National Audit Office

Report
by the Comptroller
and Auditor General

Department of Health & Social Care

Investigation into NHS Property Services Limited

HC 2222 SESSION 2017–2019 26 JUNE 2019

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National Audit Office

Department of Health & Social Care

Investigation into NHS Property Services Limited

Report by the Comptroller and Auditor General

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

21 June 2019

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We previously reported on NHS Property Services Limited (the Service) in May 2014, covering the setting up of the Service and early performance. Following Parliamentary interest in the Service over the last few years, this investigation builds on our previous work and examines the progress the Service has made.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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Contents

The National Audit Office study team consisted of:
Finnian Bamber, Leon Bardot, John Bell and Lucy Bernacki, under the direction of Jenny George and Ashley McDougall.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key information

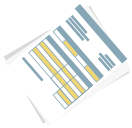
What this report is about

This report sets out the facts relating to the progress NHS Property Services Limited (the Service) has made against its key roles and financial objectives. It does not consider the value for money of the Service

NHS Property Services Limited

Established in 2011 as part of reforms to the health system to manage, maintain and improve NHS properties and facilities in England previously owned by strategic health authorities and primary care trusts. It began activity in April 2013. Its portfolio has:

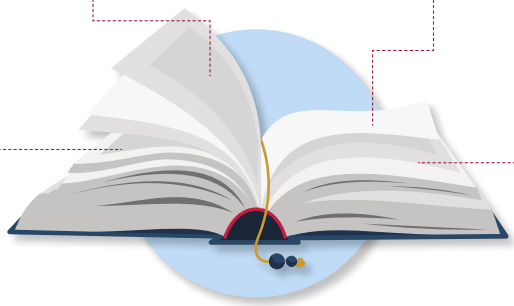
2,900
properties



6,950
tenants

An estimated value of
£3.8 billion

12% of the NHS estate (by floor space)



Acting as landlord (Key role 1)

Agreeing and recording the basis on which its customers occupy buildings (rental agreements), billing them, collecting payments and chasing outstanding debts.

70%
percentage of tenants that had no signed rental agreements in place by April 2019

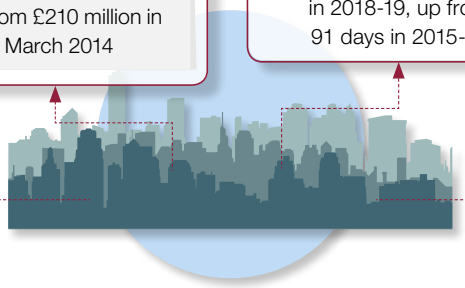
Amount overdue

£576 million
the amount of outstanding debt owed by tenants in March 2019, up from £210 million in March 2014

214 days
the average number of days that tenants took to pay their bills in 2018-19, up from 91 days in 2015-16

WRITTEN OFF

£110 million
amount of debt written off by the Service between 2013-14 and 2018-19



Source: National Audit Office

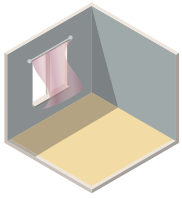
Strategic estates management (Key role 2)

Modernising facilities, buying new facilities, selling facilities the NHS no longer needs and releasing surplus public land for housing, maximising the usage of current facilities, and managing relationships with leasehold landlords.

410
surplus properties disposed of by March 2019 with a capital receipts value of
£347 million

5,931
potential new homes that the Service estimates it has supported through the release of surplus land by March 2019

£447 million
invested to upgrade, maintain and develop new facilities by March 2019



6.9%
vacant space across the Service's portfolio in March 2019, reduced from 12.0% in April 2017

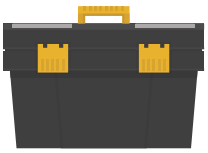
Facilities management services (Key role 3)

This includes compliance with relevant regulations including health and safety, maintenance, electrical, cleaning and catering services. It provides a mixture of in-house and outsourced services, managing both the internal and external environments that surround its properties.

About 50
facilities management contracts currently in place. Reduced from 2,400 separate service arrangements the Service inherited in April 2013

MAINTENANCE BACKLOG

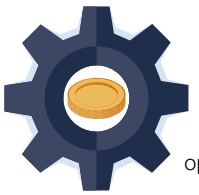
£1 billion
Department of Health & Social Care's estimate of backlog maintenance across the Service's portfolio



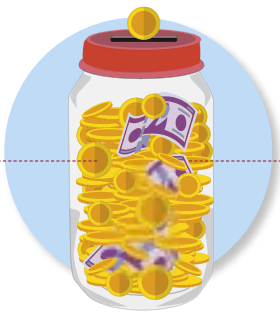
8,100
cases of remedial work open in June 2019, reduced from more than 23,400 cases in April 2018

Financial sustainability

The Department of Health & Social Care wanted the Service to deliver cost savings and be financially independent.



£51 million
reduction in direct operating costs between 2013-14 and 2018-19



£1,010 million
the total losses posted by the Service between 2012-13 and 2018-19, including £566 million that resulted from the revaluation of assests

What this investigation is about

1 NHS Property Services Limited (the Service) is a company wholly owned by the Secretary of State for Health and Social Care. The Service was established in December 2011 as part of reforms to the health system to manage, maintain and improve NHS properties in England and facilities previously owned by strategic health authorities and primary care trusts. It began activity in April 2013. A shareholder director represents the Secretary of State as a board member of the Service.

2 The Service aims to manage, maintain and improve NHS properties and facilities, working in partnership with the NHS to create safe, efficient, sustainable and modern healthcare and working environments. In addition, the Department of Health & Social Care (the Department) wanted the Service to be financially independent from departmental allocations and for the Department to be able to sell the company on the open market if desired. The Service has three main roles:

- **Acting as a landlord to manage the estate**

  Agreeing and recording the basis on which its tenants occupy buildings (rental agreements), billing them, collecting payments and chasing outstanding debts.

- **Providing strategic estates management**

  Modernising facilities, buying new facilities, selling facilities the NHS no longer needs and releasing surplus public land for housing, maximising the use of current facilities, and managing relationships with leasehold landlords.

- **Providing support and facilities management services**

  Compliance with relevant regulations including health and safety, maintenance, electrical, cleaning and catering services. It provides a mixture of in-house and outsourced services, managing both the internal and external environments that surround its properties.

Its portfolio consists of 2,900 properties (about 12% of the entire NHS estate by floor space) with an estimated value of £3.8 billion. More than 60% of the properties are health centres, surgeries or clinics. It has about 6,950 tenants. Almost half of the Service's tenants are NHS trusts and NHS foundation trusts (31%) and GPs (18%).

3 In May 2014, we reported on the setting up of the Service and early performance.[1] Following Parliamentary concerns about the Service, including slow progress in achieving its objectives and the level of bonuses being paid to its directors, this investigation builds on our previous work and sets out the facts about the progress the Service has made. It covers:

- its main roles, the types of property and tenants in its portfolio, the issues it inherited and organisational changes (Part One);
- performance of the Service against its main roles and financial objectives, and in particular acting as a landlord to manage the estate (Part Two); and
- the Department's oversight (Part Three).

We conducted our fieldwork between February and April 2019 (Appendix One). This report does not consider the value for money of the Service. Figures used in this report for 2018-19 are unaudited.

1 National Audit Office, *Investigation into NHS Property Services Limited*, Memorandum for the House of Commons Health Committee, May 2014.

Summary

Key findings

Organisational set-up and early progress

1 **When NHS Property Services Limited (the Service) was established it inherited a range of issues including limited information on its properties and tenants.** Our 2014 report noted that among the challenges it faced was compiling a complete list of properties and identifying existing tenants. Of the estimated 7,000 tenants that transferred across when the Service took over managing properties, nearly two-thirds did not have leases in place. Many of the properties were in poor condition, with a significant maintenance backlog, and poor compliance with relevant regulations. The Service also inherited a wide range of different processes, to support billing, customer queries and complaints, from 161 predecessor organisations. It took on 2,400 separate service arrangements for facilities management that varied in price and the quality of work carried out (paragraphs 1.1 and 1.5).

2 **The Service was not set up with the same powers as a commercial landlord.** Tenants were not always fully charged for rent and services before the Service took on ownership. The Department of Health & Social Care (the Department) agreed that to begin with the Service should charge tenants in the same way as the previous owners. In practice, this meant tenants would provide 60% of the income needed to meet the Service's operating costs, with the remaining 40% provided by commissioners. The Service was also not set up with the powers that a commercial landlord can use to enforce occupancy contracts and charges. For example, departmental policy is to decline any Crown versus Crown legal action as it would not be value for money for the public purse. As a result, the Department does not allow the Service access to conventional remedies such as legal action, penalty charges, cessation of services or eviction for NHS bodies. Action against non-NHS tenants, such as GPs, must be approved by the Department on a case-by-case basis (paragraphs 1.5 and 1.6).

3 **The Service's initial management team made little progress in addressing the underlying problems the Service faced.** Most of the Service's initial executive team were recruited through a competitive process from the pool of staff who were at risk of redundancy owing to the 2012 reforms to the health system. The Department replaced the first chief executive in February 2015. At the time, the Department's assessment was that the original chief executive had successfully managed the Service through its period of establishment but did not have the professional skills required to bring about the transformation required to maximise the Service's value. In 2018, the Department reassessed this view noting that the original management team were not property experts and had made little progress in addressing the underlying problems the Service faced. The Service did not begin to address data issues until 2016 and the number of tenants with leases changed little over the first few years (paragraphs 1.7, 2.5, 2.7 and 3.2).

