NHS
Property Services

NHS Property Services Limited

Annual Report
for
the year ended
31 March 2017

Registered Head Office
NHS Property Services Limited
85 Gresham Street
London
EC2V 7NQ

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

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Chairman and Chief Executive Officer Report

Welcome to our 2016/17 annual report, which sets out the progress we have made in developing our business and strengthening our contribution to the NHS. NHS Property Services is responsible for 10% of the NHS estate so it can make a very important contribution to improving the effectiveness of property in supporting improved healthcare outcomes.

Over the past 12 months the business has evolved significantly. We have achieved many of our corporate objectives and addressed business critical challenges. A key part of this is due to improvements in our data, and the introduction of new systems and processes that are starting to deliver performance and efficiency gains.

This has been achieved in the context of the NHS facing intense financial and clinical pressure. As a dynamic business we want to continuously adapt and innovate to help our customers address these challenges, and have done so by:

- **Strengthening our strategic estates planning capability and capacity** - during 2016 we brought in new specialist estates skills and knowledge and supported the development of 44 Sustainability and Transformation Estate Plans (STPs) aligned with local clinical transformation objectives;
- **Exploring new occupational models**, such as sessional space, to ensure the NHS estate is used more efficiently and flexibly. Our first sessional pilot covering six sites launched in April 2017 and will be expanded to 20 sites during the year ahead;
- **Disposing** of 72 properties no longer required by the NHS, releasing land for a forecasted 800 units of new housing and generating £54 million in capital funds to reinvest in the health service; and
- **Investing** £67 million through our construction programme to upgrade and develop new facilities across England.

We are on a journey of transformation and recognise that there are areas where we still need to improve. We are focused on doing more to help our customers overcome the challenges they face and providing clearer, more accurate information about the space our customers occupy and the associated costs. We have seen improvements to income and a reduction in debt, but there is still work to be done on debt recovery. The improvements that we have made to our systems, data and processes will help us address these issues in the year ahead.

Looking forward, we will continue to strengthen our capability and professionalise our service offering to customers. A new customer services centre will help us respond to customers quickly and effectively and we are looking to all parts of the business to help us support the NHS more directly.

We fully support the views expressed by Sir Robert Naylor that the NHS needs a stronger national property voice. We have no doubt that we can make a strong contribution to the NHS target of releasing £2 billion of capital receipts for the NHS and making the NHS estate work harder for patients and clinicians.

We would like to extend our personal thanks to all the dedicated staff across the business for their continued hard work and commitment in delivering our objectives, and to our customers for helping us to understand how to shape our business to better support their requirements. We look forward to continuing to work together to make the NHS estate help to deliver better patient outcomes.

2016/17 achievements

The company has made significant and material progress over the last twelve months with improvements across all functional areas, as highlighted below:

Customer

- We have expanded our Account Management programme: some 500 customers were allocated dedicated account managers backed by zone based teams. A comprehensive account manager training programme was delivered to support this initiative.
- A new customer engagement strategy was developed and implemented which included a Customer News bulletin and customer events across England.
- A new enhanced complaints handling process was introduced to ensure all complaints were managed consistently and professionally across the business.
- Our customer satisfaction ratings have improved over the last twelve months, increasing from six out of ten in 2015/16 to seven out of ten in 2016/17. Whilst good progress has been made, we will continue to improve the customer experience.

Financial

- Net cash inflow from operating activities increased to £157 million compared to a net cash outflow in 2015/16 of £55 million. Our focus on recovering debts has enabled us to repay £50 million of the loan from the Secretary of State for Health.
- Revenue has increased by 16% year-on-year to £792 million following the move to market based rent charging.
- The loss for the year of £33 million was reduced from £224 million in the prior year. This was driven by a reduction in the impairment of property, plant and equipment.

Asset Management

- In 2016/17 NHS Property Services disposed of 72 surplus assets and generated capital receipts of £54 million.
- During the year 44 estate plans were completed and over 100 Clinical Commissioning Group local estates plans.
- Over 3,600 Heads of Terms were issued through our occupation lease regularisation programme during the year.

Facilities Management and Operations

- A substantial investment in our properties was undertaken through our capital expenditure programme. We invested £67 million upgrading our portfolio compared to £57 million in the prior year
- A new Facilities Management helpdesk was introduced in February 2017 offering a 24/7 service to make it easier for customers to report faults and request repairs.

Systems and data

- Our Asset Management Data Initiative to improve data quality was completed on plan in December 2016. Over 315,000 data fields were collected and validated following a full building inspection programme covering 3,905 individual buildings.
- A new Asset Management system (Horizon) went live as scheduled in December 2016 and is transforming the way we manage our leasehold and freehold property portfolio. This system is critical in enabling us to achieve efficient outcomes at our 3,905 properties and to ensure the best value for money is obtained from our £3.7 billion estate.

People

- A new Performance Management Framework was developed to drive the right behaviours and performance standards are demonstrated across the organisation.
- Delivery capacity and capability has been enhanced across Strategic Estates Planning, Asset Management, Property Management, and Construction Programme Management as well as systems and data. In addition, a new and expanded Evaluation and Analytics function has been established to enhance business case decision making.

In 2017/18 NHS Property Services will continue to professionalise and support the changing requirements of the healthcare estate. At a business level, our core plan to deliver a comprehensive Strategic Asset Management and a robust Facilities Management delivery model, will further enhance our service offering. Full spectrum financial transformation will introduce new, sustainable approaches to operational cost, debt recovery and billing management, supported by a new fit for purpose finance operating model, which will place the business on a firm financial foundation. Supporting these initiatives will be data, business intelligence and systems architecture which will underpin all functions and be fully scalable to meet future requirements, providing valuable business intelligence to the health estate.

This is an ambitious plan, and one that highlights the benefits of the NHS having a strong and highly skilled professional property and facilities management business. Within the challenging NHS operating context our plan will continue to help drive efficiency, deliver value and reconfigure the estate to deliver new models of care.

Leveraging the platform will be the focus of the coming year with work concentrating on embedding our new and improved data, systems, process and protocols and ensuring that they add value for our customers, our business, and our shareholder.

Signed 10 July 2017

I. D. Ellis

Ian Ellis

Chairman of the Board

Signed 10 July 2017

Elaine Hewitt

Elaine Hewitt

Chief Executive Officer

Board Members

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

Ian Ellis, Chairman of the Board

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

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

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

Ben Masterson, Shareholder Director

Ben Masterson, Deputy Commercial Director and Head of Companies Management at the Department of Health, took up the role of Secretary of State Director (Shareholder Director) on the Board of NHS Property Services on 31 January 2017.

An accountant by profession, Ben has previously worked in financial planning at the Department of Health and in the NHS in a variety of accounting and financial management roles. He recently managed the Department's Property Team and its Construction Procurement Team.

Ben is also a non-executive Director of the Department of Health owned company, Community Health Partnerships Ltd, which manages the Department of Health's interests in the NHS LIFT Public Private Partnerships and provides property for primary care and community services.

Martin West, Non-Executive Director

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 several 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

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

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

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

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

Michael Strong, Non-Executive Director

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

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

Michael held the post of Executive Chairman of the Europe Middle East and Africa division of CBRE from

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

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

Neil Sachdev, Non-Executive Director

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

He joined Tesco plc in 1978, rising to the position of Property Director, before joining J Sainsbury plc as Commercial Director in March 2007. He was subsequently appointed Property Director in June 2010, a position he held until leaving in March 2014. He was also Chairman of the Institute of Grocery Distribution until April 2014, Chairman of Market Tech Limited until June 2017, and a Non-Executive Director of Intu Properties plc until March 2016. He also sat on the Board of the Grantham Institute at Imperial College until 2016. Neil is a visiting professor at Salford University, and in February 2016 was appointed to the University of Warwick Council, where he also Chairman of Warwick Business School. In June 2016 Neil was awarded an MBE.

Neil holds a number of other senior appointments. He is Chairman of Sirius Real Estate (a German real estate operator) and Martins Properties (Chelsea Limited), and is a member of the Board of Network Rail Property.

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

Ed Smith, Non-Executive Director

Ed Smith joined the Board as a Non-Executive Director in June 2016. Ed is Chairman of NHS Improvement – the organisation set up in April 2016 to bring together Monitor and the NHS Trust Development Authority and was formerly Deputy Chairman of NHS England.

Ed has held a number of high-profile senior leadership roles in international business. He had a successful 30-year career with PricewaterhouseCoopers (PwC), holding many leading Board and top client roles in the UK and globally: Senior Partner, Global Assurance Chief Operating Officer and Strategy Chairman.

He is currently the lead Non-Executive Director for the Department for Transport, the Pro-Chancellor and Chairman of Council at the University of Birmingham, a member of the Competition and Markets Authority panel and Treasurer of Chatham House.

Elaine Hewitt, Chief Executive Officer

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

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

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

John Westwood, Director of Asset Management

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

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

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

John is a member of the Assets and Investment Committee.

Julian Pearce, Chief Financial Officer

Julian Pearce joins NHS Property Services from KPMG UK, where he was a Partner with responsibility for corporate finance, transaction services and restructuring advice and support to banking and other financial sector clients. He has advised banking, real estate and infrastructure clients across the globe, including Europe, Australia and the Middle East.

Julian also spent over four years at Lloyds Banking Group between 2009 and 2013, where he became Finance Director for their real estate banking business before leading the finance function for the non-core commercial banking business.

Martin Steele, Chief Operating Officer

Martin joined the Board on 4 July 2017. He has significant operational and commercial management experience and a strong track record of designing and implementing hard and soft FM strategies and delivering complex client services across a range of blue-chip commercial organisations.

He has worked for leading companies including BT, Andersens, Northern Foods and Debenhams. His functional expertise, commerciality and leadership skills have consistently added value and driven transformation in fast-paced and intricate operating environments.

Martin also has broad and deep specialist expertise in construction project management, procurement and health, safety and environmental management.

Strategic Report

NHS Property Services' strategic ambition and intent is to deliver property solutions and facilities management services which add value for our customers, our business and our shareholder.

