Towards Better Management of Public Sector Assets

A Report to the Chancellor of the Exchequer

Sir Michael Lyons

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Foreword

Letter from Sir Michael Lyons to the Chancellor of the Exchequer

Dear Chancellor,

In the summer you asked me to conduct a brief study into the management of public sector assets and how that might be improved to contribute to the Government' s objectives of securing £30 billion of asset sales and achieving further efficiency savings.

I conclude that these objectives can be met in a way that is consistent with good business planning and the Government's own long-term priorities. My confidence is founded on achievements over recent years and the fact that a strong foundation has been laid by the creation of the National Asset Register and the introduction of a new resource accounting and budgeting framework. However, I conclude that this progress has yet to be fully reflected in the asset management practice of either Government Departments or of all local authorities. Moreover, the £30 billion objective is stretching and the public sector will need to raise its game to be sure of meeting the challenge.

I offer a series of recommendations which, I believe, offer the opportunity to shape a better pattern of buildings, land and other assets needed for the delivery of modern public services. I am clear of the need to more closely relate future investment plans to the pattern of existing assets and to work and shape the latter so as to minimise the cost on the public purse.

I conclude that all Departments and local authorities must produce comprehensive asset management plans and that these must be owned at Board or Executive level. More urgently I recommend that Departments, other agencies and local government need to show in more detail how they will contribute to the objective you have set. I have identified some initial priorities for early scrutiny.

In seeking to improve future asset management I suggest that there may be more to do in sharpening the impact of incentives which encourage the identification and disposal of surplus assets. There should also be greater cross boundary co-ordination and co-operation, particularly in the development of local area asset management plans. Following the efficiency and relocation reviews tighter co-ordination and reduction in the size of the civil estate should be a priority. I also emphasise the potential contribution which can be made by a renewed emphasis on the value and exploitation of intangible assets which appear very sketchily reflected in the NAR.

Finally, I underline the importance of key skills in managing assets, securing best value from disposals and creatively exploiting the scope for additional private investment in public services. I believe there are pockets of precious expertise which, together with skills more readily available in the private sector, can be drawn on to progress the ambition of a rapid improvement in asset management and disposals.

This exercise has been limited in nature and there is clearly much more to be done both within and across departments. To act as a stimulus and to provide challenge and wider advice I recommend the creation of a small, short life task force to work with departments in shaping their contribution to Government's objectives.

I would like to thank the Treasury team who have supported my work so ably and the many others who have contributed generously of their time and creativity.

I very much hope that the Government will grasp the opportunities which I point to and further develop a national framework which looks set to position the United Kingdom at the forefront of best practice in the management of public sector assets.

Sir Michael Lyons

1 Executive Summary

Background

1.1 Public services are evolving in a new context of rising public expectation, increasing focus on improving efficiency and value for money, and the continuous emergence of new technologies. An asset base currently worth around £658 billion across the public sector underpins these services, and needs to develop to reflect and support their evolution.

1.2 Since 1997, the aim of the Government has been to increase the rate of investment in public infrastructure, in recognition of past under-investment. Asset management is a part of this story: selling surplus assets to free resources for new investment; transferring ownership of assets to the private sector where this secures access to new funding and skills, or transfers risk; identifying and capitalising on hidden assets; and increasing value for money from retained assets. The Government has already implemented a range of measures that encourage and require the adoption of good asset management practice – in particular a National Asset Register, and a new resource accounting and budgeting framework.

1.3 Public services are moving from the traditional model in which particular services are associated with particular buildings and delivered between preset hours. Increasingly we are seeing public services joining up and being delivered in new and innovative ways – outside the confines of traditional structures and divisions, through new technologies and operating models and personalised to the needs of the user – the pupil, citizen or patient. The Government's strategy for increasing efficiency in the public sector gives further impetus to these developments. There is a need to get better value for public funds and look to new opportunities for private investment to reduce the burden on the taxpayer.

1.4 Accelerating this trend and developing the public services of tomorrow requires a fresh look at what constitutes a public service and how it delivers public value. Central to the task is understanding how public assets are best deployed. It was within this context that, in July 2004, the Chancellor invited me to consider the estate implications of the efficiency and relocation reviews. In particular, I was asked to make proposals on how to improve asset management in the public sector to generate efficiency savings and to contribute to the Government's objective of £30 billion of asset sales by 2010.

Methodology and Scope

1.5 This has so far been a short-life exercise and the time in which to probe detail was limited. As such, this study does not seek to provide a final analysis of asset management but, points the way towards actions that Government could take to accelerate the adoption of good asset management practice in the public sector.

1.6 I invited responses from government departments on their asset holdings and those of their agencies and sponsored bodies. I asked how these were being managed, and about plans for disposal. A picture of asset management in local government was built up from contributions from the Office of the Deputy Prime Minister (ODPM), the Local Government Association (LGA) and selected local authorities. In order to complete the picture, I also elicited views from other organisations with particular expertise or interest. In particular, my study team worked alongside the Efficiency Team within the Office of Government Commerce (OGC), reflecting the close links between my work and the Government's efficiency programme.

1.7 To capture the full range of potential opportunities, I took a broad interpretation of 'assets' – one which went beyond just land and property to include intangibles such as intellectual property, the radio spectrum and government shareholdings. I looked across the public sector, taking an interest in government departments, agencies, non departmental public bodies (NDPBs) local authorities and public corporations. I also noted assets which formally lay in the private sector but which were supported in large part through public funds – for example, in universities and housing associations.

