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In response to questions raised by the House of Commons Health Committee in late 2013 and wider Parliamentary interest, we conducted an investigation into five specific concerns relating to NHS Property Services Limited.

**Investigations**

We investigate specific allegations of wrongdoing in the public sector; or in response to intelligence or assertions suggesting that wrongdoing is likely.
Contents

Key findings  4

Part One
Setting up NHS Property Services Limited  6

Part Two
The operation of NHS Property Services Limited  13

Appendix One
Our investigative approach  19
Key findings

1. NHS Property Services Limited (the Service) is a company wholly owned by the Secretary of State for Health. The Service was created as part of the reforms to the health system to manage, maintain and improve NHS properties and facilities previously owned by strategic health authorities and primary care trusts.

2. In response to questions raised by the House of Commons Health Committee in late 2013 and wider Parliamentary interest, we conducted an investigation into five specific concerns. These were whether:
   - The setting up of the Service as a limited company followed good practice.
   - The shareholder function operates appropriately and transparently.
   - The Service's board was appointed appropriately.
   - The Service’s cash receipts were sufficient to cover operational expenditure.
   - The Service is achieving the best financial return possible from property disposals.

3. Our investigation established the facts relating to these concerns. The following paragraphs summarise our key findings.

Legal form of the new organisation

4. On 16 September 2012, the Minister of State for Health decided to set up the Service as a company. The Department of Health (the Department) considered two options for the legal form of the new organisation: a company or a special health authority which would become a company after three years. Contrary to good practice, neither option was supported by a full business case. The Shareholder Executive sat on the Department’s NHS property programme board and supported the idea of a single organisation to manage NHS property. The Shareholder Executive did not provide advice to the Department on the legal form of the new organisation.

The shareholder role

5. The Secretary of State, as shareholder, has a representative on the board with relatively broad powers. This role is performed by the Department’s commercial director. He has acted within his powers in his engagement with the board, which is itself transparent in reporting its decision-making through published minutes. However, the shareholder’s detailed operating objectives for the Service were not set out until six months after it began operating.
Recruitment of the board

The Secretary of State appointed the chair of the company. The Department and the candidate himself told us that he was recommended for the role by the then chief executive of the NHS and a former permanent secretary of the Department, rather than being recruited through open competition. The chair left the Service on 31 December 2013 and a new chair was being recruited through a competitive process at the time of our work. The chief executive was recruited through a competitive process from the pool of staff at risk of redundancy owing to the reforms to the health system.

Cash flow

Since 1 April 2013 the cash the Service has needed to cover operational expenditure has exceeded the cash it has received, largely due to delays in billing NHS bodies and receiving payment from them. The Department provided the Service with a start-up loan of £190 million to cover initial operational expenses, as is common when a company is set up; however, the Service had to borrow additional money from the Department to cover its short-term cash requirements. The Service began to repay these loans in January 2014 (at the time of our work, the debt owed to the Department totalled £251 million). The Department can, and did, authorise the Service to use money provided for capital expenditure to cover operational expenditure on a temporary basis. The Service did not use this facility.

Property disposals

At February 2014, all 24 of the Service’s property disposals had been at or above the market value estimated by the District Valuer Services. Two of the shareholder’s objectives have a bearing on property disposals: to make operational (annual) savings of at least £57 million (selling surplus properties can help to achieve this); and to release land for housing to contribute to the government’s target of 100,000 new homes by March 2015. The requirement to sell property immediately to release land can be in tension with achieving the best financial return, which may require time to redevelop the property. The shareholder has not explicitly defined ‘best value’ in the context of property disposals – the appropriate balance between achieving the best financial return possible and meeting the shareholder’s objectives.
Setting up NHS Property Services Limited

1.1 This part of the report covers the background to the setting up of NHS Property Services Limited (the Service), its legal structure, the shareholder role and the recruitment of the board.

