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The strategic management of surplus property in the NHS

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Abstract *There are two principal elements to consider in relation to the strategic management of any organisation's surplus property. The first is the process by which the property is identified and declared surplus and the second is the procedure for managing such property effectively until disposal finally takes place. This paper is based on the research undertaken to consider: the key characteristics of good "strategic" management of surplus property; how other bodies (private and public) have improved their strategic management of surplus properties in the recent past; how the proposals in "Sold on Health" appear to meet good practice; and any lessons that can be learnt by the National Health Service from this work.*

1. Introduction

This paper is the result of primary research undertaken for the National Audit Office (NAO) as part of its study which resulted in its publication "The Management of Surplus Property by Trusts in the National Health Service (NHS) in England" (National Audit Office, 2002). The commissioned research was designed to look at how the NHS dealt with surplus property. The researchers were asked to consider the key characteristics of good "strategic" management of surplus estates. This included consideration as to how other large private or public sector bodies had improved the strategic management of their surplus properties and how far plans outlined in "Sold on Health" (Department of Health, 2000) to improve the strategic management of surplus properties in the NHS appeared to meet good practice in this respect. The outcome from the study was, *inter alia*, to identify any lessons that could be learned by the NHS from this work and to point out key references to best practice in this area.

Primary and secondary research formed the basis of this study. First, primary fieldwork research consisted of in-depth interviews carried out with three heads of real estate organisations that owned sizeable amounts of property, which had previously owned public property. The three real estate organizations selected were British Telecom (BT), The Post Office (earlier known as Consignia), and Lloyds TSB. Secondary research built, first, on raw census data gathered by consultants for the NAO on NHS Trusts, as part of the research used in the production of "The Management of Surplus Property by Trusts in the NHS in England" (National Audit Office, 2002). In addition, the authors also undertook desk research on key related publications.

Fieldwork research for this paper was undertaken in late 2000. The in-depth interviews carried out with the three heads of the above-named real estate organizations were done on a one-off, and on a one-to-one basis. The data that these interviews yielded are shown in Table I.

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Table I. Comparisons with the private sector

Criteria used to compare the sample	BT	The Post Office	Lloyds TSB
Business service strategic planning	Very close involvement of real estate professionals in all strategic business plans	Close involvement of real estate professionals with business/service unit strategic and business plans	Close involvement of real estate professionals in business plans
Where property assets are held by the corporate organisation	Property assets all held by separate central corporate holding organisation and leased to business/service units on commercial market value terms	Central property unit holds all corporate property and leases it on commercial leases at independently assessed market values to business and service units	Property held by separate central unit and leased to business and service units at market rentals on commercial leases
Accounting for real estate	Property separately accounted for by the central property unit	Separately accounted for by the central property unit	The central unit accounts for all property
Reporting procedures	Monthly accounts and monitoring reports to central corporate board	Monthly accounts and performance target progress reported to main corporate board	Monthly reporting to the main corporate board on accounts and performance targets
Declaring surplus property	Property declared surplus by the users. They pay for it and take decisions as to its appropriateness and affordability	Property users responsible for declaring property surplus and can hand back property to the central unit at no notice if surplus to requirements. (With the comprehensive business planning process it is unlikely that any surplus property would ever come as a surprise to the central property unit)	The property users can declare property surplus and return it to the central unit at very short notice. The central property unit monitor occupancy and can force occupiers to move to premises that that are more appropriate from the corporate perspective. Where specialist arguments are used regarding sub-optimal use or location the property unit that consult other specialists to check the case

(continued)