1.8 This review consulted organisations across the UK but I recognise that in devolved areas, it will be for the devolved administrations to decide how to mange and dispose of their assets. I would encourage close working between the Treasury and the devolved administrations to share good practice and information to improve public sector asset management across the UK.

1.9 In investigating asset management in the public sector, I sought to:

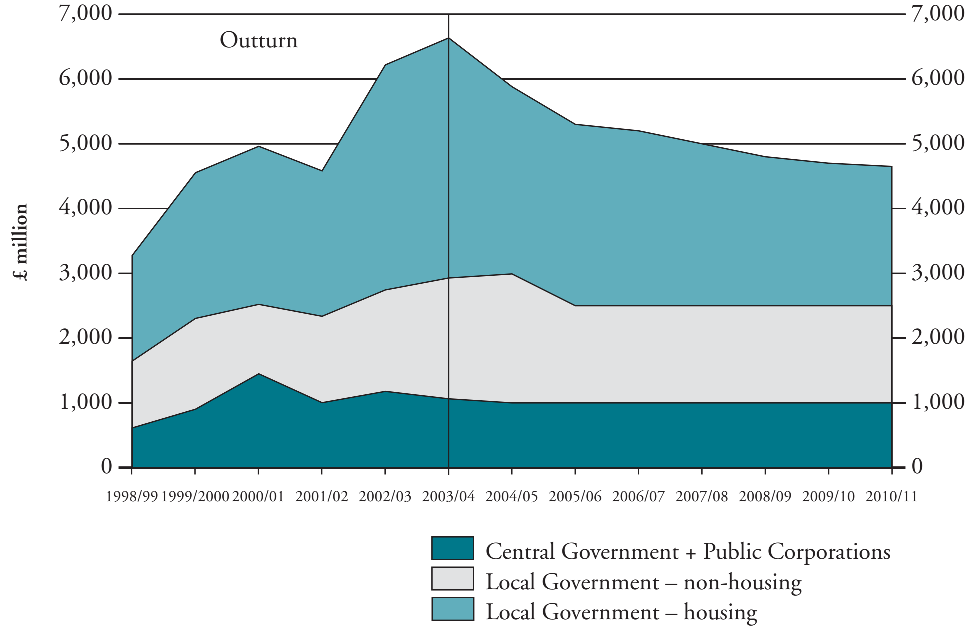
- **Put the £30 billion disposal challenge in context** – What does it mean? Why is it important? How does it relate to Government's aims more generally for managing its capital account, and to wider economic and social objectives, for example, regeneration and social housing?
- **Quantify the efficiency gain** – What is the scale of the current asset base and what is the likely trend in future disposals? How stretching is the £30 billion disposal challenge? What is the scope for further efficiency savings through better management of retained assets and the identification and exploitation of intangible assets? Can increased private investment reduce the call on taxpayers' funds?
- **Assess current incentives** – What is sound asset management? What is current practice? Do departments, local authorities and other public bodies have the right incentives to manage their assets well?
- **Investigate current capacity** – Do public bodies have the right skills, systems and models of practice? Is the finite expertise in capital planning deployed most effectively?
- **Gauge the effectiveness of coordination** – How well does the system deliver economies of scale by coordinating asset management and disposals across administrative boundaries?

The £30 billion challenge

1.10 In the 2004 Spending Review the Government announced an objective of disposing of £30 billion of public assets by 2010.

1.11 This very broadly speaking would continue an existing trend in which central government has been disposing of assets at the rate of some £1 billion a year, and local government at about £4 billion a year, much of this in the form of public housing transferred through the right to buy or large scale voluntary transfer. My initial work suggests that it is possible for these trends to be continued, though with receipts from housing likely to decline, and a range of assets already sold, the objective is challenging.

Chart 1.1 Public sector asset disposals 1998 to 2011: a possible scenario



Source: HM Treasury

1.12 The current rate of disposals is composed of two very different kinds of activity: the sale of surplus assets (for example, redundant buildings) and the transfer into private ownership of assets, some of which will have a continuing use (such as social housing). Selling surplus assets releases resources for reinvestment; transferring assets allows access to private capital, private sector business disciplines and the transfer of risk. Both are important, but they serve different purposes. Since achievement of the £30 billion objective depends to a considerable extent on continued engagement with the private sector, I take it as read that the search for new ways of accessing private investment and expertise is a critical and legitimate part of this exercise.

1.13 It is also worth noting that the £30 billion figure does not capture all disposals and transfers in which the Government has an interest. For example, the Government's accounting rules dictate that the proceeds of the sale of intangible assets like radio spectrum cannot be counted in the same way as disposals of land and buildings, and thus they would not count towards the £30 billion objective, but would allow government to reduce its net debt. This is what happened when £22.5 billion was raised from the auction of 3G mobile phone licences in 2000.

1.14 It is of course important to note that disposals are not the be all and end all of asset management. A key component of asset management is to take a strategic view of which assets are best retained and efficiently exploited, as well as to identify those which should be disposed of to generate resources for reinvestment. For example, my initial work suggests the scope for efficiency gains of at least £760 million a year by 2010-11 as a result of more efficient management of offices alone. (Further work is needed to establish how much of this would be additional to planned savings.)