We are on a transformation path within a challenging operating environment and significant financial and clinical pressures on the NHS ecosystem. In this context, we focus on transforming the organisation, growing the property and strengthening our contribution to the NHS.

Significant progress has been made across key areas, with the early focus on fixing the platform. Most notably:

- **Financial**: This has enabled the company to deliver revenue growth while meeting challenging efficiency targets and has contributed to a significant improvement in the company's results. Net cash inflow from operating activities increased to £157 million compared to a net cash outflow in 2015/16 of £55 million.
- **Property**: Since 2013/14 the company has delivered £204 million in contracted sales with 295 properties disposed of. We have also contracted on a further 15 properties, with a value of £36 million. Our disposal programme has released land for an estimated 3,749 Homes and Communities Agency housing units, 2,748 currently under construction.
- **Delivery capacity and capability**: Considerably improved professional capability, delivery capacity and service offering. This encompasses Strategic Estates Planning, Asset Management, Property Management, Construction Programme Management. This is complimented by improved systems, data and an expanded Evaluation and Analytics function to improve business case decision making.
- **People**: Enhanced Board, Executive and Senior Management Team.

Given the demonstrable and material progress on *fixing the platform,* focus now turns to professionalising our business and leveraging our new platform.

Improvements in end-to-end service delivery and business functions enable us to professionalise the business, support the customer more effectively and, ultimately, grow the property opportunity to add value to the wider healthcare system. *Leveraging the platform* is the strategic priority for 2017/18 as the data, systems, processes and protocols developed since 2015 are harnessed to generate efficiencies across the organisation and enhance our service offering.

Corporate and Social Responsibility

The company is committed to acting as a responsible corporate citizen. To demonstrate this commitment, we appointed a head of Corporate and Social Responsibility (CSR), enabling a renewed focus on the environment, our people, the community and the market.

During the year, we carried out almost 4,000 building inspections and developed a new Asset Management database. This is now helping us prioritise systems and equipment reaching the end of their design life, and identify where to invest in more energy efficient technology such as boiler replacements and lighting upgrades. We have also continued to invest in upgrading metering which will help us better understand energy consumption patterns and be more proactive in our management of energy in the year ahead. With improved energy management and data collection systems now in place we will be better placed in the coming year to establish accurate baselines for Scope 1 and 2 carbon emissions, water and waste from which performance improvement targets can be set.

We continue to follow BRE Environmental Assessment Method standards for new builds but adopt a flexible approach to precise classification to ensure we meet clinical and patient needs whilst balancing the environmental needs of a project against a challenging financial landscape across the NHS. We have also continued to work with the ReFit initiative to improve the environmental sustainability of our estate.

The company remains committed to CSR and environmental sustainability. In the year ahead, we will be introducing a company-wide approach to Corporate and Social Responsibility.

Financial Highlights

Income and expenditure

The company achieved significantly improved results year-on-year following a significant reduction in other operating costs. In addition, the company delivered revenue growth while investing in our service offering and meeting challenging efficiency targets.

Operating revenue has increased by 16% year-on-year to £792 million (2016: £685 million) which follows the move to market based rent charging. The move to market rent will benefit both the NHS and our tenants by providing a clearer picture of the true costs of occupation. This in turn will lead to better decisions about cost efficiency and strategic planning.

Direct property expenses rose by 8% as the company has provided more facilities management services to customers and because additional assets were transferred into the company. Depreciation costs rose by 9% as the company's assets have been revalued upwards. Our administrative costs rose by £21 million to £139 million (2016: £118 million), reflecting the investment in capability alongside a transformation programme, including investment in our corporate systems architecture. Other operating expenses have decreased by £162 million driven primarily by marked reductions in asset impairments of £143 million and a £11 million reduction in new amounts put aside to cover bad and doubtful debts as a result of the company's focused debt recovery strategy.

As a result of these movements our loss for the year reduced by £191 million to £33 million. In addition, including the revaluation of property, plant and equipment of £253 million, the company generated total comprehensive income of £220 million.

Debt position and funding

Our sustained strategic focus on debt recovery and improvements to credit control has driven an increase in the net cash flow from operating activities to £157 million, compared to a net outflow of £55 million in the previous year.

As a result, we have seen improved liquidity over the year with a higher cash and cash equivalents position at the year end up £30 million to £123 million (2016; £93 million). This improved liquidity has enabled the company to repay £50 million of the loan from the Secretary of State for Health and decrease our reliance on borrowings.

Capital receipts and investment

During the year, the company completed the sale of 72 surplus properties which realised gross capital receipts of £54 million (2016: £75 million) generating an accounting profit of £13 million (2016: £16 million). This has allowed the company to fund our ongoing capital investment programme from properties which were surplus to requirements while also reducing running costs to the estate.

The company invested £67 million through the capital investment programme during the year, a substantial increase from £57 million in the prior year. The programme delivers improvements to the property portfolio for the NHS.

Directors' Report for the Year Ended 31 March 2017

The Directors present their annual report and financial statements for the year ended 31 March 2017.

Principal activities

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

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

Net cash inflow from our operating activities increased to £157 million compared to a net cash outflow in 2015/16 of £55 million. The company reported a loss for the year ended 31 March 2017 of £33 million - a significant reduction from the restated loss of £224 million reported for the year ended 31 March 2016. As such the results of our trading activities are improving year on year.

Total comprehensive income for the year ended 31 March 2017 was £220 million compared to a small restated loss reported in the year ended 31 March 2016. This represents our trading activities adjusted for the results of revaluing our property portfolio.

A review of the business and future developments is contained in the Chairman and Chief Executive Officer's Report on pages 4 to 6 and the Financial Highlights Report on page 12.

The principal risks and uncertainties are detailed on page 23.

Results and dividends

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

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

Share capital

The company issued 2,400,000, £1 ordinary shares for a consideration of £2.4 million on 28 March 2017.

Following the issue of shares, the issued share capital of the company is 256,200,001 £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 16 of the financial statements.

Governance, internal controls and risk management

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

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

A report on governance and risk management can be found on pages 19 to 26.

Financial risk

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

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

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

Pension arrangements

Details of the pension liabilities and administration of the pension schemes are shown in the note 15 to the accounts. Further details on individual Directors' pensions and the associated schemes can be found in the Remuneration Report pages 28 to 32.

Market risk

The company manages the level of market risk in the property portfolio by holding a geographically diversified portfolio of properties. As the primary purpose of holding the portfolio is to deliver service, temporary adjustments in market values are not considered an immediate risk to the company.

Directors

The details of Board Directors who held office during the period and their remuneration are shown in the Remuneration Report starting on page 28.

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

The table below details the appointments and resignations of Directors who held office in 2016/17:

Directors of the Board	Appointment to the Board	Resignation from Board
Benjamin (Ben) Masterson	31-Jan-2017	n/a
Julian Pearce	03-Sept-2016	n/a
John Edward (Ed) Smith	01-Jun-2016	n/a
Ian Ellis	14-Mar-2016	n/a
Michael Strong	01-Feb-2016	n/a
John Westwood	06-Jul-2015	n/a
Elaine Hewitt	03-Feb-2015	n/a
Nilesh (Neil) Sachdev	12-Jan-2015	n/a
Patrick Mills	05-Jan-2015	31-Jan-2017
Simon Finley	01-Aug-2014	26-Jul-2016
Dennis Markey	22-Jul-2013	02-Mar-2017
Martin West	26-Mar-2013	n/a

Directors of the Board	Appointment to the Board	Resignation from Board
Christopher Kane	26-Mar-2013	n/a

Details of indemnities provided to the directors are included in the Governance and Risk Report on page 22.

Employees

The company is committed to openness and transparency. Employees have access to information regarding company policies, business performance and other matters of concern to them as employees. The views of employees are considered when making decisions that might affect their interests. The company has a whistleblowing/ raising concerns process endorsed by the Board to enable staff to voice any concerns.

All employees have access to a pension scheme. Details of the pension arrangements are set out in note 15 of the financial statements.

Equality and diversity

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

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

Political and charitable contributions

No political or charitable contributions were made by the company during the period ended 31 March 2017 (2016: Nil).

Going concern

The company's business activities, together with the factors likely to affect its future development and performance, are set out in the Chairman and Chief Executive Officer's Report on pages 4 to 6 and the Financial Highlights Report on page 12. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the financial statements.

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

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

Disclosure of information to auditor

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

Auditor

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

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

The report was approved by the Board on:

10 July 2017 and signed for and on behalf of the Board by:

Julian Pearce
Chief Financial Officer
10 July 2017

85 Gresham Street
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Statement of Directors' Responsibilities in Respect of the Company Financial Statements

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

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

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

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

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

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

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

Responsibility statements under the disclosure and transparency rules

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

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

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

For and on behalf of the Board

Elaine Hewitt
Chief Executive Officer
10 July 2017

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 however recognises that this represents good practice and has developed processes during the year to comply with the Code in so far as is practicable.

Board composition

At 31 March 2017, the Board comprised of the Chairman, Shareholder Director, five Non-Executives, the Chief Executive Officer and two Executive Directors. The Board is supported by an Executive Team which includes a further two Executives. The diversity and experience of the Board and Executive Team are essential to the leadership and success of the company. The biographies of the Board members are shown on pages 7 to 9, and demonstrate a range of property, investment, corporate, financial, information management and technology and NHS experience relevant to the company's business.

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

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

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

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

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

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

Board diversity

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

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

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

Board changes

During 2016/17, there was one change to the Non-Executive Directors on the Board. Ed Smith was appointed on 1 June 2016. No Non-Executive Directors left throughout the year. Pat Mills resigned on 31 January 2017 as Shareholder Director and was replaced on the same date by Ben Masterson.

There were three further Board changes: on 26 July 2016 Simon Finley, Chief Financial Officer stepped down, and on 3 September 2016 Julian Pearce was appointed as his replacement. Dennis Markey stepped down as Chief Operations Officer on 2 March 2017. Martin Steele replaced Dennis as Chief Operating Officer and was appointed to the Board on 4 July 2017.

