

NHS Property Services Limited

Annual Reports and Accounts
for the year ended 31 March 2015

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THURSDAY



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26/11/2015
COMPANIES HOUSE

Chairman and Chief Executive Officer Report

We are pleased to introduce our Annual Report for 2014/15. The report illustrates the progress NHS Property Services has made in improving how NHS properties and facilities are managed. We have accelerated the release of sites that are no longer required for healthcare and made significant savings for the NHS.

The report also highlights some of the challenges we face and the plans we are putting in place to improve the support we deliver for our customers and the wider NHS.

In our first year (2013/14), we set out to maintain business continuity following the major health reforms, the establishment of a centralised national property services function and the integration of the former disparate estates teams.

In our second year, we have restructured the company to address some of the duplication and inefficiencies from the integration of 161 predecessor organisations. In summary, the notable achievements in 2014/15 were:

- Reduced the overall core operating costs from £828 million to £774 million. This benefits customers and tenants directly.
 - Disposed of 145 sites declared surplus by commissioners to completion of sale or exchange of contracts, realising circa £97 million in capital receipts. The cash received from the sales and the additional £4.8 million saving in running costs benefit the NHS.
 - Delivered internal efficiencies of £36 million in year, ahead of target.
 - Redesigned the business, which reduced managers by more than 150, saving the company on average £5.2 million a year.
 - Made real progress towards streamlining and reducing the number of facilities management (FM) contracts. Around £8 million has been saved by better managing FM contracts and services.
- Launched a substantial restructure of the finance teams.
- Repaid all but £30 million of the initial working capital loan of £340 million provided by the Department of Health. The final payment was made in April 2015.
- Exceeded the government target set for the company of releasing land for 2,050 new homes across England.
- Managed circa 100 new developments around the country, particularly in primary care, helping the NHS to modernise GP and local health services.
- Led an £83.1 million capital development programme to enhance safety, security and the environment of a large number of properties in the portfolio.

We need to continue the focus on reducing costs and driving efficiency as a business priority, in line with the company's remit to generate savings for the NHS.

Over the next two financial years, the company has set ambitious targets to further drive down costs, so that operating costs reduce by £34 million in the financial year 2015/16 and a further £35 million in financial year 2016/17.

This target of delivering 6% per annum in savings, excluding inflation, compares favourably with the published NHS's figure of 3.8%, excluding inflation, and is a sign of added value.

The operational cost savings are being achieved in three main areas:

- Exiting leases and disposing of assets that are surplus to requirements.
- Rationalising corporate overheads and the operational management structure.
- Using the company's national scale to renegotiate improved contracts.

Challenges and opportunities ahead

There are demanding challenges ahead and we are focused on ensuring these are addressed.

Our main business priorities over the coming year are:

- **Enhancing customer experience:** forging better relationships and providing professional and effective services.
- **Optimising property occupancy:** working with commissioners to identify poorly-utilised property within the estate and addressing this together.
- **Rationalising property:** working with NHS England and commissioners to release assets that are expensive, not fit for patient care or not required for the future.
- **Putting estate strategies in place:** enabling us to deliver the right real estate infrastructure locally and nationally to meet the future needs of the NHS whilst continuing to drive efficiency savings.
- **Continuing to make new investments** in property services, equipment and facilities in the community to support the delivery of improved patient care.
- **Continuing to document tenancies** where no formal arrangements are in place. We are meeting tenants to discuss their property and service requirements and to ensure these are properly documented.
- **Working closely with NHS England**, to align priorities contained in NHS England's *The NHS Five Year Forward View* strategy.
- **Reviewing the information systems and data requirements** for the business.

Our stewardship has started to transform the way NHS estate is run by driving down costs, cutting waste and releasing sites that NHS commissioners have identified as no longer needed for healthcare. Doing so saves the NHS money and allows NHS professionals to focus on running services for patients.

Our customers and tenants

The restructured health system created unique challenges and responses for our customers and tenants.

In January 2014, we established a Customer Board to build on working relationships, providing a forum to discuss issues and challenges and develop a customer-focused approach to property and facilities management.

The diverse requirements of our customers mean that one size does not fit all. Tailoring of services is essential to meet the changing health landscape and needs of local service providers.

A customer perception survey was launched during the year to establish what a cross section of our clients think about the property and facilities management services we provide and how they rate the level of support received from us. This will establish the baseline from which we will measure and track improvements in customer perception over the year.

Board changes

During the year, there have been a series of changes to develop the Board. Further details can be found in the **Governance and Risk Report**, page 30 and the **Remuneration Report**, page 40.

Going forward

Our successes in 2014/15 and our commitment to deliver real improvements this year highlight our determination to ensure that the way we deliver property and facilities services will bring real benefits to the NHS.

Challenges for 2015/16 have been embedded in a series of transformation programmes. These are aimed at realising the right opportunities, to work in partnership within the NHS family, to deliver an improved patient experience.



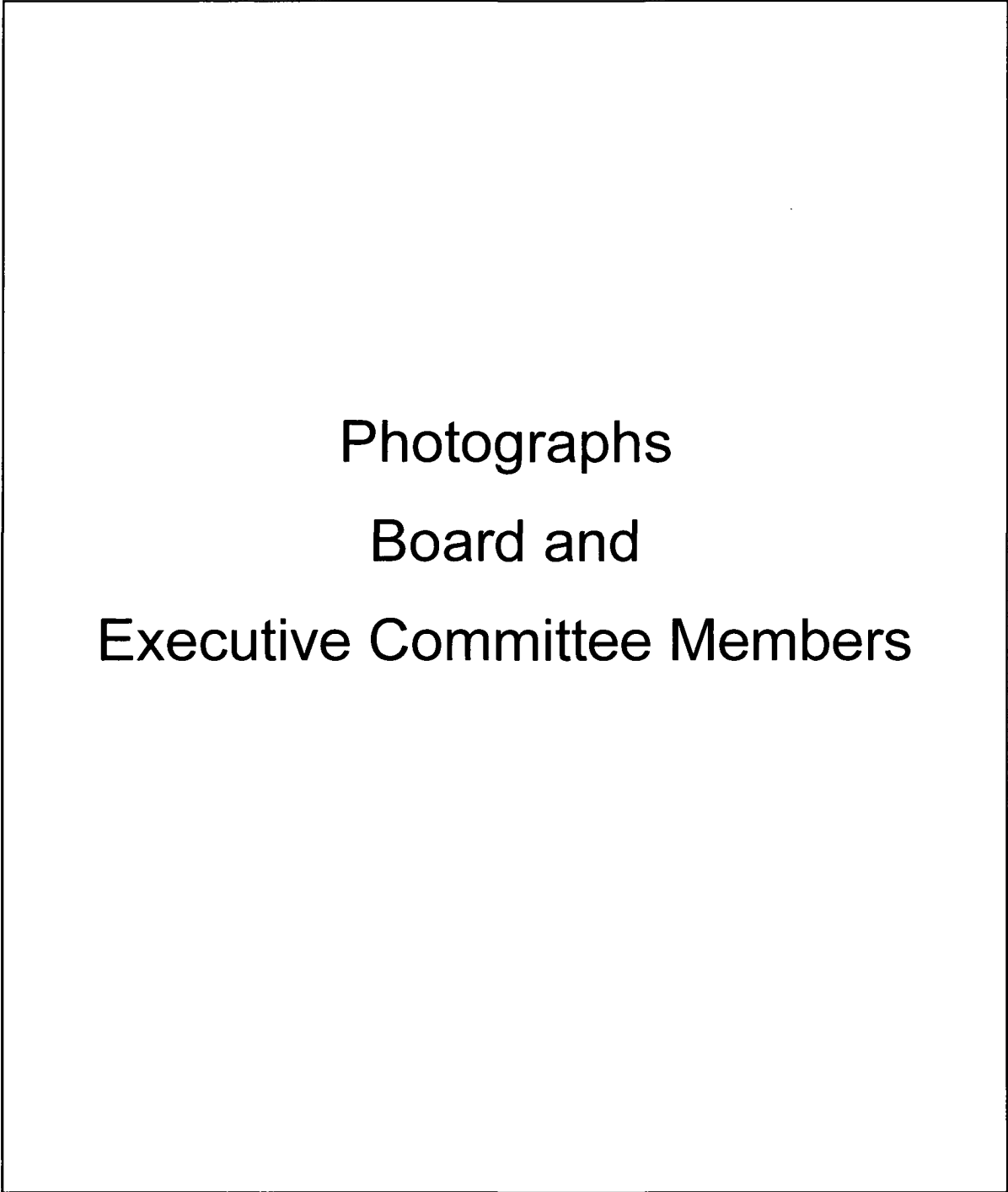
Robin Williams
Chairman of the Board



Elaine Hewitt
Chief Executive Officer

Board and Executive Committee Members

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



Photographs
Board and
Executive Committee Members

Robin Williams

Chairman of the Board

Robin Williams brings extensive experience of senior leadership roles in both private-sector companies and NHS organisations. Robin has worked in corporate finance, outsourcing, support services, manufacturing, contracting, construction and managed services.

Robin was Chief Executive Officer and co-founder of Britton Group PLC, an international packaging FTSE 250 company, growing the business to £250 million revenues within six years. He was then an Executive Director of Hepworth plc, a building materials group with £650 million sales. He played a leading role in the rationalisation, restructuring and sale of the group.

He is the Chairman of NHS Professionals Ltd and a Non-Executive Director of Xaar plc, Baronsmead VCT 4 plc and Nanoco Group plc.

As Chairman, he is an ex-officio member of all Board Committees and Chairman of the Nomination Committee.

Pat Mills

Shareholder Director

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

A former partner at Accenture, the global consulting, technology services and outsourcing company, Pat brings wide-ranging commercial experience from working with many different industries and sectors. He is also an Owner/Director of Aventap Ltd.

He is Non-Executive Director of Capricorn Ventis Ltd, a Dublin based, BI & CRM consulting firm, and Board Advisor to the Scholars International Group (UAE-based schools group).

Douglas Blausten

Vice-Chairman of the Board and Chairman of the Assets and Investment Committee

Douglas, a senior partner at chartered surveyors Cyril Leonard, brings extensive experience of corporate real estate strategic consultancy services in areas such as transport, pharmaceutical, power/energy and environmental services sectors.

Douglas has headed real estate consultancy projects for the MOD (DARA), the Royal Academy of Engineering and The Royal Institution (current), and is a member of the Advisory Board at Cambridge Centre for Climate Change Mitigation Research. He chairs the Cambridge University Land Society Global Economy and European Forums.

Douglas has a number of other Director roles, including Douglas Blausten Consulting Ltd. These are listed on the NHS Property Services website www.property.nhs.uk.

In addition to chairing the Assets and Investment Committee, Douglas was a member of the Nomination Committee.

Douglas resigned with effect from 30 September 2015 to focus on his wider business interests.

Martin West

Non-Executive Director and Chairman of the Audit and Governance Committee

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

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

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

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

Chris Kane

Non-Executive Director and Chairman of the Facilities Management Committee

Chris brings extensive experience from a range of senior roles in corporate real estate. From 2004 to 2012, Chris was the BBC's Head of Corporate Real Estate; he then led BBC Commercial Projects until early 2015. Under his leadership, the BBC delivered a £2 billion property transformation to support the move to digital production, modernising 40% of the estate and delivering two million square feet of highly flexible new space. He has a long-term commitment to encouraging new ways of working for an increasingly agile workforce.

Prior to joining the BBC, Chris's roles included Vice-President of International Corporate Real Estate for Walt Disney Company and Partner in Corporate Real Estate Services at Jones Lang Wootton. Chris graduated from Trinity College Dublin, has an MBA from the Henley Management College, holds a master's degree in corporate real estate and is a Fellow of the Royal Institution of Chartered Surveyors.

He is also a Director of Chris Kane Associates Ltd, Smart Value Ltd and a Board member of the Network Housing Group.

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

Neil Sachdev

Non-Executive Director

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

Neil holds a number of directorships, which are shown on the NHS Property Services website www.property.nhs.uk.

In addition he is a visiting professor at Salford University and sits on the Board of Grantham Institute at Imperial College, London.

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

Elaine Hewitt

Chief Executive Officer

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

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

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

Simon Finley

Chief Financial Officer

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

Simon is a member of the Assets and Investment Committee, Facilities Management Committees. He is also an invitee at the Audit and Governance Committee.

Dennis Markey

Chief Operating Officer

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

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

Dennis is a member of the Facilities Management Committee and an invitee at the Audit and Governance Committee.

John Westwood

Director of Asset Management

John was appointed to NHS Property Services on 6 July 2015, joining from Devonshire Investors International (Fidelity). He previously held senior roles in Pfizer Inc, Citigroup, BT, IBM and DTZ, with extensive experience in corporate real estate within the pharmaceutical, technology and financial services sectors.

He 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 a member of the Assets and Investment Committee.

Andrew Millward**Director of Communications and Business Services**

Andrew has experience of managing internal and external communications for a range of public and private sector organisations, including Reed Business Publishing, the United Kingdom Atomic Energy Authority and AEA Technology plc.

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

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

Alan Farmer**Director of Human Resources**

Alan is a Chartered Fellow of the Chartered Institute of Personnel and a Chartered Fellow of the Chartered Management Institute.

Prior to joining NHS Property Services, Alan was Director of Workforce at NHS Hertfordshire Primary Care Trust. He has more than 15 years' experience as an HR Director working at Board level and has significant experience of working in local government as well as a range of NHS organisations, including acute and specialist hospitals. He has also worked in the private sector, including four years as the HR Director for a large FM services provider within the healthcare sector.

Alan is a regular attendee at the Remuneration Committee and is the company's appointed Senior Information Risk Owner.

Strategic Report

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

Our business performance and risk management measures are covered in more detail in the **Governance and Risk Report**, pages 29 to 37.

Background

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

The company's portfolio consists of around 3,500 properties, which represents around 10% of the entire NHS estate, with a total value of circa £3.4 billion.

The company has two main business areas:

- **Strategic asset management** – including strategic planning of the estate, acting as a landlord, modernising facilities, buying new sites and selling properties that NHS commissioners decide they no longer need.
- **Facilities management services** – including health and safety, maintenance, electrical services, cleaning and catering.

Our portfolio

NHS Property Services recorded holdings comprise a gross internal area of 2.7 million square metres. In comparison, the total recorded gross internal area of the NHS estate in the ERIC (Estates Return Information Collection) database for 2012/13 was 27 million square metres.