Progress against the Service's key roles

4 **The Service has taken action to improve the quality of data that it holds but issues remain.** In 2016-17, the Service reviewed its entire property portfolio. This aimed to ensure it had the right data on its assets so that it could charge the correct amount of rent. In 2018, it carried out a similar exercise to review all its facilities management services. These reviews provided the Service with data at a point in time, but this was not agreed with all tenants. The absence of leases (see paragraph 5) meant that there has been no enforceable process to ensure that tenants inform the Service of changes to the space they use (paragraph 2.5).

Acting as a landlord

5 **The Service has no effective way of getting tenants to sign formal rental agreements and 70% of them do not have an agreement in place**. It is difficult to run a property management company without formal rental agreements in place. They provide clarity about what is being rented and how much it costs. The Service has sought to get more agreements signed by simplifying the scope of the agreements. However, it has no practical way within its existing powers of requiring tenants to sign them. By April 2019, 70% of tenants had no signed rental agreements in place (paragraphs 1.6, 2.6 and 2.7).

6 **The Service introduced a billing system with industry-standard functionality in 2017, but many bills are still disputed.** For the first few years, billing was poor because of the range of different systems inherited, inaccurate and incomplete data within its systems, and slow billing. The Service introduced new data and billing systems in 2017 to improve the accuracy and timing of its billing. The timeliness of billing has generally improved. For example, 90% of bills were sent out earlier in quarters one, two and four of 2018-19 compared to the same quarters in 2017-18. However, where rental agreements are not in place, rent bills are based on independent market valuation reports and occupancy floor plans, which are more likely to be subject to challenge from tenants (paragraphs 2.8 and 2.9).

7 **Outstanding debt has almost tripled, to £576 million, and tenants are taking much longer to pay their debts.** Outstanding debt increased from £210 million in March 2014 to £576 million in March 2019. Although GPs only occupy 18% of the properties they owe 30% of the current outstanding debt. By April 2019, the Service had only recovered 58.4p in cash for every £1 it billed in 2018-19. The average number of days that tenants take to pay their bills (debtor days) increased from 91 days in 2015-16 to 214 days in 2018-19. The Service introduced property data and billing systems to rectify delayed and inaccurate billing, but this has not helped to reduce the level of outstanding debt. About half of the current debt is subject to review because it has been challenged by tenants for a number of reasons, including inaccurate information or inappropriate apportionment of costs (paragraphs 2.11 to 2.13, and Figure 12).

8 **Between 2014-15 and 2018-19, the Service wrote off £110 million of debt.** For the years when a breakdown of debt data was available, between April 2017 and March 2019, £52.4 million was written off, of which £31.6 million (60%) related to debt that it could not collect from tenants (£23.1 million from NHS tenants and £8.5 million from other tenants, including GPs). The remaining 40% related to corrections to bills for previous years (paragraph 2.13).

9 **The new arbitration process for resolving disputed bills is not working effectively.** In 2017, the Service, NHS England and the Department established an arbitration process for outstanding debt, which is only mandatory for NHS commissioners and NHS trust tenants, but not NHS foundation trusts, GPs and other non-NHS tenants. Despite the scale of outstanding debt, only 19 tenants have been approved by all parties to proceed to arbitration. The Service told us that although the arbitration process is successful once it starts, with all 19 tenants paying overdue debts: it takes too long for the Department and national bodies (NHS England and NHS Improvement) to approve cases for arbitration; not enough cases are approved; and the same tenants continue to re-appear on the non-payment list, suggesting the underlying reasons for non-payment are not being addressed. The Department and national bodies told us that referrals for arbitration were often not agreed because tenants and the Service had not clearly identified the reason for a dispute and other avenues for resolution had not been exhausted (paragraphs 2.14 and 2.15).

Strategic estates and facilities management

10 The Service has met most of its objectives for its strategic estates management. The Service aims to dispose of properties that are under-used or no longer needed. However, the decision on whether a property is surplus to requirements is made by the health commissioners and clinicians who use the property and not by the Service. By March 2019, the Service had disposed of 410 surplus properties with a capital receipts value of £347 million. The Service estimates that the release of surplus land has potentially enabled 5,931 new houses to be built. All receipts from property sales are reinvested in the estate. Between April 2013 and March 2019, the Service invested £447 million in upgrading, maintaining and developing new facilities. However, backlog maintenance was estimated at £1 billion by the Department in 2017. By March 2019, the Service had also reduced vacant space across its portfolio to 6.9% from 12% in April 2017 (paragraphs 2.17 to 2.19, 2.21, and 3.4).

11 The Service has rationalised facilities management services and improved compliance with relevant regulations. It has taken action to improve these services, including reducing the 2,400 separate service arrangements it inherited to about 50 contracts, updating all its facilities management data in 2018 and improving its buildings' compliance with regulations such as health and safety. For example, it has reduced the backlog of remedial tasks from more than 23,400 in April 2018 to 8,100 in June 2019. Although the Service reduced facilities management costs in most years, its spending increased by £39.4 million in 2016-17 mainly because it took on additional properties and services. This meant that these costs increased by £7.7 million between 2013-14 and 2018-19, a real-terms decrease of 4.4% (paragraphs 2.23 and 2.24).

Progress on financial sustainability

12 The Service has not met the Department's goal for it to become financially self-reliant. Between 2013-14 and 2018-19, the Service reduced its direct operating costs by £51 million, a 9.4% reduction, or 12.9% in real terms. Up to 2018-19, the Service had recorded total losses of £1,010 million, including losses of £566 million that resulted from the revaluation of assets. Most of the losses were recorded up to 2015-16, with losses of £142 million in the last three years. The Service also still relies on a flexible loan arrangement from the Department because tenants pay less in the first three quarters of the financial year than in the final quarter and many do not pay the amount invoiced (paragraphs 2.2 to 2.4, and 2.11).

Departmental oversight

13 The Department has yet to undertake a triennial review of the service. The Cabinet Office expects all non-departmental public bodies to undergo a substantive review at least once every three years. The review challenges the need for the public body, and, if it is needed, ensures it is complying with recognised principles of good corporate governance. The Department has not carried out this type of review of the Service but told us that it plans to complete a review by October 2019 (paragraph 3.3).

14 The Service's seven directors received total bonuses of £206,000 in 2018-19. The Service's directors receive a bonus if they achieve their annual objectives. Between 2015-16 and 2018-19, the percentage of the maximum bonuses available that were paid varied from 71% to 89%. Our 2018 report on the Motability scheme noted that in the past three years, independent benchmarking reports have reported that, on average, FTSE 250 firms pay 70% to 75% of the maximum bonus available. The Department considers that its benchmarking shows that the Service's new chief finance officer's total remuneration package (salary, pension and bonus) is broadly equivalent to those received by NHS trust and NHS foundation trust finance directors in London (paragraphs 3.6 to 3.8).

15 The national bodies and the Service do not share a common understanding of the problems the Service faces, or the remedial action required. The Service was not set up with the commercial powers that a landlord can use to enforce occupancy contracts. The Department and the Service told us that without signed rental agreements in place the Service is limited in the progress it can make. The Service also told us that it does not possess enough powers to enforce charges. The Department and national bodies told us that the Service does possess sufficient powers in relation to charges for non-NHS tenants but does not apply them and that they attribute increasing debt to inaccurate bills, lack of supporting information and significant changes to amounts billed without supporting evidence (paragraphs 1.6 and 2.13).

Concluding remarks

16 The Department created the Service in 2011 to manage NHS property. To a large extent the Service has, albeit slowly, succeeded in improving the professional support required, collecting data, streamlining contracts and identifying market rental rates. However, more than eight years later, it still does not have the powers it needs to work effectively, as the Department originally intended, and the accuracy of bills is still disputed. In our view, too many NHS organisations and GPs seem to regard paying for their premises as optional, with almost £700 million either written off or still unpaid. The framework for charging for NHS property is not working effectively and the Department urgently needs to address the fundamental causes of this unsatisfactory situation.

Recommendations

17 Diagnosing and addressing the challenges facing the Service is a collective enterprise, which needs to involve all parties to be effective.

The Department, in collaboration with national bodies and the Service should:

a develop a plan to ensure that the Service and all tenants of the Service's premises will agree tenancy details and amounts by 31 March 2020; and

b put in place an efficient dispute resolution process whereby all disputes are settled within 90 days of invoicing and agree a plan to clear outstanding disputes including a service-level agreement for responding to queries from tenants in a reasonable time so that there is agreement on the nature and value of the disputed amount before entering the arbitration process.

The Department and national bodies should:

c examine ways to encourage occupiers and local health economies to take greater ownership of paying for the Service's estate.

The Department should:

d provide stronger challenge to the Service's process for setting directors' bonuses, so that bonuses are paid for achieving genuinely stretching and important targets; and

e complete the strategic review of the Service in time to inform decision-making in the expected 2019 Spending Review.

The Service should:

f build on its existing quality metrics, with input from stakeholders, so that its performance can be monitored, including the accuracy of billing;

g continue to reduce the time it takes to issue bills; and

h review its capacity to deal with queries in an effective and timely manner.

Part One

NHS Property Services Limited

Background

1.1 The Health and Social Care Act 2012 provided for widespread reform of the health system in England. NHS Property Services Limited (the Service) was set up in December 2011, as part of these reforms. It is a company wholly owned by the Secretary of State for Health and Social Care. On 1 April 2013, some 3,200 staff, 3,700 properties and 7,000 tenants transferred to the new company from 151 primary care trusts and 10 strategic health authorities. **Figure 1** provides a timeline of key events in the development of the Service.