Full biographies of the current Board Directors can be found in the Board Members section on pages 7 to 9.

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.

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.

Governance structure

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

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

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

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

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

Board	**Develops strategy and leads NHS Property Services to achieve long-term success.** *Comprises the Chairman, Shareholder Director Representative, five independent Non-Executive Directors, the Chief Executive Officer, and three further Company Directors.* *The Board has a formal schedule of matters reserved for the Shareholder Director which are outlined within the Articles of Association. The Board retains responsibility for strategic, major financial and key operational issues. Defined terms of reference for Board Committees, formal documentation of powers delegated to Executive Directors and clear reporting lines ensure that the Board receives all relevant information about the business, and that decisions are made by people at the right level with the authority to do so.* *Membership and attendance *: There were six scheduled meetings and one additional meeting.* *Ian Ellis (6/7), Shareholder Director – (7/7), Martin West (6/7), Chris Kane (6/7), Neil Sachdev (7/7), Michael Strong (7/7), Ed Smith (3/6), Elaine Hewitt (7/7), Dennis Markey (6/6), Simon Finley (2/2), John Westwood (7/7), Julian Pearce (4/4).* **Attendance is shown in brackets against the available meetings that members could attend.*
Audit and Governance Committee	**Oversight of financial and narrative reporting, internal control, risk management systems, internal and external audit processes.** *The Committee has an annual cycle of business to ensure that all aspects of the duties are covered. The Committee also reviews the Annual Report and other published information for regulatory compliance. It assesses the performance of the external auditors annually. It also monitors the external auditors' independence.* *The main responsibilities of the Committee are:* *a) Integrated governance, internal controls, and risk management.* *b) Systems of financial control.* *c) Compliance, raising concerns (whistleblowing) policy and counter-fraud.* *d) Internal audit and external audit.* *f) Other assurance functions.* *g) Financial reporting and accounts.* *h) Compliance with the Articles of Association and Governance Framework.* *Membership and attendance *: Comprises independent Non-Executive Directors:* *Martin West (9/9), Shareholder Director representative (6/9) and Neil Sachdev (7/9).* **Attendance is shown in brackets against the available meetings that members could attend.*
Assets and Investment Committee	**Review the estates strategy and policies and development of implementation plans for running the company's portfolio.** *Membership at Director level and attendance *: Michael Strong (4/5), Chris Kane (4/5), Shareholder Director representative (0/5), Elaine Hewitt (5/5), John Westwood (5/5), Julian Pearce (3/4).* **Attendance is shown in brackets against the available meetings that members could attend.*
Remuneration Committee	**The Committee oversees appropriate contractual arrangements for all people and make recommendations to the Shareholder Director on all aspects of the performance, remuneration and terms of service.** *Membership and attendance *: Ian Ellis (4/4), Shareholder Director Representative (4/4), Martin West (4/4), Michael Strong (1/4), Elaine Hewitt (4/4), Linda Burton (2/2), Robbie Wheeler (2/2).* **Attendance is shown in brackets against the available meetings that members could attend.*
Facilities Management Committee	**To oversee all aspects of facilities management strategy and policy within the established strategies and business plan approved by the Board.** *The Committee provides leadership in the management of resources for the maintenance, compliance, sustainability and facilitation of all NHS Property Services' property and related infrastructure assets.* *Membership at Director level and attendance *: Chris Kane (4/4), Neil Sachdev (2/4), Dennis Markey (4/4), Elaine Hewitt (2/4), Simon Finley (0/2), Julian Pearce (3/3), Shareholder Director Representative (1/4).* **Attendance is shown in brackets against the available meetings that members could attend.*

<table>
<tr><td>Nomination Committee</td><td colspan="3">To keep the Board's skill and experience base under continued review, oversees searches and selection processes for new Directors and recommends new appointments to the Board.
The Committee makes sure that the Board has an appropriate balance of skills and experience, independence and knowledge. It makes recommendations to the Shareholder Director and Board on new appointments and re-appointments to the Board and oversees executive succession planning to ensure continuity of senior management at and below Board level.
Membership at Director level and attendance *: Chris Kane (1/1), Neil Sachdev (1/1), Shareholder Director Representative (1/1), Martin West (1/1), and Mike Strong (1/1).</td></tr>
<tr><td colspan="4">Executive Committees</td></tr>
<tr><td>Executive Committee</td><td>Meets monthly
Membership - all Executive Directors (including Board Executive Directors) and chaired by the Chief Executive Officer.
Ongoing management of the company considering day to day operational matters for running the business.
Review performance of significant programmes to ensure risks are managed.</td><td>Operational Committee</td><td>Meets monthly
Membership - all Executive Directors and chaired by the Chief Operating Officer.
Assists the Executive Committee with the detailed performance monitoring and delivery of key projects.</td></tr>
</table>

Directors' immunities

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

Directors' and officers' liability insurance

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

Openness and transparency

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

Risk governance

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

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

Risk management framework

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

Risk management is a dynamic process and is being refreshed to ensure that local management and health and safety can integrate into the corporate process. Corporate risks are reviewed at Board Committee level and are a consideration when producing documents for all Board level and Executive Committees.

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

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

Principal risks

Our principal risks fall in the financial, reputational, capability and transformation areas. To deliver to customers this year we have continued to strengthen the capability of our people and have made significant progress towards delivering our new corporate finance system with go-live set for early 2017/18.

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

- **Data quality and systems** - Improvements are underway to enhance our data and systems to help the company improve services and drive innovation. Poor data could result in incorrect billing information, disputes and delays in receipts.
- **People** - The company has this year enhanced Board, Executive and the Senior Management Team combined with a new Performance Management Framework to increase the contribution of people in our business.
- **Customer needs** - Customer needs are changing to meet the challenge of providing modern 24/7 clinical services for patients. We recognise that it is important the company delivers a good service for customers and have a suite of programmes in place or planned to improve service levels. Feedback recognises that improvements are being delivered but there is still some way to go before the company delivers first class service.
- **Compliance** - The provision of safe, clean and functional environments is important to our customers and tenants. Asset condition surveys are being obtained for sites for which the company has a repairing and insuring liability. These surveys have begun to highlight a need for remedial works which will have a direct impact to cost and funding requirements.
- **Financial** - Poor income recovery impacts on cash flow. Funding around the NHS system continues to be a challenge to the company.
- **Commercial** - Formal occupation arrangements not being in place across the entire portfolio increases the risk of dispute over billing and uncertainty over occupation.
- **Changes in government policy, legislation and regulation** - Healthcare reforms may change the climate in which our tenants operate and how estates are managed across the health and social care environments.

Internal controls

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives.

On formation, the company was in receipt of a large amount of base data from predecessor organisations and since then there has been a significant amount of due diligence to check the base data and to form and refine our business processes and procedures. Much of the activity, with respect to internal control, has focused on building suitable control environments within which to operate. Significant programmes of work have been undertaken during the year as part of the operational fix plans; some of these programmes completed this year and some continue into next year. Of these the business systems programme will provide an improved IT infrastructure to enable us to move to more standardised processes supported by system embedded workflow. As such the control environment is still developing. In 2016/17, we completed reviews of the following systems and processes:

- Procurement;
- Billing and credit control;
- Data;
- Regularisation and negotiation of leases;
- Customer management;
- Capital projects;
- Strategic estates planning;
- New trading model, which included the development of market rent charging and vacant space handback scheme;
- Lease event management; and
- Business systems.

The Audit and Governance Committee monitors the effectiveness of controls through the receipt of written and verbal reports from directorate, internal auditors and the external auditors.

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

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

Internal audit

The internal audit plan was approved by the Audit and Governance Committee at the start of the year with reviews covering; procurement, purchasing cards, facilities management, lease regularisation, billing and data quality. The reviews covered business processes and identified actions to address control or process weaknesses.

Internal Audit provided an annual audit opinion that considered assurance ratings and recommendations made at the end of audit assignments conducted in 2016/17. A limited assurance opinion was issued on the basis that, as a result of weaknesses identified with internal controls, there is a risk that the company's system of internal control, governance and risk management will fail to meet management's objectives.

Areas where significant weaknesses have been identified were in the procurement processes and purchasing card controls. Management agrees with the findings and recommendations from these reviews, and other reviews, and has been addressing these over the course of the year and continue to do so over the coming year.

Procurement process

The company commissioned Capita to undertake an end-to-end review of procurement strategy and savings proposals. Responsibility for purchase order processing recently moved to Finance.

Fire safety

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

Following the fire at Grenfell Tower on 14 June 2017 and as a precautionary measure, we are reviewing our estate to identify all buildings constructed, or refurbished, with any cladding system similar to that used on Grenfell Tower. Sites identified where this type of cladding has been used will be tested and risk assessed to take appropriate steps

Fraud detection and investigation

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

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

Information governance

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

The company does not manage clinical data, however, as part of our work in reception and other NHS patient areas it is important to provide assurance to our Shareholder and customers that we are meeting these standards. The toolkit is a subset of the ISO27000 standards (Information Security), which has been customised by the Department of Health. The company met level two (the required standard) for 95% of the measures. For 2017/18, the company will continue to evolve its systems and processes to ensure compliance with the additional requirements of the Global Data Protection Regulation by 25 May 2018.

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

Slavery and Human Trafficking statement

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

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

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

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

We intend to take further steps to identify, assess and monitor potential risk areas in terms of modern slavery and human trafficking, particularly in our supply chains.

In 2017/18, our anti-slavery programme will also work to:

- support our staff to understand and respond to modern slavery and human trafficking, and the impact that every individual working in our organisation can have in keeping present and potential future victims of modern slavery and human trafficking safe.
- ensure that all our staff have access to formal training on modern slavery and human trafficking which will provide the latest information and the skills to deal with it.
- work with our customers and suppliers to ensure modern slavery and human trafficking are taken seriously and feature prominently in policy formation and decision making.