The company therefore owns or leases about 10% of the recorded gross internal area of the entire NHS estate in England, and operates one of the largest property portfolios in England. The largest share of this is located in the North region, with London comprising the smallest share. The Midlands and East and South regions hold roughly similar shares.

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

- Health centres
- Hospitals/hospital-related properties
- Offices

Overall, these three property types comprise 91% of the total gross internal area of our holdings and 81% of our total number of holdings.

Although hospital and hospital-related properties comprise a relatively small proportion (8%) of the overall number of holdings, they comprise a substantial proportion (26%) of the overall gross internal area of the estate.

As at September 2014, when a full audit of the company's estate was carried out for the publication of our first *Our Estate* report, our portfolio included 1,988 health centres, 707 office-related properties and 282 hospital/ hospital-related properties.

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

- 69% of our holdings have a gross internal area of up to 1,000 square metres
- 31% have a gross internal area of more than 1,000 square metres, of which about 15% have a gross internal area greater than 2,500 square metres

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

The age of our properties

The highest proportion of the company's estate (around 20%, measured by gross internal area) comprises properties dating back to pre-1948, whilst around 17% of its estate has been developed within the last 10 years.

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

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

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

The most significant heritage assets within the portfolio are Bootham Park in York and Finsbury Health Centre, London, both Grade I listed buildings. Bootham Park sits within a 7.43 hectare site where the buildings are principally used to provide mental healthcare and as administrative space. The site also comprises separately listed gates and a chapel, as well as established playing fields used by a local school.

Finsbury Health Centre is London's oldest purpose-built health centre, developed in 1938. It was conceived, uniquely for its time, as an open-access facility where people were able to drop in and use the services offered there. The scope for adapting these heritage assets for healthcare is sometimes limited and the cost of running and maintaining them is often relatively high.

We are developing a life-cycle cost approach to building maintenance enabling us to measure and benchmark the condition of our properties.

The occupiers of our properties

NHS Property Services manages almost 7,000 different occupations and more than 2,300 different recorded occupiers.

The largest proportion of occupiers are NHS service providers (such as GPs and NHS Trusts), which make up almost 1,000 of the 2,300 recorded occupiers. Almost 600 of the company's occupiers are commercial providers, while the remainder is made up of clinical commissioning groups (CCGs), NHS England and NHS Property Services itself (including bookable space managed by the company).

Strategy

During our first two years of operations, the company underwent a significant transition period. We are now entering an exciting transformation stage.

In our first year (2013/14), the company focused by necessity on the smooth delivery of transferred assets and services from 161 predecessor organisations, supporting some 3,000 people who transferred. The priority was to maintain business continuity following the widespread changes across health services, and to start to put in place new more consistent ways of running our properties and services.

Our second year (2014/15) has focused on delivering benefits, reducing costs, disposing of assets no longer needed by NHS commissioners, and delivering and exceeding targets by releasing land for housing. We have recruited the specialist people needed to enable us to continue to grow our expertise, maximise assets for the benefit of the NHS, and strengthen relationships with our customers.

The company has developed a three-year strategic view, which provides clarity and focus on how we will transform the business so that it achieves its potential as a successful professional property company delivering greater benefits to the NHS and the taxpayer. Eight transformation programmes have been put in place to deliver our 2015/16 strategic business priorities.

Customer service

The company's Customer Board is independently chaired by Sir Michael Pitt. The purpose of the Board is to provide a forum for building our understanding of customers' needs, expectations and perceptions of the company. It meets quarterly with a range of customers across England. Feedback from customers has led to a wide range of actions, including a revised billing process, a new guide for tenants and customers, and other initiatives to enhance customer service.

Improving customer engagement is one of the company's top priorities, and learning lessons from complaints received is part of this process. A tenant survey, conducted during the year, also highlighted where improvements were needed, in particular around our responsiveness and improved communication with customers.

More recently, the company has undertaken an in-depth survey of our top 25 customers, conducted by the Chairman of the Customer Board Sir Michael Pitt. The results from this will be used to drive improvements across the company in the year ahead.

We are proactively working with our customers to create opportunities for optimising the use of the NHS estate to help transform healthcare by providing an environment that engenders better patient experience and improved working conditions. You can find more information on this aspect of our work in the asset management section of this report. Further information about specific projects undertaken in 2014/15 can be found in the News section on our website and in our monthly newsletter *Landscape* both of which can be found on the publications section of the website www.property.nhs.uk.

Asset Management

Asset management is one of NHS Property Services' two main business streams. The company provides a wide range of asset management services – including:

- Capital investment and development
- Commercial property advice
- Planning
- Acquisitions and disposals
- Property management (landlord and tenant)
- Strategic estates management

Achievements over the past year were:

- **Lease regularisation** – embarked on a property documentation programme to ensure that accurate and up-to-date lease documentation is in place for all properties.
- **Development consultations** – responded to around 100 development plan consultations to promote our property interests.
- **Town planning analysis** – completed town planning analysis of nearly 200 properties to support the disposal of surplus properties.
- **Planning permissions** – worked to secure planning permissions on major sites, for example including Bassett's Campus in Orpington and the former George's Hospital in Hornchurch.
- **Capital investment** – invested more than £80 million of capital in our properties to ensure that they continue to meet the needs of patients, visitors and staff.

Strategic estate planning

We work closely with commissioners and providers to ensure that our estate is best suited to providing modern healthcare and support services, in order to:

- Help ensure the NHS is able to make the best use of our estate.
- Unlock opportunities for cost savings.
- Identify land and buildings that could become surplus to NHS requirements.

In South Tees, we have been supporting commissioners in the delivery of their IMProVE (Integrated Management and Proactive Care for the Vulnerable and Elderly) strategy that will help realise the better use of existing community hospitals in the area and the disposal of some surplus property. This work includes investment in part of the Carter Bequest Hospital in Middlesbrough and the disposal of some surplus land and buildings on the same site.

"NHS Property Services continues to support South Tees Clinical Commissioning Group's partnership IMProVE programme. This programme of work has been 18 months in development and is now being implemented at pace. NHS Property Services' support has been particularly invaluable when we publicly consulted with patients around proposed changes to services and the hospital estate. The team has gone that extra mile to deliver project plans and milestones on time, succeeding where others have failed." Commissioning and Delivery Manager, South Tees Clinical Commissioning Group.

In York, we are working with commissioners and providers to bring forward a strategy to help them reconfigure our substantial mental health estate that includes the Grade I listed Bootham Park. We have already facilitated the relocation of some inpatient accommodation from Bootham Park and are in the process of refurbishing other ward accommodation at a cost of around £1 million. Our work will help identify the need for further investment in the mental health estate and the disposal of surplus estate.

In Portsmouth, we are continuing to lead the implementation of a strategy to help commissioners and providers focus community health services at St Mary's Hospital, and to vacate the Grade II listed parts of St James Hospital, which commissioners have identified as being surplus to healthcare needs. Mental health services will remain in the more modern buildings at St James Hospital. This will help the local health economy realise savings in estates running costs in the region of around £3 million per annum.

Over the coming year, we will continue to develop property strategies for the different elements of our portfolio and for our major sites in particular. This work will help ensure that the best parts of our estate are well used and that we dispose of surplus assets that are no longer suitable for modern healthcare.

Disposal of surplus and vacant properties

One of our key roles is to dispose of properties that NHS commissioners have identified as being surplus to NHS healthcare needs now and in the future, most often because healthcare services have been relocated and re-provided in other settings that are more appropriate for modern healthcare needs.

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

The estate we inherited from the former Primary Care Trusts included a significant number of vacant and surplus holdings.

In 2014/15, we completed the sale of 119 surplus properties to realise gross capital proceeds of circa £66 million and saving an estimated £3 million in ongoing revenue costs. Some of these properties are now being developed to provide new homes and infrastructure, such as schools.

We have disposed of surplus assets using a variety of approaches, including:

- Securing our own planning permission for a site's development prior to disposal.
- Making sales conditional on a purchaser securing their own planning permission.
- Completing sales, including by auction.

As part of its wider housing policy, the Government set targets for us to release land that can be redeveloped for 2,050 residential units. In 2014/15, we met and exceeded that target through disposals that will free up land for 2,061 new homes.

Our achievements include the sale of the former Coldeast Hospital site in Hampshire and the former Bassetts Campus in Orpington. The Coldeast Hospital site was sold with planning permission and a Local Plan allocation for development with about 120 new homes. The former Bassetts Campus site was sold after we sought planning permission for its residential redevelopment with 99 new homes.

In addition to these freehold disposals, we have been actively managing the surrender of leases and break opportunities as and when commissioners determine they no longer need a property. This has resulted in the surrender of 75 leases and associated revenue savings of circa £9 million. Additional significant savings, in the region of £3 million, have been secured from more general property management work.

Facilities Management

In tandem with asset management, the delivery of facilities management (FM) services is one of our two core business delivery streams. NHS Property Services provides facilities management and support services to more than 3,500 properties across England. The company has a clear mandate to provide a high-quality service to tenants and minimise the cost of the NHS estate to those organisations using it.

The company employs more than 2,230 people in a wide range of facilities management roles.

Facilities management services are divided into:

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

During 2014/15, new FM organisational structures and roles were embedded, to enable FM services to be delivered more effectively and meet customers' changing needs. The new structures, which have named points of contact for our customers and a defined career progression path for our people, realised significant savings for the NHS and the taxpayer.

Streamlining facilities management contracts

The transfer of facilities management services from 161 former Primary Care Trusts into NHS Property Services meant that we inherited more than 2,500 separate FM contracts. These legacy contracts vary greatly across the country and some have not undergone a service improvement review.

The company is now carrying out a companywide initiative to improve the quality and consistency of the FM contracts for services provided to tenants in the properties owned and managed by the company. During 2014/15, we started a review of these contracts to identify where quality improvements and cost efficiencies could be achieved through efficiencies of scale that are available to us as a national company.

The benefits of our FM rationalisation programme include:

- **Clarity of services** – with standardised company-wide processes for how we do things
- **Standardised contracts** – with consistent performance measures and performance indicators across the company
- **Reduced costs and value for money** – with savings being passed back to tenants to benefit patients, service users and the taxpayer

In 2014/15, we reviewed more than £200 million of inherited FM supply contracts, resulting in circa £4 million of recurrent annual savings to date. We also reviewed our 26 Private Finance Initiative (PFI) schemes, including our health centre, clinic and community hospital schemes, and enhanced our partnership arrangements with our PFI providers. This has led to the identification of further considerable FM efficiencies on these schemes, which will be followed up in 2015/16.

The national procurement team implemented more streamlined procurement processes, especially around the use of legal services, travel arrangements and ordering systems. These not only benefited our FM operations, but also greatly assisted in reducing the use of legal services across the company, resulting in significant efficiencies and savings.

During 2015/16 we will continue to review our FM outsourced supply chain contracts and a major procurement process will be launched to deliver efficient FM services. We expect to deliver savings of over £10 million. We declared our intentions to launch this initiative in the professional publication FM World in March 2015, which led to excellent responses from the industry and sector market in which we operate.

Feedback from new teams and people transferring into the company as part of the initiative has been good, with people enjoying the new opportunities available, including:

"The transfer was great news as not only do I now have a stable and secure role within a national company, but it has also brought so many opportunities for us. There has been little change to the day-to-day job but we now feel part of a professional team with new uniforms, badges and excellent training opportunities." A domestic services manager for North Manchester and Bury, who transferred to NHS Property Services after working for two years as a contractor for the company.

"The career development prospects and training initiatives within NHS Property Services are great. Since transferring into the company six months ago, I've moved up in the ranks and my new role sees me responding to domestic cleaning issues quickly to ensure our sites are kept safe and clean. It's also a great place to work as the people you work alongside on a daily basis are a great bunch and there is always someone available if you need any help or support." A rapid response officer who transferred into NHS Property Services and visits a variety of sites and areas within her patch.

As we progress the development and enhance the managerial and professional skills of our people, we finished the year by becoming corporate members of the British Institute of Facilities Management (BIFM).

Sustainability

One of the company's biggest challenges is to make the estate fit for the future. In partnership with stakeholders, we are committed to supporting changing needs for the NHS in a sustainable way. Key to this is ensuring that the facilities we own and manage have a positive impact on the environment as well as patient care. We aim to embed sustainability in everything we do.

We published our first Sustainable Development Management Plan in March 2015, setting out ambitious but achievable targets to realise financial and carbon savings. An updated Corporate Social Responsibility strategy is currently being written and will incorporate the Good Corporate Citizen Model.

All new buildings and major refurbishments are assessed for sustainability, using the internationally recognised BREEAM model. A number of the developments we have been involved with have already achieved the highest BREEAM of outstanding, and our aim is for all new buildings to be rated BREEAM outstanding by April 2016.

The company is part of a national sustainability group, hosted by NHS England. We have also contributed to the NHS Sustainability and Cross System Adaptation Report which was presented to the Select Committee on Adaptation.

Our Sustainability and Corporate Social Responsibility team is implementing an Energy Bureau and Bill Validation service. This will provide us with a better understanding of our CO₂ emissions. The more detailed information will enable us to reduce costs and energy usage across the estate, as well as supporting our tenants and stakeholders in their reporting commitments. We will shortly be commencing a project for the installation of solar panels on some of our buildings, realising benefits for both the company and our tenants.

From April 2018, legislative changes will make it unlawful to let commercial properties with an Energy Performance Certificate rating of F or G. It is estimated that approximately 20% of our portfolio may be affected, so we are actively reviewing certification arrangements.

Finance

The **Financial Highlights** for the year, on page 21, directly follow this Strategic Report.

Capital programme

The restructuring of our facilities management and asset management functions included the creation of a number of new specialist roles. This includes dedicated capital teams put in place to manage, in partnership with our customers and commissioners, the planning and delivery of capital investment in our estate. Internal approval processes have been reviewed and updated to speed up decision-making. We are working closely with colleagues at the Department of Health, NHS England and Community Health Partnerships to ensure a joined-up approach to considering capital investment in primary and community care within the NHS.

NHS Property Services capital expenditure in 2014/15 was £83.1 million. Of this, £13 million related to new or refurbished buildings requested by customers within the NHS. The remainder was used to ensure the estate managed by NHS Property Services is safe, warm, secure, and operates efficiently.

