The company entered into flexible loan facility agreement with the Secretary State for Health and Social Care on 1 April 2017 for an amount up to £160 million (2017: £160 million). The final repayment date of the loan is 30 September 2019 having been extended by 18 months on 1 April 2018. Until that date no part of the loan is repayable until the company has an operational cash balance of over £90 million (2017: £90 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 2017	**4,280**	**90,964**	**1,178**	**1,280**	**97,702**
Arising during the year	2,653	10,955	1,110	561	15,279
Utilised during the year	(52)	(921)	(817)	(78)	(1,868)
Reversed unused	(4,058)	(26,434)	(359)	(853)	(31,704)
Unwinding of discounts on provision	4	1,127	-	-	1,131
As at 31 March 2018	**2,827**	**75,691**	**1,112**	**910**	**80,540**
Current	497	9,729	1,112	910	12,248
Non-current	2,330	65,962	-	-	68,292
	2,827	**75,691**	**1,112**	**910**	**80,540**
As at 1 April 2016	7,782	101,378	9,331	1,196	119,687
Arising during the year	4,059	6,849	245	1,006	12,159
Utilised during the year	(34)	(786)	(5,604)	(179)	(6,603)
Reversed unused	(7,530)	(17,699)	(2,794)	(743)	(28,766)
Unwinding of discounts on provision	3	1,222	-	-	1,225
As at 31 March 2017	4,280	90,964	1,178	1,280	97,702
Current	476	11,165	1,178	1,280	14,099
Non-current	3,804	79,799	-	-	83,603
	4,280	90,964	1,178	1,280	97,702

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 based on historic settlements of dilapidations on expired occupations.

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 £7.1 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

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the schemes can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. Both are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. They are 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, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that 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 government Financial Reporting Manual (FReM) requires that "the period between formal valuations shall be 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 (currently the Government Actuary's Department) 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 2017 is based on valuation data as at 31 March 2016, updated to 31 March 2017 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, 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. These accounts can be viewed on the NHS Pensions website and are published annually. 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 schemes (taking into account their recent demographic experience), and to recommend 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 for the level of contribution rates to be changed by the Secretary of State for Health and Social Care, with the consent of HM Treasury, and consideration of the advice of the scheme actuary and appropriate employee and employer representatives as deemed appropriate.

The next actuarial valuation is to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the scheme changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health and Social Care after consultation with the relevant stakeholders.

Scottish Widows

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

Note 16 – Share Capital

	2018 £000	2017 £000
Issued during the year to 31 March	-	2,400
Allotted, called up and fully paid		
Ordinary shares of £1 each	256,200	256,200
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	256,200	256,200

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 did not issue any £1 ordinary shares in the period (2017: 2,400,000).

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

Dividend

The company has not paid dividends this period and after the Statement of Financial Position date no dividends were proposed by the directors (2017: 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.

	2018 £000
Balance at 1 April 2017	**3,011,458**
Transfers and adjustments	23,678
Balance at 31 March 2018	**3,035,136**

	2017 £000
Balance at 1 April 2016	2,972,734
Transfers and adjustments	38,724
Balance at 31 March 2017	3,011,458

Note 17 – Capital Contribution Reserve (continued)

The substantive review by the company of the inherited balances continued during the year ended 31 March 2018. 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 resulted in an increase to the reserve of £23.7 million (2017: £38.7 million) to reflect the Department of Health and Social Care's revised capital investment within the company. Further explanation is in the notes below:

In compliance with the legal transfer documentation a realignment of asset ownership has resulted in a movement in the value of properties from the original portfolio of £31.7 million (2017: (£45.0 million)). A further adjustment of £8.0 million (2017:Nil) was made to remove properties incorrectly included in the initial transfer value.

	2018	2017
	£000	£000
Transfer of properties	31,724	44,966
Reclassified finance leases & PFI liabilities	-	(6,242)
Transfer adjustments	(8,046)	-
	23,678	38,724

Note 18 – Finance Lease Obligations

(a) Financial lease obligations as lessee

The company is party to 240 (2017: 242) 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.