Criteria used to compare the sample	BT	The Post Office	Lloyds TSB
Disposing of surplus property	When property is declared surplus and vacated it is returned to the central property at 6 months notice. The in-house property team has a small disposal unit working exclusively on disposals. They use six agents nationwide	The central property unit has a very small in-house specialist team responsible for all surplus disposals. Use is made of five agents nationwide on two-year contracts	There is no specialist disposal team as there are very few in-house real estate professionals anyway. They have looked at single sourcing disposals but rejected it as not being cheaper and incurring potential problems. Like the other two comparison, organisations they use a restricted list of agents nationwide
Deciding on speed/value of disposals	The market value of the surplus property assets is assessed by the in-house disposal and development teams and by the agents (three separate valuations). There is a DCF model that calculates the holding costs against value enhancement and in most cases it is better to dispose of property quicker and cheaper than incur holding costs. Agents are on incentive fees based on agreed time and value base lines	The Post Office has to obtain market value on all disposals and have these verified by independent valuation. The cost of surplus property is borne by the central property unit so there is a strong imperative to find the quickest means of disposal consistent with obtaining market value	DCF ten year calculation modelling is undertaken on all disposals. Delayed disposal vs potential planning enhancement is calculated. Property costs are borne year-on-year by the central unit, so any delay in disposal will have to be made up for by enhanced future income
Obtaining planning enhancement	A handful of "obvious" sites are worth pursuing through significant planning enhancement, otherwise use of claw-back clauses are made on sale	Because the PO is a special planning user category, alternative permissions are always obtained before disposal. There are only a handful of cases where major enhancement of value is obtained	Again, only a handful of sites are worth spending serious time on enhancing the value and sell with claw-back clauses where in doubt

Table I.

2. The strategic management of surplus property

There are two elements to consider in relation to the strategic management of surplus property. The first is the process by which the property is identified and declared "surplus" and the second is the procedure for managing such property effectively until disposal finally takes place.

Surplus property can fall into two main categories, either planned or unplanned. The first category usually arises through changing needs and methods of service delivery, legislative changes, ageing and deterioration. On the other hand, unplanned relates to more external factors, such as social and economic decline and market shifts. Either of these can turn an asset into a liability. However, once an organisation sets in place a proactive estate strategy and integrates this with the overall organisational objectives' then it is probable that there will be a shift towards planning a disposal strategy rather than reacting in an unplanned way to market or political vagaries. In the case of the NHS Trusts, such strategies should meet at the very least the requirements set out in "An Exemplar Estate Strategy" (NHS Estates, 1999b). Findings from the research undertaken in connection with this paper indicate that whilst approximately 70 per cent of Trusts do have an estate strategy, only 40 per cent of these currently have estate strategies which meet the NHS Estates' requirements. This suggests that improvements could be made to meet not only current "best practice" but also corporate social responsibility (CSR), particularly as it would appear that disposals are taking, on average, about a year to conclude.

2.1 Key characteristics of good strategic management of surplus property

Several key characteristics of good strategic management of surplus property can be highlighted These are: the identification and declaration of surplus real estate, management practice, capital charging, capital and revenue split in the public sector, performance measurement, strategic plan, and managing the surplus real estate. A brief discussion on each of these key characteristics follows.

2.2 The identification and declaration of surplus real estate

The identification of surplus property may primarily rest with the overall corporate body, the specific users of space or a combination of the two The decision should be a business and/or a service matter (based on need, cost, benefit, and affordability). Specific real estate professional input may occur in defining and monitoring standards of occupation density and intensity and the appropriate charges to be levied for the use of the space. Experience suggests that, for any system of declaration of surplus space to have any chance of successful operation, all occupiers of space must be charged a market-related occupation cost and directly benefit and suffer from use of space. In other words, inefficiencies should be clearly identifiable and occupiers should be made directly accountable.

2.3 Management practice

Declarations that a property is "surplus", however, do not end responsibility There is an important role to play in managing such properties until final disposal takes place. This is so because of health and safety issues and also in order to maintain the value of the investment asset for as long as possible. Our research indicates that whilst most

NHS trusts carry out precautionary action to secure and protect the current value of property declared surplus, some form of interim management needs to be implemented. This is intended as day-to-day management whilst the property is in transition either from one part of the organisation to another or from the organisation to ultimate disposal. A good example of this in the wider public sector might be the Birmingham City Council model. Birmingham City Council uses its Economic Development Department and Surplus Property Working Groups to deal with a rolling programme of disposal declarations. The strategy for this is based on twelve-monthly reviews and sound accounting procedures.