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

For and on behalf of the company

Elaine Hewitt

Elaine Hewitt
Chief Executive Officer
10 July 2017

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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 contributions;
- Median earnings;
- Contract length; and
- Amounts payable to third parties for the services of senior managers.

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

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 was one Board Executive Director appointment, the Chief Financial Officer, which was managed through open competition. A firm of recruitment consultants managed the appointment process. (Refer to Directors' Report starting on page 13 and Governance and Risk Report, starting on page 19.)

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

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

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

NHS Property Services is not bound by NHS pay-scales. People appointed post 1 April 2013 have been employed on company terms and conditions of service.

A company-wide bonus or performance-related pay scheme is now in place and was introduced during 2016/17.

Company structure

Since appointment, the Chief Executive Officer and the Executive team have taken the lead in shaping the future requirements of the business in line with Shareholder expectations. The

Executive Team has reviewed the existing operating structure and has implemented a series of changes to ensure the organisational design is fit for purpose for the company's future needs. This has resulted in a targeted revision to the management team numbers with associated reduction in staffing costs.

Service contracts

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

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

Company Directors	Period as a Company Director	Unexpired term (months) at 1 April 2017	Notice periods
Elaine Hewitt	12 January 2015	n/a	Terminable by either party giving 6 months' notice. Notice given by the Executive may be reduced to 3 months with written consent of the company. No less than 3 months if dismissed or incapacitated.
John Westwood	6 July 2015	n/a	Terminable by either party giving 6 months' notice. No less than 3 months if dismissed or incapacitated.
Julian Pearce	3 September 2016	n/a	Terminable by either party giving 6 months' notice.
Dennis Markey	22 July 2013 – 2 March 2017	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 – 26 July 2016	n/a	Terminable by either party giving 6 months' notice. No less than 3 months if dismissed or incapacitated.
Chairman, Shareholder Director and Non-Executive Directors			Letter of appointment – notice periods
Ian Ellis	14 March 2016	23.5	Initial period of three years. Either party can give 2 months' notice.
Ben Masterson	31 January 2017	n/a	The Shareholder Director is a senior civil servant at the Department of Health and receives no remuneration from the company. There were also no recharges. Any potential conflict of interest is registered and managed in an appropriate way – see Directors' conflict section.
Martin West	26 March 2013	6	Contract extended to 30 September 2017. Either party can give 3 months' notice.
Chris Kane	1 March 2013	12	Contract extended to 31 March 2018. Either party can give three months' notice.
Neil Sachdev	12 January 2015	9.5	Initial period of 3 years. Either party can give 3 months' notice.
Michael Strong	1 February 2016	22	Initial period of 3 years. Either party can give 3 months' notice.
Ed Smith	1 June 2016	16	Initial period of 2 years 2 months. Either party can give 3 months' notice.
Pat Mills	5 January 2015 – 31 January 2017	n/a	The Shareholder Director is a senior civil servant at the Department of Health and receives no remuneration from the company. There were also no recharges. Any potential conflict of interest is registered and managed in an appropriate way – see Directors' conflict section.

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 3 inclusively has been subject to audit.

	2016/17					2015/16 (restated)				
Name	Salary £000 (Bands of £5,000)	Bonus £000 (Bands of £5,000)	Benefits in kind £ (1)	Pension benefits £000 (2)	Total remuneration £000 (Bands of £5,000)	Salary £000 (Bands of £5,000)	Bonus £000 (Bands of £5,000)	Benefits in kind £	Pension benefits £000	Total remuneration £000 (Bands of £5,000)
Chairman and Non-Executive Directors										
Ian Ellis	60 - 65	n/a	Nil	n/a	60 - 65	0 - 5	n/a	Nil	n/a	0 - 5
Christopher Kane	25 - 30	n/a	Nil	n/a	25 - 30	25 - 30	n/a	Nil	n/a	25 - 30
Martin West	25 - 30	n/a	Nil	n/a	25 - 30	25 - 30	n/a	Nil	n/a	25 - 30
Douglas Blausten (3)	n/a	n/a	Nil	n/a	n/a	15 - 20	n/a	Nil	n/a	15 - 20
Neil Sachdev	20 - 25	n/a	Nil	n/a	20 - 25	20 - 25	n/a	Nil	n/a	20 - 25
Michael Strong	25 - 30	n/a	Nil	n/a	25 - 30	0 - 5	n/a	Nil	n/a	0 - 5
Ed Smith (4)	Nil	n/a	Nil	n/a	Nil	n/a	n/a	n/a	n/a	n/a
Robin Williams (5)	n/a	n/a	Nil	n/a	n/a	90 - 95	n/a	Nil	n/a	90 - 95
Executive Directors										
Elaine Hewitt (6)	210 - 215	60 - 65	20,300	Nil	295 - 300	200 - 205	65 - 70	16,600	12	295 - 300
Julian Pearce (7)	90 - 95	15 - 20	4,000	Nil	110 - 115	n/a	n/a	n/a	n/a	n/a
John Westwood (8)	160 - 165	30 - 35	7,000	10	210 - 215	115 - 120	20 - 25	5,200	7	150 - 155
Simon Finley (9)	50 - 55	Nil	2,200	3	55 - 60	155 - 160	Nil	7,000	9	170 - 175
Simon Holden (10)	n/a	n/a	n/a	n/a	n/a	350 - 355	15 - 20	100	n/a	370 - 375
Andrew Millward (11)	n/a	n/a	n/a	n/a	n/a	15 - 20	n/a	400	n/a	15 - 20
Alan Farmer (12)	n/a	n/a	n/a	n/a	n/a	10 - 15	n/a	n/a	n/a	10 - 15
Dennis Markey (13)	195 - 200	Nil	31,000	11	240 - 245	140 - 145	30 - 35	14,000	8	195 - 200

Table 1 - Directors Remuneration 2016/17 compared with 2015/16

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

(2) Pension benefits relate to employer contributions to the personal pension plan. Contributions are shown in Table 3.
(3) Resigned from the Board on 30 September 2015: whole year equivalent (WYE) salary range £25,000 - £30,000
(4) Appointed to the Board on 1 June 2016. Received no remuneration in the period. Appointed in conjunction with his role as Chairman of NHS Improvement.
(5) Resigned from the Board on 31 March 2016. Salary in 2015/16 has been restated to include a payment in relation to additional services amounting to £15,750. Salary was temporarily increased in October 2014 to reflect additional time commitment - WYE range £90,000 - £95,000. In October 2015 his salary reverted to a WYE range £60,000 - £65,000
(6) Benefits in kind for 2015/16 have been restated to include company car benefits.
(7) Appointed to the Board on 3 September 2016: WYE range £160,000 - £165,000
(8) Appointed to the Board on 6 July 2015. Salary shown for 2015/16 reflects his appointment partially through that financial year.

(9) Resigned from the Board on 26 July 2016: WYE range £155,000 - £160,000 – for comparative purposes only.

(10) Resigned from the Board on 7 April 2015: Salary included a voluntary settlement of £369,000 that was based on inherited contractual terms and conditions - comparative purposes only.
(11) Resigned from the Board on 14 May 2015: WYE range £130,000 - £135,000 – for comparative purposes only.
(12) Resigned from the Board on 14 May 2015: WYE range £90,000 - £95,000 – for comparative purposes only.
(13) Resigned from the Board on 2 March 2017. Salary includes a payment in lieu of notice amounting to £37,875 - WYE range £150,000 - £155,000. Benefits in kind for 2015/16 have been restated to include company car benefits.
(14) The Shareholder Director is not remunerated by NHS Property Services.
(15) Martin Steele was appointed to the Board on 4 July 2017. No remuneration to disclose for the period.

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

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

Median earnings

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

	2016/17	2015/16 restated
Highest earner's total remuneration (£)	295,000 - 300,000	285,000 - 290,000
Median total remuneration (£)	18,635	18,660
Ratio	16.0	15.1

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

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

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

Pension

NHS Pension Scheme

Pension benefits are provided through the NHS Pension Scheme for all employees who TUPE transferred to NHS Property Services on 1 April 2013. No current Board members have an interest in the NHS Pension Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions.

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

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

Employer contributions to group personal pension scheme

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

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%. The table below shows the employers contributions paid into the scheme for Board members.

Table 3 provides details of pension interests of Board members who are in the group pension scheme - Scottish Widows Pension Scheme.

Name	**Title**	**31 March 2017 £000**	**31 March 2016 £000**
Elaine Hewitt	Chief Executive Officer	Nil	12
Dennis Markey	Chief Operating Officer	11*	8
Simon Finley	Chief Financial Officer	3*	9
Julian Pearce	Chief Financial Officer	Nil	n/a
John Westwood	Director of Asset Management	10	7*

Table 3 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 10 July 2017 and signed for and on their behalf by:

Ian Ellis
Chairman of the Board
10 July 2017

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 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report which is described in that report as having been audited.

Respective responsibilities of the Directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Company Financial Statements, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 2017 and of the loss for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- the information given in the Strategic Report, Financial Highlights and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements; and

- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report, Financial Highlights or the Directors' Report.

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)

Hilary Lower

Signed 11 July 2017

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Statement of Comprehensive Income

for the year ended 31 March 2017

	Notes	2017 £000	Restated 2016 £000
Operating revenue	2	792,269	684,653
Direct property expenses	3	(632,583)	(584,551)
Administrative expenses	4	(139,592)	(118,360)
Other operating expenses	5	(23,615)	(186,087)
Operating loss		**(3,521)**	(204,345)
Finance income	7	671	610
Finance costs	7	(43,358)	(42,091)
Gain on disposal of property, plant and equipment		13,422	16,214
Loss before tax from continuing operations		**(32,786)**	(229,612)
Taxation expense	8	-	5,398
Loss for the year		**(32,786)**	(224,214)
Other comprehensive income, net of income tax			
Items that will not be recycled to profit and loss:			
Revaluation of property, plant and equipment		252,929	223,917
Other comprehensive income, net of income tax		252,929	223,917
Total comprehensive income/ (loss) for the year		**220,143**	(297)

The above relates wholly to continuing operations.