1.15 Secondly the manner of disposal is critical. Existing guidance to departments requires disposal of surplus property within three years and deters speculation. But there can be real problems with seeking quick disposals, not least the danger of fire sales. The guidance accepts that value may sometimes be increased by securing planning permission or by partnership with the private sector in which the taxpayer secures a share of future development gains. These are important areas where, as I note later, public sector expertise is thin on the ground.

1.16 Other factors affect the scope to realise value on disposal. The future behaviour of property markets in different parts of the country will have a profound impact, but is unpredictable. Lastly, the broader framework of policy – for example in relation to social housing – suggests that it is not in fact the Government's aim to maximise disposal receipts in every case.

1.17 In the light of these various caveats, does it make sense to aim for £30 billion of asset disposals by 2010? I believe it does. The current rate of disposals can be seen as a broad indicator of the extent to which the public sector takes asset management seriously, in an environment in which the incentives for doing so have been improved in recent years – for example, by requiring departments to identify and register their assets, show them on their balance sheet, and bear costs for holding them. If there is scope for the public sector to tackle asset management more energetically – and that indeed is a key finding of my study – then there is reason to suppose that the current rate of disposals can be broadly maintained and, in some areas, even increased. But there are attendent risks and uncertainties.

1.18 In conclusion, I believe that the £30 billion objective is achievable and realistic, and can be realised consistent with broader Government objectives. But it is also challenging and will require the public sector to raise its game.

Key findings and recommendations

1.19 It is clear to me that much progress has been made in asset management and disposal in government. Resource accounting and budgeting in central government has made a difference, as have recent new incentives in local government, along with the requirement for local authorities to produce asset management strategies. Many government departments have estate rationalisation plans in progress and I was struck by the forward thinking of some local authorities, particularly in pursuing area wide strategies for land and buildings, involving joined up working with other public agencies.

1.20 There are interesting models of practice that bear closer examination and possible extension. I have been interested in particular by the work of English Partnerships in catalysing the regeneration of run-down estates and seeking to mimimise the call on public funds; the example of the Department of Work and Pensions' PRIME contract as a model for outsourcing estate management; and the work of the new Shareholder Executive in bringing greater scrutiny and challenge to bear on the running of businesses which government owns in whole or part.

1.21 It is also clear that there is room for improvement. Asset management is a key part of business planning which connects at strategic level decisions about an organisation's business needs, the deployment of its assets, and its future investment needs. The government has laid the foundations for a rational approach, but the evidence suggests that asset management does not yet have the strategic profile it needs. In particular:

- Asset management seems to be pursued in a narrow context within departments, not fully joined up with wider strategic thinking on resource allocation, investment needs and the Government's efficiency programme. In central government, despite various estate strategies in place, I have seen little evidence of asset management planning owned at board level.

- There is not a consistent approach to identifying, valuing and challenging the use of all assets across the public sector – in particular intangible assets such as intellectual property.
- Area-wide asset management, crossing administrative boundaries, seems to be in its infancy. I have seen good examples in local government, but central departments are largely working within their boundaries, meaning that opportunities for economies of scale, particularly in London, are being lost.
- It is not clear that public agencies are as focussed as they ought to be on the ongoing maintenance of their assets.
- Expertise seems to be in short supply and, at the centre, it is fragmented across several agencies. In particular, there is a need for greater expertise in maximising disposal values and in constructing effective partnerships with the private sector.
- There are opportunities to be explored for linking the need to extract greater value from public assets with unmet demand for vehicles for investment in property.

1.22 My recommendations flow from this analysis and are grouped around the themes of:

- A stronger, more rigorous asset management and planning framework building on the foundations already laid;
- A focussed delivery strand within the Government's efficiency programme, dedicated to the achievement of the asset disposal objective and generating efficiency savings; and
- Improved deployment of asset management expertise within the public sector.

1.23 Recommendations to strengthen the asset management and planning framework and improve asset management capacity suggest an important co-ordinating role for the Treasury and the Office of the Deputy Prime Minister. The recommendations to assist delivery of the Government's asset disposal objective and generate efficiency savings suggest actions by departments themselves, with support from the OGC Efficiency Team. Some of my recommendations are aimed at local authorities, but they should consider to what extent my wider analysis might also apply to them. I would invite the devolved administrations to review the implications of my report for their activities. In similar vein there may also be implications for parts of the education, housing and other sectors but with assets outside the public sector.

Creating a more rigorous asset management and planning framework

1.24 There are already a range of incentives and requirements in place to encourage departments to adopt sound asset management practices. For example, the Government's resource accounting and budgeting methodology requires assets and associated capital charges to be identified on balance sheet whilst Departmental Investment Strategies set out each department's plans to deliver the scale and quality of capital stock needed to underpin its objectives. The Treasury has also made it clear that, within certain constraints, departments are free to retain the receipts from asset disposals.

1.25 The evidence I have gathered suggests that these incentives have had some impact, but have so far proved less galvanising than one might expect. A starting point must be a stronger link between asset management and investment planning throughout government. This government is committed to increasing capital investment in public infrastructure. In its spending reviews, the Treasury takes account of how well departments are managing and disposing of assets in determining capital allocations. But this linkage must be strengthened by improving the quality of information that feeds in to the spending review process.