Background

1.2 The Health and Social Care Act 2012 provided for widespread reform of the health system in England. The changes, most of which came into effect on 1 April 2013, included closing more than 170 organisations and creating more than 240 new bodies. The timetable for implementing the reforms was tighter than originally planned because of delays in securing Parliamentary approval for the legislation. The Health and Social Care Bill received Royal assent on 27 March 2012, just over a year before the reforms were due to take effect.

1.3 As part of the reforms, the Service was set up in December 2011. On 1 April 2013, some 3,200 staff and 3,600 properties transferred to the new company from 151 primary care trusts and 10 strategic health authorities. These properties were mainly primary or community healthcare facilities, such as GP practices, or office space for NHS administration. They represented approximately 11.5 per cent of the NHS estate.

1.4 The Service has two main roles:

- managing the estate – acting as a landlord, modernising facilities, buying new facilities and selling facilities the NHS no longer needs; and
- providing support services, such as cleaning and catering.
Legal structure

Choice of legal form

1.5 At the end of 2010, the Department of Health (the Department) began to consider setting up a property management service to take over from the organisations that were being abolished. The Shareholder Executive sat on the Department’s programme board for NHS property, which was part of transition to the reformed health system, and supported the idea of a single organisation to manage NHS property.\(^1\) In December 2011, the Department incorporated the Service as a limited company wholly owned by the Secretary of State.

1.6 There was no formal business case supporting the decision to set up the Service as a limited company, and the Shareholder Executive did not provide advice to the Department on the legal form of the new organisation. In August 2011, the Department’s commercial director submitted to the Minister of State for Health (the Minister) a paper outlining the advantages and disadvantages of two options: a limited company, wholly owned by the Secretary of State for Health; and a temporary special health authority, which would become a limited company wholly owned by the Secretary of State after three years.\(^2\)

1.7 The paper outlined advantages of creating a company straightaway, including greater commercial flexibility (for example, a company would be able to borrow money, and set its own remuneration structures to attract high calibre staff) and the possibility of a future sale. The paper also listed the advantages of creating a special health authority as an interim step, including a clear public sector identity and a simpler transfer of staff within the NHS.

1.8 The paper did not recommend to the Minister which option was the better. On 16 September 2011, the Minister decided the Service would be a limited company. On 2 April 2013, the Secretary of State committed to underwriting the Service’s liabilities as would have been required had the Service been set up as a special health authority. This means that should the Service default on any payments, the Department will cover the costs in full.

Future ownership

1.9 There is currently no published strategy for the future ownership of the Service. The Department’s internal documents, however, show that it has considered different options. One is to split the Service into between 25 and 50 local organisations, which would be joint ventures between the Department and the private sector; another is a complete sale to the private sector. The Department plans to recruit an external consultant to devise a long-term strategy for the Service, and will ask the consultant to identify ‘a range of commercial options’.

\(^1\) The Shareholder Executive manages the government’s shareholder relationships with businesses owned or part-owned by the government, and offers corporate finance advice to government departments.

\(^2\) Special health authorities are health authorities which provide a service to the whole of England. They are NHS bodies and are accountable to the Secretary of State for Health.
The shareholder role

1.10 The Service is a private limited company with the Secretary of State for Health as the sole shareholder. A board oversees the running of the company. The board consists of executive and non-executive directors, including the ‘shareholder representative’ and the chair.³

1.11 The articles of association set out the rules to which the shareholder and directors of the company must adhere. For example, they cover how decisions affecting the company should be made, and the role of the shareholder in those decisions. 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;
- enter into any contract or arrangement that is other than in the furtherance of health and social care;
- appoint or remove any director; and
- set the pay and conditions of the directors.

The shareholder representative

1.12 In December 2011, the Secretary of State appointed the Department’s commercial director as the shareholder representative based on a recommendation from the Department’s director general for finance and the NHS. The commercial director holds this role by virtue of his departmental position and not in a personal capacity. He receives no additional remuneration for performing the role (Figure 1 on page 12).

1.13 The approach adopted by the Department in respect of the Service was consistent with its other company shareholdings, for example, Community Health Partnerships, and NHS Shared Business Services. Acting as shareholder representative is part of the commercial director’s role; consequently there was no competitive process to consider alternative candidates.