Notes 1 to 26 form part of these financial statements.

Statement of Financial Position

as at 31 March 2017

	Notes	2017 £000	Restated 2016 £000	1 April 2015 2015 £000
Non-current assets				
Property, plant and equipment	9	3,654,364	3,426,754	3,331,058
Trade and other receivables	10	11,080	12,818	12,534
		3,665,444	3,439,572	3,343,592
Current assets				
Trade and other receivables	10	400,575	448,072	351,055
Cash and cash equivalents		123,440	93,193	92,910
Inventory		9	11	9
		524,024	541,276	443,974
Assets classified as held for sale	11	8,344	14,892	63,781
Total assets		**4,197,812**	3,995,740	3,851,347
Current liabilities				
Trade and other payables	12	124,441	131,516	148,469
Borrowings	13	72,946	120,603	45,289
Provisions	14	14,099	22,697	18,139
		211,486	274,816	211,897
Non-current liabilities				
Trade and other payables	12	7,858	6,194	5,907
Borrowings	13	625,578	609,720	561,824
Provisions	14	83,603	96,990	106,575
		717,039	712,904	674,306
Total liabilities		**928,525**	987,720	886,203
Net assets		**3,269,287**	3,008,020	2,965,144
Equity				
Share capital	16	256,200	253,800	225,300
Retained earnings		(900,355)	(879,171)	(666,802)
Revaluation reserve		901,984	660,657	448,585
Capital contribution reserve	17	3,011,458	2,972,734	2,958,061
Total equity		**3,269,287**	3,008,020	2,965,144

Notes 1 to 26 form part of these financial statements.

These financial statements were approved by the Board of Directors on 10 July 2017 and signed on its behalf by:

Julian Pearce
Chief Financial Officer
Company Registered Number: 07888110

Statement of Cash Flows

for the year ended 31 March 2017

	Notes	2017	Restated 2016
		£000	£000
Operating activities			
Loss for the year		(32,786)	(224,214)
Adjustments for non-cash transactions:			
(Gain)/loss on disposal of property, plant and equipment		(13,422)	(16,214)
Depreciation and amortisation	9	149,020	136,964
Non-current assets adjustments		3,509	(1,724)
Provisions arising and reversed unused	14	(15,382)	(419)
Impairments of non-current assets		(13,221)	130,062
Adjustments for:			
Interest received (shown below)	7	(671)	(610)
Interest paid (shown below)	7	42,133	40,657
(Increase)/decrease in inventories		2	(2)
(Increase)/decrease in trade and other receivables		48,032	(107,598)
Increase/(decrease) in trade and other payables	12	(3,975)	(2,362)
Increase/(decrease) in tax payable	12	-	(5,398)
Provisions utilised	14	(6,603)	(4,608)
Net cash inflow/(outflow) from operating activities		**156,636**	(55,466)
Investing activities			
Interest received	7	671	610
(Payments) for property, plant and equipment		(67,493)	(56,838)
Proceeds from disposal of property, plant and equipment		54,085	75,165
Net cash inflow/(outflow) from investing activities		**(12,737)**	18,937
Financing activities			
Proceeds from the issue of share capital	16	2,400	28,500
Increase/(decrease) in loans	13	(50,000)	70,000
Capital element of payments in respect of finance leases and PFI		(23,919)	(21,031)
Interest paid	7	(42,133)	(40,657)
Net cash inflow/(outflow) from financing activities		**(113,652)**	36,812
(Decrease)/increase in cash and cash equivalents for the year		**30,247**	283
Cash and cash equivalents at start of year		**93,193**	92,910
Cash and cash equivalents at end of year		**123,440**	93,193

Notes 1 to 26 form part of these financial statements.

Statement of Changes in Equity

	Share capital	Retained earnings	Capital contribution reserve	Revaluation reserve	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2016	253,800	(879,171)	2,972,734	660,657	3,008,020
Total comprehensive income for the period					
Retained profit/(loss)for the year	-	(32,786)	-	-	(32,786)
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	252,929	252,929
Net gain/(loss) on revaluation of assets held for sale	-	-	-	-	-
Transfers between reserves	-	11,602	-	(11,602)	-
In year transfer	-	-	44,966	-	44,966
Legacy adjustments	-	-	(6,242)	-	(6,242)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(21,184)	38,724	241,327	258,867
Transactions with owners, recorded directly in equity					
Issue of shares	2,400	-	-	-	2,400
Total contributions by owners	2,400	-	-	-	2,400
Balance at 31 March 2017	**256,200**	**(900,355)**	**3,011,458**	**901,984**	**3,269,287**
		Restated		**Restated**	**Restated**
Balance at 1 April 2015 Per Signed Accounts	225,300	(640,487)	2,958,061	481,222	3,024,096
Prior Year Adjustment	-	(26,315)	-	(32,637)	(58,952)
Balance at 1 April 2015 Restated	225,300	(666,802)	2,958,061	448,585	2,965,144
Total comprehensive income for the period					
Retained profit/(loss)for the year	-	(224,214)	-	-	(224,214)
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	223,917	223,917
Net gain/(loss) on revaluation of assets held for sale	-	-	-	-	-
Transfers between reserves	-	11,845	-	(11,845)	-
In year transfer	-	-	26,293	-	26,293
Legacy adjustments	-	-	(11,620)	-	(11,620)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(212,369)	14,673	212,072	14,376
Transactions with owners, recorded directly in equity					
Issue of shares	28,500	-	-	-	28,500
Total contributions by owners	28,500	-	-	-	28,500
Balance at 31 March 2016	253,800	(879,171)	2,972,734	660,657	3,008,020

Notes 1 to 26 form part of these financial statements.

Notes to the Financial Statements

Note 1 – Accounting Policies

Corporate information

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

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

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

The company's financial statements for the year ended 31 March 2017 were approved by the Board of Directors on 10 July 2017.

Accounting policies

Basis of preparation

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

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

Statement of compliance

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

Going concern

The financial statements are prepared on a going concern basis as explained in the Directors' Report on page 15.

Comparatives

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

Significant accounting policies

a) Segmental reporting

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

b) Leases

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

The company as lessee

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments. Where a break clause exists within the lease agreement it is assumed that it will not be exercised and the full term of the lease will be utilised.

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

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

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

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

The company as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases. Initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term

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

Contingent rentals are recognised as revenue when earned.

c) Income

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

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

d) Grant income

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

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

e) Finance income and expenses

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

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

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

f) Other expenses

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

g) Financial assets

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

Financial assets are initially recognised at fair value.

Cash and cash equivalents

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

Trade and other receivables

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

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

h) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification. Assets which are being actively marketed, but where the sale is unlikely to complete within one year are recognised in line with IAS 16. Information on a potential sale price is considered as part of the fair value assessment of those properties.

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

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

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

i) Property, plant and equipment

Recognition and measurement

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

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

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

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

Specialist buildings, for which there is no external market, are valued at depreciated replacement cost. Land and non-specialist buildings are valued at fair value, interpreted as market value for existing use. However, where an external market has been established for specialist buildings, or a more appropriate measure of market value is available for land and non-specialist buildings, then this source of information will be used for valuation purposes.

Revaluation

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

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

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

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

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

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

Additions

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

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

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

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

Disposals

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

Impairment

Property, plant, and equipment and intangible assets that have a finite useful life are reviewed for indicators of impairment as at each balance 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

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

k) Financial liabilities

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

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

Trade and other payables

Trade and other payables are recorded at their face value.

Borrowings

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

l) Employee benefits

Short-term employee benefits

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

m) Superannuation schemes

Defined benefit scheme

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

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

Defined contribution plan

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

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

n) Provisions

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

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

Onerous contracts

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

Dilapidations

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

Restructuring

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

o) Equity and reserves

Share capital

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

Capital contribution

The capital contribution reserve is not a distributable reserve and cannot be applied to fund expenditure. This is in line with section 830(2) of the Companies Act 2006, as this reserve does not consist of realised profits. The reserve reflects the value of assets transferred to the company at nil cost by NHS entities. Where further information is subsequently identified about the value of the assets at the date of transfer the reserve is adjusted to reflect this.

p) Contingencies

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

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

q) Taxation

Corporation tax

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

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

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

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

Value added tax (VAT)

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

r) Significant accounting estimates and judgements

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

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

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

Provisions

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

Refer to note 14 for further detail.

Classification of properties

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

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

Revaluation of land and buildings

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

Refer to note 9 for further detail.

Leases classification

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

Undocumented occupancy arrangements

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

Management have concluded that based on the agreements in place with Department for 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, with the exception of the change to the accounting treatment for lifecycle costs in PFI contracts. These were previously treated as a prepayment and are now recognised as an expense. This had a non-material impact to the accounts and the previous asset balance has been expensed in the year.

See note 17 for further details.

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

t) Standards issued but not yet effective

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

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

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

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

u) Prior period adjustment

The company has restated the prior period financial statements in accordance with IAS 8 for the following:

As part of the 2016/17 revaluation exercise, management identified adjustments required to the reported fair value of certain properties that were revalued in previous periods. These adjustments arose as a consequence of a misapplication of valuations within the property register in those previous years.

Further, management carried out a review of the ownership of properties recorded on its balance sheet following the transfers from various Primary Care Trusts since formation. This identified adjustments to a number of assets which should have been eliminated from the company's balance sheet in earlier periods.

As a result of the above, management has restated the prior period comparatives. Details of the impact of the restatement on the financial statements can be found in note 25.