	Note	Minimum lease payments		Present value of minimum lease payments	
		2018	2017	2018	2017
		£000	£000	£000	£000
Amounts payable under finance leases (Buildings)					
Within one year		31,092	31,917	10,965	10,696
Between one and five years		124,519	127,994	51,683	50,239
After five years		389,583	415,197	245,052	256,904
Less: future finance charges		(237,493)	(257,269)	-	-
		307,701	317,839	**307,700**	317,839
Amounts payable under finance leases (Land)					
Within one year		28	30	-	-
Between one and five years		112	118	1	1
After five years		1,787	1,851	272	279
Less: future finance charges		(1,655)	(1,718)	-	-
		272	281	**273**	280

Included in		2018	2017
		£000	£000
Current borrowings	13	10,965	10,696
Non-current borrowings	13	297,008	307,423
		307,973	318,119

Rental expenses		2018	2017
		£000	£000
Contingent rental payments	3	5,969	5,994

Note 18 – Finance Lease Obligations (continued)

(b) Financial lease obligations as lessor

The company leases 2 (2017: 2) properties under a finance lease arrangement.

	Note	Minimum lease payments		Present value of minimum lease payments	
		2018	2017	2018	2017
		£000	£000	£000	£000
Amounts receivable under finance leases (Buildings)					
Within one year		806	806	230	217
Between one and five years		3,223	3,224	1,070	1,009
After five years		13,893	14,698	8,971	9,262
Less: future finance charges		(7,651)	(8,240)	-	-
		10,271	10,488	**10,271**	10,488

Included in		2018	2017
		£000	£000
Current finance lease receivables	10	230	217
Non-current finance lease receivables	10	10,041	10,271
		10,271	10,488

Rental revenue		2018	2017
		£000	£000
Contingent rental	2	161	11

Note 19 – Private Finance Initiatives

The company is party to 27 (2017: 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
Tiverton Hospital	2004	2034

Note 19 – Private Finance Initiatives (continued)

	Note	2018 £000	2017 £000
Service element charged to in-year operating expenses		29,670	26,564
Total obligations for PFI contracts due:			
Within one year		32,825	31,272
Between one and five years		123,490	117,998
After five years		391,695	404,999
Less: future finance charges		(222,205)	(223,864)
		325,805	330,405
Payments committed to in respect of the service element:			
Within one year		28,980	28,069
Between one and five years		124,336	120,138
After five years		524,827	546,094
		678,143	694,301
Included in			
Current borrowings	13	13,128	12,250
Non-current borrowings	13	312,677	318,155
		325,805	330,405

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	2018 £000	2017 £000
Loans and receivables		
Trade and other receivables	461,035	372,117
Cash and cash equivalent	179,148	123,440
	640,183	495,557
Financial liabilities measured at amortised cost		
Trade and other payables	120,531	112,075
Loans	80,000	50,000
PFI and finance lease liabilities	633,778	648,524
	834,309	810,599

Note 20 – Financial Instruments (continued)

(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 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 and Social Care. Refer to note 13 - borrowings for further information on the loan.

Note 20 – Financial Instruments (continued)

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
2018					
Trade and other payables	120,531	120,531	108,879	-	-
Finance leases	307,973	547,140	31,120	124,632	391,388
PFI	325,805	548,010	32,825	123,490	391,695
Loans	80,000	80,000	80,000	-	-
	834,309	**1,295,681**	**252,824**	**248,122**	**783,083**
2017					
Trade and other payables	112,075	112,075	112,038	37	-
Finance leases	318,119	577,106	31,946	128,112	417,048
PFI	330,405	554,269	31,272	117,998	404,999
Loans	50,000	50,000	50,000	-	-
	810,599	1,293,450	225,256	246,147	822,047

(d) Market Risk

Market risk arises when 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 and flexible loan facility agreement, 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 and contingent rents are affected by any changes in market rents. Refer to the Governance and Risk Report on pages 18 to 26 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 and Social Care, making it the company's ultimate controlling party.

As at 31 March 2018, the company owed the Department of Health and Social Care £80 million (2017: £50 million) in respect of the flexible loan facility. Refer to note 13 for further information on the loan.