1.14 The role of the shareholder representative is to ensure that the Service adheres to the priorities and policy direction set by the Secretary of State. The articles of association, consequently, vest a significant amount of organisational control in this individual. The evidence we reviewed indicated that the shareholder representative has acted within the parameters of his role as outlined in the articles.

1.15 The operation of the board is transparent, with minutes of its meetings published on the Service’s website. The board has three committees: audit and governance; remuneration; and assets and investment.

³ Referred to in Service documentation as the Secretary of State director.
Shareholder value and policy direction

1.16 The Committee of Public Accounts (the Committee) observed in 2007 that reconciling public policy with shareholder value objectives can be difficult because the cost of meeting the former can have a negative impact on the latter. An example of this challenge in relation to the Service is that the policy of immediately selling property to release land to build new homes, in line with government priorities, can be in tension with achieving the best financial return possible (traditional shareholder value) which may require time to redevelop the property.

1.17 In an effort to reconcile these two objectives the Committee concluded that there should be a presumption that government businesses come within the Shareholder Executive's portfolio and any exclusions should be specifically authorised by HM Treasury. The government accepted this conclusion in its response to the Committee's report. However, in the case of the Service, we saw no evidence that the Department considered whether the Shareholder Executive should hold the shareholder role, or sought permission from HM Treasury for the Secretary of State to hold this role.

Shareholder objectives

1.18 One way to overcome tension between shareholder value and public policy is to have clearly articulated shareholder objectives. In January 2012, the Secretary of State set out five high-level objectives for the Service, including that it would: hold property for use by community and primary care services; and deliver value for money. During the first half of 2013 there was, however, a lack of clarity among the non-executive directors as to what represented value for money on property disposals: they had not been offered explicit guidance on ‘best value’.

1.19 On 12 September 2013, six months after the Service began trading, the shareholder representative set out four more detailed objectives for the Service:

a. Make operational savings of at least £57 million by the end of 2015-16 – listed as top priority.

b. Release land sufficient to allow the building of at least 991 new homes by the end of 2014-15, in support of the government’s priority to create 100,000 new homes.

c. Produce a strategy and a terms of reference for outsourcing the operational functions of the company – if it can be demonstrated that the same or better efficiencies can be delivered in-house, then this should be pursued other than outsourcing.

d. The Service should cooperate with the Department’s consultants which will be commissioned to set out a strategic direction and end game for the company, together with deliverables and objectives.

1.20 It is worth noting that these objectives do not explicitly define what constitutes ‘best value’ for property disposals. For example, they do not include an objective to achieve the best financial return possible, which would be aligned with traditional shareholder value. We cover this point further in the section on property disposals.

**Recruitment of the board**

1.21 The articles of association state that the Secretary of State must approve all appointments to the Service’s board. Boards typically consist of executive directors, who manage the day-to-day running of the business, and non-executive directors, whose role includes providing independent challenge to the executive directors.

**Non-executive directors**

1.22 The Service’s board includes the chair, the shareholder representative (see paragraphs 1.12 to 1.14), and four non-executive directors.

1.23 The shareholder representative approved the appointment of the first chair, on behalf of the Secretary of State. The chair was not recruited through open competition. Rather, the Department and the candidate himself told us that the chair was recommended by the then chief executive of the NHS and a former permanent secretary of the Department. The candidate had previously been chair of a number of organisations, including the South West Strategic Health Authority.

1.24 The first chair left the Service on 31 December 2013. He considered that, having steered the Service through its initial set up, launch and transition, it would best suit the Service’s strategic needs, going forward, for a replacement to be recruited who could lead the company throughout the next phase of its development.

1.25 The Department advertised for a new chair in *The Sunday Times* on 16 December 2013. It received 16 applications; of these the Department’s interview panel selected a shortlist of four, and interviewed them on 6 February 2014.\(^5\) At the time of our work the Department had not yet made an appointment. In the meantime, the Service’s deputy chair is acting as chair.