The role of NHS Property Services Limited

1.2 The Service aims to manage, maintain and improve NHS properties and facilities, working in partnership with the NHS to create safe, efficient, sustainable and modern healthcare and working environments. It has three main roles:

- **Acting as a landlord to manage the estate**

  This includes agreeing and recording the basis on which its tenants occupy buildings (rental agreements), billing them, collecting payments and chasing outstanding debts.

- **Providing strategic estates management**

  This includes modernising facilities, buying new facilities, selling facilities the NHS no longer needs and releasing surplus public land for housing, maximising the use of current facilities, and managing relationships with leasehold landlords.

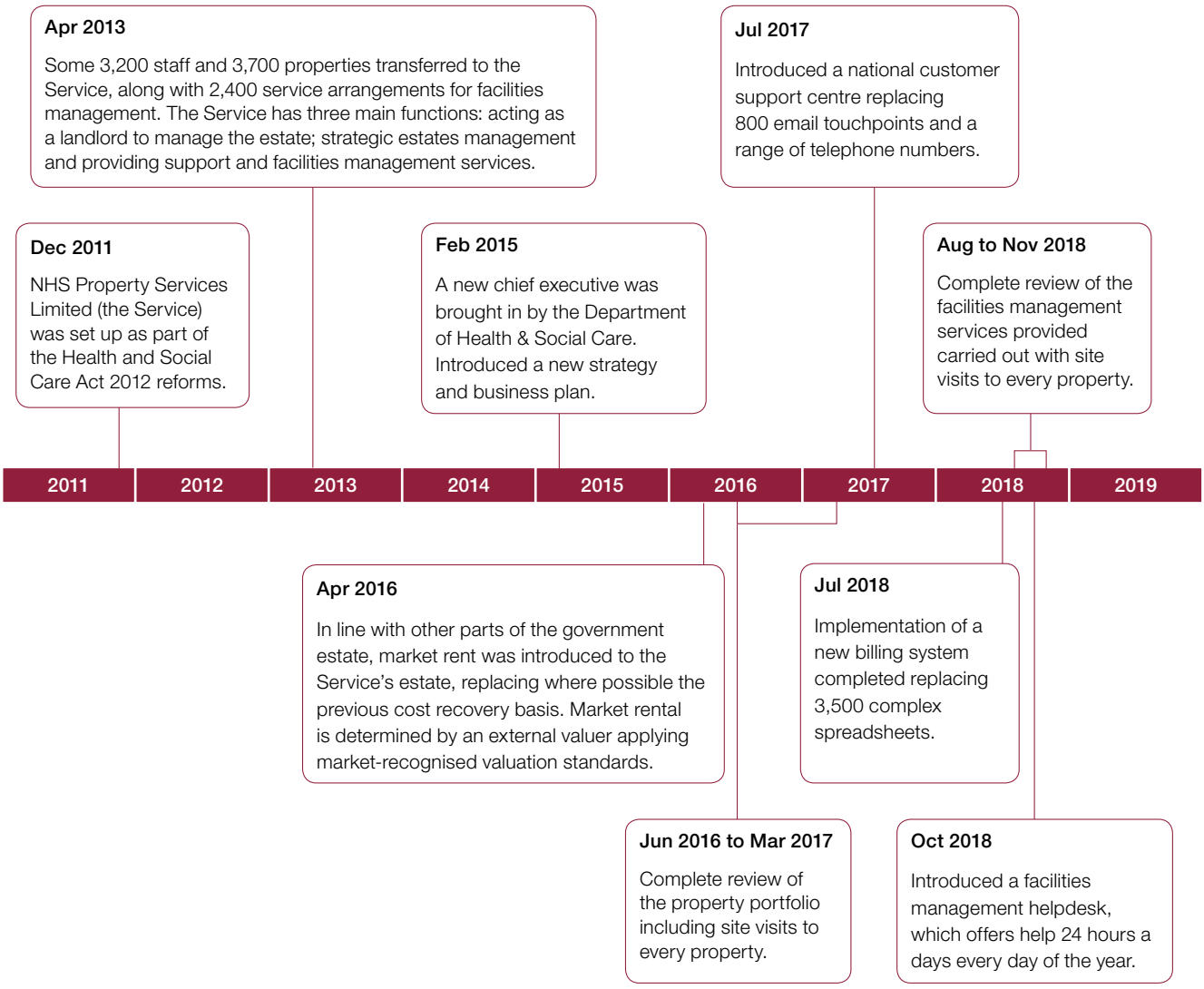
- **Providing support and facilities management services.**

  This includes compliance with relevant regulations such as health and safety, maintenance, electrical, cleaning and catering services. The Service provides a mixture of in-house and outsourced services, managing both the interior and exterior of its properties.

Figure 1

Timeline of key events in the development of NHS Property Services Limited

The organisation began activity on 1 April 2013



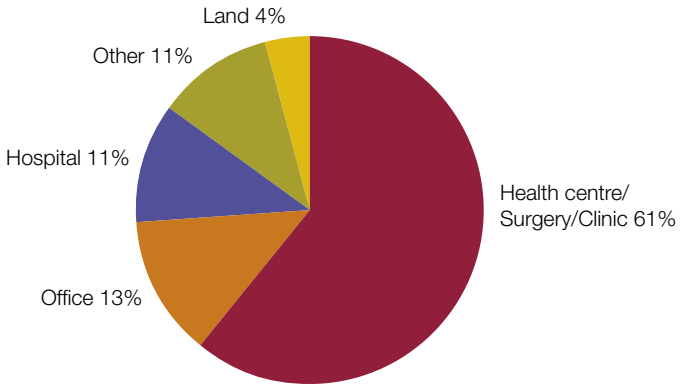
Source: National Audit Office analysis of NHS Property Services Limited documents

Types of property and tenant

1.3 The Service's current portfolio consists of about 2,900 properties with an estimated value of £3.8 billion. These properties represent about 12% of the NHS estate, in terms of floor space. Most of the properties are health centres, surgeries or clinics (**Figure 2**). GP surgeries in the Service's portfolio account for about 18% of GP surgeries in England. Other GP surgeries are either commercially owned or owner-occupied.

Figure 2
Properties in NHS Property Services Limited's portfolio, March 2019

More than 60% of the properties in its portfolio are health centres, surgeries and clinics



Notes

1 'Other' includes nursing and care homes, parking, residential (non-medical), and warehouse and storage facilities.

2 The number of properties in the portfolio in March 2019 was 2,882.

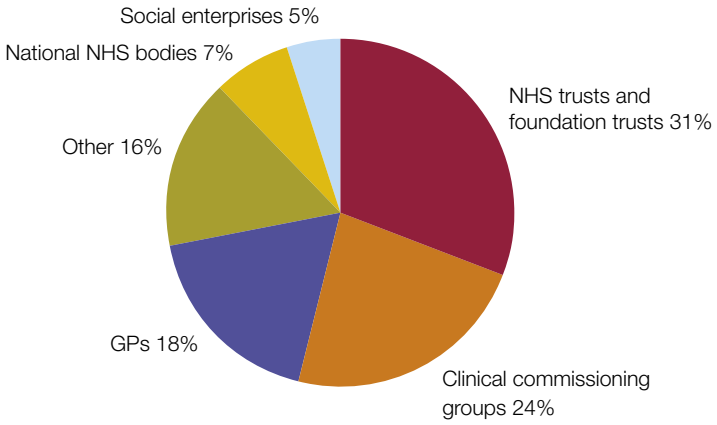
Source: National Audit Office analysis of NHS Property Services Limited data

1.4 Within these properties, there are about 6,950 tenants. Tenants include GPs, NHS trusts and NHS foundation trusts, clinical commissioning groups, other NHS bodies, and non-NHS bodies (**Figure 3**). Some tenants just rent space, while others also make use of its facilities management services.

Figure 3

Tenants of NHS Property Services Limited, April 2019

NHS trusts and NHS foundation trusts, clinical commissioning groups and GPs account for 73% of the Service's tenants



Notes

1 Data at 18 April 2019, with 6,948 tenants.

2 NHS trusts accounted for 8.6% of tenants and NHS foundation trusts accounted for 22.5% of tenants.

3 Almost three-quarters of the 'other' category is accounted for by private providers, local authorities, pharmacies, dentists, third-sector providers and NHS commissioning support units.

4 Percentages may not sum to 100 due to rounding.

Source: National Audit Office analysis of NHS Property Services Limited data

Legacy issues

1.5 The Service inherited a range of issues that needed to be addressed for it to fulfil its key roles. These included:

- **Poor data**

  Limited and inaccurate data on the number of properties and tenants. Our 2014 report noted that among the challenges it faced was compiling a complete list of properties and identifying existing tenants.[2]

- **Many undocumented leases**

  Nearly two-thirds of the tenants that transferred across when the Service took over managing properties did not have leases in place. Where leases were in place, these were of varying quality and clarity. The Service told us that previously, many tenants occupied space on an informal basis.

- **No standard working practices**

  Working practices varied across the 161 predecessor organisations.

- **The condition of the properties it inherited and their compliance with regulations**

  The Service found that many of the properties were in poor condition, with a significant maintenance backlog, and poor compliance with relevant regulations.

- **Many contracts for facilities management services**

  The Service inherited 2,420 separate service arrangements with limited or no contract documentation, which varied considerably in price and the quality of work carried out.