Within the local authority sector, the Audit Commission report "Local Authority Property: A Management Overview" (Audit Commission, 1988) found that there was little evidence of a strategic or pro-active approach to management. As a consequence, the report highlighted guides to best practice which included *inter alia*, defining "...responsibility and determining a strategy to review property holdings and running costs...and creating...a programme of reviews..." of all properties. Such reviews should be short and focused and users should be aware of opportunity values and costs. Since then many authorities have changed their management practice, introducing initiatives such as internal rents, planned maintenance programmes and property valuations and audits. The introduction of Asset Management Plans has further heightened awareness of the need to identify property surplus to requirements at an early stage.

2.4 Capital charging

In the NHS, the introduction of capital charging theoretically should have encouraged a more strategic view of assets both in terms of their ongoing management and by identifying those that are surplus to requirements. In their paper, "Managerial Perceptions of the Incentives Inherent in NHS Capital Charging", Heald and Scott (1997) acknowledge that capital charging was introduced partly to "...make managers fully aware of the opportunity cost of capital and to facilitate cost transparency and comparability" (Heald and Scott, 1997, p. 1). Capital charging helped to establish a basis for competition within the NHS internal market. Heald and Scott's (1994) survey provided some interesting insights into disposal programmes. It involved all 46 Scottish mainland providers of which over 50 per cent used capital charging information for decision-making on asset disposals. Thus, capital charging could therefore potentially be seen as a useful tool in the rationalisation of the overall property holdings. In the context of making "positive" decisions about disposals they highlight:

(1) that the desire to dispose is partly shaped by the way in which the construction type and material of a building affects depreciated replacement cost (DRC) valuation (Heald and Scott, 1994, p. 12);

(2) that the configuration of the inherited capital stock is also vitally important.
   - for a single-building provider there is little flexibility where capital charges and maintenance are high. Total closure is often the only option;
   - for a provider with several buildings on one site, peripheral buildings can be declared surplus and services restricted to only part of the site, the remainder being sold; and

- a provider with multiple sites may be able to close individual sites more easily than the other two providers but will not benefit from economies of scale that single site providers enjoy (Heald and Scott, 1994, pp. 12-13).

(3) that, other factors which can dramatically affect the context of asset disposal include the physical configuration of the existing estate; listing; and decisions taken prior to vesting (Heald and Scott, 1994, p. 14).

However, some aspects of the current system of capital charges within the NHS appear to be inhibiting, rather than promoting, rationalisation of occupation. This appears to be due to two main factors. First, the basis of most valuation is DRC despite hospitals and health centres generally having demonstrable market values. DRC usually gives a higher result than market valuation and, therefore, this makes disposal potentially undesirable because it then becomes difficult to achieve the so-called "book value". As a consequence, no apparent surplus would emanate from the disposal and, therefore, there is no incentive to dispose.

Secondly, the funds to pay the capital charges are automatically included in annual budgets and would be lost once the property disposal takes place. Currently, therefore, there is little incentive to release poorly utilised property, which is subject to capital charges. This contrasts with the private sector, where market rentals are paid from the earned income stream and any saving in occupation costs are directly transferable into operational benefits for the user or its corporate body.

The two factors identified above (i.e. the difference between book and market value and the lack of financial impact on the inefficient users of space) potentially limit the effectiveness of the whole capital charging system. Discussions with accountants and estates personnel in the NHS, which took place through fieldwork for this research, have confirmed the view that these are the two factors that most strongly perpetuate inefficient property use in trusts. There is also no central review of intensity of occupation taking place at the regional level. In the context of the NHS strategic management of its real estate assets, the role and implementation of capital charging could usefully be subject to a more detailed examination. This would be to ascertain if it is capable of adaptation or replacement so that real estate users directly incur the consequence of their in/efficient use and become proactive in terms of declaring inappropriate property surplus to their requirements.

2.5 Capital and revenue split in the public sector

According to the heads of organizations interviewed for this research, consideration needs to be given to the difference between private and public accounting procedures These heads had experience of working in both systems. Furthermore, they felt that rigid revenue and/or capital separation distorts many property decisions and makes rationalisation and efficient management of the estate more difficult in the public sector. An example of the latter is maintenance-backlog. In practice, a one-off estimated catch-up exercise of £1 million would be classified as revenue expenditure because it is "maintenance" work. It must, therefore, be taken from revenue-classified income, which either deprives some other genuine annual service function or puts the trust into deficit. The trust is not allowed by this process to use capital funds for maintenance even where these are available to them. The private sector would have no problem with undertaking the urgent backlog maintenance, provided their total income and priorities accord with undertaking the work, because it has one undifferentiated income stream and can prioritise its expenditure as appropriate.