1.26 Building on reforms to date, departments should be required to produce detailed asset management plans that are owned by the Finance Director and regularly considered at board level. Such plans should provide a sounder basis for departmental business planning and, at a strategic level, an enhanced government-wide understanding of efficiency gains possible from better use of existing assets and the potential to recycle disposal proceeds to fund new investment.

1.27 Secondly it is vital that the existing incentives regime is properly understood and working effectively. The new resource accounting and budgeting framework introduced by the Treasury has been in place since 2003 and may therefore take some time to bed down fully. I have noted in particular the National Audit Office view that the new framework is not yet influencing departmental behaviour at board room level. Departments raised a number of concerns with me, including fear of Treasury clawback as a deterrent to the disposal of assets, and a view that capital charges may not have sufficient bite. They also raised some technical concerns, for example whether current accounting treatment deters the disposal of heritage buildings. It is not clear to me how material these points are: the Treasury has, for example, relaxed rules governing capital receipts. What is certain is the need to clarify any remaining uncertainties in these areas and ensure that the current incentives have a sufficiently sharp impact on behaviour.

1.28 In particular, there is a need to ensure that incentives are properly located within departments. Even when departments are aware of the freedoms and incentives at corporate level it is not clear to me that these are always cascaded down the chain so that individual budget holders within departments, agencies and sponsored bodies have sufficient incentive to efficiently manage the assets that underpin their business needs and to dispose of others. There is a balance to be struck between allowing budget holders to benefit directly from their efficiency, and the need for corporate HQ to be able to redirect resources into new priorities as necessary. But it is not clear that the right trade off has yet been achieved.

1.29 In local government, the incentives for asset management have been improved and are subject to further development. In addition, ODPM's work with local government in recent years to develop asset management and capital planning have had an impact. However, whilst there has been improvement in local government performance in this area, the picture is still mixed, with some local authorities much more advanced than others and with some concerns expressed by the Audit Commission. There is a real need to ensure the faster spread of good practice. The Government should consider what steps need to be taken to ensure that more local authorities can take advantage of the framework of incentives now in place, or in development.

Recommendation 1

The Government should review the linkage between investment and asset management at a strategic level, to ensure a national framework which balances planning for future capital investment, from both public and private sources, with full exploitation and maintenance of existing assets.

As part of this process, the Government should strengthen the dialogue with departments on asset management in the run up to future spending reviews; and consider the implications for bodies whose assets lie outside the public sector, but which receive public funding.

Action: Departments with the Treasury

Recommendation 2

Departments should be required to develop asset management strategies driven by their business plans, which are the responsibility of finance directors and considered at board level. These should cover assets in the control of departments, their agencies and sponsored bodies.

Action: Departments

Recommendation 3

The Government should confirm and where necessary strengthen the incentives for disposal and efficient management of assets, in particular as follows:

- There is an urgent need to reaffirm existing budgetary freedoms and incentives for departments to dispose of assets, and to realise the benefits of efficient asset management;
- Departments must cascade freedoms and flexibilities throughout their organisations, agencies and sponsored bodies to ensure that there are sufficient incentives at business unit level to manage and where necessary dispose of assets;
- Departments must ensure that managerial responsibilities for asset management within public organisations are clear; and
- The Government should examine the scope for strengthening the incentive effects of the resource accounting and budgeting framework on asset management.

Action: Departments with the Treasury

1.30 Private companies have shareholders that provide scrutiny of company management and perform a challenge function. This acts as a powerful incentive for company boards to develop and implement active asset management strategies to ensure their asset base is efficiently used and supports their business objectives. The Shareholder Executive advises DTI Ministers, and other Government departments, on the management of their respective shareholdings, and other financial interests, in a range of businesses including the Royal Mail, BNFL, British Energy and the UK Atomic Energy Authority.

1.31 The Shareholder Executive tests a new approach for bringing external scrutiny and challenge to bear. This model of intervention is still in its infancy but may offer lessons which can be applied to other areas of business in which Government has a stake, or where lines of accountability or control may be unclear, for example in Trust Ports.

1.32 I have taken particular note of examples where local government has played a lead role in maximising the value of local public sector assets through co-ordination of services and the sharing of infrastructure with other local service providers.

1.33 This type of local co-ordination has improved value for money in the use of assets and acted as a catalyst to develop joined up customer-focussed services. It should be encouraged and supported. The case has been made that local authorities are willing to embrace a lead role in this work, but that public agencies display varying enthusiasm for such joint activity at local area level, and have no obligation to engage with local authority partners in developing local asset management plans.

Recommendation 4

I welcome the role that local authorities are taking in leading local asset management plans. This role should be recognised, encouraged and, where possible, strengthened through the spread of good practice models.

Central government needs to convey a clear expectation of Departments and other public agencies that they should engage with their local government partners in developing and delivering local asset plans.

Action: Local authorities, Departments, with ODPM

1.34 I also found other good models of coordination in local asset management. English Partnerships works with public and private sector partners to support sustainable growth in England. Amongst other things, it acts as a catalyst for development through acquiring and preparing sites for development by their public and private sector partners. I have been struck by elements of their approach, including a determination to bring in private investment where this can substitute for public subsidy, and the careful packaging and phasing of disposals to maximise value. The model used by English Partnerships has had some success in unlocking the value of complex run down sites and more work needs to be done to determine whether there are elements of the model that could be applied elsewhere.

Recommendation 5

The Government should examine the scope for extending elements of the approach exemplified by English Partnerships, both in relation to the regeneration of complex situes and more widely in optimising the value of disposals.