Note 2 – Operating Revenue

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

	2017 £000	2016 £000
Rental income	681,215	519,714
Finance lease contingent rent income	11	120
Grant income	92,876	144,204
Other fees and charges	18,167	20,615
	792,269	**684,653**

Note 3 – Direct Property Expenses

	Note	2017 £000	2016 £000
Depreciation and amortisation	9	149,020	136,964
Rental expense		115,253	124,213
Finance lease contingent rent expense		5,994	5,433
PFI contingent rent expense		11,735	9,968
Facilities management		235,239	195,873
Utilities		46,934	44,040
Rates		48,768	40,521
Repairs and maintenance		18,041	25,158
Insurance		1,599	2,381
		632,583	584,551

Note 4 – Administrative Expenses

	Note	2017 £000	2016 £000
Staff costs	6	94,911	90,825
Legal and professional fees		32,061	14,894
Chair and Non-Executive Directors' costs		200	195
External audit fees		286	381
Internal audit fees		111	168
Taxation compliance fees		204	101
Other administrative expenses		11,819	11,796
		139,592	118,360

The external audit fees relate solely to the statutory audit.

Note 5 – Other Operating Expenses

	Note	2017	Restated 2016
		£000	£000
Impairment of property, plant and equipment		(13,221)	130,062
Impairment on assets held for sale	11	-	-
Net impact in dilapidation provision	14	(10,850)	(12,158)
Net impact in onerous provision	14	(3,471)	1,315
Legacy write-offs		1,714	(577)
Impairment of receivables	10	49,037	60,463
Restructuring costs	14	(2,549)	8,706
Non-current assets adjustments		2,955	(1,724)
		23,615	186,087

Note 6 – Staff Costs

	Note	2017	2016
		£000	£000
Wages and salaries		67,300	66,895
Agency staff costs		16,637	13,348
Social security costs		5,759	4,901
Contributions to defined contribution plans	15	5,215	5,681
		94,911	90,825

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

Average Number	Headcount 2017	Headcount 2016
Permanent staff	3,366	3,320
Agency staff	443	420
	3,809	3,740

Note 7 – Finance Income and Costs

	2017 £000	2016 £000
Finance income		
Interest on finance leases	601	576
Interest income	70	34
	671	**610**
Finance costs		
Interest on loans	525	228
Interest on obligations under PFI contracts and finance leases	41,608	40,429
Unwinding of discounts on provision	1,225	1,434
	43,358	**42,091**

Note 8 – Corporation tax

	2017 £000	2016 £000
Recognised in the statement of comprehensive income		
Current tax expense		
In respect of the current year	-	-
In respect of prior years	-	(5,398)
	-	(5,398)

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

Reconciliation of effective tax rate		**Restated**
Loss before tax from continuing operations	(32,786)	(229,612)
Corporation tax expense calculated at 20% (2016: 20%)	(6,557)	(45,922)
Effect of income that is exempt from taxation	(13,061)	-
Effect of expenses that are not deductible in determining taxable profits	22,493	47,142
Unutilised losses for which no deferred tax asset has been provided	(2,875)	(1,220)
Tax credit in respect of prior years	-	(5,398)
	-	(5,398)

As at 31 March 2017, the company has a corporation tax creditor of £nil (2016: £nil). The company does not recognise any deferred tax assets or liabilities (2016: £nil).

Note 9 – Property, Plant and Equipment

	Land	Buildings	Assets under construction	Plant & equipment	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2016	1,026,933	2,522,820	48,083	6,531	2,400	3,606,767
Reclassifications	279	34,522	(34,801)	113	(113)	-
Additions	548	32,932	64,946	-	-	98,426
Revaluation increase	96,238	141,983		-	-	238,221
Disposals	(8,815)	(12,080)	-	(70)	-	(20,965)
In year transfer to / from other bodies and other transfers	5,741	45,210	-	24	-	50,975
Impairment	(34,023)	(70,391)	-	(15)	(113)	(104,542)
Adjustments	(731)	(6,739)	-	-	-	(7,470)
Reclassifications to / from assets held for sale	(8,258)	(5,692)	-	-	-	(13,950)
As at 31 March 2017	**1,077,912**	**2,682,565**	**78,228**	**6,583**	**2,174**	**3,847,462**
Depreciation as at 1 April 2016	50	177,270	-	1,583	1,110	180,013
Reclassifications	7	(4)	-	75	(78)	-
Charged during the year	25	147,809	-	783	403	149,020
Revaluation	-	(54,034)	-	-	-	(54,034)
Disposals	(1)	(1,522)	-	(62)	-	(1,585)
In year transfer to / from other bodies and other transfers	-	-	-	-	-	-
Impairment	-	(78,350)	-	(7)	(78)	(78,435)
Adjustments	-	(1,542)	-	(1)	-	(1,543)
Reclassifications to / from assets held for sale	-	(338)	-	-	-	(338)
As at 31 March 2017	**81**	**189,289**	**-**	**2,371**	**1,357**	**193,098**
Net book value as at 31 March 2017	**1,077,831**	**2,493,276**	**78,228**	**4,212**	**817**	**3,654,364**
Asset financing						
Owned	994,694	1,770,724	78,228	4,212	817	2,848,675
Held on finance lease	6,791	269,342	-	-	-	276,133
Held on PFI contracts	76,346	453,210	-	-	-	529,556
	1,077,831	**2,493,276**	**78,228**	**4,212**	**817**	**3,654,364**
	Restated	**Restated**				
As at 1 April 2015	968,337	2,407,439	36,423	5,429	2,713	3,420,341
Reclassifications	1,419	22,787	(25,216)	1,116	(106)	-
Additions	726	20,196	34,460	-	-	55,382
Revaluation increase	124,900	160,616	-	-	-	285,516
Disposals	(15,803)	(1,402)	-	(34)	(207)	(17,446)
In year transfer to / from other bodies and other transfers	7,220	70,509	-	20	-	77,749
Impairment	(79,802)	(154,518)	-	-	-	(234,320)
Adjustments	-	(981)	2,416			1,435
Reclassifications to / from assets held for sale	19,936	(1,826)	-	-	-	18,110
As at 31 March 2016	**1,026,933**	**2,522,820**	**48,083**	**6,531**	**2,400**	**3,606,767**
Depreciation as at 1 April 2015	25	87,498	-	858	902	89,283

Reclassifications	-	152	-	(47)	(105)	-
Charged during the year	25	135,748	-	787	404	136,964
Revaluation	-	(21,062)		-	-	(21,062)
Disposals	-	(152)	-	(15)	(91)	(258)
In year transfer to / from other bodies and other transfers	-	(2,709)	-	-	-	(2,709)
Impairment	-	(21,596)	-	-	-	(21,596)
Adjustments	-	(289)	-	-	-	(289)
Reclassifications to / from assets held for sale	-	(320)	-	-	-	(320)
As at 31 March 2016	**50**	**177,270**	**-**	**1,583**	**1,110**	**180,013**
Net book value as at 31 March 2016	**1,026,883**	**2,345,550**	**48,083**	**4,948**	**1,290**	**3,426,754**
Asset financing						
Owned	962,069	1,674,156	48,083	4,948	1,290	2,690,546
Held on finance lease	6,755	252,385	-	-	-	259,140
Held on PFI contracts	58,059	419,009	-	-	-	477,068
	1,026,883	**2,345,550**	**48,083**	**4,948**	**1,290**	**3,426,754**

The company has adopted a periodic rolling programme of revaluations across its portfolio. The year ended 31 March 2017 represents the first year of the company's second three-year rolling programme. To date, circa 92% of the company's freehold land and buildings has undergone a revaluation review. The company obtains valuations performed by external property valuers, Montagu Evans LLP, in order to determine the fair value of its property portfolio. The effective date of the revaluation is 31 March 2017.

All valuations are undertaken in accordance with the following Standards:

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

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

Had the cost model been used the carrying amount of the land and building assets as at 31 March 2017 would have been £904 million for Land (2016: £915 million) and £2,068 million for Buildings (2016: £2,145 million).

Fair value hierarchy

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

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

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

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Where land and buildings are considered to be non-specialised, level 2 inputs are used to calculate Existing Use Value. The determination of fair value is 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.

96% of the buildings revalued were derived from the BCIS indices (level 3 inputs) adjusted for location and condition.

Unobservable inputs

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

Assumptions

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

Note 10 – Trade and Other Receivables

		Current		Non-current	
		2017	2016	2017	2016
	Note	£000	£000	£000	£000
Trade receivables		431,810	485,715	-	-
Less: impairments of receivables		(105,000)	(106,203)	-	-
Capital receivables		6,718	7,841	-	-
Other receivables		22,421	6,993	809	871
Accrued income		4,872	4,106	-	-
Prepayments		34,314	42,255		1,388
VAT receivables		5,223	7,149	-	-
Finance lease receivables	18	217	216	10,271	10,559
		400,575	448,072	**11,080**	12,818

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

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

	Not past due	1-30 days	31 – 180 days past due	More than 180 days past due
	£000	**£000**	**£000**	**£000**
As at 31 March 2017				
Not impaired	18,172	16,423	131,991	160,224
Impaired	-	-	18,532	86,468
	18,172	**16,423**	**150,523**	**246,692**
As at 31 March 2016				
Not impaired	132,748	(23,968)	230,687	40,045
Impaired	-	-	61,395	44,808
	132,748	**(23,968)**	**292,082**	**84,853**

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

The company has recognised a provision for doubtful debts based on an assessment of the recoverability of receivables. Provisions have been applied to receivables where events or circumstances indicate that the carrying amounts may not be recoverable. Management have specifically assessed the recoverability of receivables on a customer by customer basis. The company has assessed that a provision of £105 million against trade receivables is appropriate.

Movements in the impairment of receivables are as follows:

	2017	2016
	£000	**£000**
As at 1 April	106,203	50,561
Increase in provision	49,037	89,707
Amounts written off during the year	(50,240)	(4,821)
Reversed unused	-	(29,244)
As at 31 March	**105,000**	106,203

Note 11 – Assets Classified as Held for Sale

	Land	Buildings	Total
	£000	£000	£000
As at 1 April 2016	9,900	4,992	14,892
Reclassifications	-	-	-
Assets no longer held for sale	(25)	(95)	(120)
Plus: assets classified as held for sale in the year	8,283	5,449	13,732
Less: assets sold in the year	(14,333)	(5,827)	(20,160)
Less: impairment of assets held for sale	-	-	-
As at 31 March 2017	**3,825**	**4,519**	**8,344**
As at 1 April 2015	46,598	17,183	63,781
Reclassifications	4,055	(4,055)	-
Assets no longer held for sale	(23,329)	(2,816)	(26,145)
Plus: assets classified as held for sale in the year	3,393	4,322	7,715
Less: assets sold in the year	(20,817)	(9,642)	(30,459)
Less: impairment of assets held for sale	-	-	-
As at 31 March 2016	9,900	4,992	14,892

The company has 11 properties (2016: 24 properties) held for sale. The decision as to whether one of the company's properties is surplus to NHS operational requirements resides with the commissioners, i.e. NHS England or a Clinical Commissioning Group. A property will only be released for disposal once commissioners have confirmed that it is no longer required for the delivery of NHS services. The disposals are planned to take place at various dates during the next financial year.