2.6 Performance measurement

In order to get to the point of declaring property surplus, it is necessary to have some way of measuring the performance of property. This can be in relation to financial criteria, service provision or some other measure. Any progress towards this needs to recognise that property assets have to be categorised. For example, local authorities tend to categorise property by current use because this is the way the asset registers have been designed. In fact, Martindale (1997) argues that it would be more appropriate (and more helpful in defining a strategy) to categorise and manage "... by principal council objective, be it service or investment" (Martindale, 1997, p. 243). Each authority will have different objectives based on different resources and different needs. However, it is clear that an approach based on current use solely could lead less to a strategy of meeting long-term objectives and more towards a policy of achieving short-term capital receipts. Walters (1996) believes that measurement systems for real estate should follow closely the systems used by the primary function of the organisation, which could be related to cost, customer satisfaction, financial return or some other appropriate measure.

From the census survey that was conducted on the NHS Trusts by Walker (NAO, 2002) the authors are not aware of the NHS utilising estates performance measures in any significant or systematic way. Furthermore, the survey revealed that only 8 per cent of trusts are benchmarking. There are forms of central benchmarking, such as the estate returns information collection (ERIC) tool, but these are dominated by acute hospitals and are liable to consist of unverified and suspect data. In Appendix one of Developing an Estate Strategy (National Health Service, 1999a, p. 35), the NHS Estates sets out recommended performance indicators that would be beneficial if utilised. It should not be too difficult for trusts to organise verifiable estate cost-related measures (i.e. cost per member of staff, patient, contact, square metre, etc).

2.7 Strategic plan

The inference from this is that there needs to be a strategic plan in place to address these issues and to secure the optimum use for all the assets. This will also lead to decisions regarding the long-term future for those assets. Weatherhead (1999, p. 9) expands on the latter as follows:

Reviewing businesses that have made innovative use of real estate revealed that there seems to be prerequisites or stages to reaching the position where incorporating real estate into mainstream corporate planning is workable. This suggests that a local authority will need first to be producing:

- plausible corporate strategy;
- an understanding of its real estate holdings; and
- a corporate real estate strategy.

It is useful, in the context of this paper, to adopt these prerequisites and consider them under separate headings in order to examine the process that leads to real being declared surplus to requirements.

2.7.1 Plausible corporate strategy. Corporate strategy involves a process of analysis, choice, and implementation. Weakness in any of these areas can create an implausible overall strategy. Different strategies exist based on the objectives of the organisation, which can be cost-focused or market-based. For example, public bodies may centre their strategic development around the best use of resources in the light of demand exceeding supply. On the other hand, a commercial organisation concentrating on those things that it does well may use a strategy centred on consolidation rather than growth.

2.7.2 An understanding of its real estate holdings. Both public bodies and corporate organisations have, in the past, failed to keep adequate records of their real estate holdings. As a consequence strategic use and integration of their portfolios may have been compromised or, maybe, just left unrealised. At present, it is evident from the survey work by Gibson and Hedley (1999), who build on earlier work by Avis and Gibson (1995) that "... information collection and usage in relation to corporate real estate continues to remain an area of weakness for many organisations". Nor is it linked effectively to the financial, human or technical resources of these organisations. Without such information and linkages, there is a danger that value for money will not be achieved from real estate assets. This is especially pertinent in the context of the disposal of such assets. If the NAO definition of "value for money" is applied, then economic, efficient, and effective measures are not transparent in the decision to dispose. Value for money, in this context, refers to the acceptable return to meet the needs of the organization. This then raises questions about the reliability of such decisions and whether there may be more effective solutions to outright sales.