1.26 The Parliamentary Under-Secretary of State for Health approved the appointment of three of the non-executive directors, and the Department’s permanent secretary and director general for finance and NHS approved the fourth. The Department ran an open competition for these posts, which included placing an advert in *The Times*. A firm of recruitment consultants oversaw the appointment process.

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\(^5\) The panel comprises: the Department’s permanent secretary; the Department’s director general for finance and NHS; and the chair of the NHS Blood and Transplant Authority.
Executive directors

1.27 The Service’s board has six executive directors, including the chief executive. The appointments were all approved by the shareholder representative, on behalf of the Secretary of State.

1.28 The Department recruited the executive directors in several different ways:

- The chief executive, the director of corporate services and the director of communications and business services were recruited through a competitive process from the pool of staff who were at risk of redundancy owing to the reforms to the health system.

- The shareholder representative approached individuals to join the Service on secondment due to his knowledge of their relevant experience, and their roles in setting up the Service in the period leading up to 1 April 2013. The director of finance joined from Community Health Partnerships and the director of asset management joined from the Department.6

- The chief operating officer was recruited through an external recruitment campaign, after the Service unsuccessfully sought to fill this post through the pool of staff who were at risk of redundancy.

Remuneration of the directors

1.29 As a limited company the Service is not bound by NHS pay scales. However, the articles of association state that the Secretary of State must approve the remuneration of all directors, as well as of any employee earning more than £100,000 per year. The Service is developing a remuneration and reward policy for all staff.

1.30 The NHS Business Services Authority (the Authority) conducted a national process to decide the appropriate pay for all new roles which were created as part of the reforms to the health system, including those on the Service’s board.7 The Authority treated the Service as if it were an arm’s-length body, with the only difference that the Department’s remuneration committee was not required to approve the Service’s pay rates. The Service applied the pay rates determined by the Authority.

1.31 The Service’s remuneration committee decided to create an additional role of director of strategy in June 2013, after the Authority’s process to set pay rates had been completed. At the time of our work, the director of strategy was employed on a consultancy basis, at a daily rate of £700, the equivalent of £154,000 per year. His current contract expires on 31 July 2014. While this director attends board meetings, he is not a board member and holds no vote.

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6 The director of finance has since left the Service and a replacement was being recruited at the time of our work.
7 The NHS Business Services Authority is a special health authority.
### Figure 1
Remuneration of the Service’s directors at January 2014

<table>
<thead>
<tr>
<th>Position</th>
<th>Annual salary (bands of £5,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair¹</td>
<td>40–45</td>
</tr>
<tr>
<td>Non-executive directors²,³,⁴,⁵</td>
<td>10–15</td>
</tr>
<tr>
<td>Secretary of State for Health shareholder representative</td>
<td>Salary not recharged to NHS Property Services Limited from the Department</td>
</tr>
<tr>
<td>Chief executive officer⁶</td>
<td>135–140</td>
</tr>
<tr>
<td>Chief operating officer</td>
<td>135–140</td>
</tr>
<tr>
<td>Director of finance and business planning (vacant)</td>
<td>125–130</td>
</tr>
<tr>
<td>Director of communications and business services⁶</td>
<td>130–135</td>
</tr>
<tr>
<td>Director of corporate services⁶</td>
<td>90–95</td>
</tr>
<tr>
<td>Director of asset management</td>
<td>70–75</td>
</tr>
<tr>
<td>Director of strategy (non-voting)⁷</td>
<td>Daily rate of £700</td>
</tr>
</tbody>
</table>

**Notes**

1. Two days per week.
2. Three days per month.
3. The deputy chair is paid an additional £10,000 per year.
4. The chair of the asset board subcommittee is paid an additional £6,000 per year.
5. The chair of the audit and governance committee is paid an additional £6,000 per year.
6. The chief executive officer, the director of communications and business services, and the director of corporate services were subject to Transferred of Undertakings (Protection of Employment) legislation and moved into the Service on their existing terms and conditions. The individual taking up the role of chief executive officer received an increase in his base pay to reflect the greater responsibilities of this role compared with his previous post.
7. Paid via a personal company, Inputallied Ltd.