- **Tenants that were not always fully charged for rent and services**

  Property owners normally charge tenants enough to cover all operational expenses. However, this was not always the case before the Service was set up. The Department of Health & Social Care (the Department) agreed that to begin with the Service should charge tenants in the same way as the previous owners. In practice, this meant tenants would provide 60% of the income needed to meet the Service's operating costs, with the remaining 40% provided by commissioners (NHS England and clinical commissioning groups). Commissioners have withdrawn these arrangements over time and tenants are now expected to pay for the service from their existing resources. However, the Service, NHS England and the Department were not able to tell us what subsidies had been available, when they were withdrawn or whether some tenants are still being subsidised. **Figure 4** sets out what tenants are currently charged for and what they can be reimbursed for.

2 National Audit Office, *Investigation into NHS Property Services Limited*, Memorandum for the House of Commons Health Committee, May 2014.

Figure 4

What NHS Property Services Limited's tenants are currently billed and reimbursed for

NHS Property Services Limited (the Service) tenants may be billed for rent, service and other charges, and facilities management services. Some of these charges are reimbursable for some tenants

	Rent (and rental administration fee)	Service and other charges	Facilities management services
Tenants are billed for	Market rent was introduced across NHS Property Services Limited's (the Service's) freehold estate in April 2016, bringing the Service in line with other parts of the government estate. Previously, rent was paid on a cost recovery basis. Market rent is determined by an external valuer, who applies market-recognised valuation standards. A 5% fee is charged for rent administration to all tenants, except GPs. Leasehold space is charged out at a 5% pass-through cost.	These cover the costs of the services and include a fixed management fee to cover the cost of providing the relevant services. Other charges are for ad-hoc services and may include building repairs.	Charge for all facilities management services that the tenant uses that are supplied by the Service, including a 10% pass-through cost.
Tenants are reimbursed for	Rent for GP practices is reimbursed by clinical commissioning groups (CCGs). Bills may have risen due to the move to market rent but tenants should not have been affected because their rent is reimbursed.	Tenants are not reimbursed for most elements of these bills. However, GPs can be reimbursed for business rates, water rates and clinical waste services. In addition, tenants have received subsidies to cover some, or all, of these costs. The Service told us that these subsidies have been withdrawn over time. CCGs subsidised GPs and NHS England subsidised some other NHS organisations.	

Source: National Audit Office analysis of NHS Property Services Limited documentation

1.6 The Service is restricted in the action it can use to enforce occupancy contracts and charges. It is retrospectively trying to agree leases with occupiers already in situ and told us that there are no incentives for tenants to agree leases. Departmental policy is to decline any Crown versus Crown legal action as it would not be value for money for the public purse. As a result, the Department does not allow the Service access to the remedies available to a commercial landlord, such as legal action, penalty charges, cessation of services or eviction for the Department's group entities such as NHS trusts, NHS foundation trusts and clinical commissioning groups. Since mid-2018, the Department has supported the use of these remedies for non-NHS tenants, including GPs. It established a panel chaired by itself and NHS England that meets, on a monthly basis, to consider cases put forward by the Service with requests for formal legal action, withdrawal of services, exit of head leases or termination of occupation. The Department told us that the Service has yet to use the full range of powers available to it. It told us that because many tenancies are undocumented, the Service does not have an agreed documented basis as a starting point for such action in the case of recovering debts, making recovery through legal processes more complex than would otherwise be the case.

Key organisation changes

1.7 Most of the Service's original executive team were recruited through a competitive process from the pool of staff who were at risk of redundancy owing to the 2012 reforms to the health system. The Department replaced the chief executive in February 2015. The Department noted in 2018 that the original management team were not property experts and made little progress in addressing the underlying problems the Service faced. The new chief executive brought in a new management team, including property experts, and introduced a new strategy and business plan for the organisation.

Part Two

Performance

2.1 This part of the report sets out NHS Property Services Limited's (the Service's) progress against its financial objectives and its three key roles of acting as a landlord, strategic estates management and providing facilities management services.

Progress against financial objectives

2.2 One of the Service's high-level objectives, set out by the Secretary of State for Health & Social Care, is to deliver value for money. As part of this objective it is expected to make operational savings. In addition, the Department of Health & Social Care (the Department) wanted the Service to be financially independent from departmental allocations and able to sell the company on the open market if desired.

Financial position

2.3 Between 2012-13 and 2018-19, the Service recorded a loss in each financial year (**Figure 5** overleaf). Most of the losses were recorded up to 2015-16, with losses of £142 million in the last three years. Its losses are consolidated into the Department's group position. About 56% of the losses (£566 million) resulted from the revaluation of assets. The Department provided less equity funding for the Service each year. In 2017-18, the Service received no new equity funding (compared with £2.4 million in 2016-17, £28.5 million in 2015-16, £52.3 million in 2014-15 and £173 million in 2013-14). The Service still relies on a flexible loan arrangement from the Department because tenants pay less in the first three quarters of the financial year than in the final quarter.

Cost savings

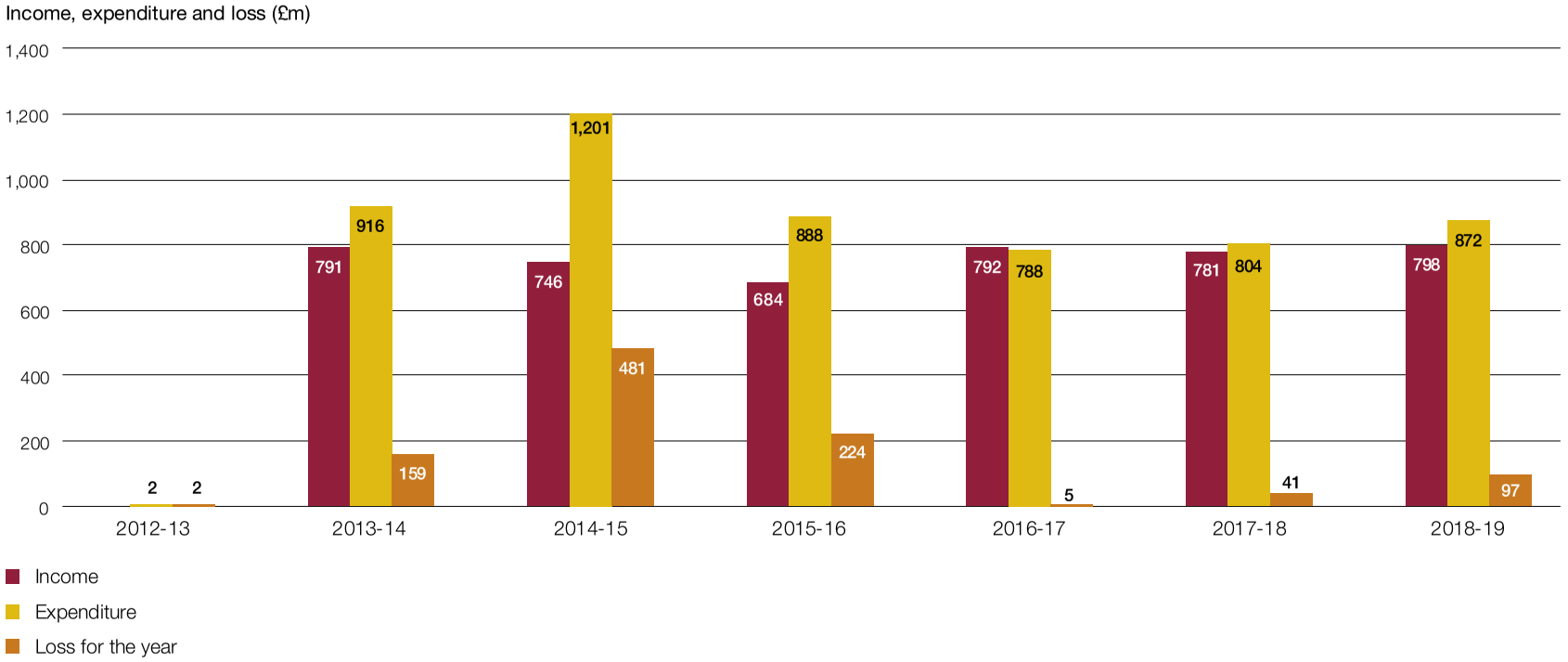
2.4 The Service had a target to reduce operating costs by 20% (£183 million) over its first three years. It did not achieve this by the end of March 2016. By the end of March 2019, it had reduced its direct operating costs by £51 million, a 9.4% reduction, or 12.9% reduction in real-terms.[3] It achieved this reduction in operating costs by disposing of surplus property (thereby not incurring further costs relating to these properties) and reducing input costs, such as cutting the number of contracts for facilities management and restructuring to reduce duplication and inefficiencies, and consolidating its customer support function into one customer support centre and one facilities management helpdesk.

3 Calculated using direct operating costs excluding impairments.

Figure 5

Income, expenditure and loss for NHS Property Services Limited, 2012-13 to 2018-19

NHS Property Services Limited (the Service) has posted combined losses of £1,010 million



Notes

1 Income includes sums invoiced for that year, even though substantial sums will not have been recovered.

2 Income for 2016-17 reflects the introduction of market rents.

3 Expenditure includes significant one-off impairment charges of £456 million in 2014-15 and £130 million in 2015-16. Other years had smaller impairment charges and 2016-17 had a negative impairment charge resulting from upwards revaluation that reversed a previously charged impairment.