2.7.3 A corporate real estate strategy. Buckley (1999) sees the final stage in achieving the rationalisation of a corporate estate as an "Eight Step Strategic Plan". This helps to evaluate alternative structures for assets that are surplus to requirements. The eight steps are as follows:

(1) create a property database;

(2) establish a Hold/Sell analysis;

(3) choose retained properties;

(4) establish portfolio income and operating costs;

(5) establish sell criteria;

(6) establish internal consensus;

(7) create portfolio financial model; and

(8) determine the optimal exit strategy.

The above steps are important elements in the strategic analysis, choice, and implementation that are fundamental to the development of the strategic plan. It is interesting, however, to note the research project undertaken by the Corporate Real Estate Portfolio Alliance in 1999. This highlighted the need for a more robust approach to the portfolio management of corporate real estate and, according to Varcoe (2000) one of the weakest individual components of this was the exit strategy. In many cases, the exit strategy did not exist. Varcoe goes on to speculate that this is because it is one of the components "... that represent the greatest complexity from a specialisation and modelling point of view".

An example of the problems facing an organisation over its disposal programme is BT Plc. Whilst Alan White, former Director Group Property, points out that "…the asset recycling (disposal) service is where the real estate team can really excel and prove their worth", careful pre-planning is essential (White, 1998). In the case of BT Plc, a very comprehensive audit was completed and fed into the corporate and real estate plans. This led to a major rationalisation of real estate resources and a significant disposal programme. Having taken the positive decision to dispose of certain assets, the next step was to ensure that their value was protected and to maximise any development potential. A strategic and well-timed disposal programme therefore had to be formulated.

Overall strategic planning for real estate should not be a static process but should "…include plans for improving real estate management and for developing new real estate practices to match the changing needs (of the organisation)" Weatherhead (1999, p. 98). In addition, the organisation needs to keep such plans under constant review. Weatherhead (1999, p. 98) goes on to make the important point that "when the centre of the organisation is including real estate in all the decision making processes, individual committees and departments will be caught up in a culture and value system focused on being prudent and innovative with real estate resources" at p. 10. Strategic planning has to be about identifying opportunities to lever resources by creating added value and best practice rather than just the efficient allocation of resources within the organisation.

The NHS Estates (1999a, b) report publications, Developing an Estate Strategy and An Exemplar Estates Strategy address most of the above issues and provide simple example formats that would significantly improve their efficient, economic, and effective use of real estate if followed by trusts. Desk research conducted for this paper shows that by the end of 2000, only 57 per cent of trusts were expected to have an estate strategy in place that conforms to the exemplar.

2.8 Managing the surplus real estate

According to a review of strategic issues by the NAO (2002, p. 4) the key questions to ask once real estate has been declared surplus are:

- what is its cost per day, week, and month whilst vacant and by whom will the financial impact be borne specifically?
- is it capable of re-letting/disposal in its current state?
- what would improve its lettability/disposability, at what cost and over what period of time?
- when is the best time to dispose of it?
- who are the best "people" to manage, enhance, and dispose of the property? and
- who monitors and ensures value for money is obtained overall?

A limitation of the exemplar is that it does not address any of these issues specifically. It simply sets out an example of a timetable for acquisitions and disposals with no other comment. Trusts need to address all the above-mentioned points if they are to achieve value for money in the disposal process. Nor does it consider CSR in the context of disposals.

2.9 Corporate social responsibility

Over the last few years CSR has become a significant issue on the Government's agenda. In, as much as the NHS can be considered as a company, the manner in which it deals with its property assets should give some consideration to this agenda. CSR has been defined as "... a company's response to the sustainability agenda to do with issues within the environment, social, ethical and economic context" (Department of Trade and Industry, 2002). As such it is "an ethical business approach" (Ruggie, 2004) which takes account of all the stakeholders involved in the organisation. In the case of NHS trusts this includes principally the local and wider community, employees, patients and suppliers.