Planning is underway to develop a long-term approach to capital investment to ensure the right investment is made at the right time to minimise the long-term cost of maintaining the estate. We are also developing opportunities to reduce costs through leveraging economies of scale relating to this investment.

Our people

NHS Property Services employs some 3,000 people working in many different roles at locations across England. Our overarching objective is to be an employer of choice, attracting, retaining and developing a high-calibre workforce and supporting our people to fulfil their potential. Our main aims as an employer are:

- To have the right resource, right skills and right leadership capability.
- To provide a framework for good employee relations in order to enable our most valuable asset – our people – to grow and develop.
- To develop a culture that encourages innovation and creativity, and rewards these appropriately.

- To ensure that our people are appropriately and fairly rewarded for good work, and recognised for outstanding achievements that support the company's ethos and values.
- To promote fairness and consistency for all.

'Putting you first'

Our 'Putting You First' organisational development programme is designed to support our people through the following strands:

'Your Say' staff engagement programme

We offer a range of different channels to engage people and give them opportunities to give feedback and to be involved in decision making. During 2014/15 we carried out our first full people engagement survey, giving everyone across the company the opportunity to give feedback on their experience of working for the company. Our overall engagement score was 641 out of 1000, which represents a reasonable level of engagement. We followed this with 18 interactive workshop events involving around 300 people around the country, who looked in more detail at the issues covered in the survey and put forward suggestions for improvements. These informed the action plan for prioritising changes that would benefit the largest number of people.

'Your Potential' programme supporting the training and development of our people

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

In 2014/15, 250 of our people took part in our Leadership and Management Development Programme, covering team leadership, enhanced customer skills, performance management techniques, project management and commercial skills development, leading to Institute of Leadership and Management (ILM) Certification. The success of this programme will be replicated for other colleagues in the company over a wide range of disciplines in the next year.

Supporting our aim to professionalise facilities management services and provide our people with opportunities to build their skills, we became corporate members of the British Institute of Facilities Management (BIFM). Through this partnership, we are offering opportunities for 1,500 people to become members of BIFM and benefit from training and qualifications that will improve customer service and enhance their career development.

Our graduate programmes give trainees unique experience of working with a highly-specialised property portfolio, helping them develop the skills they need to achieve their professional qualifications.

Royal Institution of Chartered Surveyors (RICS) graduate programme for trainee chartered surveyors

The company's graduate programme for trainee chartered surveyors was developed in conjunction with RICS. In 2014/15, we welcomed our second cohort of trainees on the two-year programme, which gives the trainees the opportunity to attain full RICS membership as qualified chartered surveyors.

Royal Town Planning Institute (RTPI) graduate programme for trainee town planners

During 2014/15, we launched a two-year graduate programme for trainee town planners in conjunction with the RTPI.

Other initiatives during the year included:

- The introduction of a company-wide appraisal scheme supported by an online recording scheme. This is complemented by group appraisals for people in certain frontline roles. NHS Property Services was shortlisted for the Public Sector People Managers Association for Talent Management Award for the implementation of this system.
- The introduction of an e-learning management toolkit, which won the Charity Learning Consortium awards for using e-learning to support change.
- Conversation training was delivered for more than 500 of our people.
- A European Mentoring and Coaching Council (EMCC) Foundation coaching qualification
- Support to employees onto the NHS Leadership Academy programmes to Master's degree level.
- Mentoring of a number of young people through the Brightside/NHS Employers online mentoring scheme.
- Supporting the Prince's Trust Million makers fundraising programme, with a team of property surveyor graduates who raised approximately £6,000 for the charity.

'Your Wellbeing' – supporting the health and wellbeing of our people

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

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

Three hundred of our people in patient-facing roles received a flu vaccination in our 2014/15 free immunisation programme. Other benefits we offer to our people include:

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

We use the NHS Confederation's Five Steps to Wellbeing. In 2014/15, we piloted a programme of health and wellbeing champions, who act as local contacts to provide additional support and advice to their colleagues. As a result of the success of this pilot, we are now planning to extend the initiatives to other parts of the country.

Sickness absence for 2014/15 was 4.38% against a target of 3%. This is comparable to the levels experienced in 2013/14.

Trade union partnership working

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

During 2014/15, our union learning representatives have worked hard to develop networks for proactive learning with their colleagues, complementing company-wide initiatives.

Communications

During the year, we continued to strengthen our communications, for reaching, informing and engaging internal and external stakeholders. This included the introduction of more channels for two-way and interactive communications with our people.

We continued to build strong relationships with our customers, property stakeholders, the national healthcare community and the media. We have hosted and participated in events around the country, enabling us to meet customers and tenants and to discuss their requirements with them. For example, we exhibited and/or spoke at the NHS Commissioning Show, NHS Property and at the Healthcare Estates Conference. Briefings and meetings were also held with the British Medical Association, NHS Confederation, and Property Week and Estates Gazette magazines.

We continued to operate in an open and transparent manner, publishing all key data on our website, which was revised and updated during the year. All Freedom of Information requests received during the year were responded to within the statutory timescale, with the exception of one request.

Information Management and Technology

Bringing together people from 161 organisations has presented a considerable challenge for ensuring we have the shared IT connectivity we need as a national company. Consolidation and innovation provide the platform for bringing together disparate systems and improving how we capture and store our data.

During our first year, we concentrated on delivering the foundations for managed core services (such as email and file storage). Year two focused on improving the quality, performance and reliability of IT solutions to support flexible working practices through a range of access methods, including cloud and mobile devices. Our connectivity objectives were achieved and we have pushed forward with data and infrastructure migration.

A centralised IT service enables us to set and monitor standards across the company, with remote support for the majority of our users. Wherever possible we have sought to recycle and convert equipment inherited from previous organisation to company standards, supported by the development of alternative ways for people to access IT systems. This approach has provided solutions that are both sustainable and cost-effective. Through our IT migration project, we have enabled circa £500,000 savings on IT provider contracts to contribute to the company's efficiency target. This programme of work will continue during 2015/16.

In April 2014, Internal Audit positively noted substantial assurance for the IT controls we have in place. During the year, we undertook a full business continuity test at our host data centre and engaged with a third party to complete security penetration testing to validate our external access points were secure. In addition, we launched a number of application upgrades to improve both security and the user experience.

The security and integrity of data is a key objective for 2015/16 and IM&T will play a significant role in supporting our business information strategy. It is important that our IM&T function continues to support the business as a whole and delivers solutions whereby our people can access and share the information they need to perform their roles.

The report was approved by the Board on 12 November 2015 and signed for and on behalf by:

A handwritten signature in black ink, appearing to read 'Elaine Hewitt', with a stylized, cursive script.

**Elaine Hewitt
Chief Executive Officer
12 November 2015**

Financial Highlights

Income and expenditure

The operating revenue for NHS Property Services in 2014/15 was £745.9 million in 2014/15, which compares to a total of £790.9 million in 2013/14. The £45.0 million decrease in revenue reflects the reduction in core operating costs, together with a change in the amounts funded directly via equity.

The company receives direct equity funding from the Department of Health to fund non-operating costs incurred during the year. These costs include taxes payable, restructuring costs and other non-operating costs. The equity funding process was designed to ensure that the property costs payable by commissioners were not fundamentally impacted by the creation of NHS Property Services. NHS Property Services received £52.3 million of equity funding during 2014/15.

The company provides property management and facilities management services to a wide range of clients, including NHS England and the clinical commissioning groups. The cost of operating the property portfolio and providing related services is charged to customers largely on a basis designed to recover the cost of providing these services.

Taken together, the direct property expenses, administrative expenses and net finance costs are considered to be the core operating costs of the company. The core operating costs for NHS Property Services in 2014/15 were thus £773.6 million, which is a reduction of £53.9 million compared to a total of £827.5 million in 2013/14.

- The direct property expenses for NHS Property Services in 2014/15 were £622.6 million, which compares to a total of £678.9 million in 2013/14.
- The administrative expenses in 2014/15 were £112.2 million, which compares to a total of £120.3 million in 2013/14.
- The net finance costs of the company in 2014/15 were £38.8 million, which compares to a total of £28.3 million in 2013/14.

The reduction of £53.9 million in core operating costs has been driven through three main focus areas:

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

Capital investment

NHS Property Services invested £83.1 million of capital in 2014/15 to improve the property portfolio. Of this, £13.1 million related to new or refurbished buildings requested by customers within the NHS, and £70 million related to ensuring the estate managed by NHS Property Services is safe, warm, secure, and operates efficiently.

In 2014/15, the company completed the sale of 119 surplus properties to realise gross capital proceeds of £65.8 million and exchanged contracts for the sale of a further 32 properties that will realise further proceeds of circa £41.0 million. In 2013/14, the company sold 44 surplus properties realising gross capital proceeds of £22.3 million and exchanged contracts for the sale of a further 30 properties realising further proceeds of circa £6.8 million.

Revaluation

In line with NHS Property Services' accounting policies, the land and buildings in our portfolio are subject to a periodic rolling programme of revaluations. The revaluation programme has been undertaken by an external valuer, applying market recognised valuation standards. This programme has resulted in a total increase in the value of the portfolio of £48.5 million.

In line with accounting standards, the reduction in valuation of assets is shown as an expense in the income statement; and the increase in valuation of assets is recognised in other comprehensive income. A total loss on revaluation of £434.5 million has been reported in other operating expenses and a total gain on revaluation of £483.0 million has been recognised in other comprehensive income.

Capital contribution reserve

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

In validating the balances transferred in 2013/14, the company applied the Instructions for Receiver Organisations developed by the Department of Health. During 2014/15, the company completed a substantive review of its inherited balances. Following the review, the capital contribution reserve has been updated to reflect the Department of Health's updated capital investment position in the company. This has resulted in a reduction of £92.5 million in the amount invested by the Department of Health.

Details of changes in the capital contribution reserve are set out in note 18 of the financial statements.

Directors' Report for the Period 1 April 2014 to 31 March 2015

The Directors present their annual report and financial statements for the period ended 31 March 2015.

Principal activities

NHS Property Service started trading on 1 April 2013 and manages the assets of the former Primary Care Trusts and Strategic Health Authorities in England.

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

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

Business review

The company is pleased to report that during the financial year the total comprehensive income moved from a negative £159.2 million in 2013-14 to a positive for the year of £2.2 million.

As part of the periodic revaluation programme the company has revalued over half of its property portfolio. Some of the portfolio has increased in value and the total gain on revaluation of £483 million is recognised in other comprehensive income. Other properties decreased in value and the total loss on revaluation of £434.5 million is reported in other operating expenses. The net gain on revaluation is £48.5 million. More detail can be found in **Note 9 of the accounts**, pages 60 to 62.

The company reported a loss from continuing operations after tax for the year of £480.8 million.

A review of the business and future developments is contained in the Chairman's Report on pages 1 to 3 and the Financial Highlights report on pages 21 to 22. The principal risks and uncertainties are detailed in the Directors' Report pages 23 to 26, and the Governance and Risk Report page 34.

Results and dividends

The results for the year are shown in the **Statement of Comprehensive Income** on page 47. The company has not paid any dividends during the year and no dividends are proposed by the Directors.

Share capital

The company issued 52,300,000, £1 ordinary shares for a consideration of £52.3 million on 31 March 2015. Following the issue of shares, the issued share capital of the company is 225,300,001 £1 ordinary shares. The Secretary of State for Health owns 100% of the issued share capital. Details of changes in share capital are set out in note 17 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 sufficient internal controls and risk management processes in place. A report on **Governance and Risk Management** can be found on pages 29 to 37.

Financial risk

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

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

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

The company reduced its financial risk by repaying, in-year, all but £30 million of the £340 million working capital loan provided by the Department of Health when the company became operational in 2013. The balance was paid in April 2015.

Pension liabilities

Details of the pension liabilities and administration of the pension schemes are shown in the notes to the accounts – Note 1, paragraph 'm' and note 16. Further details on individual Directors' pensions and the associated schemes can be found in the **Remuneration Report** pages 39 to 44.

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 property portfolio in a three-year rolling programme. In the view of the Directors, the carrying value of land and buildings did not differ materially from fair value at 31 March 2014 so a formal revaluation was not required. Properties representing circa 50% of the property portfolio have been revalued as at 31 March 2015 and the remaining properties will be revalued as at 31 March 2016.

Directors

The appointments and resignations of Directors who held office during the period is shown in the table below and their remuneration is shown in the **Remuneration Report** on pages 39 to 44.

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

Directors of the Board	Appointment to the Board	Resignation from the Board
John Westwood	06-Jul-15	n/a
Elaine Hewitt	03-Feb-15	n/a
Neil Sachdev	12-Jan-15	n/a
Pat Mills	05-Jan-15	n/a

Directors of the Board	Appointment to the Board	Resignation from the Board
Simon Finley	01-Aug-14	n/a
Andrew Baigent	10-Jul-14	10-Jul-14
Richard Douglas	15-May-14	05-Jan-15
Robin Williams	01-Apr-14	n/a
David Avis	20-Jan-14	10-Jul-14
Dennis Markey	22-Jul-13	n/a
Douglas Blausten	26-Mar-13	30-Sep-15
Martin West	26-Mar-13	n/a
Chris Kane	26-Mar-13	n/a
Rachel Kentleton	26-Mar-13	30-Sep-14
Andrew Millward *	01-Oct-12	n/a
Alan Farmer *	01-Oct-12	n/a
Pamela Chapman	19-Sep-12	30-Nov-14
Simon Holden	01-Sep-12	07-Apr-15
Peter Coates	20-Dec-11	14-May-14
* In May 2015 the Board was restructured. These individuals remain as Executive Directors of the company but are no longer formal members of the Board.		

Employees

NHS Property Services is a national company with a strong focus on providing an efficient estate to support high quality health care. Employees are encouraged to maximise their contribution to both the company and the wider NHS.

The company actively encourages openness and transparency. Employees are provided with regular information regarding company policies, business performance and other matters of concern to them as employees. The views of our people are taken into account when making decisions that might affect their interests. Most recently we have asked people to volunteer to support the transformation programmes that are being developed in 2015/16.

Further detail of consultation with our people and their representatives can be found in the **Strategic Report** pages 16 and 17.

All employees are eligible to participate in a defined contribution pension scheme. Details of the pension arrangements are set out in note 16 of the financial statements.

Equality and diversity

At NHS Property Services, we actively support the diversity of our people and tolerate no discrimination on the basis of gender, age, disability, ethnicity, sexual preference or religious beliefs.