Action: Treasury on advice from new Task Force (see recommendation 9).

Focussing on delivering the efficiency gain

1.35 If the Government is to meet its £30 billion asset disposal objective, it will need to take concerted action at departmental level, and do more to exploit private investment. Improvements to the overall framework of incentives, as discussed above, are essential. But they need to be accompanied by urgent action in the context of the Government's current work to improve efficiency in the public sector.

1.36 In order to ensure that asset management is integrated with wider efficiency considerations and is able to draw on existing expertise and coordination capacity, departments should take forward their planning as part of the Government's efficiency programme, with clarity about how each department will contribute to the Government's objectives for asset management including the objective of £30 billion of disposals by 2010.

1.37 It is clear to me from my examination of the evidence that there are a number of areas in particular where planning should be taken forward with some urgency.

- **Defence** – Strategic changes underfoot, including the Ministry of Defence's reviews of core sites, service HQs and training needs, suggest significant opportunities to dispose of assets, going beyond the existing target of £560 million by 2007/08. I have also noted the opportunities presented by the large holdings of equipment and stock;
- **The National Health Service** – A recent exercise identified £800 million worth of surplus hospital estate that has now been transferred to English Partnerships for disposal. The NHS is highly devolved and the challenge for the centre is to take a strategic approach to identifying and disposing of subsequent tranches of assets that will become surplus as a result of service changes;
- **Northern Ireland** – Partly a legacy of the Troubles, the public sector occupies a much bigger part of the economy in Northern Ireland than in other parts of the UK. There are considerable opportunities to dispose of assets and this will be a matter for the devolved administration when it returns;
- **Justice** – courts, prisons and police services account for a significant proportion of public assets. Current and planned service changes offer opportunities for reconfiguring the use of land and buildings;
- **Opportunities for new investment by the private sector**. Housing is one policy area where substantial progress has been made in replacing public investment with private investment. Progress has been made in other policy areas including education and highways but there is undoubtedly greater scope for new initiatives to reduce the strain on the public purse;
- **Opportunities within publicly owned business**. The Government should consider what further steps can be taken to challenge and scrutinise the asset management decisions of publicly owned businesses such as Trust Ports, bearing in mind lessons from the approach being pioneered by the Shareholder Executive; and
- **Other opportunities**. In this short exercise I have not been able to air the full extent of possible disposals and other opportunities, where ideas are still in development. In taking forward my recommendations, the Government should make full use of my study team's detailed work and findings.

Recommendation 6

In taking forward detailed asset plans, and building on their work to date, departments must show how they will contribute to the Government's objectives for asset management, including £30 billion of disposals by 2010. This work should be integrated with the delivery of the Government's efficiency programme.

Action: Departments and the OGC Efficiency Team

1.38 Alongside a focus on disposals, there needs to be a clear drive for efficiency gains in the use of existing assets. The OGC is already encouraging more efficient use of workspace, including through coordinating requirements for office space, especially in London. Now is the time for these workstreams to be given new momentum as part of the efficiency programme.

1.39 As a result of my earlier relocation review, and of steps to reduce the size of London headquarters, new momentum has been added to an existing process of rationalising government estate in London. In the wake of the relocation review, the coordination role of OGC is being strengthened and Treasury approval must be sought for new space commitments in London above a certain size. It is too early to say whether these measures are sufficient but there are signs that the activity remains too piecemeal and unjoined-up, with a reluctance by some agencies and departments to make best use of space vacated by others. I would urge the Government to explore the merits of managing the London civil estate as a single portfolio.

1.40 A related point is that the utilisation rate of office space varies significantly from department to department. Organisations in the public and private sector have demonstrated that new models such as hot-desking and the introduction of innovative working practices can significantly reduce the need for office space and generate substantial savings. Such approaches also offer opportunities to improve customer interfaces, working conditions and environmental sustainability. There is clearly scope for a more concerted drive across the public sector to match these examples of best practice.

The Government's efficiency and relocation plans announced in 2004, taken as a whole, should secure savings of approximately £625 million a year by 2010-11 through a reduction in civil estate requirements.

Across the board efficiencies in space utilisation could give rise to over 250,000 square metres of space no longer being required potentially providing savings to the taxpayer of £135 million a year by 2010-11.

Source: Office of Government Commerce

1.41 However, this is not simply about reducing office space. There are potentially great efficiency gains to be had through the better use of all existing assets. Extending the use of schools for evening community use is one good example. Another example is the opportunity, highlighted by the Audit Commission, for the NHS to make more intensive use of existing operating theatres.

Recommendation 7

The efficient management of Government's retained assets should be made an explicit theme of the Efficiency Programme, with a clear focus on the scope for reducing office space requirements; the better coordination of space requirements in particular localities; and the more intensive sweating of assets.

I would welcome in particular an explicit London estate strategy, with specific, timed targets for the reduction in space requirements.

Action: Departments with the OGC Efficiency Team

1.42 A focus on land and buildings must not obscure the need for a more systematic approach to identifying and exploiting intangible assets.

1.43 The Government has encouraged departments and agencies to take a more entrepreneurial approach to identifying and exploiting intangible assets. For example, the Wider Markets initiative encourages departments, agencies and NDPBs to make better use of their assets (both physical and intangible) by engaging in commercial services based on them from which they can keep any income. The 1999 Baker Review highlighted the opportunity for government to make more of the intellectual property sitting in its public sector research establishments. At a more strategic level, the auction of licences for third generation mobile phone services in 2000 demonstrated the possibility of value creation in respect of a different kind of intangible asset.