Refer to note 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 12 – Trade and Other Payables

	Current		Non-current	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade payables	46,211	45,031	-	-
Capital payables	3,644	5,080	-	-
Other payables	151	167	37	37
VAT payables	4,470	7,798	-	-
Accruals	62,032	69,926	-	-
Deferred income	5,657	1,305	7,821	6,157
Social security costs	2,276	2,209	-	-
Tax	-	-	-	-
	124,441	131,516	**7,858**	6,194

Note 13 – Borrowings

	Note	Current 2017 £000	Current 2016 £000	Non-current 2017 £000	Non-current 2016 £000
Loans		50,000	100,000	-	-
PFI liabilities	19	12,250	11,552	318,155	327,844
Finance lease liabilities	18	10,696	9,051	307,423	281,876
		72,946	120,603	**625,578**	609,720

Repayment of principal falling due in:

	2017 £000	2016 £000
Within one year	72,946	120,603
Between one and five years	168,237	90,886
After five years	457,341	518,834
	698,524	730,323

The company entered into flexible loan facility agreement with the Secretary State for Health on 31 March 2017 for an amount up to £160 million (2016: £160 million). The final repayment date of the loan is 30 September 2018, having been extended by 6 months on 1 April 2017. Until that date no part of the loan is repayable until the company has an operational cash balance of over £90 million (2016: £90 million).

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

Note 14 – Provisions

	Onerous Leases	Dilapidations	Restructuring	Legal claims	Total
	£000	£000	£000	£000	£000
As at 1 April 2016	7,782	101,378	9,331	1,196	119,687
Arising during the year	4,059	6,849	245	1,006	12,159
Utilised during the year	(34)	(786)	(5,604)	(179)	(6,603)
Reversed unused	(7,530)	(17,699)	(2,794)	(743)	(28,766)
Unwinding of discounts on provision	3	1,222	-	-	1,225
As at 31 March 2017	**4,280**	**90,964**	**1,178**	**1,280**	**97,702**
Current	476	11,165	1,178	1,280	14,099
Non-current	3,804	79,799	-	-	83,603
	4,280	**90,964**	**1,178**	**1,280**	**97,702**
As at 1 April 2015	7,457	113,706	2,595	956	124,714
Arising during the year	7,133	8,185	9,330	431	25,079
Utilised during the year	(1,008)	(1,586)	(1,970)	(44)	(4,608)
Reversed unused	(5,818)	(20,343)	(624)	(147)	(26,932)
Unwinding of discounts on provision	18	1,416	-	-	1,434
As at 31 March 2016	7,782	101,378	9,331	1,196	119,687
Current	1,126	11,044	9,331	1,196	22,697
Non-current	6,656	90,334	-	-	96,990
	7,782	101,378	9,331	1,196	119,687

Onerous leases

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

Dilapidations

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

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

While holding all other assumptions constant if the average rate per square metre of floor space was 10% higher (lower), the company's dilapidation provision will increase (decrease) by £8.4 million.

Restructuring

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

Legal claims

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

Note 15 – Employee Benefits

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. Both are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. They are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that scheme for the accounting period.

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal valuations shall be four years, with approximate assessments in intervening years". An outline of these follows:

Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2017 is based on valuation data as 31 March 2016, updated to 31 March 2017 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

Full actuarial (funding) valuation

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

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

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

Scottish Widows

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

Note 16 – Share Capital

	2017 £000	2016 £000
Issued during the year to 31 March	2,400	28,500
Allotted, called up and fully paid		
Ordinary shares of £1 each	256,200	253,800
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	256,200	253,800

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.

During the year the company issued 2,400,000 (2016: 28,500,000) £1 ordinary shares for a consideration of £2.4 million (2016: £28.5 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 (2016: nil).

Note 17 - Capital Contribution Reserve

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

	2017 £000	2016 £000
Balance at 1 April	2,972,734	2,958,061
Transfers and adjustments	38,724	14,673
Balance at 31 March	3,011,458	2,972,734

The substantive review by the company of the inherited balances continued during the year ended 31 March 2017. The company also received further properties from the original portfolio, that initially went to other bodies within the NHS, where as per the legal transfer documentation when the healthcare services provided have reduced below levels set the properties revert to the Secretary of State who nominates a new receiver. The results of this review and of the property transfer resulted in a net increase to the reserve of £38.7 million (2016: £14.7 million) to reflect the Department of Health's revised capital investment within the company. Further explanation is in the notes below:

	2017 £000	2016 £000
Transfer of properties	44,966	26,293
Reclassified finance leases & PFI liabilities	(6,242)	(11,620)
	38,724	14,673

Transfer of properties

In compliance with the legal transfer documentation a realignment of asset ownership has resulted in a movement in the value of properties from the original portfolio of £45.0 million (2016: (£26.3 million)).

Reclassified finance leases & PFI Liabilities

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 15 head leases (2016: 44) and 1 sub-tenant leases (2016: 1) as finance leases. Also reviewed were the accompanying inherited finance lease models to ensure they are in compliance with IAS 17. The resulting net difference of (£4.2 million) (2016: (£11.6 million)) between the finance lease asset and liability or removal of asset and creation of receivable as at 1 April is accounted for through the capital contribution reserve.

The company undertook a review of its inherited PFI arrangements to ensure they have been appropriately valued in accordance with IFRIC 12. As a result of this review the company identified 9 (2016: nil) PFI models where the liability required adjustment. The resulting net difference of (£2.0 million) (2016: £nil) in the liability is accounted for through the capital contribution reserve.

Note 18 – Finance Lease Obligations

(a) Financial lease obligations as lessee

The company is party to 242 (2016: 239) finance lease arrangements, where the terms of the lease transfers substantially all the risks and rewards of ownership to the company, as a lessee. These arrangements are accounted for in accordance with IAS 17.

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

		Minimum lease payments		Present value of minimum lease payments	
		2017	2016	2017	2016
	Note	£000	£000	£000	£000
Amounts payable under finance leases (Buildings)					
Within one year		31,917	28,601	10,696	9,051
Between one and five years		127,994	114,085	50,239	41,794
After five years		415,197	405,592	256,904	239,802
Less: future finance charges		(257,269)	(257,631)	-	-
		317,839	290,647	**317,839**	290,647
Amounts payable under finance leases (Land)					
Within one year		30	30	-	-
Between one and five years		118	118	1	1
After five years		1,851	1,880	279	279
Less: future finance charges		(1,718)	(1,748)		
		280	280	**280**	280

Included in		2017	2016
		£000	**£000**
Current borrowings	13	10,696	9,051
Non-current borrowings	13	307,423	281,876
		318,119	290,927

Rental expenses		2017	2016
		£000	**£000**
Contingent rental payments	3	5,994	5,433

(b) Financial lease obligations as lessor

The company leases 2 (2016: 3) properties under a finance lease arrangement.

		Minimum lease payments		Present value of minimum lease payments	
		2017	**2016**	**2017**	**2016**
	Note	**£000**	**£000**	**£000**	**£000**
Amounts receivable under finance leases (Buildings)					
Within one year		806	813	217	205
Between one and five years		3,224	3,250	1,009	951
After five years		14,698	15,837	9,262	9,619
Less: future finance charges		(8,240)	(9,125)	-	-
		10,488	10,775	**10,488**	10,775

Included in		**2017**	**2016**
		£000	**£000**
Current finance lease receivables	10	217	216
Non-current finance lease receivables	10	10,271	10,559
		10,488	10,775

Rental revenue		**2017**	**2016**
		£000	**£000**
Contingent rental	2	11	120

Note 19 – Private Finance Initiatives

The company is party to 26 (2016: 26) private finance initiative (PFI) arrangements, where the company controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. These arrangements are treated as service concession arrangements and are accounted for in accordance with IFRIC 12 service concession arrangements (IFRIC 12).

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

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

	Note	2017 £000	2016 £000
Service element charged to in-year operating expenses		26,564	28,478
Total obligations for PFI contracts due:			
Within one year		31,272	31,021
Between one and five years		117,998	120,378
After five years		404,999	439,702
Less: future finance charges		(223,864)	(251,705)
		330,405	339,396
Payments committed to in respect of the service element:			
Within one year		28,069	28,432
Between one and five years		120,138	123,232
After five years		546,094	621,821
		694,301	773,485
Included in			
Current borrowings	13	12,250	11,552
Non-current borrowings	13	318,155	327,844
		330,405	339,396

Note 20 – Financial Instruments

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

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

Categories of financial assets and liabilities	2017 £000	2016 £000
Loans and receivables		
Trade and other receivables	372,117	410,098
Cash and cash equivalent	123,440	93,193
	495,557	503,291
Financial liabilities measured at amortised cost		
Trade and other payables	112,075	120,241
Loans	50,000	100,000
PFI and finance lease liabilities	648,524	630,323
	810,599	850,564

(a) Fair value of financial instruments

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

(b) Credit risk

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

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

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

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

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

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

(b) Liquidity risk

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

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

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

Contractual maturity analysis of financial liabilities

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

	Carrying amount	Contractual cash flow	Within one year	1-5 years	After 5 years
	£000	£000	£000	£000	£000
2017					
Trade and other payables	112,075	112,075	112,038	37	-
Finance leases	318,119	577,106	31,946	128,112	417,048
PFI	330,405	554,269	31,272	117,998	404,999
Loans	50,000	50,000	50,000	-	-
	810,599	**1,293,450**	**225,256**	**246,147**	**822,047**
2016					
Trade and other payables	120,241	120,241	120,204	37	-
Finance leases	290,927	550,305	28,630	114,203	407,472
PFI	339,396	591,101	31,021	120,378	439,702
Loans	100,000	100,000	100,000	-	-
	850,564	**1,361,647**	**279,855**	**234,618**	**847,174**

(c) Market Risk

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

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

However, the company is exposed to movements in the property market as the company's assets consist predominantly of land and buildings. Refer to the directors' report on page 13 as to how the company has managed this risk.