4 Expenditure includes a depreciation charge, which increased from £98 million in 2013-14 to £178 million in 2018-19.

Source: NHS Property Services Limited's published accounts

Progress against its key roles

2.5 The Service requires accurate, up-to-date data on its property portfolio and facilities management services so that it can provide an accurate billing service and manage its portfolio effectively. The data the Service inherited were limited and inaccurate. In 2016-17, it reviewed its property portfolio, making site visits to every property. This was to ensure it had the right data on its assets so that it could charge rent accurately. It undertook a similar exercise to review all its facilities management data in 2018. Both reviews provided the Service with data at a point in time, but this was not agreed with all tenants. The Service's property managers aim to ensure the data on its systems are accurate. The Service processes about 3,000 change requests a year from these managers to ensure that data are kept up to date. In addition, it told us that although it introduced a process for tenants to inform the Service of occupancy changes in 2017-18, tenants did not always notify the Service of changes, and that it does not have any way of ensuring they provide this data.

Acting as a landlord

Agreeing leases

2.6 One of the Service's key objectives was to move all tenants onto formal lease agreements. An agreed lease provides clarity between the tenant and the landlord about what is being rented and how much it costs, and other obligations such as who is responsible for repairs, improvements, security, safety and insurance. In April 2013, nearly two-thirds of the tenants that transferred across to the Service did not have leases in place.

2.7 The Service has sought to get more agreements signed by simplifying the scope of what is covered in these rental agreements (**Figure 6** overleaf). Since summer 2018, the Service aims to get tenants to sign occupation agreements that cover the rental area and the rent that applies to that area and, from December 2018, getting a deemed agreement where the tenants are unwilling to sign a document. Between April 2017 and March 2019, 574 new agreements were signed. However, due to existing agreements expiring (793 in 2018-19), only 2,059 of its 6,950 tenants had some form of documented rental agreement (**Figure 7** overleaf), and a further 479 had deemed agreements by March 2019.

Figure 6

NHS Property Services Limited's changing approach to rental agreements

NHS Property Services Limited (the Service) has sought to get more tenants to sign rental agreements by simplifying the scope of what is covered

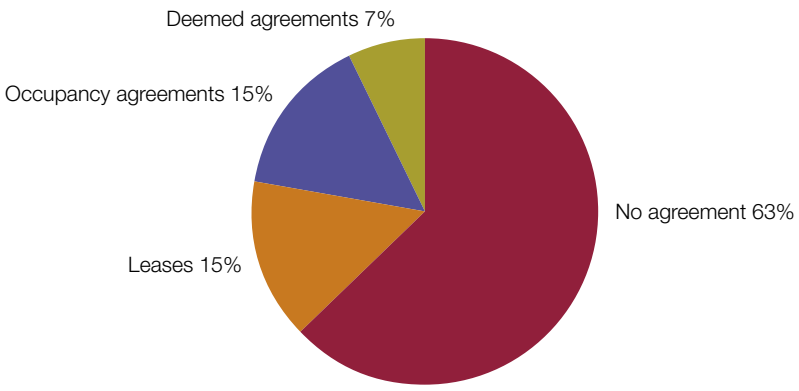
Type of agreement	Year of introduction	Detail
Full repair and insurance lease	2013	Makes the tenant responsible for repairing and insuring the property.
Tenants internal repairing lease	2013	The landlord is responsible for repairing the exterior of the property. Insurance can either be the tenant's or the landlord's responsibility.
'Heads of terms' agreement	2015	Non-binding summaries of the main features of the lease arrangements to be agreed by tenants that used the data collected on the Service's portfolio. In 2016-17, the Service achieved its target to get 3,500 'heads of terms' in place with tenants. The Service hoped this would lead to more tenants signing leases, but this did not happen.
Occupation agreement	2017	Signed agreement that covers the rental area and the rent that applies to that area only.
Deemed rental agreement	2018	Rental area and rent agreed but without the occupier being willing to sign a document.

Source: National Audit Office review of NHS Property Services Limited documents

Figure 7

Types of rental agreement in place, April 2019

Only 30% of tenants have a formal written rental agreement



Source: National Audit Office analysis of NHS Property Services Limited data

Billing

2.8 Best practice in billing would see automated invoices sent out promptly with clear and agreed amounts itemised by type of charge. In the past, billing from the Service was poor because: of the range of different systems inherited; the data held within the systems were inaccurate and incomplete; and bills were not always timely. In addition, several changes were made to the way tenants were billed, which the Service recognises may have caused additional confusion (**Figure 8**).

Figure 8
Changes to NHS Property Services Limited's billing system

NHS Property Services Limited (the Service) recognises that changes to its billing system may have caused tenants additional confusion

Year	Detail	Breakdown of rent, service charge and facilities management costs
2013-14	Area-based billing using data from the leases where available. If these data were not available, the billing was based on the local knowledge of staff who joined the Service from primary care trusts or on the baseline data provided by these organisations. Tenants were billed quarterly for the first three months and then monthly for the remainder of the year.	Billed as single amount.
2014-15	Area-based billing each quarter, with rent based on depreciation.	Billed as single amount.
2015-16	Central billing introduced based on data held on 3,500 spreadsheets. Delays in implementing central billing meant that charges for the first three quarters were only raised during quarter three.	Separate bills were raised for the three categories.
2016-17	Current charging policy introduced market rent plus a 5% fee on leasehold pass-through costs and a 10% pass-through cost on facilities management costs. Inflexibility in the central billing system and spreadsheet templates meant that any changes resulted in rebilling of tenants for a whole year. Thousands of invoices or credit notes were issued with minor changes, which confused tenants.	Separate bills were raised for the three categories.
2017-18	New property management system introduced that included industry-standard billing functionality that produces bills based on the data held on the lease or occupancy charging records.	Charges for the three categories were included on a single bill because of customer feedback.
2018-19	Same as 2017-18 except that, from quarter three, rental charges were billed separately from the service charge and facilities management charges to encourage the payment of these charges.	From quarter three, rental charges were issued on a separate bill to the other costs.

Source: National Audit Office review of NHS Property Services Limited documents

2.9 The Service has improved the quality of the data it holds (paragraph 2.5). In July 2017, it introduced a new billing system with industry-standard functionality. However, without leases in place, it relies heavily on its property managers to maintain the billing data on the system and review bills for accuracy. Where leases are not in place, rent bills are based on independent market valuation reports and occupancy floor plans, which are more likely to be subject to disputes by tenants. Tenants continue to challenge the accuracy of data (see Figure 12). The timeliness of billing has also generally improved. For example, 90% of bills were sent out earlier in quarters one, two and four of 2018-19 compared with the same quarters in 2017-18. However, it still took the Service 91 days to send out 90% of bills in quarter one of 2018-19.

2.10 An internal audit report from December 2018 was unable to provide any assurance on the accuracy of billing due to the significant number of undocumented agreements with tenants. About 36% of the queries received by the Service's customer support centre, launched in 2017, relate to billing, and key performance indicators have until recently focused on process rather than quality.

Debt recovery

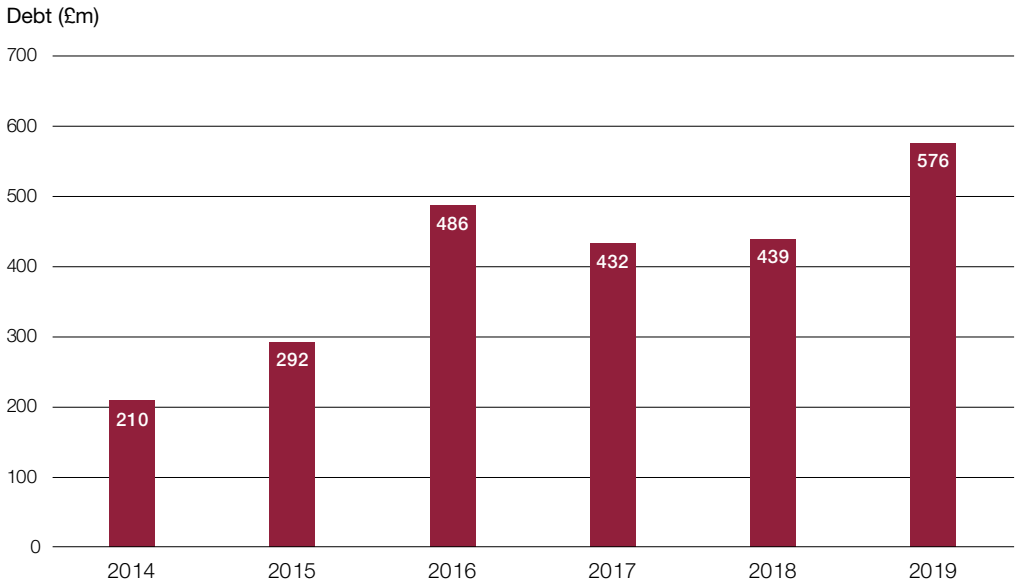
2.11 Recovering debt remains a major issue for the Service (**Figure 9**). Debt increased from £210 million in March 2014 to £576 million in March 2019, an increase of 174%. To put this in context, the value of all 2018-19 bills was £740 million but only 58.4p in each £1 invoiced was recovered from tenants in cash, and £308 million of 2018-19 income had yet to be recovered by the end of April 2019. **Figure 10** on page 28 shows a breakdown of the debt as at March 2019 by:

- **tenant:** GP tenants accounted for 30% of the debt (but only occupy 18% of the properties) whereas NHS trusts and NHS foundation trusts accounted for 33% of the debt (and occupy 31% of the properties), and clinical commissioning groups (CCGs) 19% of the debt (and occupy 24% of the properties);
- **charging stream:** rental charges accounted for 48%; and
- **age:** debt from before 2018-19 accounted for 45%.