**Source:** National Audit Office analysis of Service letters of appointment and contracts
Part Two

The operation of NHS Property Services Limited

2.1 This part of the report covers the cash flow and property disposals of NHS Property Services Limited (the Service) since it began operating on 1 April 2013.

Cash flow

Start-up funding

2.2 When a company is set up, initial funding to cover operational day-to-day expenditure and capital expenditure to acquire or upgrade assets can come from two sources: debt and equity. It is common for shareholders to inject equity into a company. The Department of Health (the Department) is the Service’s sole shareholder, and it made two payments to the Service when it began operating in April 2013:

- A loan (debt) of £190 million to cover operational expenditure until the Service started receiving income to cover this expenditure.
- Equity funding of £125 million to finance capital expenditure in the short-term. The Service is responsible for refurbishing and upgrading its current property portfolio and can use income from property sales to fund capital expenditure.

Income to cover operational expenditure

2.3 The Service is responsible for keeping all of its properties “safe, warm and clean” for its tenants. Therefore, its operational expenditure largely consists of costs like utility bills, cleaning bills and staff wages. Its tenants are mainly organisations providing healthcare (such as GP surgeries) or other NHS organisations using the Service’s properties for office space. Among the challenges the Service faced was compiling a complete list of properties and identifying existing tenants, nearly two-thirds of whom did not have leases.
2.4 Normally a property owner would charge its tenants enough to cover all of these operational expenses. However, to provide the NHS with stability, the Service and the Department decided in March 2013 to continue charging tenants in the same way that the previous property owners (primary care trusts and strategic health authorities) had. In aggregate, tenants would provide 60 per cent of the income needed to pay operational expenses and the remaining 40 per cent would come from commissioners. This was because, according to data from the previous property owners, bills to tenants had covered on average only 60 per cent of operational expenditure. The reason for this position varied: for example, some owners had occupied properties themselves, and thus had received no income from tenants; others had offered properties rent-free or at a subsidised rate to tenants. Ultimately, operational expenditure not covered by tenants had been covered by commissioners in their capacity as the property owners. The Service therefore decided that the best approach in the short-term was to continue charging tenants and commissioners in the same proportions as previously.

Cash flow difficulties

2.5 Since it began operating, the cash the Service has needed to cover operational expenditure has exceeded the cash it has received from tenants and commissioners. This is the result of four main factors:

- Delays in billing commissioners – The Department and NHS England agreed, in March 2013, the methodology to be used to charge commissioners for costs assumed not to be met by tenants (paragraph 2.4). NHS England, however, wished to validate the data so the Service agreed to delay billing commissioners until June 2013.

- Delays in billing tenants – As a company, the Service is subject to VAT, unlike its predecessor organisations, primary care trusts and strategic health authorities, which were exempt. To be able to claim back VAT charged to it, the Service must charge VAT to its customers, which would increase their bills. Given the system-wide implications, the Service considered that it had to decide its VAT approach in consultation with the Department and HM Treasury. The Department and the Service had been discussing the VAT issue since late 2012 but did not agree an approach until August 2013, which delayed the issuing of bills.

- Unexpected costs – Based on limited data from the previous property owners, the Service estimated in March 2013 its operational expenditure for 2013-14 at £740 million and set its bills to cover this amount. In summer 2013, it increased the estimate to £797 million based on actual expenditure. The difference was mostly due to costs which the Service had not originally expected to incur.
• Non-payment of bills – Some commissioners and tenants disputed their initial bills. This happened for various reasons. For example, for some tenants who were NHS bodies, primary care trusts had previously removed their rent from the amount of funding they paid them, judging this to be simpler than giving the full amount of funding and later reclaiming some of it as rent. Some tenants had expected this arrangement to continue in 2013-14.

2.6 These cash flow difficulties concerned the Service’s board from at least June 2013. On 16 July 2013, the board and the shareholder representative agreed that the Service should allocate at least £60 million in its bank account to cover operational expenses. At 31 July 2013, however, the Service had only £46 million on deposit allocated for operational expenses; but it had an additional £114 million on deposit as the remainder of the Department’s original capital expenditure injection (paragraph 2.2).