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 people with disabilities, having full regard to their aptitudes and abilities. The company will offer individual support to people who become disabled during the course of their employment and where appropriate offer opportunities for retraining and redeployment. As a Disability 'Two Ticks' employer, we are committed to attracting, developing and retaining people with disabilities.

More than 1,900 women currently work for us; this is approximately 65% of our workforce. Forty-one percent of our management team are women and in February 2015 we appointed Elaine Hewitt as our new Chief Executive Officer.

Political and charitable contributions

No political or charitable contributions were made by the company during the period ended 31 March 2015.

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's Report** on pages 1 to 3 and the **Financial Highlights Report** on pages 21 to 22. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in Note 14 of the annual accounts.

The company is wholly owned by the Secretary of State for Health, who has given an undertaking that supports the 'going concern' view of the company. Specifically, an indemnity has been issued that commits the Secretary of State to providing 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.

The National Audit Office has not undertaken any non-audit work for the company.

Auditor

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

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

The report was approved by the Board on:

12 November 2015 and signed for and on behalf of the Board by:



Simon Finley
Chief Financial Officer

451C Skipton House
80 London Road
London SE1 6LH

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 judgments and estimates that are reasonable and prudent.
- State whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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

Responsibility statements under the disclosure and transparency rules

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

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

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

For and on behalf of the Board

A handwritten signature in black ink, appearing to read 'Elaine Hewitt', with a stylized, cursive script.

Elaine Hewitt
Chief Executive Officer
12 November 2015

Governance and Risk Report

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

The Board recognises, that this represents good practice and has developed processes during the year to comply with the Code in so far as is practicable. We have undertaken a voluntary review of our governance against the Code, the results of which will be incorporated into the transformation programme work to be undertaken in 2015/16.

Board composition

At 31 March 2015, the Board comprises the Chairman, Shareholder Director, four Non-Executive Directors, the Chief Executive Officer and five Executive Directors. The diversity and experience of the Board is essential to the leadership and success of the company. Their biographies are detailed in the **Board and Executive Committee** section, pages 4 to 8, and demonstrate a range of corporate, financial, property, investment and NHS experience relevant to the company's business.

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

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

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

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

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

The Board meets regularly, with seven meetings held during the year, and two additional sessions on strategy and value, and disposals. All members of the Board are supplied in advance with appropriate, clear and accurate information covering matters which are to be considered.

Board diversity

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

The Directors consider the background and experience brought to the Board by each individual to contribute to its diversity. In any recruitment, the Board prefers to select the best qualified candidate to provide the Board with the expertise to implement its long-term strategy, rather than to fulfil any fixed quota. Subject to that overriding principle, the Directors believe that the Board's perspective and approach can be greatly enhanced through gender, age and cultural diversity. In recommending new

appointments to the Board, the Nomination Committee considers the existing balance of skills, knowledge and experience and the time candidates have available to commit to the role.

The Chairman, together with members of the Nomination Committee, is evaluating the composition of the Board, and the range of skills on our Board.

Board changes

During 2014/15, there were three changes to the Non-Executive Directors on the Board. Robin Williams was appointed on 1 April 2014 as Chairman of the Board and Neil Sachdev was appointed on 12 January 2015. Rachel Kentleton resigned from office on 30 September 2014. In 2015/16, Douglas Blausten resigned from office on 30 September 2015.

In early February 2015, the company announced the appointment of a new Chief Executive Officer, Elaine Hewitt. Elaine brings a wealth of commercial experience from the management of one of the largest corporate property portfolios in the UK and real estate across 70 countries. Simon Finley joined the Board as Chief Financial Officer in August 2014 and John Westwood was appointed as Director of Asset Management on 6 July 2015.

The Board also announced three company Director changes, as Simon Holden, Chief Executive; David Avis, Interim Director of Finance and Pamela Chapman, Director of Asset Management stepped down from the Board. In May 2015, the Board was restructured. Andrew Millward and Alan Farmer remain as Executive Directors of the company, but are no longer registered at Companies House. A Chief Information Officer joined the company in October 2015.

Directors' conflicts

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

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

Our governance structure

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

The Board delegates day-to-day responsibility to executive management. There remain, however, a number of matters reserved for the Shareholder Director and the Board. The entire Board must have sufficient engagement with the business to allow it

to lead the company with an in-depth understanding of its strengths and capabilities, and the challenges it faces. Delegation of responsibilities to Board-level and committees within our governance structure ensures that the Board has sufficient oversight of all key aspects of the business, with well-established reporting lines.

The Shareholder Director and Board approve: strategic business plans; the annual budget and capital expenditure budgets; large capital expenditure and proposals over £5 million; and matters of major strategic importance. The Board also sets the direction for the company's values, ethics and business policies and practices. It also oversees operating and financial performance; risk management and internal controls; compliance and major policy issues and reviews the Corporate Risk Register.

A review of governance one-year-on has enabled the Board to refocus the corporate governance framework. There are now five Board Committees, with the introduction, during the year, of the Nomination Committee and the Facilities Management Committee. All Board Committees are chaired by a Non-Executive Director. Terms of reference set out the responsibilities and authorities of each committee, which are regularly reviewed and changes approved by the Board.

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

<p>The Board – (biographies are shown on pages 4 to 8)</p> <p>Develops strategy and leads NHS Property Services to achieve long-term success.</p> <p><i>Comprises the Chairman, Shareholder Director, four independent Non-Executive Directors, the Chief Executive Officer, and five further Executive Directors, (one post was vacant from 30 November 2014).</i></p> <p><i>The Board has a formal schedule of matters reserved for the Shareholder Director and its decisions, which is 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.</i></p> <p><i>Membership and attendance: There were six scheduled meetings and one additional meeting.</i></p> <p><i>Robin Williams (7/7), Douglas Blausten (6/7), Shareholder Director (7/7), Martin West (6/7), Chris Kane (6/7), Rachel Kentleton (3/3), Neil Sachdev (3/3), Simon Holden (5/7), Elaine Hewitt (1/2), Dennis Markey (6/7), Simon Finley (5/5), David Avis (2/2), Andrew Millward (6/7), Alan Farmer (7/7), Pamela Chapman (4/4)</i></p> <p><i>*Attendance is shown in brackets against the available meetings that members could attend.</i></p>
<p>Audit and Governance Committee – established 4 April 2013</p> <p>Oversight of financial and narrative reporting, internal control, risk management systems, internal and external audit processes.</p> <p><i>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.</i></p> <p><i>The main responsibilities of the committee are:</i></p> <ul style="list-style-type: none"> <i>a) Integrated governance, internal controls, risk management and health and safety systems.</i> <i>b) Systems of financial control.</i> <i>c) Compliance, raising concerns (whistleblowing) policy and counter-fraud.</i> <i>d) Internal audit and external audit.</i> <i>f) Other assurance functions.</i> <i>g) Financial reporting and accounts.</i> <i>h) Compliance with the Articles of Association and Governance Framework.</i> <p><i>Membership and attendance *: Comprises independent Non-Executive Directors:</i></p> <p><i>Martin West (11/11), Shareholder Director Representative (9/11) Rachel Kentleton (5/5), Chris Kane (7/9) and Neil Sachdev (2/3).</i></p> <p><i>Invited Executive Directors: Andrew Millward (9/11), Simon Finley (7/7), David Avis (3/4), Simon Holden (3/3), Dennis Markey (7/8), Alan Farmer (3/3)</i></p> <p><i>*Attendance is shown in brackets against the available meetings that members could attend.</i></p>

Assets and Investment Committee – established 4 April 2013
<p>Management of all aspects of assets and investment policy/strategy within the established strategies and business plan approved by the Board.</p> <p><i>This delegated authority is limited in respect of the approval of investments requiring additional (new) capital; such authority rests with the Board.</i></p> <p><i>The Committee will undertake the following duties:-</i></p> <ul style="list-style-type: none"> a) <i>Receive and approve the Estates Strategy for running the company's portfolio.</i> b) <i>To receive reports from those dealing with the company's asset portfolio.</i> c) <i>To approve all related systems in place relating to the management of the company's asset portfolio.</i> d) <i>To approve the buying and selling of property, but to deal with actual approvals by way of delegation up to the value of £5 million as per the delegated limits set within the Corporate Governance Manual.</i> <p><i>Membership at Director level and attendance *: Douglas Blausten (7/9), Chris Kane (8/9), Shareholder Director Representative (9/9), Robin Williams (2/2), Simon Holden (6/7), Elaine Hewitt (2/2), Pamela Chapman (6/6), Simon Finley (5/5), David Avis (1/2), Dennis Markey (4/4), Andrew Millward (2/2).</i></p> <p><i>*Attendance is shown in brackets against the available meetings that members could attend.</i></p>
Remuneration Committee – established 4 April 2013
<p>The Committee will also oversee appropriate contractual arrangements for all people and make recommendations to the Shareholder Director on all aspects of the performance, remuneration and terms of service.</p> <p><i>Membership and attendance *: Comprises independent Non-Executive Directors: Shareholder Director Representative (5/5), Martin West (5/5), Robin Williams (5/5)</i></p> <p><i>Invited Executive Directors – Simon Holden (4/5) and Alan Farmer (5/5). These officers are not present for any discussions about their own remuneration or terms and conditions of service.</i></p> <p><i>*Attendance is shown in brackets against the available meetings that members could attend.</i></p>
Facilities Management Committee – established 10 July 2014
<p>To oversee all aspects of facilities management strategy and policy within the established strategies and business plan approved by the Board.</p> <p><i>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.</i></p> <p><i>The committee is structured to cover regular business and a further quarterly strategic meeting to develop specific issues in more depth. There have been 4 meetings in the year.</i></p> <p><i>Membership at Director level and attendance *: Chris Kane (4/4), Neil Sachdev (1/1), Shareholder Director Representative (2/2), Dennis Markey (4/4), Simon Holden (2/4), Elaine Hewitt (1/1), Simon Finley (2/4).</i></p> <p><i>*Attendance is shown in brackets against the available meetings that members could attend.</i></p>
Nomination Committee – established 10 July 2014
<p>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.</p> <p><i>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.</i></p> <p><i>Membership comprises the Chairman and Non-Executive Directors and is called as and when required. Two meetings were held in year with two additional circularisations that went to all Non-Executive Directors.</i></p> <p><i>Robin Williams (2/2), Douglas Blausten (2/2), Martin West (2/2), Chris Kane (1/2)</i></p> <p><i>*Attendance is shown in brackets against the available meetings that members could attend.</i></p>

Directors' immunities

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

Directors' and officers' liability insurance

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

Openness and transparency

In view of the findings of high profile, national investigations, such as the Francis Report - Mid Staffordshire NHS Foundation Trust Public Inquiry and Jimmy Savile NHS Investigations – lessons learned; the company has reviewed recommendations to determine if we can improve our practices. We recognise that the safety, security, and cleanliness of the NHS estate are paramount to supporting effective patient care. This is one of the company's strategic objectives.

NHS Property Services is represented on the Department of Health's "Safer Care Working Group".

The company's Whistleblowing Policy has been in place for the past two years, having been reviewed by our Local Counter Fraud Specialists with minor amendments being made in-year. The Board is committed to the Freedom to Speak Up initiative, which makes it easier for our people to raise issues. This initiative has been launched following a review published by Sir Robert Francis QC in February 2015, which recommended creating a more open and honest reporting culture across the NHS.

The Director of Communications and Business Services was appointed as the Freedom to Speak Up Guardian. A 24-hour confidential reporting line is now 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; any 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, and, in the case of any categorised as significant, procedures exist to ensure that necessary action is taken to remedy issues raised.

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

There are two elements to the risk management process: the focus and direction from the Board and the broader strength of risk management awareness and action at an operational level. These are brought together in the evaluation of risks and are outlined in the risk management framework shown in the diagram below. We have consulted on how the system is used operationally and recent amendments provide a refreshed approach.

Diagram of Risk Management Framework

Risk management framework

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

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

Risk management is a dynamic process and has been reviewed at policy, management and operational level during the course of the year. The Corporate Risk Register, which describes significant operational risks, has been reviewed at either Board or Board Committee level.

A risk workshop was held with the senior management team in October 2014 to review the framework, this included the Risk Management Strategy and Policy. In addition, there was a presentation on reputational consequences of poor risk management and support from our Internal Auditors to identify new and emerging risks. The refreshed Corporate Risk Register was presented to and approved by the Board in November 2014, and a detailed review of specific financial risks was shared with the Audit and Governance Committee.

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

Strategic risks

Our main strategic risks fall in the financial, capability and transformation areas. Our ability to deliver savings and become financially independent, coupled with achieving the financial commitments made to our customers and shareholder are critical to our reputation. To deliver in line with customer expectations, we will need to recruit, develop and retain the right talent with appropriate commercial property expertise.

There are seven strategic risk areas (outlined below) which are directly linked to the functional and transformational plans. Each transformation and functional plan has been developed to mitigate these strategic risks.

Strategic Risk Diagram

Health and safety risk

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

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

NHS Property Services is making excellent progress towards ensuring that risk assessments and management plans are in place for all premises across the country. The Health and Safety Policy is Board approved and reviewed on an annual basis. A 2014/15 Health and Safety Action Plan was in place during the year and this was monitored by the Facilities Management Committee and the Board.

A self-assessment undertaken in 2013/14 confirmed a corporate-wide average compliance of 93% by the end of the financial year for risk assessments and management plans for fire, asbestos, legionella, natural gas, electrical fixed installations and piped medical gases. Work has progressed this year to review the next top six risks health and safety risks of lifts, window restraints, pressure vessels, generators, radiators and workplace risk assessments.

Internal controls

The Board has conducted an annual review of the effectiveness of the system of internal control, under the auspices of the Audit and Governance Committee. This included systems and controls in relation to financial reporting processes and preparing the accounts. The risk framework and internal control systems are designed to manage, but not to eliminate all risks.

Much of the activity undertaken by management with respect to internal control focused on building suitable control environments within which to operate. It is therefore important to recognise that at such an early stage in year two of the company's development, it is not expected that the operating control structure would be fully in place and embedded.

The Audit and Governance Committee monitors the effectiveness of controls through the receipt of written and verbal reports from the Director of Communications and Business Services, Chief Financial Officer, Chief Operating Officer and the internal and external auditors on progress with internal control activities.