The company maintains an interests 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
2018					
Neil Sachdev	Network Rail	5	-	9	-
Ian Ellis	Telereal Trillium Ltd	470	-	1	-
	Telereal Ventures	673	-	-	-
Martin West	Kent, Surrey and Sussex Academic Health Science Network	-	36	-	36
		1,148	36	10	36
2017					
Neil Sachdev	HSS Hire Service Group Ltd	14	-	-	-
Edward Smith	NHS Improvement	10	1,525	-	633
Martin West	London North West Healthcare NHS Trust (was Ealing hospital trust, RC3) now R1K	-	3,331	-	2464
		24	4,856	-	3,097

The company has a provision of doubtful debts of £0.7 million (2017: £0.1 million) of which the expense recognised in 2018 is £nil (2017: £nil). In 2017, the company has also written off £nil (2017: £0.5 million) 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.

Details of the remuneration paid to Board members can be found in the Remuneration Report on pages 27 to 31.

Note 21 – Related Party Transactions (continued)

The Secretary of State for Health and Social Care, as the company's ultimate controlling party, is regarded as a related party. During the year, the company had a significant number of material transactions with entities for which the Secretary of State for Health and Social Care is regarded as the parent Department. Most of these transactions have been with Department for Health and Social Care, Community Health Partnerships Limited, Public Health England, Special Health Authorities, NHS England, NHS Trusts and NHS Foundation Trusts.

Organisation	Payments to related party	Receipts from related party	Amounts owed to related party	Amounts due from related party
	£000	£000	£000	£000
2018				
Department of Health and Social Care	-	-	80,620	
Community Health Partnerships Limited	30	26,827	-	4,408
Public Health England	-	1,652	-	980
Special Health Authorities	153	5,680	-	3,352
NHS England	606	205,205	535	79,854
NHS Trusts	5,642	84,261	3,020	51,034
NHS Foundation Trusts	14,723	218,252	6,915	116,994
	21,154	**541,877**	**91,090**	**256,622**
2017				
Department of Health and Social Care	651	(225)	50,096	996
Community Health Partnerships Limited	5,703	33,213	5,660	22,549
Public Health England	-	783	-	138
Special Health Authorities	295	1,525	15	633
NHS England	1,278	234,323	11,032	97,872
NHS Trusts	13,547	85,764	4,197	46,557
NHS Foundation Trusts	30,495	212,003	11,657	122,768
	51,969	**567,386**	**82,657**	**291,513**

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	2018 £000	2017 £000
Payments recognised as an expense			
Minimum lease payments	3	109,532	115,253
Non-cancellable operating lease commitments			
No later than one year		80,623	79,876
Between one and five years		261,396	253,874
After five years		339,639	367,341
		681,658	701,091
Total of future sublease payments expected to be received		165,643	227,231

All lease commitments disclosed are for payments which the company is legally required to make over the term of the lease. The company inherited a number of properties that have undocumented lease arrangements. These are considered to be cancellable lease arrangements. For those leases with break clauses it has been assumed that the company will occupy the property for the term of the lease except in instances where the lease is vacant by more than 50%. When onerous it has been assumed that 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.

	Note	2018 £000	2017 £000
Recognised as revenue			
Rental revenue	2	424,340	397,572
Total future minimum receipts			
No later than one year		17,391	16,205
Between one and five years		60,134	56,821
After five years		182,327	166,633
		259,852	239,659

Note 22 – Operating Leases (continued)

All future minimum lease receipts disclosed relate to revenue for which the company will hold legal entitlement through a valid lease. A 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, the company has not included them as expected revenue for future periods in its disclosure of future minimum lease receipts. However, it is expected that the overall rental revenue recognised in 2017/18 for all occupations will continue to remain similar in 2018/19.

Note 23 – Commitments

Capital commitments

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

	2018 £000	2017 £000
Property, plant and equipment	11,475	12,669
	11,475	12,669
No later than one year	10,284	12,669
Between one and five years	1,191	-
After five years	-	-
	11,475	12,669

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:

	2018 £000	2017 £000
No later than one year	5,893	5,579
Between one and five years	3,424	6,398
After five years	384	25
	9,701	12,002

Operating lease commitments have been disclosed in note 22.