2.7 On 29 July 2013, the Department authorised the Service to use up to £65 million of the funds for capital expenditure to cover operational expenses. The Service’s articles of association give the Department the necessary authority to do this. In the event, however, the Service did not need to draw on the funds for capital expenditure as its cash position improved in August 2013: the Department gave the Service a second loan of £100 million to cover operational expenditure; commissioners paid £72 million of bills; and expenditure was lower than expected (£43 million instead of £65 million).

Current position

2.8 In an effort to mitigate the need for future ad-hoc loans, on 19 November 2013, the Department agreed with the Service a ‘flexible loan facility’ of up to £350 million. This figure includes the two existing loans totalling £290 million. In December 2013, the Service drew down £50 million in two amounts (Figure 2 overleaf). On 13 January 2014, the Service began to repay the Department; at the time of our work it had repaid £89 million, leaving it owing £251 million.

2.9 The Service considers its cash flow is now more stable, and forecasts that it will have repaid £130 million of its loan from the Department by 31 March 2014. The Department agrees that the Service’s cash position is more sustainable and that it is unlikely to reach the limit of the flexible loan facility. The terms of the loan state that it must be repaid in full by 31 March 2015. At 4 February 2014, the Service had £102 million cash in its bank account earmarked for operational expenditure, and a further £104 million for capital expenditure.

10 The interest rate on this flexible loan facility is the National Loans Fund rate.
Figure 2
Timeline of cash flows

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Apr 2013</td>
<td>The Department provided a £190 million loan</td>
</tr>
<tr>
<td>16 Aug 2013</td>
<td>The Department provided an additional £100 million loan</td>
</tr>
<tr>
<td>14 Jun 2013</td>
<td>NHS Property Services Limited began billing commissioners</td>
</tr>
<tr>
<td>29 Jul 2013</td>
<td>The Department approved the use of uncommitted capital cash for operational expenditure if required</td>
</tr>
<tr>
<td>8 Aug 2013</td>
<td>The Department and NHS Property Services Limited agreed the VAT approach, and billing to tenants could commence</td>
</tr>
<tr>
<td>19 Nov 2013</td>
<td>The Department agreed a flexible loan facility to allow a total loan of up to £350 million</td>
</tr>
<tr>
<td>2 Dec 2013</td>
<td>NHS Property Services Limited drew down £20 million from the flexible loan facility. The total loan stood at £310 million at this date</td>
</tr>
<tr>
<td>16 Dec 2013</td>
<td>NHS Property Services Limited drew down £30 million from the flexible loan facility. The total loan stood at £340 million at this date</td>
</tr>
</tbody>
</table>

Debtors

2.10 At 6 February 2014, the Service was owed £204 million by tenants (53 per cent of the billed amount) and £76 million by commissioners (26 per cent of the billed amount). It is taking steps to improve the timely payment of bills. NHS England has agreed that for the last two quarters of 2013-14 it will pay all amounts that its local area teams owe to the Service, and recover this money by removing it directly from teams’ budgets.11 However, neither NHS England nor any other body has similar powers over tenants. The Service recently produced a policy outlining how it will respond to unpaid bills from non-NHS tenants, which includes using external debt collection agencies and, if necessary, taking court action.

11 NHS England has 27 local area teams that are responsible for commissioning primary care and specialised services.
Property disposals

2.11 The Service’s policy is to dispose of property surplus to NHS requirements. Only NHS commissioning organisations can decide whether a property is surplus.\textsuperscript{12} However, if the Service identifies a property that is potentially vacant, for example because a tenant in a building decides to cancel its lease and is not replaced, the Service may approach the relevant commissioning organisation and ask it to consider declaring the property surplus.

2.12 Two of the shareholder’s objectives relate to property disposals:

- Reduce operating costs by at least £57.7 million – which the Service could help to achieve by owning fewer buildings.

- Release land for housing, sufficient to allow the building of at least 991 new homes.