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

- The company's cash position, debt management escalation and credit arrangements.
- Accounting and budgeting implications.
- The correct application of the procurement process.
- Health and safety compliance and action plan.
- Management's own assessment of the strengths and weaknesses of the overall control environment and the action plans to address any weaknesses.

Audit

The internal audit service was tendered during 2013/14 and the new provider Moore Stephens commenced in May 2014. There is an approved internal audit plan with

reviews covering, budgetary control; purchase-to-pay systems; IT access controls and information governance; performance management reporting; key financial controls; expenses and procurement; and project management. These reports included:

- Reviews of business processes and activities, including action plans to address any identified control weaknesses or recommendations for improvements to controls or processes.
- The results of the internal audits.
- Discussion on how the internal auditors will track the follow-up actions from previous internal control recommendations.

The significant system control or compliance weaknesses identified were:

- Missing monitoring and reporting timescales for budgetary control. However, it was noted that, at the time of the review, management had already identified the issues and were working on system improvements.
- There were some non-compliance issues in the company credit card reconciliation monitoring process, which have since been resolved.
- Escalation of issues around the speed and basic processing function for purchase invoices, with the financial services provider.
- Whilst there had been in-year improvements in the number of official orders raised using the purchasing order system, the levels of purchase orders used are still below expectations.
- Greater clarity is needed in the specification, approval and control of expenditure for internal projects.
- The review of evidence to support the health and safety self-assessment has been deferred until 2015/16, due to the volume of data that is being uploaded to the central asset management system.

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

- Protecting and assuring income streams: until formal contracts are in place for all tenancies there are risks to the company's ability to determine and legally enforce income due
- Integrated accounting records: detailed accounting records relating to assets are highly dependent on manual intervention and maintenance leading to risks of error and inconsistency

Fraud detection and investigation

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

- 'Green' ratings for both the Standards for Providers and Fraud and Bribery Risk Assessment.
- Production of the counter-fraud and bribery policies.
- Awareness sessions at the health, safety, security and fire leads meeting and at HR meetings.
- Fraud training leaflets developed for the mandatory training and induction.
- Guidance issued on procurement fraud, food fraud, and frauds in property maintenance.

Twenty investigations were undertaken during the year. External investigations included supplier/contractor underperformance, overcharging in the delivery of contracts /works, and allegations of unauthorised use of company land for

commercial car parking. Internal investigations included allegations of identity fraud, abuse of position, forgery, timesheet discrepancies, working elsewhere whilst sick, and provision of false references.

In the case of identity fraud, the company has shown diligence in the investigation of these matters and avoided potential civil penalties of up to £60,000. Where system weakness or non-compliance has reduced the effectiveness of the overall control environment, actions have been agreed with management to address the issues raised and sanctions taken, as appropriate.

Information governance

The company is registered as a data controller of personal data with the Information Commissioner's Office. As a measure of assurance for partners, tenants and customers, the company elected to utilise the Health and Social Care Information Centre's information governance toolkit. The company met level two (the required standard) in all but one of the nineteen categories, which was mandatory training.

Through the service improvement team, we have recognised the need to deliver mandatory training in different ways for some groups. The process has been reviewed by a dedicated project team and a revised mandatory training programme was commenced on 1 May 2015. There were no significant reportable information incidents during the year.

Looking forward

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

- Billing and financial information.
- Improving our data and information management.
- Enhancing how quickly we support and deliver customer developments.
- Documenting tenancies where no formal agreements are in place and putting leases in place to safeguard the company and its tenants.
- The collation of evidence to support compliance with health and safety requirements.

The data that was migrated to the company from the former Primary Care Trusts and Strategic Health Authorities was of variable quality and additional programmes of work have been commissioned to review, collate and, where needed, produce information to provide greater detail to manage the estate. This work is still in progress and, whilst inroads have been made, there is still much to do.

Internal control systems were being developed during the year to reflect the restructuring and review of functions. The programme for 2015/16 will include a review of the governance framework to ensure that the Board Committees remain effective and the company develops a more commercial governance model. It is essential that the overall governance framework supports integrated working throughout the company.

For and on behalf of the Board



Andrew Millward,
Director of Communications and Business Services
12 November 2015

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Remuneration Report

Remuneration policy

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

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

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

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

During the year, there have been two Executive Director appointments that have been managed through open competition. A further appointment was made in July 2015. A firm of recruitment consultants oversaw the appointment process. Refer to the **Directors' Report** pages 24 and 25 and **Governance and Risk Report**, page 30.

The fixed period for the Non-Executive Director contracts expired on 1 October 2014. To attract existing and potential replacements with the strong commercial calibre needed to support the company, the fixed fee remuneration was increased to reflect the private sector equivalent for companies of our size and complexity. One Non-Executive Director chose not to extend their contract on expiration and there were two appointments in-year. A further Non-Executive Director resigned on 30 September 15. Details are shown in the table below.

The Remuneration Committee's role is to oversee appropriate contractual arrangements for our people. The committee met five times during the financial year and was chaired by the Shareholder Director's representative. The Chairman of the Board and Chairman of the Audit and Governance Committee are both members.

The company's business redesign programme and new regional structure was approved by ministers in 2013/14 with appointments to new roles during 2014/15.

The Articles of Association reserve the remuneration approval of all Directors and employees earning more than £100,000 per year to the Secretary of State for Health or any senior civil servant acting with the Secretary of State's authority.

Executive salary surveys and periodic assessments are conducted by independent remuneration consultants. Affordability is also taken into account in determining pay uplifts for Directors – no uplift in salary was awarded in 2014/15. Salary awards and terms and conditions applying to other NHS staff groups were applied in-year.

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

The company does not operate a bonus or performance-related pay scheme. Two Directors TUPE'd into the company on 1 April 2013 with inherited Terms and Conditions these include the provision for the payment of a bonus under the terms of the DH Pay Framework for Very Senior Managers.

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.

Unless otherwise stated below, Executive Directors hold open-ended appointments. The details of Directors' service contracts, unexpired term and notice periods are shown in the following table. 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.

Executive Directors	Contract with NHS Property Services	Unexpired term (months) at 1 April 2015	Contract notice periods
Simon Holden	1 April 2013 to 7 April 2015	0	Seconded from predecessor organisation prior to company contract. Terminable by the company on 6 months' notice and by the Director on 3 months' notice.
Elaine Hewitt	12 January 2015	n/a	Terminable by either party giving 6 months' notice. Notice given by the Executive may be reduced to 3 months with written consent of the company. No less than 3 months if dismissed or incapacitated.
Dennis Markey	22 July 2013	n/a	Terminable by the company on 6 months' notice and by the Director on three months' notice. No less than 3 months if dismissed or incapacitated
Simon Finley	1 August 2014	n/a	The agreement is terminable by either party giving 6 months' notice. No less than 3 months if dismissed.
John Westwood	6 July 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.
Andrew Millward	1 April 2013	n/a	Seconded from predecessor organisation prior to contract date with the company - 1 April 2013. The agreement is terminable by the employee giving 3 months' notice or the employer giving 6 months' notice.
Alan Farmer	1 April 2013	n/a	
Pamela Chapman	19 September 2012 to 30 November 2014	0	Department of Health secondment agreement terminable by either party giving 3 months' notice.
David Avis	20 January 2014 to 10 July 2014	0	Fixed term contract with 1 month notice that ended on 10 July 2014.
Chairman and Non-Executive Directors			Letter of appointment – notice periods
Robin Williams	1 April 2014	24	Initial period of three years. Either party can give 3 months' notice.
Douglas Blausten	26 March 2013 to 30 September 2015	18	Initial period of 12 months, extended for further 6 months to 30 September 2014, extended for further period of 2 years. Either party can give 3 months' notice.
Martin West	26 March 2013	12	Initial period of 12 months, extended for further 6 months to 30 September 2014, extended for a further period of 18 months. Either party can give 3 months' notice.
Chris Kane	1 March 2013	30	Initial period of 12 months, extended for 6 months to 30 September 2014, then extended for further period of 3 years. Either party can give three months' notice. Received payment for chairing the Foundations Project Board (refer to table 1, page 41, note 6).
Rachel Kentleton	1 March 2013 to 30 September 2014	0	Initial period of 12 months, extended for a further 6 months to 30 September 2014.
Neil Sachdev	12 January 2015	33	Initial period of 3 years. Either party can give 3 months' notice.

Shareholder Director – serving during 2014/15		
Pat Mills	5 January 2015	The Shareholder Director and the Alternate Director are officers of the Department of Health and receive no remuneration from the company. There were also no recharges. Alternate Shareholder Director cover for 10 July 2014 Board meeting. Any potential conflict of interest is registered and managed in an appropriate way – see Directors' Conflict section.
Richard Douglas	15 May 2014 to 5 January 2015	
Peter Coates	20 December 2011 to 14 May 2014	
Andrew Baigent	10 July 2014 to 10 July 2014	

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

Remuneration of Board members

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

	2014/15				2013/14			
Name	Salary	Benefits in kind (1)	Pension benefits	Total remuneration (2) (4)	Salary	Benefits in kind (1)	Pension benefits	Total remuneration (2) (4)
	£'000	£	£'000	£'000	£'000	£	£'000	£'000
	(Bands of £5,000)			(Bands of £5,000)	(Bands of £5,000)			(Bands of £5,000)
Chairman and Non-Executive Directors								
Robin Williams (5)	75 - 80	Nil	n/a	75 - 80	n/a	n/a	n/a	n/a
Charles Howeson	n/a	n/a	n/a	n/a	35 - 40	Nil	n/a	35 - 40
Douglas Blausten	25 - 30	Nil	n/a	25 - 30	30 - 35	Nil	n/a	30 - 35
Martin West	20 - 25	Nil	n/a	20 - 25	20 - 25	Nil	n/a	20 - 25
Chris Kane (6)	25 - 30	Nil	n/a	25 - 30	10 - 15	Nil	n/a	10 - 15
Rachel Kentleton (7)	5 - 10	Nil	n/a	5 - 10	10 - 15	Nil	n/a	10 - 15
Neil Sachdev (8)	5 - 10	Nil	n/a	5 - 10	n/a	n/a	n/a	n/a
Executive Directors								
Simon Holden (3) (9)	140 - 145	6,100	5	150 - 155	140 - 145	6,100	119	265 - 270
Elaine Hewitt (10) (15)	40 - 45	1,500	3	45 - 50	n/a	n/a	n/a	n/a
Dennis Markey (15)	135 - 140	7,000	8	150 - 155	90 - 95	7,000	6	105 - 110
Andrew Millward (3)	130 - 135	4,800	9	145 - 150	130 - 135	5,200	27	160 - 165
Alan Farmer (3)	90 - 95	Nil	5	95 - 100	90 - 95	Nil	35	125 - 130
Simon Finley (11) (15)	100 - 105	4,700	6	110 - 115	n/a	n/a	n/a	n/a
Pamela Chapman (3) (12)	60 - 65	Nil	7	70 - 75	75 - 80	Nil	5	80 - 85
David Avis (13)	55 - 60	n/a	n/a	55 - 60	55 - 60	n/a	n/a	55 - 60
Caroline Russell (14)	n/a	n/a	n/a	n/a	95 - 100	Nil	10	105 - 110

Table 1 – Directors remuneration 2014/15 compared with 2013/14

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

(2) NHS Property Services did not pay performance related pay.

(3) In October 2013 there was an amendment to the Companies Act which requires the value of pension benefits accrued during the year to the effect of inflating the total remuneration figure compared with salary. The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

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

(5) Salary change on 1 October 2014 to range £85,000 - £90,000.

(6) Chris Kane received additional payments for chairing the Laying the Foundations Project Board.

(7) Rachel Kentleton – resigned 30 September 2014 w.t.e. range £10,000 - £15,000

(8) Neil Sachdev was appointed on 12 January 2015 w.t.e. range £20,000 - £25,000.

(9) A voluntary settlement payment of £369,000 has been accrued in the accounts. This was based on inherited contractual terms and conditions. £70,000 of this relates to pay in lieu of notice and £19,000 bonus reflected the fact that the objectives set at the time the company was set up have been achieved.

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

(11) Simon Finley was appointed on 1 August 2014 w.t.e. range £150,000 - £155,000

(12) Pamela Chapman was seconded into the company from the Department of Health and was paid by their employing authority. The company reimburses the employing authority on invoices received. Pamela returned to the Department of Health on 30 November 2014, w.t.e salary £75,000 - £80,000

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

(14) Caroline Russell - Seconded from 1 January 2014 to Mid-Essex Clinical Commissioning Group. Resigned as a company Director on 17 January 2014. CCG reimbursed the company for salary paid in 2014-15.

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

Salary includes gross salary, overtime and any allowances to the extent that it is subject to UK taxation.

The monetary value of benefits in kind covers any payments or other benefits provided by the company, which are treated by HM Revenue and Customs as taxable emolument.

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

Median earnings

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

	2014/15	2013/14
Highest earner's total remuneration (£)	£205,000 - £210,000	£145,000 - £150,000
Median total remuneration (£)	£19,422	£19,268
Ratio	10.7	7.7
Table 2 – Analysis of median earnings Salaries for senior management are disclosed in bands of £5,000, in accordance with EPN 430 guidance		

The average salary level has changed by less than 1%, this reflects tight control on overall salary levels. The increase in the highest earners total remuneration reflects the change of Chief Executive Officer who was appointed with a significant track record in property and commercial business. The new appointment and remuneration package was approved by the Department of Health.

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

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

Pension

NHS Pension Scheme

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

The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in

England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities.