Figure 9

Level of debt from unpaid bills to NHS Property Services Limited, 2014 to 2019

Between March 2014 and March 2019, the level of debt from unpaid bills increased by 174%



Note

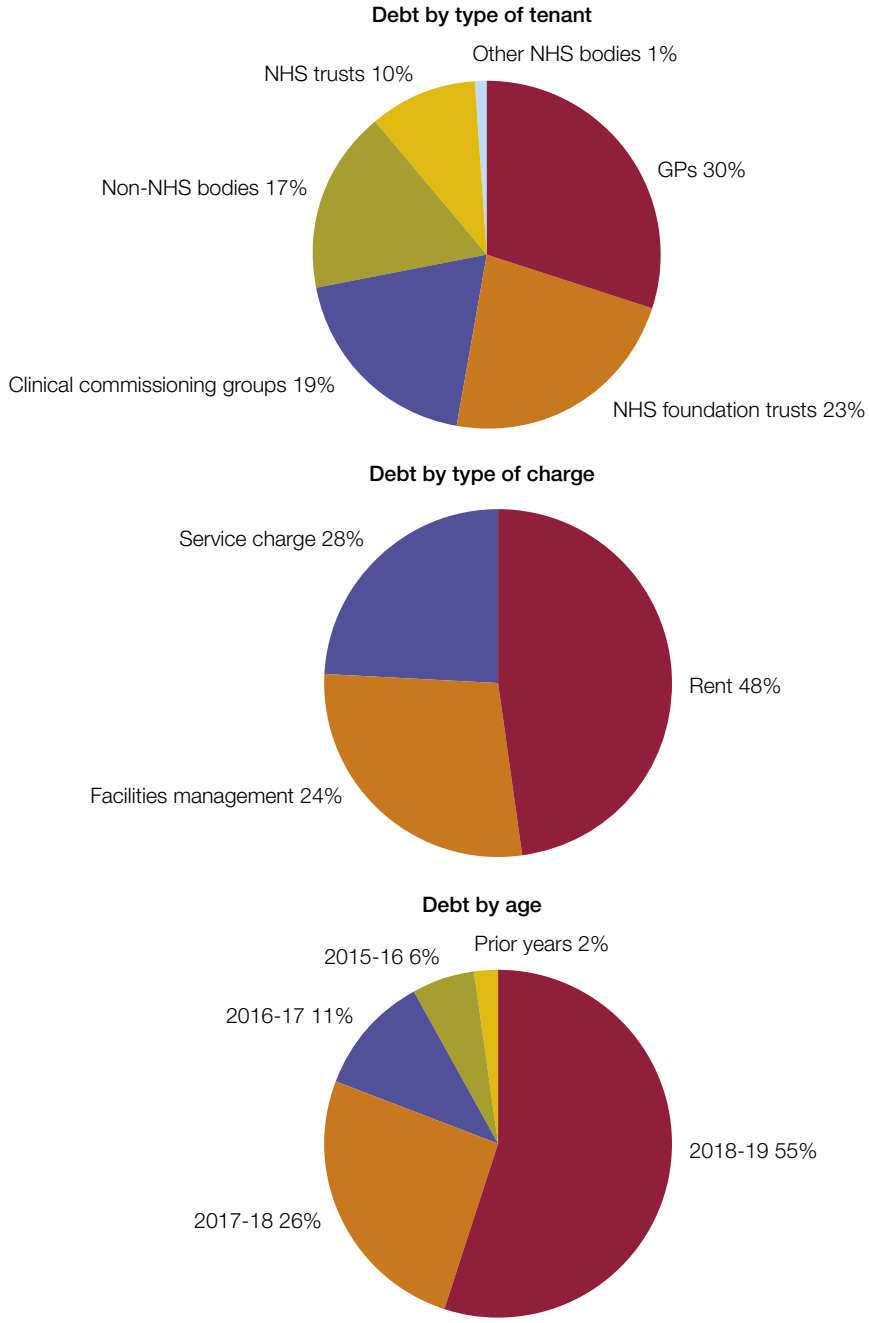
1 Level of debt as at 31 March for each year.

Source: National Audit Office analysis of NHS Property Services Limited data

Figure 10

Debt by type of tenant, type of charge and age, March 2019

GP tenants account for 30% of debt, rent accounts for 48% of debt and 45% of debt does not relate to the current year



Notes

1 In March 2019, the level of debt was £576 million.

2 Debt by type of charge includes £209 million of payments on accounts that have yet to be allocated to particular charges.

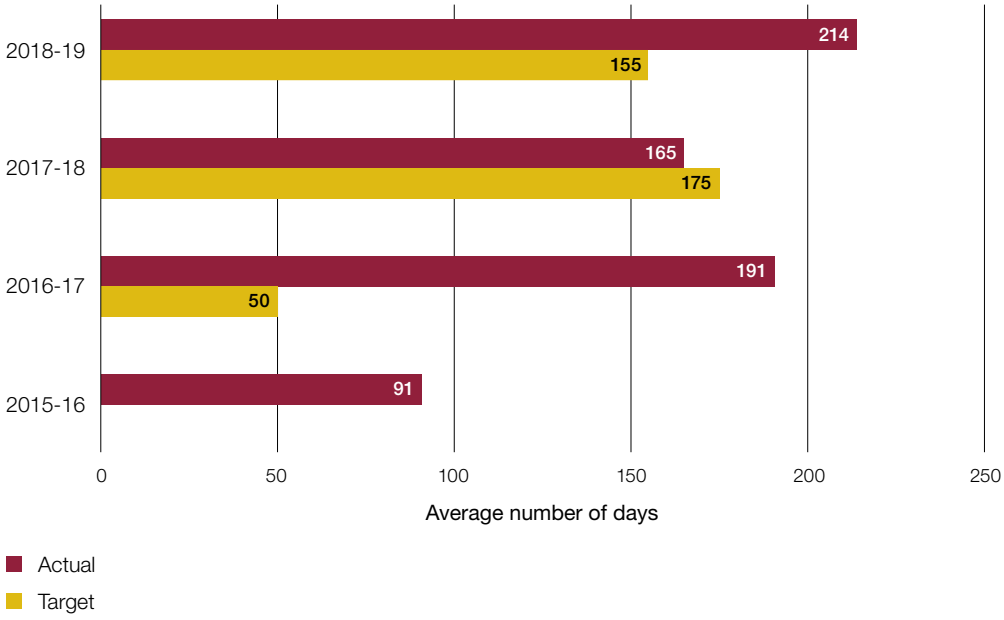
Source: National Audit Office analysis of NHS Property Services Limited data

2.12 The average number of days tenants take to pay their bills (debtor days) increased from 91 in 2015-16 to 214 in 2018-19 (**Figure 11**). The Service only achieved its target number of debtor days in one year across this period. It also aimed to reduce debt older than 60 days from £134 million in 2014-15 to £34 million by 2017-18 but did not achieve this. The cash collected from tenants has declined in the last two years. For example, the Service collected £640 million in 2018-19, compared with £652 million in 2017-18. Cash received in 2018-19 as a percentage of what was billed in 2018-19 was 82%, compared with 94% in 2017-18.

Figure 11

Average number of days that a tenant took to pay their bill, 2015-16 to 2018-19

Between 2015-16 and 2018-19, the number of days that tenants took to pay their bills increased by 135%



Note

1 Exclusions to debtor days are cases of debt under arbitration, mediation and enforcement.

Source: National Audit Office analysis of NHS Property Services Limited documents

2.13 The introduction of property data and billing systems to rectify delayed and inaccurate billing had no impact on reducing the level of outstanding debt. The Service told us the main reasons for high levels of debt are disputed bills, the behaviour of tenants, and tenants citing affordability issues and cash-flow pressures in the health system (**Figure 12**). National bodies told us that, in their view, the main reasons for high levels of debt are: inaccurate bills; lack of supporting information; significant changes to amounts billed without supporting information; and significant delays in issuing final invoices months after the year end to which they apply. Between 2013-14 and 2018-19, the Service wrote off £110 million in debt. Between April 2017 and March 2019, when a breakdown of this write-off was available, £52.4 million was written off, of which £31.6 million (60%) related to debt that it could not collect from tenants (£23.1 million from NHS tenants and £8.5 million from other tenants, including GPs). The remaining 40% related to corrections to bills for previous years.

Figure 12

Reasons for tenants' unwillingness to pay NHS Property Services Limited's bills

Tenants may dispute bills from NHS Property Services Limited (the Service) for a number of reasons

Reason	Detail
Disputed bills	About half of the March 2019 debt is subject to review by the Service because tenants have challenged it. Disputes may arise for a number of reasons including: not having rental agreements in place; the bills being based on inaccurate data or inappropriate apportionment of costs; and tenants believing the bills are incorrect because of subsidies they have received in the past from clinical commissioning groups (CCGs) or NHS England.
Tenant behaviour	The Service told us that some tenants are unwilling to pay. They may avoid or delay paying because they know that the Service cannot take the action available to a commercial landlord to recover debt. The Service cited the example of one tenant who had not paid their rent since they moved into the property in 2007, which was settled in 2018. The Service also told us that some GPs will pay rent because it is reimbursed by commissioners but will not pay other costs because they are not reimbursed.
Affordability	The Service told us that some tenants cite affordability as an issue. This is sometimes linked to withdrawal of subsidies. The Department of Health & Social Care told us that within the Premises Cost Directions 2013, there is a clause that permits commissioners to provide financial assistance to GPs. However, it understands that there have been few instances of this mechanism being used.
Cash-flow pressures	Tenants facing cash-flow pressures, such as those in the trust sector, may see paying the Service as one of their least important bills.