1.44 But the clear message that I have picked up in this area is that overall progress has been patchy and that this policy may be ripe for being re-energised.

Recommendation 8

A much more robust approach is needed across the public sector to identifying, valuing and exploiting intangible assets. Current practice is unacceptably variable. Steps should be taken to re-energise activity within departments and their sponsored bodies to identify and exploit intangible assets.

Action: Departments guided by Treasury

Deploying asset management expertise more effectively

1.45 Giving new momentum to asset management in government requires not just a strengthened framework of incentives and a focus on delivery, but an assurance that departments have the capacity to deliver. This capacity will develop in the longer term as a result of the Government's focus on improving corporate governance and financial management in departments. In the short term, there is limited scope to increase skills in asset management across government, which puts a premium on deploying existing skill sets most efficiently.

1.46 In the public sector, as in the private sector, such expertise is finite. Departments with large asset bases, for example the MoD, have their own expertise. Others have helped pioneer new approaches, for example the PRIME contract negotiated by the former Department of Social Security, which transferred the ownership and management of almost all of its estate to a private sector consortium, Land Securities Trillium.

1.47 In this study, I have been made aware of the advice, expertise and models of practice that have been brought to bear by various pockets of excellence at the centre. These include Partnerships UK in relation to PFI and public private partnerships; OGC in relation to property management and procurement; English Partnerships in relation to site assembly and regeneration, the Shareholder Executive in relation to the management of government shareholdings; and the Valuation Office Agency, in relation to valuing assets. Asset management, if not a central responsibility of these agencies, touches on all their work. A body of knowledge on asset management has also emerged from the successive investigations of the National Audit Office, the Public Accounts Committee and the Audit Commission. I have also been made clearly aware of the expertise that lies with the property management and investment banking communities.

1.48 I believe there is a clear need to pull together existing skills within the public sector and to reinforce them with expertise from the private sector to address weaknesses in the capacity of Government to work creatively on optimising disposal values and engaging productively with the private sector. It is with this aim that my final recommendation calls for a short life public private task force.

1.49 I see particular opportunities arising from unmet need for property investment vehicles. A number of investment banks have pointed out a growing and unmet demand within the investment community for opportunities to invest in property. The judicious bundling of public sector assets may offer just such opportunities, as well as a means of creating greater public value. This kind of approach has been pursued in several countries including Germany, France and Italy, and also in Hong Kong. I believe the proposed task force should examine the possibilities.

Recommendation 9

The Government should establish a small, short-life task force, drawing on public and private sector expertise, to advise Treasury ministers, and to work with selected departments to clarify their contribution to the Government's objectives for asset management and disposal. As part of this work the task force should advise on further opportunities for private sector involvement in asset management, including the merits of developing new investment vehicles.

Action: The Treasury

2 Introduction

Background and context

2.1 Public services are evolving in a new context of rising public expectation, increasing focus on improving efficiency and value for money, and the continuous emergence of new technologies. An asset base currently worth around £658 billion across the public sector underpins these services, and needs to develop to reflect and support the evolution in public service.

2.2 Since 1997, the aim of the Government has been to increase the rate of investment in public infrastructure, in recognition of past under-investment. Asset management should be part of this story: selling surplus assets to free resources for new investment; transferring ownership of assets to the private sector to gain access to new funding and skills, and to transfer risk; identifying and capitalising on hidden assets; and increasing value for money from retained assets. The Government has already implemented a range of measures that encourage and require the adoption of good asset management practice – in particular a National Asset Register and a new resource accounting and budgeting framework.

2.3 Public services are moving from the traditional model in which particular services are associated with particular buildings and delivered between preset hours. Increasingly we are seeing public services joining up and being delivered in new and innovative ways – outside the confines of traditional structures and divisions, through new technologies and operating models and personalised to the needs of the user – the pupil, citizen or patient. The Government's search for efficiency in the public sector gives an additional twist to this story.

2.4 Accelerating this trend and developing the public services of tomorrow requires a fresh look at what constitutes a public service and how it delivers public value. Central to the task is understanding how public assets are best deployed. It was within this context that, in July 2004, the Chancellor invited me to consider the estate implications of the efficiency and relocation reviews. In particular, I was asked to make proposals on how to improve asset management in the public sector to generate efficiency savings and to meet the Government's objective of £30 billion of asset sales by 2010.

2.5 As in the private sector, asset management is an integral part of resource management and business planning in government and should underpin future investment decisions. The benefits of good asset management include the:

- Disposal of excess assets to release resources for reinvestment;
- Transfer (in part or whole) of ownership to transfer risk, improve management, realise value of assets and provide new sources of private investment;
- Identification and exploitation of intangible assets to release resources or generate revenue; and
- More efficient use of assets to deliver service improvements or efficiency savings.