Note 21 – Related Party Transactions

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

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

As at 31 March 2017, the company owed the Department of Health £50 million (2016: £100 million) in respect of the flexible loan facility. Refer to note 13 for further information on the loan.

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

Details of related party transactions are as follows:

Director	Organisation	Payments to related party	Receipts from related party	Amounts owed to related party	Amounts due from related party
		£000	£000	£000	£000
2017					
Neil Sachdev	HSS Hire Service Group Ltd	14	-	-	-
Edward Smith	NHS Improvement	10	1,525	-	633
Martin West	London North West Healthcare NHS Trust (was Earling hospital trust, RC3) now R1K	-	3,331	-	2,464
		24	**4,856**	**-**	**3,097**
2016					
Neil Sachdev	HSS Hire Service Group Ltd	62	-	-	-
Martin West	London North West Healthcare NHS Trust (was Earling hospital trust, RC3) now R1K	0	2,758	0	3,020
Stuart Diggles	Task Finance Ltd	89	-	-	-
Douglas Blausten	Cyril Leonard	68	-	-	-
		219	**2,758**	**0**	**3,020**

The company has a provision of doubtful debts of £0.1 million (2016: £0.8 million) of which the expense recognised in 2017 is £nil (2016: £0.8 million). In 2017, the company has also written off £0.5 million (2016: £0.6 million) of the debt outstanding related to the previous year.

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

Details of the remuneration paid to Board members can be found in the Remuneration Report on pages 30 to 31.

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

Organisation	Payments to related party	*Receipts* from related party	Amounts owed to related party	Amounts due from related party
	£000	£000	£000	£000
2017				
Department of Health	651	(225)	50,096	996
Community Health Partnerships Limited	5,703	33,213	5,660	22,549
Public Health England	-	783	-	138
Special Health Authorities	295	1,525	15	633
NHS England	1,278	234,323	11,032	97,872
NHS trusts	13,547	85,764	4,197	46,557
NHS foundation trusts	30,495	212,003	11,657	122,768
	51,969	**567,386**	**82,657**	**291,513**
			Restated	
2016				
Department of Health	489	2,108	100,024	2,031
Community Health Partnerships Limited	-	1,304	4	6,563
Public Health England	-	324	2	-
Special Health Authorities	336	2,023	88	906
NHS England	2,051	224,333	7,475	162,873
NHS trusts	15,889	84,439	7,664	56,549
NHS foundation trusts	49,161	165,801	20,199	120,490
	67,926	**480,332**	**135,456**	**349,412**

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.

The prior year Amounts owed to related party has been restated to include a £100 million loan with the Department of Health - see note 13.

Note 22 – Operating Leases

(a) The company as a lessee

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

	Note	2017 £000	2016 £000
Payments recognised as an expense			
Minimum lease payments	3	115,253	124,213
Non-cancellable operating lease commitments			
No later than one year		79,876	86,639
Between one and five years		253,874	273,294
After five years		367,341	408,836
		701,091	768,769
Total of future sublease payments expected to be received		227,231	139,042

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

(b) The company as a lessor

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

	Note	2017 £000	2016 £000
Recognised as revenue			
Rental revenue	2	681,215	519,714
Total future minimum receipts			
No later than one year		16,205	11,574
Between one and five years		56,821	42,903
After five years		166,633	119,144
		239,659	173,621

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

Note 23 – Commitments

Capital commitments

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

	2017	2016
	£000	£000
Property, plant and equipment	12,669	12,886
	12,669	12,886
No later than one year	12,669	12,886
Between one and five years	-	-
After five years	-	-
	12,669	12,886

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:

	2017	2016
	£000	£000
No later than one year	5,579	3,582
Between one and five years	6,398	691
After five years	25	42
	12,002	4,315

Operating lease commitments have been disclosed in note 22.

Note 24 – Contingencies

(a) Quantifiable contingencies

	2017	2016
	£000	£000
Contingent liabilities		
Legal claims	155	113
Rent disputes	-	408
	155	521
Contingent assets		
Legal claims	89	31
	89	31

Legal claims

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

Rent disputes

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

Contingent assets

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

(b) Unquantifiable contingencies

Contingent liabilities

As at 31 March 2017, the company has unquantifiable contingent liabilities and assets in relation to ongoing reviews of our rates, rent and service charges in the properties we occupy and following from our lease regularisation exercise. Whilst in many cases we anticipate these will lead to overall savings, there maybe additional costs backdated to the start of these reviews. We also incentivise our professional negotiators in these discussions by having part of their remuneration based on a percentage of savings achieved. (2016: 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 2017, the portfolio consisted of 335 legal charges securing planning obligations and overage payments. 24 legal charges were realised during the year.

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

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

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

Note 25 – Restatement of Prior Period Accounts

As part of the 2016/17 revaluation exercise, management identified adjustments required to the reported fair value of certain properties that were revalued in previous periods. These adjustments arose as a consequence of a misapplication of valuations within the property register in those previous years.

Further, management carried out a review of the ownership of properties recorded on its balance sheet following the transfers from various Primary Care Trusts since formation. This identified adjustments to a number of assets which should have been eliminated from the company's balance sheet in earlier periods.

The impact of the restatement to the 2015/16 financial statements are as follows:

Impact to the Statement of Comprehensive Income

	Per Signed Accounts	Adjustment	Restated
	2016		**2016**
	£000		**£000**
Operating revenue	684,653	-	684,653
Direct property expenses	(584,551)	-	(584,551)
Administrative expenses	(118,360)	-	(118,360)
Other operating expenses	(169,547)	(16,540)	(186,087)
Operating loss	(187,805)	(16,540)	(204,345)
Finance income	610	-	610
Finance costs	(42,091)	-	(42,091)
Gain/(loss) on disposal of property, plant and equipment	16,908	(694)	16,214
Loss before tax from continuing operations	(212,378)	**(17,234)**	(229,612)
Taxation expense	5,398	-	5,398
Loss for the year	(206,980)	**(17,234)**	(224,214)
Other comprehensive income, net of income tax			
Items that will not be recycled to profit and loss:			
Revaluation of property, plant and equipment	296,972	(73,055)	223,917
Other comprehensive income, net of income tax	296,972	(73,055)	223,917
Total comprehensive income for the year	89,992	(90,289)	(297)

Impact to the Statement of Financial Position

	Per Signed Accounts	Adjustment	Restated
	2016		2016
	£000	£000	£000
Non-current assets	3,588,813	(149,241)	3,439,572
Current assets	541,276	-	541,276
Assets classified as held for sale	14,892	-	14,892
Total assets	4,144,981	(149,241)	3,995,740
Current liabilities	274,816	-	274,816
Non-current liabilities	712,904	-	712,904
Total liabilities	987,720	-	987,720
Net assets	3,157,261	(149,241)	3,008,020
Equity			
Share capital	253,800	-	253,800
Retained earnings	(835,622)	(43,549)	(879,171)
Revaluation reserve	766,349	(105,692)	660,657
Capital contribution reserve	2,972,734	-	2,972,734
Total equity	3,157,261	(149,241)	3,008,020

The impact to the opening balances at 1 April 2015 was as follows:

Impact to the Statement of Comprehensive Income

	Per Signed Accounts	Adjustment	Restated
	2015		2015
	£000		£000
Operating revenue	745,942	-	745,942
Direct property expenses	(622,589)	-	(622,589)
Administrative expenses	(112,204)	-	(112,204)
Other operating expenses	(465,515)	(25,934)	(491,449)
Operating loss	(454,366)	(25,934)	(480,300)
Finance income	459	-	459
Finance costs	(39,279)	-	(39,279)
Gain/(loss) on disposal of property, plant and equipment	14,013	(381)	13,632
Loss before tax from continuing operations	(479,173)	**(26,315)**	(505,488)
Taxation expense	(1,658)	-	(1,658)
Loss for the year	(480,831)	**(26,315)**	(507,146)
Other comprehensive income, net of income tax			
Items that will not be recycled to profit and loss:			
Revaluation of property, plant and equipment	482,999	(32,637)	450,362
Other comprehensive income, net of income tax	482,999	(32,637)	450,362
Total comprehensive income for the year	2,168	**(58,952)**	(56,784)

Impact to the Statement of Financial Position

	Per Signed Accounts	Adjustment	Restated
	2015		2015
	£000	£000	£000
Non-current assets	3,402,544	(58,952)	3,343,592
Current assets	443,974	-	443,974
Assets classified as held for sale	63,781	-	63,781
Total assets	3,910,299	(58,952)	3,851,347
Current liabilities	211,897	-	211,897
Non-current liabilities	674,306	-	674,306
Total liabilities	886,203	-	886,203
Net assets	3,024,096	(58,952)	2,965,144
Equity			
Share capital	225,300	-	225,300
Retained earnings	(640,487)	(26,315)	(666,802)
Revaluation reserve	481,222	(32,637)	448,585
Capital contribution reserve	2,958,061	-	2,958,061
Total equity	3,024,096	(58,952)	2,965,144

Note 26 – Events After the Reporting Period

Assets held for sale

The company reclassified two properties with a net book value of £1.7 million as held for sale since the end of the reporting period. In 2015/16 we classified two properties after the reporting date as held for sale with a total market value of £3.3 million. In total, these properties had a net book value of £4.5 million resulting in an impairment of £1.2 million.

General

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