Source: National Audit Office interviews and document review

2.14 In response to the above challenges, the Service established a debt remediation programme in July 2017, which aimed to reduce debt to £390 million by March 2019. This was not achieved, with actual debt of £576 million at March 2019. This programme includes a three-stage dispute resolution process for debts more than 90 days old, agreed by the Department and NHS England and NHS Improvement (the national bodies), but not the Service. The first two stages (local negotiation and mediation) aim to resolve disputes without recourse to the third formal arbitration stage but are not mandatory. The arbitration stage is mandatory for NHS commissioners and NHS trusts (about one-third of the Service's tenants). NHS foundation trusts are strongly encouraged by the national bodies to also use this process but it does not apply to non-NHS tenants, including GPs. A charge of up to £25,000 may be levied on each party entering arbitration.

2.15 Each month the Service submits cases for formal arbitration to the national bodies for approval, based on the size (more than £1 million) and age of the debt (six-month minimum). It told us that some cases submitted have taken a year to get approved. By April 2019, 19 cases had been approved for arbitration. It also told us that while arbitration has been effective in reducing debt immediately after the process had been initiated, most tenants have unpaid bills again within six to 12 months. It has requested changes to the process to speed it up, including removal of the mediation stage, and keeping to agreed timelines for mediation and arbitration, but these were rejected by the Department. National bodies told us that the Service's account management was expected to resolve most issues before the need for arbitration. They also told us that referrals for arbitration were often not agreed because tenants and the Service had not clearly identified the reason for a dispute and other avenues for resolution had not been exhausted.

2.16 Other activities aimed at reducing debt include: piloting direct payment from CCGs to the Service in respect of GPs' rent and national bodies asking commissioners to stop withdrawing subsidies without adequately assessing whether the tenants will be able to afford the rents in future.

Strategic estates management

Property disposal and releasing surplus public land for housing

2.17 The Service aims to dispose of properties where they are under-used, no longer needed or the way services are provided needs to change. The decision on whether a property is surplus to requirements is made by the health commissioners and clinicians who use the property, such as NHS England or a CCG. The Service aims to sell properties for best value. Where appropriate properties are first listed on the Electronic Property Information Mapping Service (ePIMS) website, which allows other public-sector bodies to purchase them. By March 2019, the Service had disposed of 407 properties with a capital receipts value of £304 million (**Figure 13**). It has met most of its targets for disposals over the past three years, including sales targets.

2.18 As well as generating capital for the NHS, the Service supports government targets on releasing surplus public land for housing. The Service achieved its target to release land to support the building of 2,000 houses over its first two years. It has not had further housing targets since then. By March 2019, the Service estimates that the release of surplus land had potentially supported the development of 5,931 new homes.

Figure 13

Number of property disposals, value and forecast housing units supported by the sale of land, 2013-14 to 2018-19

NHS Property Services Limited (the Service) has disposed of 410 properties with a capital receipts value of £347 million. It estimates that it has released land to support the development of 5,931 new homes

		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	**Total**
Number of disposals		45	118	59	72	54	62	**410**
Completion value – capital receipts (£m)	Target	n/a	n/a	n/a	33	27	60	
	Actual	24	58	67	55	89	55	**347**
The Service's forecast number of housing units supported		649	1,776	557	875	1,062	1,012	**5,931**

Notes

1 Number of disposals may differ to those presented in the Service's annual reports and accounts because of phased disposals of sites and where a property comprises more than one title it may have been reported as separate transactions rather than one combined transaction.

2 Completion values are gross proceeds (inclusive of overage and disposal-related sundry receipts where applicable) and may differ to those presented in the Service's annual reports and accounts which state cash proceeds received. The completion values may not sum due to rounding.

3 Forecast housing units includes sites sold without planning permission. Numbers may differ from those presented in the Service's annual reports and accounts because more information may have become available as a result of the planning process.

4 All 2018-19 figures are unaudited.

Source: National Audit Office analysis of NHS Property Services Limited documents

Reinvestment in the estate

2.19 All receipts from property sales are reinvested in the estate to create new facilities, optimise existing properties and address backlog maintenance. Between April 2013 and March 2019, the Service invested £447 million in upgrading, maintaining and developing new facilities. Most of this investment came from the capital released from its property disposals.

2.20 Many of the buildings occupied by GPs were built in the 1980s or before. Many of these may need significant investment to be suitable for providing modern services. NHS England established the Estates and Technology Fund in 2015 to invest in primary care infrastructure. However, this fund has supported very few upgrades to the Service's GP surgery buildings because it operates a 'no lease, no grant' policy, and many GP tenants do not have leases. In addition, legislation only allows grants of 66% of works value and GPs and practices may be unwilling to fund the remainder.

Making better use of space

2.21 The Service also aims to reduce vacant space in its estate. In 2017, it established the vacant space handback scheme to allow tenants to release properties that are no longer needed. Tenants taking part in the scheme pay a one-off 'vacating payment' of six months' rent and then no longer pay rental and other costs for the vacant space. Between April 2017 and March 2019, the Service reduced vacant space from 12% to 6.9%, achieving its target in both years. The Service aims to increase the volume of hand-backs by reducing the vacating payment to three months' rent, from April 2019.

2.22 In October 2017, the Service began trialling a new service to allow customers to use space in a more cost-effective way. NHS Open Space allows customers to hire space, via a website, on an hourly or daily basis. This service is due to launch nationally during 2019-20.

Facilities management services

2.23 The Service inherited more than 2,400 separate service arrangements for facilities management services that varied in price and the quality of work carried out. It has undertaken a range of actions to improve these services including:

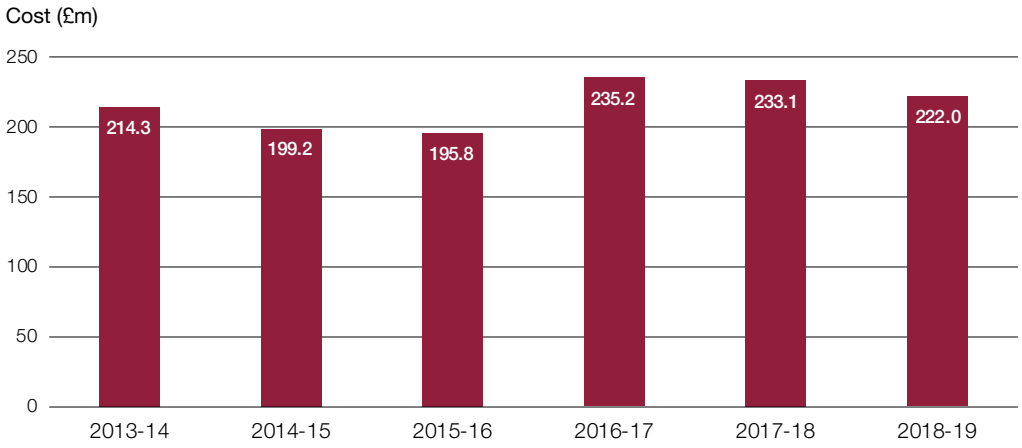
- reducing the number of arrangements for facilities management to about 50 contracts;
- reviewing and updating all its facilities management data in 2018;
- bringing all facilities management services in-house for cleaning in 2018-19, including 1,800 staff;
- putting a facilities management IT system in place in 2019 to connect field engineers to the centre to capture data such as health and safety data; and
- improving technical compliance of its buildings with relevant regulations, including health and safety. For example, it has reduced the backlog of remedial tasks from more than 23,400 in April 2018 to 8,100 in June 2019.

2.24 Although the Service has reduced facilities management costs in most years, a £39.4 million increase in 2016-17 meant costs increased by £7.7 million between 2013-14 and 2018-19 (**Figure 14**), a real-terms decrease of 4.4%. The increase was mainly because the Service took on additional properties and services.

Figure 14

NHS Property Services Limited facilities management costs, 2013-14 to 2018-19

NHS Property Services Limited facilities management costs increased by £7.7 million between 2013-14 and 2018-19



Note

1 The increase in 2016-17 was mainly because the Service took on additional properties and services.

Source: National Audit Office analysis of NHS Property Services Limited's published accounts

Part Three

Departmental oversight

3.1 NHS Property Services Limited (the Service) is wholly owned by the Secretary of State for Health and Social Care and a shareholder director represents the Secretary of State as a board member of the Service. The shareholder director is responsible for oversight and challenge and acts in the interests of the taxpayer. The articles of association set out the rules to which the shareholder and directors of the company must adhere. The articles give the shareholder relatively broad powers, and the shareholder's representative must be present for the board to be quorate. For example, the shareholder's permission is required to: approve or change the business plan; appoint or remove any director; and set the pay and conditions of the directors.

3.2 In early 2015, the Department of Health & Social Care (the Department) decided to replace the original chief executive of the Service following a review, which it commissioned, that explored options to maximise the potential value of the Service. The review concluded that the professional skills base required to bring about the transformation required to maximise the Service's value would be very different to that of the chief executive in post. The original chief executive received a redundancy package including a bonus of £19,000 for his successful management of the Service through its period of establishment. In 2018, however, the Department noted that the original management team were not property experts and had made little progress in addressing the underlying problems the Service faced.