Disposals are important here as the process adopted to identify and complete sales of surplus property ought to follow good practice and ought to be part of the move towards joined up action across government, two of the key areas for CSR. This might suggest two considerations. One is that the move to "best value" should be seen in its widest sense (i.e. value to whom and in what timescale?). As a public body, accountability may not simply rest with financial gain but could embrace a wider brief with awareness of community and social impacts. The second consideration encompasses the whole notion of public and voluntary bodies working together to achieve a sustainable future. For example, the early disposal of surplus hospital buildings for use as a care home for a charitable organisation may be more productive in the local community in terms of both service and continuity of employment opportunities than a later sale (say after planning consent), at a marginally higher monetary value, for housing development. It may also avoid the necessity to demolish structurally sound buildings which are only obsolete because of NHS trust's policy initiative. Of course, this would not be the case in all circumstances. But it does add another layer to the decision-making procedure and it does help to ensure that trusts are socially responsible as well as performing a stewardship role with public funds and assets.

In order to have any real meaning, CSR should be ingrained within the strategic planning process. It should form part of the values of the organisation and specific CSR goals which are time-specific and measurable should be identified within the strategic plan from the outset.

3. Past improvements of strategic management of surplus properties by other bodies

Three in-depth interviews with the heads of real estate organizations were carried out. The first was with the head of the post office, a public body formerly known as Consignia. The second was with the head of BT, a privatised organisation. Finally, the third was with the head of Lloyds TSB, a private sector company. A summary of the main points emanating from these interviews is presented is tabular form in Table I at the end of this paper.

It was clear from all three interviews that property supports the mainstream activity of the organisations, and there needs to be a close understanding of the business and service needs by their property personnel. This requires a major involvement of real estate personnel in business planning. The main incentive for the businesses to declare property surplus is to be relieved of open market charges for occupation. One of the organisations also retained the right of the central property holding company to direct business occupiers to other property which may not be their first choice. This might occur in order to achieve the most efficient use of the current corporate estate and/or in circumstances where the occupier was not achieving corporate standards in intensity of occupation.

All three organisations hold their property within a central, separate, corporate unit responsible for its best management in the overall organisational interest. They all have a system of allowing the occupiers to hand back vacated property to the central property holding unit at little or no notice and at no financial cost, despite otherwise being on normal five-yearly reviewed commercial leases. They all also have effective annual planning and budgeting processes that account separately for property (in agreement with the individual corporate business units).

All three organisations reports monthly to a full management board on the progress and costs of the disposal programme. Vacant property costs and any gains from disposal are retained in the Property Holding Unit balance sheet. Two of the organisations have specialist in-house professionals dealing exclusively with disposals. All three retain a limited list of agents (4-14) who handle their sales. Fees are related to agreed time periods and prices and include the provision for bonuses.

All three organisations use operational specialist advice to counteract the business user's arguments that they could not possibly vacate particular premises for operational and/or technical reasons. Information, particularly financial information, is the key to moving surplus declarations and disposals on at a pace. All three organisations use some form of financial investment modelling based on a DCF and usually a ten-year time horizon. These tend to show that the majority of disposals should be made rapidly.

All three spoke of only "half a dozen" examples of where substantial planning and development gains have been made. One said that holding costs almost always mean there is a financial gain to be maid by rapid disposal even when these happen just below market value.

The post office has a special planning user category so tends to always obtain an alternative planning permission before disposal. Lloyds TSB has three-year plans based on future employment head counts translated into space requirements which is compared to the existing estate. Exits from property are always planned on the "least cost" basis. The post office must obtain market value (minimum) on disposal and this is always checked and verified by independent valuation.

4. How plans outlined in "Sold on Health" appear to meet good practice

In the wider interests of Government "... a project team consisting of NHS Trusts, the NHS Executive and NHS Estates ... sought views and examples of best practice from private sector owners, developers and agent". (Department of Health, 2000). The final report of this project team, "Sold on Health", not only addresses the surplus estate but also "Best Value from the whole asset lifecycle". Its terms of reference were to deliver improvements in the efficiency and effectiveness of the procurement, operation and disposal of the NHS estate, and to do so whilst having due regard to the wider interests of Government (Department of Health, 2000).