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

NHS Pension Scheme

Name	Accrued pension at age 60 at 31 March 2015 £'000	Accrued lump sum at age 60 at 31 March 2015 £'000	Real increase in annual pension £'000	Real increase in lump sum £'000	CETV at 31 March 2015 £'000	CETV at 31 March 2014 £'000	Real increase in CETV £'000
	(Bands of £5,000)		(Bands of £2,500)				
Simon Holden	55 - 60	165 - 170	0 - 2.5	2.5 - 5	970	911	59
Alan Farmer	35 - 40	105 - 110	0 - 2.5	0 - 2.5	712	668	44
Andrew Millward	35 - 40	105 - 110	0 - 2.5	2.5 - 5	677	628	49
Table 3 shows the pension details relating to Board members who are in the NHS Pension Scheme							

Classic Civil Service Pension Scheme

Name	Accrued pension at age 60 at 31 March 2015 £'000	Accrued lump sum at age 60 at 31 March 2015 £'000	Real increase in annual pension £'000	Real increase in lump sum £'000	CETV at 31 March 2015 £'000	CETV at 31 March 2014 £'000	Real increase in CETV £'000
	(Bands of £5,000)		(Bands of £2,500)				
Pam Chapman *	15 - 20	55 - 60	0 - 2.5	0 - 2.5	422	409	7
Table 4 shows the pension details relating to Board members who are in the Classic Civil Service Pension Scheme							

Cash Equivalent Transfer Values (CETV)

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

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

The real increase in the value of the CETV

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

Employer contributions to group personal pension scheme

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

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

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

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

Name	Title	31 March 2015 £'000	31 March 2014 £'000
Elaine Hewitt	Chief Executive Officer	3 *	n/a
Dennis Markey	Chief Operating Officer	8	6 *
Simon Finley	Chief Financial Officer	6 *	n/a
Caroline Russell	Director of Finance	n/a	10
Table 5 shows the employer contributions made for Board members who are in the group pension scheme - Scottish Widows Pension Scheme			
* part year			

The report was approved by the Board on 12 November 2015 and signed for and on behalf by:



Robin Williams
Chairman of the Board
12 November 2015

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

I have audited the financial statements of NHS Property Services Ltd for the year ended 31 March 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Directors and the auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of the profit/loss for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In my opinion:

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

Matters on which I report by exception

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

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

Hilary Lower (Senior Statutory Auditor)

12 November 2015

A handwritten signature in black ink, reading 'Hilary Lower', with a horizontal line underneath.

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

National Audit Office

157-197 Buckingham Palace Road

London

SW1W 9SP

Statement of comprehensive income

for the year ended 31 March 2015

		2015	2014
	Notes	£000	£000
Operating revenue	2	745,942	790,918
Direct property expenses	3	(622,589)	(678,893)
Administrative expenses	4	(112,204)	(120,323)
Other operating expenses	5	(465,515)	(116,922)
Operating loss		(454,366)	(125,220)
Finance income	7	459	568
Finance costs	7	(39,279)	(28,890)
Gain/(Loss) on disposal of property, plant and equipment		14,013	(1,872)
Loss before tax from continuing operations		(479,173)	(155,414)
Taxation expense	8	(1,658)	(3,740)
Loss for the year		(480,831)	(159,154)
Other comprehensive income, net of income tax			
<i>Items that will not be recycled to profit and loss:</i>			
Gains on revaluation of property, plant and equipment		482,999	-
Other comprehensive income, net of income tax		482,999	-
Total comprehensive income for the year		2,168	(159,154)

The above relates wholly to continuing operations.

Notes 1 to 27 form part of this account.

Statement of financial position

as at 31 March 2015

		2015	2014
	Notes	£000	£000
Non-current assets			
Property, plant and equipment	9	3,390,010	3,436,238
Intangible assets	10	-	-
Trade and other receivables	11	12,534	30,311
Investment		-	2,830
		3,402,544	3,469,379
Current assets			
Trade and other receivables	11	351,055	317,464
Cash and cash equivalents		92,910	226,649
Inventory		9	6
		443,974	544,119
Assets classified as held for sale	12	63,781	6,768
Total assets		3,910,299	4,020,266
Current liabilities			
Trade and other payables	13	148,469	109,036
Borrowings	14	45,289	254,559
Provisions	15	18,139	23,028
Other liabilities		-	218
		211,897	386,841
Non-current liabilities			
Trade and other payables	13	5,907	9,649
Borrowings	14	561,824	438,180
Provisions	15	106,575	123,467
		674,306	571,296
Total liabilities		886,203	958,137
Net assets		3,024,096	3,062,129
Equity			
Share capital	17	225,300	173,000
Retained earnings		(640,487)	(161,433)
Revaluation reserve		481,222	-
Capital contribution reserve	18	2,958,061	3,050,562
Total equity		3,024,096	3,062,129

Notes 1 to 27 form part of this account.

These financial statements were approved by the Board of Directors on 12 November 2015 and signed on its behalf by:



Elaine Hewitt

Chief Executive Officer

Company Registered Number: 07888110

Statement of cash flows

for the year ended 31 March 2015

		2015	2014
	Notes	£000	£000
Operating activities			
Loss for the year		(480,831)	(159,154)
Adjustments for non-cash transactions:			
(Gain)/Loss on disposal of property, plant and equipment		(14,013)	1,872
Depreciation and amortisation	9,10	105,409	97,736
Non-cash transfers		-	(453,947)
Provisions arising and reversed unused	15	(2,754)	148,258
Inventories written off		-	(69)
Impairments of non-current assets	10,12	455,780	1,804
Adjustments for:			
Interest received (shown below)	7	(459)	(568)
Interest paid (shown below)	7	39,279	28,890
(Increase)/decrease in inventories		(3)	6
(Increase)/decrease in investments		2,830	-
(Increase)/decrease in trade and other receivables	11	(15,814)	(349,814)
Increase/(decrease) in trade and other payables	13	34,033	103,269
Increase/(decrease) in tax payable	13	1,658	3,740
Increase/(decrease) in other liabilities		(218)	-
Provisions utilised	15	(19,027)	(1,582)
Net cash inflow/(outflow) from operating activities		105,870	(579,559)
Investing activities			
Interest received	7	459	568
(Payments) for property, plant and equipment		(83,181)	(62,938)
Proceeds of disposal of assets held for sale		56,714	22,306
Net cash inflow/(outflow) from investing activities		(26,008)	(40,064)
Financing activities			
Proceeds from the issue of share capital	17	52,300	158,000
Increase/(decrease) in loans	14	(211,000)	241,000
Capital element of payments in respect of finance leases and PFI		(15,622)	460,632
Interest paid	7	(39,279)	(28,890)
Net cash inflow/(outflow) from financing activities		(213,601)	830,742
(Decrease)/increase in cash and cash equivalents for the year		(133,739)	211,119
Cash and cash equivalents at start of year		226,649	15,530
Cash and cash equivalents at end of year		92,910	226,649

Notes 1 to 27 form part of this account.

Statement of changes in equity

for the year ended 31 March 2015

	Share capital	Retained earnings	Capital contribution reserve	Revaluation reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2014	173,000	(161,433)	3,050,562	-	3,062,129
Total comprehensive income for the period					
Retained profit/(loss) for the year	-	(480,831)	-	-	(480,831)
Gain on revaluation of property, plant and equipment	-	-	-	482,999	482,999
Gain on revaluation of assets held for sale	-	-	-	-	-
Transfers between reserves	-	1,777	-	(1,777)	-
In year transfer	-	-	-	-	-
Legacy adjustments	-	-	(92,501)	-	(92,501)
Legacy payments and receipts made by the Department of Health	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(479,054)	(92,501)	481,222	(90,333)
Transactions with owners, recorded directly in equity					
Issue of shares	52,300	-	-	-	52,300
Total contributions by owners	52,300	-	-	-	52,300
Balance at 31 March 2015	225,300	(640,487)	2,958,061	481,222	3,024,096
Balance at 1 April 2013	15,000	(2,279)	-	-	12,721
Total comprehensive income for the period					
Retained profit/(loss) for the year	-	(159,154)	-	-	(159,154)
Gain on revaluation of property, plant and equipment	-	-	-	-	-
Gain on revaluation of assets held for sale	-	-	-	-	-
In year transfer	-	-	3,001,459	-	3,001,459
Transfers	-	-	31,005	-	31,005
Legacy payments and receipts made by the Department of Health	-	-	18,098	-	18,098
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(159,154)	3,050,562	-	2,891,408
Transactions with owners, recorded directly in equity					
Issue of shares	158,000	-	-	-	158,000
Total contributions by owners	158,000	-	-	-	158,000
Balance at 31 March 2014	173,000	(161,433)	3,050,562	-	3,062,129

Notes 1 to 27 form part of this account.

Notes to the Financial Statements

Note 1 – accounting policies

Corporate information

NHS Property Services Limited (the company) is a company incorporated and domiciled in the UK. The company's registered office is at 451C Skipton House, 80 London Road, London, SE1 6LH.

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

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

The company's financial statements for the year ended 31 March 2015 were approved by the Board of Directors on 12 November 2015.

Accounting policies

Basis of preparation

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

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

Statement of compliance

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

Going concern

The financial statements are prepared on a going concern basis as explained in the Directors' Report on pages 23 to 26.

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.

To better reflect its activities, the company has changed its presentation of expenditure under the statement of comprehensive income, as well as property, plant and equipment (note 9) and assets held for sale note (note 12) under the statement of financial position. The company has also made classification changes under trade and other payables (note 13). As a result, comparatives were reclassified to ensure comparability.

Significant accounting policies

a) Segmental reporting

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

b) Leases

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

The company as lessee

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

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

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

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

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

The company as lessor

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

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

Contingent rentals are recognised as revenue when earned.

c) Income

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

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

d) Grant income

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

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

e) Finance income and expenses

Finance income is comprised of interest income on finance lease receivables.

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

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

f) Other expenses

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

g) Financial assets

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

Financial assets are initially recognised at fair value.

Cash and cash equivalents

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

Trade and other receivables

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

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

h) Non-current assets held for sale

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

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

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

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

i) Property, plant and equipment

Recognition and measurement

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

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

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

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

Revaluation

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

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

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

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

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

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

Additions

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

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

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

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

Disposals

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

Impairment

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

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

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

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

Depreciation

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

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

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

j) Private Finance Initiatives (PFI) transactions

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

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- The service charge
- Repayment of capital
- The interest element (using the interest rate implicit in the contract)

Services received

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

Assets

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

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

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

Liabilities

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

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

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

Lifecycle replacement

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

k) Financial liabilities

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

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

Trade and other payables

Trade and other payables are recorded at their face value.

Borrowings

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

l) Employee benefits

Short-term employee benefits

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

m) Superannuation schemes

Defined benefit scheme

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

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

Defined contribution plan

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

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

n) Provisions

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

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

Onerous contracts

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

Dilapidations

In respect of a number 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.

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

Income tax

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

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

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

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

Value added tax (VAT)

Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT. Where input tax is not recoverable, VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

r) Significant accounting estimates and judgements

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

Estimating useful lives and residual values of property, plant, and equipment

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

Provisions

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

Refer to Note 15 for further detail.

Classification of properties

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

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

Revaluation of land and buildings

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

Refer to Note 9 for further detail.

Leases classification

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

Undocumented occupancy arrangements

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

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

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

Trade receivables

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

s) Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year.

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

Standards issued but not yet effective

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

- IAS 32 and IFRS 7 (amendment) 'Financial Instruments Amendment on Financial Assets and Liability Offsetting'
- IFRS 9 'Financial Instruments' on 'Classification and Measurement' of Financial Assets and Liabilities
- IFRS 15 'Revenue from Contracts with Customers'

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

	2015	2014
	£000	£000
Rental income	547,929	437,011
Finance lease income	80	148
Grant income	166,043	302,941
Other fees and charges	31,890	50,818
	745,942	790,918

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

Note 3 – direct property expenses

		2015	2014
	Notes	£000	£000
Depreciation and amortisation	9 & 10	105,409	97,736
Rental expense		138,052	165,716
Finance lease contingent rent expense		6,128	3,511
PFI contingent rent expense		10,365	10,534
Facilities management		199,153	224,037
Utilities		53,021	56,282
Rates		67,218	66,320
Repairs and maintenance		40,834	52,182
Insurance		2,409	2,575
		622,589	678,893

Note 4 – administrative expenses

		2015	2014
	Notes	£000	£000
Staff costs	6	87,857	97,834
Legal and professional fees		13,123	13,421
Chair and Non-Executive Directors' costs		188	131
External audit fees ¹		234	235
Internal audit fees		358	170
Taxation compliance fees		378	121
Other administrative expenses		10,066	8,411
		112,204	120,323

Note 5 – other operating expenses

	Notes	2015	2014
		£000	£000
Impairment of property, plant and equipment	9	434,483	-
Impairment on assets held for sale	12	21,297	1,789
Net impact in dilapidation provision ²	15	7,246	82,041
Net impact in onerous provision ²	15	(17,363)	21,262
Legacy write-offs		(7,629)	(22,081)
Doubtful debts expense	11	20,433	23,735
Restructuring costs	15	7,048	10,176
		465,515	116,922

¹ The external audit fees relates solely to the statutory audit.

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

Note 6 – staff costs

	Notes	2015	2014
		£000	£000
Wages and salaries		64,152	69,545
Agency staff costs		12,625	16,092
Social security costs		4,800	4,910
Contributions to pension plans	16	6,280	7,287
		87,857	97,834

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

	Headcount	
	2015	2014
Permanent staff	3,062	3,023
Agency staff	340	496
Other	-	5
	3,402	3,524

The remuneration of Directors and the disclosure of the highest paid Director is included in the Remuneration Report.

Note 7 – finance income and costs

	2015	2014
	£000	£000
Finance income		
Interest on finance leases	459	568
	459	568
Finance costs		
Interest on loans	832	800
Interest on obligations under PFI contracts and finance leases	38,447	27,199
Other interest expense	-	891
	39,279	28,890

Note 8 – taxation expense

	2015	2014
	£000	£000
Recognised in the statement of comprehensive income		
Current tax expense		
In respect of the current year	5,398	3,740
In respect of prior years	(3,740)	-
	1,658	3,740

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

Reconciliation of effective tax rate

Loss before tax from continuing operations	(479,173)	(155,414)
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Income tax expense calculated at 21% (2014: 23%)	(100,626)	(35,745)
Effect of income that is exempt from taxation	-	-
Effect of expenses that are not deductible in determining taxable profits	114,841	39,485
Unutilised losses for which no deferred tax asset has been provided	(8,817)	-
Tax credit in respect of prior years	(3,740)	
	1,658	3,740

As at 31 March 2015, the company has a corporation tax creditor of £5,398k (2014: £3,740k). The company does not have any deferred tax assets or liabilities (2014: £0).