3.3 In 2011, the Cabinet Office announced that all non-departmental public bodies would have to undergo a substantive review at least once every three years. This review would determine whether there was still a need for the public body, and where it was agreed there was a need, the review then looked at the control and governance arrangements in place to ensure the public body is complying with recognised principles of good corporate governance. The Department has not carried out this type of review of the Service but told us that it plans to complete a review by October 2019.

3.4 Since 2017, the Department has held formal accountability reviews with the Service three times a year. It also completed an initial strategic review of ownership models of its shareholdings in July 2017. Key issues identified were:

- a continued reliance on financial support given the level of debts;
- the high level of undocumented occupancies across the portfolio;
- the lack of clarity regarding previous billing;
- the backlog of maintenance for the estate portfolio (estimated by the Department at about £1 billion in 2017) compared with the money generated by asset sales that can be used to tackle the backlog; and
- implementation of Sir Robert Naylor's review of NHS property and estates, which set out how to make best use of its buildings and land.[4]

3.5 The review concluded that the Service needed high intervention because:

- its activities also impact on the wider departmental group as many of its tenants are NHS providers;
- it is consolidated into the Department's group accounts and therefore decisions made by directors impact on the overall group position;
- its future operating model and whether it will merge with Community Health Partnerships is not currently clear; and
- it has yet to shed the legacy of the historic inconsistencies it inherited and has a poor reputation in the system.

Executive salaries and bonuses

3.6 As a limited company the Service is not bound by NHS pay scales. Executive salaries are determined by the board based on salary surveys and periodic independent assessments by remuneration consultants. The Secretary of State must approve remuneration of all directors, as well as any employee earning more than £130,000 per year. Any uplifts are approved by the Remuneration Committee, where the shareholder director must be present for the committee to be quorate.

3.7 Remuneration packages include pay, pension and bonus elements. Salary packages are designed to attract a suitable level of expertise. The Department also undertakes benchmarking of executive packages. For example, it considered that the salary package offered to the recently appointed new chief finance officer of the Service was comparable to that of finance directors in NHS trusts and NHS foundation trusts in London and that this was a reasonable benchmark (**Figure 15**).

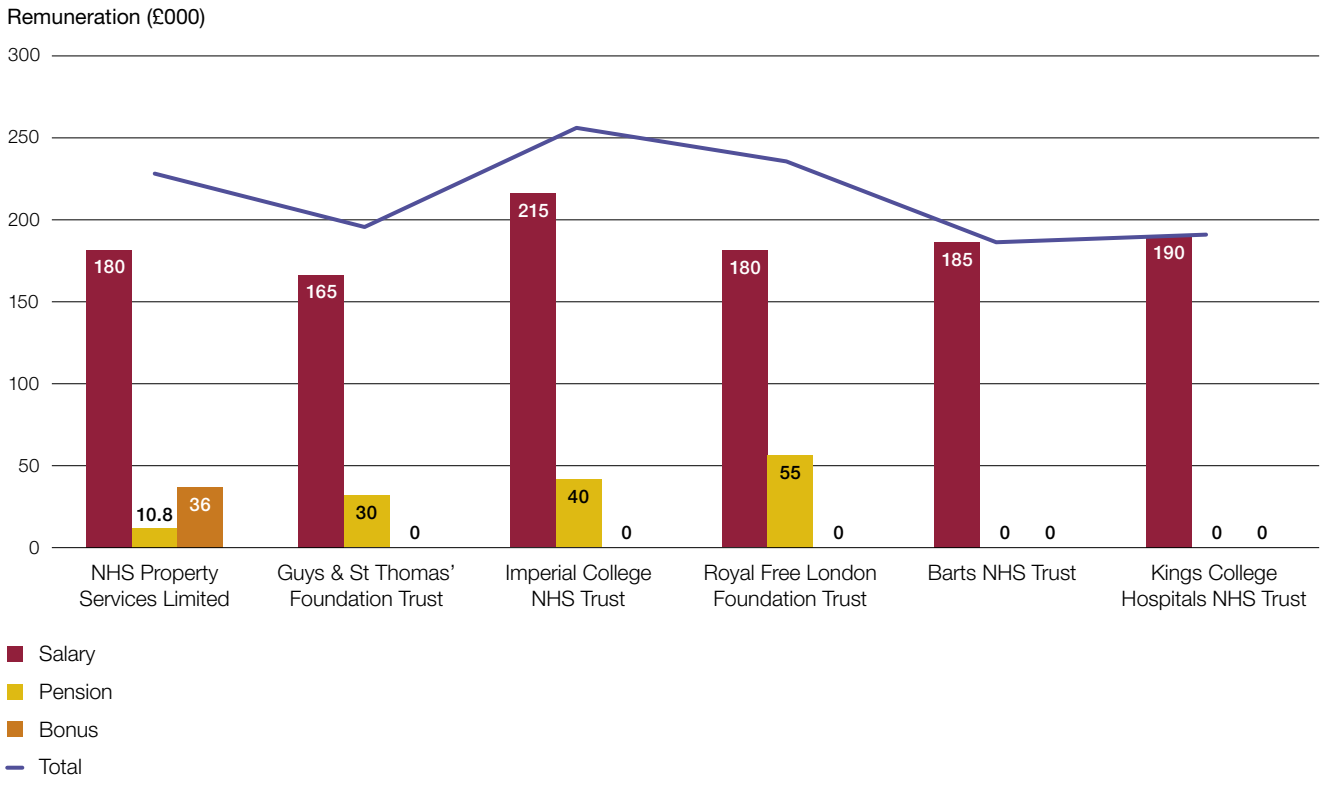
4 Sir Robert Naylor, *NHS property and estates: why the estate matters for patients*, March 2017.

3.8 The Service has operated a bonus scheme since 2015-16. If directors in the scheme achieve annual objectives, they receive a bonus of up to 35% of the salary scale maximum for the chief executive and up to 25% for other directors. Between 2015-16 and 2017-18, total bonuses paid each year for directors increased from £127,000 to £235,000, the highest in the health sector, before reducing to £206,000 in 2018-19 (**Figure 16** overleaf). The percentage of the maximum bonuses available that were paid varied from 71% to 89% over this period. Our 2018 report on the Motability scheme noted that in the past three years, independent benchmarking reports have reported that, on average, FTSE 250 firms pay 70% to 75% of the maximum bonus available. Higher levels lead to investors exerting pressure to set tougher performance targets.[5]

Figure 15

The Department of Health & Social Care's benchmarking of the remuneration package for NHS Property Services Limited's chief finance officer, 2018

The Department of Health & Social Care (the Department) noted that the remuneration package for NHS Property Services Limited's (the Service's) finance director was similar to that of finance directors of NHS trusts and NHS foundation trusts in London



Notes

1 Benchmarked organisations were chosen by the Department based on turnover (more than £1 billion) and fixed assets value (£490 million to £1.3 billion). Data were taken from directors' remuneration tables in these organisations' 2017-18 accounts.

2 The Department told us that the Service has a larger fixed asset value than trusts, but its level of business complexity may be lower than that of trusts.

3 Figures shown are the maximums for the ranges concerned.

Source: National Audit Office analysis of Department of Health & Social Care documents

5 Comptroller and Auditor General, *The Motability scheme*, Session 2017–2019, HC 1681, National Audit Office, December 2018.

Figure 16

Bonuses for directors and executive directors of NHS Property Services Limited

	2015-16	2016-17	2017-18	2018-19
Number of directors and executives receiving 100% of their bonus	2	1	5	0
Number of directors and executives not receiving 100% of their bonus	5	6	3	7
Total bonuses	£127,000	£137,000	£235,000	£206,000
Total bonuses as a percentage of maximum bonuses available	71%	75%	89%	73%

Source: National Audit Office analysis of NHS Property Services Limited data

Appendix One

Our investigative approach

Scope

1 We previously reported on the setting up of NHS Property Services Limited (the Service) and early performance in May 2014. Following Parliamentary concerns about the Service, including slow progress being made achieving its objectives and the level of bonuses being paid to its directors, this investigation builds on our previous work and sets out the facts on the progress the Service has made. It covers progress on:

- setting up the Service, its main roles, the types of property and tenants in its portfolio, the issues it inherited and organisational changes;
- performance of the Service against its main roles and objectives, and in particular acting as a landlord to manage the estate; and
- the Department's oversight.

2 We carried out this investigation between February and April 2019. This investigation does not consider the value for money of the Service. Figures used in this report for 2018-19 are unaudited.

Methods

3 As this was an investigation aimed at setting out the facts and carried out over a short timescale, it draws heavily on available information mainly from the Service and the Department of Health & Social Care (the Department).

4 We interviewed relevant officials at the Service and the Department to understand:

- progress across key areas of the Service's business; and
- barriers to progress.

5 The people we interviewed included the chief executive, the chair, the chief operating officer, the chief financial officer, the director of asset management, the director of customer service and communication, the chief information officer, the shareholder representative director and two non-executive directors.

6 We also interviewed other stakeholders including the British Medical Association, the Cabinet Office, Community Health Partnerships, NHS Clinical Commissioners, NHS England and NHS Improvement to seek their views on the progress that the Service has made.

7 We reviewed relevant data and documents provided by the Service, the Department and other stakeholders. Documents included the Service's annual reports and accounts, strategy documents, business plans, board papers and departmental submissions to ministers. We also received evidence from the Association of Chief Estates Surveyors and Property Managers in the Public Sector.

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