2.6 Improving asset management will release resources, generate revenue and deliver efficiencies. As such, it will play a key part delivering the aims of the Government's efficiency programme as well as meeting its objective of £30 billion asset sales by 2010. In addition, the aim to improve asset management in the public sector also shares objectives with, and is supported by other areas of work currently underway in Government:

- The introduction of the National Asset Register and implementation of resource accounting and budgeting in central government and the inclusion of the full economic costs of delivering public services in departmental budgets for the first time from 2003/04;
- Efforts to improve financial management skills in Government departments. Mary Keegan, Head of the Government Accountancy Service, is leading a department-by-department review of the effectiveness of financial management;
- The work to professionalise skills in government. As recommended by the Efficiency Review, all departments will have professional finance directors reporting to the permanent secretary with a seat on the departmental board, at a level equivalent to other board members, by December 2006; and
- ODPM's work with local government in recent years to develop asset management and capital planning means that most authorities now have good quality systems in place. Work is now focused on supporting and incentivising authorities to use these effectively to support strategic service objectives and deliver efficiency savings.

Methodology and scope

2.7 I was asked to work with departments and John Oughton's OGC Efficiency Team to assess current asset management practice and make recommendations for improvement. This was a short-life exercise and so the time in which my small team in the Treasury and I could probe detail was limited. As such, this study does not claim to be the definitive analysis of asset management in government but instead points the way towards actions that Government could take forward to accelerate the adoption of good asset management practice in the public sector.

2.8 A key aspect was to quickly establish a picture of current practice. I invited responses from the principal government departments on their asset holdings, how these were being managed, and plans for disposal. A picture of asset management in local government was built up from contributions from the Office of the Deputy Prime Minister (ODPM), the Local Government Association (LGA) and selected local authorities.

2.9 To complete the picture, I also elicited views from other organisations with particular expertise or interest, including:

- Representatives from the property management industry and investment banks with an interest in property;
- Specialist government bodies, including English Partnerships, Partnerships UK, the Shareholder Executive;
- The Regional Development Agencies (RDAs); and
- The National Audit Office (NAO) and Audit Commission.

2.10 In order to ensure that the study captured the full range of areas where a strengthening of existing incentives, expertise or practice could contribute to greater efficiency and that lessons learnt could be widely applied, I took a deliberately broad look at asset management within the public sector. This study examined:

- The management of land and property assets, primarily, but also intangibles such as intellectual property, the radio spectrum and government shareholdings; and

- Asset management by government departments, agencies, Non Departmental Public Bodies and local authorities as well as public corporations and private assets supported primarily through public funds such as universities.

2.11 In investigating asset management in the public sector, I sought to:

- **Put the £30 billion disposal challenge in context** – What does it mean? Why is it important? How does it relate to Government's aims more generally for managing its capital account, and to wider economic and social objectives, for example, regeneration and social housing?

- **Quantify the efficiency gain** – What is the scale of the current asset base and what is the likely trend in future disposals? How stretching is the £30 billion disposal challenge? What is the scope for further efficiency savings through better management of retained assets and the identification and exploitation of intangible assets? What is the scope to reduce the burden on the taxpayer through increased private investment?

- **Assess current incentives** – What is sound asset management? What is current practice? Do departments, local authorities and other public bodies have the right incentives to manage their assets well?

- **Investigate current capacity** – Do public bodies have the right skills, systems and models of practice? Is the finite expertise in capital planning deployed most effectively?

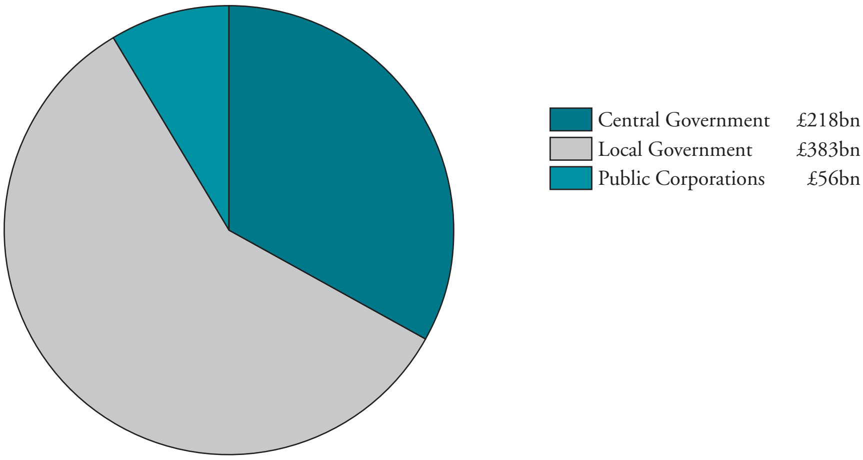
- **Gauge the effectiveness of coordination** – How well does the system deliver economies of scale by coordinating asset management and disposals across administrative boundaries?

2.12 In developing my proposals for improving public sector asset management, I have been conscious of the fact that they will need to be implemented within a wider policy context. As such, the recommendations in this report have been developed so that they can be implemented in a way that complements established wider government policy objectives that have an impact on asset management.

3 The public sector asset base

3.1 The UK National Accounts provide an overview of the total public sector fixed assets. At December 2003 these showed that the public sector owned assets worth around £658 billion. The large part of the public sector asset base is held in local government, including local authority housing, (£383 billion or 58 per cent), in public corporations (£56 billion or 9 per cent) and with the remainder (£218 billion or 33 per cent) in central government.