Note 9 – property, plant and equipment

	Land	Buildings	Assets under construction	Plant and equipment	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2014	1,022,566	2,472,030	28,244	5,860	5,043	3,533,743
Transfers from ex PCTs and SHAs *	-	-	-	-	-	-
Reclassifications	(10,055)	32,282	(20,660)	(1,576)	9	-
Additions ³	1,809	188,878	28,839	2,675	352	222,553
Revaluation increase	239,636	206,212	-	-	-	445,848
Disposals	-	-	-	(94)	(12)	(106)
In year transfer to other bodies and other transfers	(14,440)	(68,560)	-	(963)	(1,952)	(85,915)
Impairment	(159,009)	(333,577)	-	(473)	(727)	(493,786)
Reclassifications to / from held for sale	(84,882)	(46,709)	-	-	-	(131,591)
As at 31 March 2015	995,625	2,450,556	36,423	5,429	2,713	3,490,746
Depreciation as at 1 April 2014	-	95,912	-	629	964	97,505
Charged during the year	25	104,554	-	412	418	105,409
Revaluation	-	(37,151)	-	-	-	(37,151)
Disposals	-	-	-	(13)	(2)	(15)
In year transfer to other bodies and other transfers	-	(5,016)	-	(99)	(341)	(5,456)
Impairment	-	(59,095)	-	(71)	(137)	(59,303)
Reclassifications to held for sale	-	(253)	-	-	-	(253)
As at 31 March 2015	25	98,951	-	858	902	100,736
Net book value as at 31 March 2015	995,600	2,351,605	36,423	4,571	1,811	3,390,010
Asset financing						
Owned	927,247	1,731,724	36,423	4,571	1,811	2,701,776
Held on finance lease	6,357	190,092	-	-	-	196,449
Held on PFI contracts	61,996	429,789	-	-	-	491,785
	995,600	2,351,605	36,423	4,571	1,811	3,390,010

³ The addition includes the value of 165 inherited operating leases reclassified as finance leases. Refer to Note 18 and Note 19 for further information.

As at 1 April 2013	-	-	-	-	-	-
Transferred from ex PCTs * and SHAs	1,002,086	2,345,754	53,929	7,219	9,959	3,418,947
Reclassifications	(2,158)	64,126	(53,929)	(2,918)	(5,121)	-
Additions	451	32,033	28,244	1,581	289	62,598
Disposals	-	-	-	(22)	(84)	(106)
In year transfer to other bodies and other transfers	-	31,005	-	-	-	31,005
Impairment	-	(190)	-	-	-	(190)
Reclassifications to held for sale	22,187	(698)	-	-	-	21,489
As at 31 March 2014	1,022,566	2,472,030	28,244	5,860	5,043	3,533,743
Depreciation as at 1 April 2013	-	-	-	-	-	-
Charged during the year	-	96,138	-	631	967	97,736
Disposal	-	-	-	(2)	(3)	(5)
Reclassifications as held for sale	-	(226)	-	-	-	(226)
As at 31 March 2014	-	95,912	-	629	964	97,505
Net book value as at 31 March 2014	1,022,566	2,376,118	28,244	5,231	4,079	3,436,238
Asset financing						
Owned	941,989	1,935,104	28,208	5,144	4,062	2,914,507
Held on finance lease	3,539	64,939	-	3	-	68,481
Held on PFI contracts	77,038	376,075	36	84	17	453,250
	1,022,566	2,376,118	28,244	5,231	4,079	3,436,238

* refer to note 27

The company has adopted a periodic rolling programme of revaluations across its portfolio. No formal revaluation was required at 31 March 2014 as the carrying value of land and buildings did not differ materially from its fair value. 2014-15 represents the second year of the company's three-year rolling programme with 59% of land and 58% of its building revalued. The residual land and buildings will be revalued in the 2015-16 financial year. The company obtains valuations performed by external property valuers in order to determine the fair value of its property portfolio. Valuations were performed by Montagu Evans LLP. The effective date of the revaluation is 31st March 2015.

All valuations are undertaken in accordance with the following Standards:

- International Financial Reporting Standards published by the International Accounting Standards Board;
 - Valuation - Professional Standards (January 2014) of the Royal Institution of Chartered Surveyors;
 - International Valuation Standards published by the International Valuation Standards Committee.
- Specialist buildings, for which there is no external market, are valued at depreciated replacement cost. Land and non-specialist buildings are valued at fair value, interpreted as market value for existing use.

Had the cost model been used the carrying amount of the revalued assets as at 31st March 2015 would have been £958 million for Land and £2,280 million for Buildings.

Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that 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 based on market values for comparable properties, if they were to be sold between two parties, without compulsion, but with a view that they would remain in their current (existing) use.

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

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

Unobservable inputs

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

Assumptions

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

Sensitivity of measure of significant unobservable inputs

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

Note 10 – intangible assets

	Software purchased
	£000
As at 1 April 2014	-
Transferred from ex PCTs and SHAs	-
Other transfer	-
Impairment	-
As at 31 March 2015	-
Amortisation as at 1 April 2014	-
Charged during the year	-
Impairment	-
As at 31 March 2015	-
Net book value as at 31 March 2015	-
As at 1 April 2013	-
Transferred from ex PCTs and SHAs	209
Other transfer	(194)
Impairment	(15)
As at 31 March 2014	-
Amortisation as at 1 April 2013	-
Charged during the year	-
Impairment	-
As at 31 March 2014	-
Net book value as at 31 March 2014	-

Note 11 – trade and other receivables

	Notes	Current		Non-Current	
		2015	2014	2015	2014
		£000	£000	£000	£000
Trade receivables		291,606	209,862	-	-
Less: provision for doubtful debts		(50,561)	(32,491)	-	-
Other receivables		40,324	13,569	939	18,620
Accrued income		31,284	60,234	-	-
Prepayments		35,131	57,331	1,681	1,705
VAT receivable		3,122	8,819	-	-
Finance lease receivable	19	149	140	9,914	9,986
		351,055	317,464	12,534	30,311

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

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

	Not past due	1-30 days	31 – 180 days past due	More than 180 days past due
	£000	£000	£000	£000
As at 31 March 2015				
Past due date but not impaired	86,267	32,607	97,718	24,453
Past due date and impaired	5,779	5,542	7,668	31,572
	92,046	38,149	105,386	56,025
As at 31 March 2014				
Past due date but not impaired	68,311	30,254	78,806	-
Past due date and impaired	-	-	-	32,491
	68,311	30,254	78,806	32,491

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

The company has recognised a provision for doubtful debts for when there is objective evidence that the company is unlikely to collect amounts due according to the original terms of the receivable.

Movement in the provision for doubtful debts are as follows:

	2015	2014
	£000	£000
As at 1 April	32,491	-
Transferred from ex PCTs and SHAs	-	11,252
Increase in provision	36,168	23,735
Amounts written off during the year	(2,363)	(2,496)
Reversed unused	(15,735)	-
As at 31 March	50,561	32,491

Note 12 – assets classified as held for sale

	Land	Buildings	Total
	£000	£000	£000
As at 1 April 2014	3,489	3,279	6,768
Transferred from ex PCTs and SHAs	-	-	-
Assets no longer held for sale (for reasons other than sale)	-	-	-
Reclassifications	2,040	(2,040)	-
Plus: assets classified as held for sale in the year	84,882	46,456	131,338
Less: assets sold in the year	(34,782)	(18,246)	(53,028)
Less: impairment of assets held for sale	(9,031)	(12,266)	(21,297)
As at 31 March 2015	46,598	17,183	63,781
Liabilities associated with assets held for sale	-	-	-
As at 1 April 2013	-	-	-
Transferred from ex PCTs and SHAs	40,049	14,300	54,349
Assets no longer held for sale (for reasons other than sale)	(40,049)	(14,300)	(54,349)
Plus: assets classified as held for sale in the year	17,862	14,772	32,634
Less: assets sold in the year	(14,373)	(9,704)	(24,077)
Less: impairment of assets held for sale	-	(1,789)	(1,789)
As at 31 March 2014	3,489	3,279	6,768
Liabilities associated with assets held for sale	-	-	-

The company has 69 properties (2014: 30 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 (CCG). A property will only be released for disposal once commissioners have confirmed that it is no longer required for the delivery of NHS services. The disposals are planned to take place at various dates during the next financial year.

Refer to Note 26 - events after the end of the reporting period, where the company has disclosed the number of properties that have become held for sale since 31 March.

Note 13 – trade and other payables

	Current		Non-Current	
	2015	2014	2015	2014
	£000	£000	£000	£000
Trade payables	34,148	17,869	-	425
Other payables	1,449	180	512	8,894
Accruals	101,802	76,827	-	-
Deferred income	3,614	8,001	5,395	330
Social security costs	2,058	2,419	-	-
Tax	5,398	3,740	-	-
	148,469	109,036	5,907	9,649

Note 14 – borrowings

	Notes	Current		Non-Current	
		2015	2014	2015	2014
		£000	£000	£000	£000
Loans		30,000	241,000	-	-
PFI liabilities	20	9,558	10,914	339,556	367,660
Finance lease liabilities	19	5,731	2,645	222,268	70,520
		45,289	254,559	561,824	438,180

Repayment of principal falling due in:

	2015	2014
	£000	£000
Within one year	45,289	254,559
Between one and five years	76,486	57,524
After five years	485,338	380,656
	607,113	692,739

In the 2014 financial year, the company entered into flexible loan facility agreement with the Secretary State of Health on 19 November 2013 for an amount up to £350,000,000. The company has since entered into an amended flexible loan facility agreement with the Secretary State of Health on 17 March 2015 for an amount up to £195,000,000. The final repayment date of the loan is 31 March 2016. Until that date no part of the loan is repayable until the company has an operational cash balance of over £60,000,000.

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 15 – provisions

	Onerous leases	Dilapidations	Restructuring	Legal claims	Others	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2014	27,000	108,548	10,253	694	-	146,495
Transferred from ex PCTs and SHAs	-	-	-	-	-	-
Arising during the year	6,348	31,883	7,048	623	-	45,902
Utilised during the year	(2,180)	(2,088)	(14,706)	(53)	-	(19,027)
Reversed unused	(23,711)	(24,637)	-	(308)	-	(48,656)
Reclassification	-	-	-	-	-	-
As at 31 March 2015	7,457	113,706	2,595	956	-	124,714
Current	850	13,738	2,595	956	-	18,139
Non-current	6,607	99,968	-	-	-	106,575
	7,457	113,706	2,595	956	-	124,714
As at 1 April 2013	-	-	-	-	-	-
Transferred from ex PCTs and SHAs	6,062	27,635	232	122	181	34,232
Arising during the year	21,262	82,041	10,149	574	-	114,026
Utilised during the year	(324)	(1,128)	(128)	(2)	-	(1,582)
Reversed unused	-	-	-	-	-	-
Reclassification	-	-	-	-	(181)	(181)
As at 31 March 2014	27,000	108,548	10,253	694	-	146,495
Current	4,090	7,991	10,253	694	-	23,028
Non-current	22,910	100,557	-	-	-	123,467
	27,000	108,548	10,253	694	-	146,495

Onerous leases

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

Dilapidations

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

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

The sensitivity analysis below has been determined based on possible changes of the average rate per square metre of floor space, while holding all other assumptions constant:

	Total £000	Change £000	Change %
Increase in square metre rate by 10%	124,160	10,453	9%
Decrease in square metre rate by 10%	101,680	(12,027)	-11%

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 25).

Note 16 – employee benefits

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

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

Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2015 is based on valuation data as 31 March 2014, updated to 31 March 2015 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19 and the discount rate prescribed by HM Treasury have also been used.

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

Full actuarial (funding) valuation

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

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

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

Scheme provisions

The NHS Pension Scheme provided defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the scheme or the specific conditions that must be met before these benefits can be obtained:

The scheme is a “final salary” scheme. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three years pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the scheme regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as “pension commutation”.

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) has been used and replaced the Retail Prices Index (RPI).

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

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 the employer.

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVCs run by the Scheme's approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

Scottish Widows

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

Note 17 – share capital

	2015	2014
	£000	£000
Issued in year – fully paid	52,300	158,000
Alloted, called up and fully paid		
Ordinary shares of £1 each	225,300	173,000
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	225,300	173,000

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

The company issued 52,300,000 (2014: 158,000,000), £1 ordinary shares for a consideration of £52.3 million (2014: £158 million), settled in cash and no preference shares were issued.

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

Dividend

The company has not paid dividends this period and after the statement of financial position date no dividends were proposed by the Directors (2014: nil).

Note 18 – 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.

For the analysis of the balance as at 31 March 2014, please refer to Note 27. The company has completed a substantive review of its inherited balances since 31 March 2014. Following the review, the results were updated to reflect the Department of Health's updated capital investment position in the company. The results of this review are reflected in the legacy adjustment of £92.5 million and are further explained in the notes below.

	2015
	£000
Balance at 1 April 2014	3,050,562
Legacy adjustments	(92,501)
Balance at 31 March 2015	2,958,061

The legacy adjustments relates to the following:

	2015
	£000
Transfer of properties	(35,470)
Reversal of capitalisation of legal charges	(38,812)
Transfer of legacy receivables	(5,561)
Reclassified finance leases	(11,308)
Other	(1,350)
	(92,501)

Transfer of properties

The in-year substantive review completed by the company has resulted in a realignment of asset ownership in compliance with the legal transfer documentation.

Legal charges

The capitalised legal charges were transferred to the company on 1 April 2013. The company has determined that it is not correct to hold these assets pertaining to legal charges as it does not meet the recognition criteria.

Transfer of legacy receivables

The in-year substantive review of the company's inherited legacy receivables has identified instances whereby the company inherited receivable balances which relate to other bodies.

Reclassified finance leases

The company undertook a review of its inherited operating lease arrangements to ensure it has been appropriately classified in accordance with IAS 17. As a result of this review the company has reclassified 165 operating leases as finance leases. The company also reviewed the inherited finance lease models to ensure they are in compliance with IAS 17. The difference between the finance lease asset and liability as at 1 April 2014 is accounted for through the capital contribution reserve.

Other

This predominantly relates to transfer of unsubstantiated inherited lease incentives.

Note 19 – finance lease obligations

(a) Finance lease obligations as lessee

The company is party to 203 (2014: 43) finance lease arrangements, where the terms of the lease transfers substantially all the risks and rewards of ownership to the company, as a lessee. Of the 203 arrangements, 165 are as a result of the company undertaking a review of its inherited operating lease arrangements to ensure it has been appropriately classified. These arrangements are accounted for in accordance with IAS 17.