The main points from "Sold on Health" (identification, management and disposal) were tested on the three organisations and other property professionals. A summary of reactions is as follows:

- *The disposal of all surplus estate should be overseen by NHS Estates as an informed client.* The above was seen as sensible in principle. The proposed use of NHS Estates was, however, seen as a potentially vested interest recommendation that should be subject to independent review. There were concerns expressed about the abilities and the appropriateness of this organisation in its current form and its lack of experience in overseeing disposals.
- *Estate strategies and business cases for all disposals should only be approved if the Trust has an estate strategy.* Again, in principle, this is thought to be sensible though the level for approval is uncertain.
- *Small in-house teams to manage disposals and maximise development values.* Once again, this was considered to be correct though, with the current NHS organisation, it is not clear where these might be located.
- *Disposals to be managed at regional level.* This was also viewed as a reasonable approach in principle. But concerns were expressed about the current experience and capacity of Regions to undertake this.
- *Asset registers and accounting for surplus estate transfer to NHS Estates.* The principle is correct but the doubts expressed earlier about the ability of the current organisation to cope apply here also.
- *A monthly statement regarding valuation, disposal and residual costs to NHS Executive.* This is done in all well-run organisations and could usefully be introduced for the NHS.
- *The above included in NHS Executives accounting records.* Again, this is done as standard practice by all of the organisations consulted.
- *Should property below £500,000 be auctioned as a matter of course?* This proposal for disposal by auction was felt to make no sense apart from its public accountability. It would not necessarily be quicker, may obtain a poorer price and the arbitrary £500,000 break point was not understood by anyone. Property is normally only auctioned where it has a secured income stream (i.e. investments) or where all hope of other disposal has been abandoned (e.g. "white elephants"). Neither of these characteristics appears to apply to the majority of NHS surplus property; nor does the evidence from the survey of NHS Trusts indicate an overwhelming case for such a policy.
- *Are claw back clauses a good thing?* There was general consensus that these clauses are a "good thing" even though claw back clauses may depress the price. However, compared to savings on speed, cost, and the importance of avoiding "sell-on" embarrassment, the price reduction is usually well worthwhile.

5. Conclusion

Lessons that the NHS can learn from this work. This study identifies the following lessons that the NHS can learn from this work. First, that a proactive estate strategy, that flows from and is integrated with the overall organisational objectives, needs to be set in place. Property is there to support mainstream services and should be integrally planned with them. The process should comply with the recommendations in the NHS Estates Developing an Estate Strategy and An Exemplar Estate Strategy (NHS Estates, 1999a, b). However, 43 per cent of trusts still had not complied with this recommendation by the end of 2002. When in place, this strategy can then lead to a shift towards planning a disposal strategy rather than reacting in an unplanned way to market or political vagaries.

Secondly, both experience and comparative study suggests that, for any system of declaration of surplus space to have any chance of successful operation, all occupiers of space must be charged a market-related occupation cost and directly benefit and suffer from their use of space. Capital charging is not in practice leading to the rationalisation of overall property holdings in the way that internal charging of market rentals has in the private sector. The lack of any financial impact on the inefficient user of space limits the effectiveness of the whole capital charging system and alternative methods should be investigated.

Thirdly, that any strategy needs precautionary action to secure and protect the current value of property declared surplus. This can best be achieved through some form of informed interim management. Hence, the NHS should incorporate guidance advice to Trusts on this matter.

A fourth lesson is that the NHS should review the utilising of estates performance indicators and measures (including those for CSR) because benchmarking is not currently being undertaken widely or systematically.

The authors' fifth suggested lesson from this study is that adequate records of real estate holdings and information systems are essential for the strategic management of property assets. Information, particularly financial information, is the key to moving surplus declarations and disposals on at a pace and obtaining value for money. Hence, the NHS should review the estates information systems at all levels.

It is proposed that, as a sixth lesson, both a strategic and a well-timed disposal programme has to be formulated. Disposal decisions should be influenced by the use of investment modelling that takes full account of the costs of holding surplus property. The NHS should provide uniform guidance on financial modelling. In addition, it is recommended that the NHS should ensure that property exits are planned on the least cost basis. The latter implies a need for the NHS to ensure that there is monitoring of actual disposals against established criteria. Moreover, there is a strong case to be made for the establishment of specialist in-house expertise on property disposal within the NHS that can be shared with individual trusts.

Finally, the authors recommend that the NHS should explore the potential benefits of entering into contracts with a limited number of agents for disposals nationally.

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