Note 24 – Contingencies

(a) Quantifiable contingencies

	2018	2017
	£000	£000
Contingent liabilities		
Legal claims	102	155
Rent disputes	78	-
	180	155
Contingent assets		
Legal claims	128	89
	128	89

Legal claims

The contingent liability relates to legal claims which have been brought to the company through the NHS Resolution and are in varying stages of being settled.

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.

(b) Unquantifiable contingencies

Contingent liabilities

As at 31 March 2018, the company has unquantifiable contingent liabilities in relation to ongoing reviews of the rates, rent and service charges for the properties the company occupies and following from the lease regularisation exercise. Whilst in many cases it is anticipated that these will lead to overall savings, there may be additional costs backdated to the start of these reviews. Incentives are also implemented for professional negotiators in these discussions by having part of their remuneration based on a percentage of savings achieved.

Contingent assets

NHS Property Services secures contingent assets such as overage and clawback payments either by way of legal charges or restrictions on title.

An overage payment is a sum of money which the company may be entitled to receive after the completion of a sale, if a specified condition is triggered. This may include:

- The grant of a new planning permission; or
- The grant of planning permission for a larger or alternative planning use of the land.

A clawback payment is a sum of money which the company may be entitled to receive on the onward sale of whole or part of a sold property.

Note 24 – Contingencies (continued)

The company will recognise a contingent asset when one of the triggers specified above is met, the value of the contingent asset is based on agreed formulas stipulated in the contract. In the financial year ending 31 March 2018, the company realised £1.0 million on the release or variation of six overage deeds.

The company has a further unquantifiable contingent asset in relation to the disposal of St George's Hospital Hornchurch. The amount of the contingent asset is dependent on the future market value of the site and is limited to a maximum of £0.5 million.

Note 25 – Restatement of Prior Period Accounts

As part of the 2017/18 revaluation exercise, management identified adjustments required to the allocation of fair value movements to the revaluation reserve and comprehensive income. These adjustments arose as a result of assumptions over the revaluation and impairment of the components of properties.

The impact of the restatement to the 2016/17 financial statements are as follows:

Impact to the Statement of Comprehensive Income

	Per Signed Accounts	Adjustment	Restated
	2017		2017
	£000		£000
Operating revenue	792,269	-	792,269
Direct property expenses	(632,583)	-	(632,583)
Administrative expenses	(139,592)	-	(139,592)
Other operating expenses	(23,615)	27,327	3,712
Operating loss	(3,521)	27,327	23,806
Finance income	671	-	671
Finance costs	(43,358)	-	(43,358)
Gain on disposal of property, plant and equipment	13,422	-	13,422
Loss before tax from continuing operations	(32,786)	27,327	(5,459)
Taxation expense	-	-	-
Loss for the year	(32,786)	27,327	(5,459)
Other comprehensive income, net of income tax			
Items that will not be recycled to profit and loss:			
Revaluation of property, plant and equipment	252,929	(27,327)	225,602
Other comprehensive income, net of income tax	252,929	(27,327)	225,602
Total comprehensive income for the year	220,143	-	220,143

Note 25 – Restatement of Prior Period Accounts (continued)

Impact to the Statement of Financial Position

	Per Signed Accounts	Adjustment	Restated
	2017		2017
	£000		£000
Non-current assets	3,665,444		3,665,444
Current assets	524,024		524,024
Assets classified as held for sale	8,344		8,344
Total Assets	**4,197,812**		**4,197,812**
Current Liabilities	211,486		211,486
Non-current liabilities	717,039		717,039
Total Liabilities	**928,525**		**928,525**
Net assets	**3,269,287**		**3,269,287**
Equity			
Share capital	256,200		256,200
Retained earnings	(900,355)	27,327	(873,028)
Revaluation reserve	901,984	(27,327)	874,657
Capital contribution reserve	3,011,458		3,011,458
Total equity	**3,269,287**	-	**3,269,287**

Note 26 – Events After the Reporting Period

There are no other known events impacting on the financial statements after the reporting period.