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

	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	2015	2014
	£000	£000	£000	£000
Amounts payable under finance leases (Buildings)				
Within one year	23,113	6,871	5,731	2,637
Between one and five years	92,598	25,948	26,702	10,458
After five years	358,941	115,088	195,286	59,727
Less: future finance charges	(246,933)	(75,085)		-
	227,719	72,822	227,719	72,822

Amounts payable under finance leases (Land)				
Within one year	30	44	0	8
Between one and five years	118	176	1	30
After five years	1,910	1,512	279	305
Less: future finance charges	(1,778)	(1,389)		-
	280	343	280	343

Included in	Notes	2015	2014
		£000	£000
Current borrowings	14	5,731	2,645
Non-Current borrowings	14	222,268	70,520
		227,999	73,165

Rental Expenses	Notes	2015	2014
		£000	£000
Contingent rental	3	6,128	3,511

(b) Finance lease obligations as lessor

The company leases a property under a finance lease arrangement.

	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	2015	2014
	£000	£000	£000	£000
Amounts receivable under finance leases (Buildings)				
Within one year	702	702	149	140
Between one and five years	2,808	2,808	697	656
After five years	14,042	14,744	9,217	9,330
Less: future finance charges	(7,489)	(8,128)		-
	10,063	10,126	10,063	10,126
Included in	Notes		2015	2014
			£000	£000
Current finance lease receivables	11		149	140
Non-current finance lease receivables	11		9,914	9,986
			10,063	10,126
Rental Revenue	Notes		2015	2014
			£000	£000
Contingent rental	2		80	148

Note 20 – private finance initiatives

The company is party to 26 (2014: 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
	2015	2014
	£000	£000
Service element charged to in-year operating expenses	28,256	28,346
Total obligations for PFI contracts due:		
Within one year	29,169	33,860
Between one and five years	121,360	133,960
After five years	453,291	548,168
Less: future finance charges	(254,706)	(337,414)
	349,114	378,574

Payments committed to in respect of the service element:			
Within one year		27,293	27,413
Between one and five years		114,998	117,769
After five years		634,366	692,188
		776,657	837,370
<hr/>			
Included in	Notes		
Current borrowings	14	9,558	10,914
Non-current borrowings	14	339,556	367,660
		349,114	378,574

Note 21 – 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	2015	2014
	£000	£000
<hr/>		
Loans and receivables		
Trade and other receivables	323,655	279,920
Cash and cash equivalent	92,910	226,649
	416,565	506,569
<hr/>		
Financial liabilities measured at amortised cost		
Trade and other payables	137,911	104,195
Loans	30,000	241,000
PFI, finance leases and other financial liabilities	577,113	451,957
	745,024	797,152

(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 (CCGs) make up a significant portion of the company's receivables. The company has assessed these entities as a low risk due to it being government funded.

The company has recognised a provision for impairment of trade receivables for all inherited legacy receivables balance and certain receivables balances generated in year. The company have implemented a credit vetting process for new tenants and guarantors.

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

(c) Liquidity risk

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

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

The company mostly manages liquidity risk by continuously monitoring forecast, cash flow requirements and management of the flexible loan facility with the Department of Health. Refer to Note 14 - borrowings for further information on the loan.

Contractual maturity analysis of financial liabilities

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

	Carrying amount	Contractual cash flow	Within one year	1-5 years	After 5 years
	£000	£000	£000	£000	£000
2015					
Trade and other payables	137,911	137,911	137,399	512	-
Finance leases	227,999	476,710	23,143	92,716	360,851
PFI	349,114	603,820	29,169	121,360	453,291
Loans	30,000	30,000	30,000	-	-
Other liabilities	-	-	-	-	-
	745,024	1,248,441	219,711	214,588	814,142
2014					
Trade and other payables	104,195	104,195	94,876	425	8,894
Finance leases	73,165	149,639	6,915	26,124	116,600
PFI	378,574	715,988	33,860	133,960	548,168
Loans	241,000	241,000	241,000	-	-
Other liabilities	218	218	218	-	-
	797,152	1,211,040	376,869	160,509	673,662

(d) Market risk

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

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

However, the company is exposed to movements in the property market as the company's assets consist predominantly of land and buildings. Refer to the Directors' report on pages 23 to 26 as to how the company has managed this risk.

The company is also exposed to rent increases which are recovered in full as the company charges based on full cost recovery.

Note 22 – related party transactions

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

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

As at 31 March 2015, the company owed the Department of Health £30 million (2014: £241 million) in respect of the flexible loan facility. Refer to Note 14 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
2015					
Peter Coates	NHS Shared Business Services	863	-	19	-
Douglas Blausten	Cyril Leonard	140	-	-	-
Martin West	London North West Healthcare NHS Trust (previously Ealing Hospital NHS Trust)	-	4,110	-	4,597*
		1,003	4,110	19	4,597
2014					
Peter Coates	NHS Shared Business Services	1,771	-	135	-
Douglas Blausten	Cyril Leonard	65	-	-	-
Martin West	Ealing Hospital NHS Trust	18	5,805	-	5,608
		1,854	5,805	135	5,608

*The company has a provision of doubtful debts of £1.4 million (2014: £0.6 million) of which the expense recognised in 2015 is £0.8 million (2014: 0.6 million).

In the prior year, the company disclosed transactions it had with Serco Limited. The disclosure has been removed on the basis that Dennis Markey's shareholding in Serco Limited is deemed to be insignificant and therefore does not meet the definition of a related party transaction under IAS 24 – Related Party disclosures.

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

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

Organisation	Payments to related party	Receipts from related party	Amounts owed to related party	Amounts due from related party
	£000	£000	£000	£000
2015				
Department of Health	1,703	9,804	528	9,024
Community Health Partnerships Limited	-	16,416	-	2,417
Public Health England	-	490	-	-
Special Health Authorities	467	8,029	117	3,042
NHS England	6,195	281,710	11,211	121,835
NHS Trusts	25,532	130,115	7,716	43,411
NHS Foundation Trusts	53,262	143,233	18,856	70,676
	87,159	589,797	38,428	250,405
2014				
Department of Health	2,643	6,953	277	6,595
Community Health Partnerships Limited	-	30,350	-	30,322
Public Health England	-	451	-	451
Special Health Authorities	4,505	8,211	2,281	4,576
NHS England	8,866	331,990	3,986	64,954
NHS Trusts	21,959	155,940	10,141	50,654
NHS Foundation Trusts	49,786	157,210	11,484	40,577
	87,759	691,105	28,169	198,129

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 23 – operating leases

(a) The company as a lessee

The company's operating lease commitments relate to property leases entered into on commercial terms

		2015	2014	2014
	Note		Restated	
		£000	£000	£000
Payments recognised as an expense				
Minimum lease payments	3	138,052	165,716	165,716
Non-cancellable operating lease commitments				
No later than one year		91,529	96,588	92,168
Between one and five years		304,767	333,306	310,607
After five years		469,764	549,290	632,839
		866,060	979,184	1,035,614

Total of future sublease payments expected to be received		95,148	103,663	109,414
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All lease commitments disclosed are for payments which we are legally required to make over the term of the lease. We inherited a number of properties that have undocumented lease arrangements. We consider these to be cancellable lease arrangements. For those leases with break clauses we have assumed we will occupy the property for the term of the lease except in instances where the lease is vacant by more than 50%. When onerous we have assumed the break date clause will be exercised where possible.

The company has decided to restate its prior year figures to provide better information to the readers of the financial statements. The restatement is a result of better information available this year including but not limited to lease term end date, annual rent, exclusion of newly classified finance leases (refer to Note 19 for further information), as well as a change in assumption relating to onerous properties.

(b) The company as a lessor

The company earns rental income by leasing its operating properties to tenants under non-cancellable operating leases

		2015	2014	2014
	Note		Restated	
		£000	£000	£000
Recognised as revenue				
Rental revenue	2	547,929	437,011	437,011
Total future minimum receipts				
No later than one year		10,970	12,367	46,987
Between one and five years		21,097	27,911	128,239
After five years		56,078	60,225	229,923
		88,145	100,503	405,149

There is a significant variance between the revenue earned during the year and the company's expected revenue from future periods, this is due to the high proportion of undocumented lease agreements.

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

The company has decided to restate its prior year figures to provide better information to the users of the financial statements. The restatement includes rental income only where we are the lessor of freehold properties.

Note 24 - commitments

Capital commitments

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

	2015	2014
	£000	£000
Property, plant and equipment	2,311	3,629
	2,311	3,629
No later than one year	2,311	3,629
Between one and five years	-	-
After five years	-	-
	2,311	3,629

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:

	2015	2014
	£000	£000
No later than one year	15,876	4,945
Between one and five years	1,929	3,760
After five years	1,294	-
	19,099	8,705

Operating lease commitments have been disclosed in Note 23.

Note 25 – contingencies

(a) Quantifiable contingencies

	2015	2014
	£000	£000
Contingent Liabilities		
Legal claims	110	57
Rent disputes	408	90
	518	147
Contingent Assets		
Legal claims	677	36
Legal charges	0	1,221
	677	1,257

Legal claims

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

Rent dispute

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

Contingent asset

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

(b) Unquantifiable contingencies

Contingent liabilities

As at 31 March 2015, the company has no unquantifiable contingent liabilities (2014: nil).

Contingent assets

Legal charges

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

As at 31 March 2015, the portfolio is comprised of 1,522 legal charges (2014: 1,549). On 1 April 2015, 1,161 legal charges securing grants to service providers were transferred by statutory transfer to NHS England. The residual legal charge portfolio of 361 secures planning obligations and overage payments.

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

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

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

Note 26 – events after the reporting period

Assets held for sale

Since the end of the reporting period, the company has classified 14 properties (2014: 16 properties) as held for sale with a total market value of £7.6 million (2014: £12.5 million). In total, these properties have a net book value of £11.5 million (2014: £19.3 million), resulting in an impairment of £3.9 million (2014: £8.8 million).

Legal charge

As disclosed under Note 25, on the 1 April 2015, 1,161 legal charges securing grants to service providers were transferred by statutory transfer to NHS England. The residual legal charge portfolio of 361 secures planning obligations and overage payments.

The financial statements of NHS Property Services Ltd were authorised for issue on 12 November 2015.

Note 27 – transfer of opening balances

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

The company inherited the ownership of 3,722 buildings of the National Health Service (NHS) primary care property estate and 3,119 NHS staff on 1 April 2013. Following the Health and Social Care Act 2012, Strategic Health Authorities (SHAs) and Primary Care Trusts (PCTs) in England were abolished and replaced with General Practitioner led commissioning consortia in April 2013. All properties previously owned by the SHAs and the PCTs, not passed to the commissioning groups were transferred to the company. As a result, the company inherited working capital balances as well as property, plant and equipment relating to its operations. The Department's investment in the company is reflected in the Capital Contribution reserve.

Between 1 April 2013 and 31 August 2013, payments and receipts made by legacy teams using the Department's cash were conducted on behalf of the company. The net impact of these cash flows is reflected in the company's accounts as Capital Contribution Reserve.

In validating the balances transferred, the company has applied the Instructions for Receiver Organisations developed by the Department of Health. As part of this process the company has validated all assets and liabilities transferred to the company to ensure it is in line with the Property Transfer Scheme, the amount transferred can be supported, is accurate and complete.

The validation process has resulted in balances being reallocated to other receiving organisations in line with the legal ownership outlined in the Property Transfer Scheme:

- Clinical balances transfer mainly to NHS England
- Staff related assets and liabilities transfer to the organisation where the member of staff now works. If the individual left the system on or before 31 March 2013, the Department is the successor organization
- Capital items transfer to the organisation specified in the transfer scheme, e.g. land and buildings transfer to NHS Property Services or Community Health Partnerships. In some cases, the capital item may be being used by another party, and the terms of that arrangement need to be accounted for using the relevant accounting guidance (e.g. FREM, Manual for Accounts).

- All cash balances transfer to the Department.
- Where the value of the balance is known to have been misstated by the transferor at 31 March 2013, it must be transferred into the receiver's accounts on 1 April 2013 at this amount and subsequently adjusted to the correct value through a 2013-14 in-year transaction.

Assets and liabilities recognised at the date of the transfer

	Transferred from ex PCTs and SHAs	Profit and loss impact	Utilised (cash)	Post validation balances
	£000s	£000s	£000s	£000s
Current assets				
Trade and other receivables	137,539	(30,371)	(71,196)	35,972
Cash and cash equivalents	-	-	-	-
Inventories	69	(69)	-	-
Non-current assets held for sale	54,841	-	-	54,841
	192,449	(30,440)	(71,196)	90,813
Non-current assets				
Property, plant and equipment	3,418,455	(190)	-	3,418,265
Intangible assets	209	(15)	-	194
Trade and other receivables	26,103	(1,083)	-	25,020
Investments	3,146	(317)	-	2,829
	3,447,913	(1,605)	-	3,446,308
Total assets	3,640,362	(32,045)	(71,196)	3,537,121
Current liabilities				
Trade and other payables	123,280	(22,626)	(63,939)	36,715
Borrowings	16,467	-	-	16,467
	139,747	(22,626)	(63,939)	53,182
Non-current liabilities				
Trade and other payables	6,644	(2,105)	(341)	4,198
Borrowings	458,280	-	-	458,280
Provisions	34,232	(32,467)	-	1,765
	499,156	(34,572)	(341)	464,243
Total liabilities	638,903	(57,198)	(64,280)	517,425
Net assets	3,001,459	25,153	(6,916)	3,019,696
Equity				
Share capital	-	-	-	-
Retained earnings	-	25,153	(25,014)	139
Capital contribution reserve	3,001,459	-	18,098	3,019,557
Total equity	3,001,459	25,153	(6,916)	3,019,696

The table above shows the following:

- The assets and liabilities transferred in from the ex PCTs/SHAs as at 1 April 2013
- The profit and loss impact shows the amount the company has had to write off predominantly due to lack of supporting documentation for trade and other payables and provisions, and lack of recoverability for trade and other receivables. This has had a favourable impact on the company's retained earnings of £25.2 million. This is split between several lines in the operating expenses note, with the main part disclosed in the line legacy write-offs.
- The cash utilised amount is the cash paid and/or receipted by the PCTs and SHAs organisations between the 1st of April to 31st of August. This is reflected through the £18.1 million under capital contribution reserve.

Along with the assets and liabilities transferred to the company, it has also inherited operational risks such as:

- a significant aging debtor balance which the company has had to create a provision for during the year;
- a significant number of properties with undocumented leases, resulting in the company applying critical judgements in relation to the revenue charged to its tenants;
- lack of provision recognised in relation to onerous leases and dilapidations; and
- judgement involved in calculating the company's depreciation expense.