2.13 It may not always be possible for the Service to adhere to the shareholder’s objectives and also to maximise the sales price. For example, it may have to choose between a lower offer from a bidder who intends to build homes, and a higher offer from a bidder who does not. The shareholder has not explicitly defined ‘best value’ for property disposals – the appropriate balance between achieving the best financial return possible, and meeting the shareholder’s objectives.

Completed property disposals

2.14 At the end of January 2014 the Service had disposed of 24 properties for a total of £20.4 million. Each property was declared surplus and the disposal process begun before the Service took ownership on 1 April 2013.

2.15 According to the Service’s data, all the disposals were at or above the market value estimate for the property made by the District Valuer Services.\textsuperscript{13} To gain assurance over these figures, we reviewed the files for a sample of seven disposals. In all cases we found a report from District Valuer Services which confirmed that the Service’s data were accurate and complete.

2.16 With one exception, all properties in our sample were advertised on the open market and sold to the highest bidder. The exception was a small property adjoining a GP practice; the primary care trust which initiated the sale considered there would be little interest on the open market, so had agreed to sell the property directly to the GP. Contracts had been exchanged prior to the Service taking ownership of the property but, before completing the sale, the Service asked for advice from District Valuer Services, who agreed that the price negotiated was reasonable.

\textsuperscript{12} NHS England or a clinical commissioning group.

\textsuperscript{13} District Valuer Services is part of the Valuation Office Agency, and provides property advice to public sector organisations.
Future property disposals

2.17 The Service estimates that it will dispose of at least 172 more surplus properties by March 2015, and that this will enable the building of some 2,000 new homes.

2.18 All future disposals must follow the Service’s governance procedures, which state that:

- Only properties declared surplus may be disposed of.
- All disposals must be supported by a business case, unless previously approved by the board of a primary care trust.
- For all disposals, the Service will seek to obtain ‘the best return’ (this may be financial or non-financial).
- Surplus properties will always be offered first to other public sector bodies through the register of surplus public sector land, before being offered on the open market.
- All disposals must be approved by the relevant regional director, the director of asset management or the head of property, and the chief executive (or another executive director with appropriate delegated authority in the chief executive’s absence).
- All disposals must follow HM Treasury guidelines and NHS estates guidance.
Appendix One

Our investigative approach

Scope
1. We conducted an investigation into five specific concerns. These were whether:
   - The setting up of the Service as a limited company followed good practice.
   - The shareholder function operates appropriately and transparently.
   - The Service’s board was appointed appropriately.
   - The Service’s cash receipts were sufficient to cover operational expenditure.
   - The Service is achieving the best financial return possible from property disposals.

Methods
2. In examining these issues, we drew on a variety of evidence sources.
3. We interviewed key individuals from the Service and the Department to establish: the decision making process in setting up the Service; how senior staff were appointed, and other staff transferred; the Service’s working capital position and historic funding structure; the policy for property disposals and its implementation; and the shareholder objectives which the Service is seeking to deliver. The people we interviewed included:
   - From the Service:
     - Chief executive
     - Director of asset management
     - Director of corporate services
     - Former chair
     - Former finance director.
• From the Department:
  • Director general for finance and NHS
  • Commercial director (who also acts as shareholder representative)
  • Director of financial management.

• An executive director at the Shareholder Executive.

4 We supported these interviews by reviewing the minutes and relevant papers to January 2014 of the Service’s:
  • Board
  • Assets and investment committee
  • Audit and governance committee
  • Remuneration committee.

5 We reviewed the supporting evidence for a sample of seven asset disposals to gain assurance that the disposed properties had been declared surplus, and that they had been sold at, or above, the value estimated by the District Valuer Services following a transparent sale process, including an open market listing.

6 We reviewed various other documents relevant to our investigation, including:
  • The Service’s articles of association
  • The Service’s corporate governance manual
  • A paper sent by the Department’s commercial director to the Minister of State for Health, outlining different options for creating the Service
  • Board recruitment and appointment documentation.
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Design and Production by NAO Communications
DP Ref: 10397-001
Printed by SLS Print
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