Chart 3.1 Total public assets, by sector, 2003



Source: ONS "United Kingdom National Accounts: The Blue Book 2004"

3.2 A large part of the public sector's fixed asset base is accounted for by local authority infrastructure such as housing, roads and schools. Defence is the second major area with a large asset base comprised mainly from land and fighting equipment. The highways and the NHS form the next two main blocks. Together these four areas alone account for about 80 per cent of the public sector asset base. Scotland, Wales and Northern Ireland also hold a significant proportion of the UK's public assets.

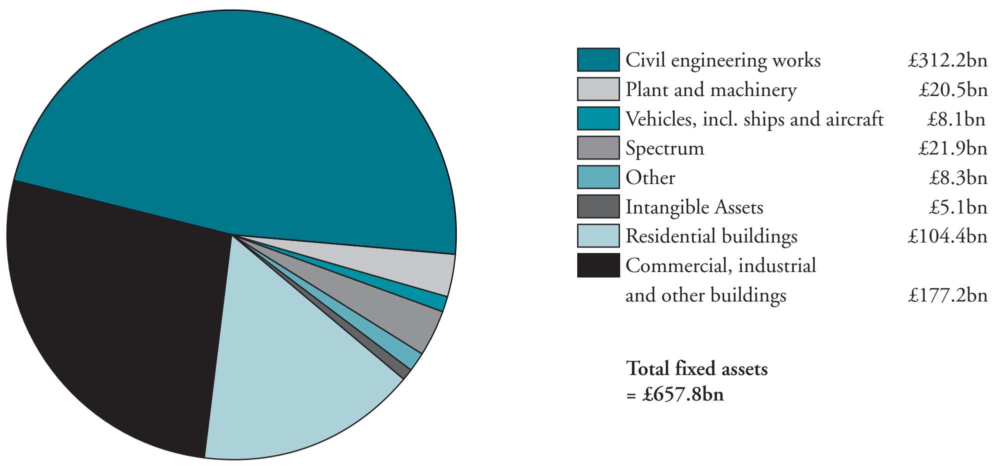
3.3 Of the remaining assets:

- DTI manage £20 billion of the government's assets including those of the Royal Mail, BNFL and investments such as coal pensions;
- The Criminal Justice System manages £14 billion of assets in the form of prisons, courts and police assets;
- In addition, the Crown Estate holds around £4.6 billion in assets from which the Government receives revenue but has no control over asset management;
- There are other areas where public funds support assets outside direct departmental or local government control such as those managed by universities or public corporations such as the BBC; and

- Finally intangible assets, such as radio spectrum and intellectual property also contribute to the public sector asset base as do often overlooked assets such as trust ports and local authority owned companies including airports.

3.4 By asset category, the bulk of these assets are buildings (both commercial and residential), engineering works and plant, machinery and vehicles.

Chart 3.2 Public sector fixed assets, by category, 2003



Source: ONS "United Kingdom National Accounts: The Blue Book 2004"

3.5 Since 1 April 1999 central government departments have prepared balance sheets consistent with UK generally accepted accounting practice (GAAP). The fixed assets held by central government departmental groups (which includes non-departmental public bodies) at 31 March 2003 are set out below:

Table 3.1: Departmental fixed assets at 31 March 2003, £ billion

	Tangible fixed assets	Intangible fixed assets	Total fixed assets
Department for Education and Skills	0.2	0.0	0.2
Department of Health*	5.2	0.1	5.2
Department for Transport	66.0	0.0	66.0
Office of the Deputy Prime Minister	0.1	0.0	0.1
Home Office	5.8	0.1	5.9
Department for Constitutional Affairs	1.4	0.0	1.4
Attorney General's Depts	0.0	0.0	0.0
Ministry of Defence	66.5	19.4	85.9
Foreign and Commonwealth Office	1.2	0.0	1.2
Department for International Development	0.0	0.0	0.0
Department of Trade and Industry	1.1	0.1	1.3
Department for Environment, Food and Rural Affairs	2.8	0.0	2.8
Department for Culture, Media and Sport	2.5	0.0	2.5
Department for Work and Pensions	0.5	0.0	0.5
Scottish Executive	11.8	0.0	11.8
National Assembly for Wales	7.9	0.0	7.9
Northern Ireland Court Service	0.2	0.0	0.2
Northern Ireland Executive	25.4	0.0	25.4
Northern Ireland Office	0.7	0.0	0.7
Chancellor's Departments	0.8	0.0	0.8
Cabinet Office	0.3	0.0	0.3
Total	**200.5**	**19.8**	**220.3**

**excludes NHS bodies*
Source: HM Treasury

3.6 The majority of government's office estate is leasehold or contracted under PFI and whilst disposal opportunities are correspondingly limited, there are opportunities to improve efficiency through better management of this estate.

3.7 In general, the definitions used in the National Accounts public sector balance sheet and the GAAP balance sheet for central government are very similar. The main differences are due to:

1. Differences in calculating the capital stock and depreciation: National Accounts adopt an aggregate approach for calculating the public sector balance sheet that takes the capital stock at the beginning of the year, adds new capital expenditure in year and calculates depreciation using a Perpetual Inventory Model, while GAAP balance sheets and depreciation expenses are calculated bottom-up using detailed information that is recorded on an asset by asset basis in departmental accounts;

2. The different treatment of single use military equipment. National Accounts regard expenditure on equipment that can only be used for a military purpose as current expenditure, while under GAAP this equipment is treated as fixed assets; and

3. The impact of classification changes. National Accounts are subject to classification changes which can lead to re-stating previous years data (as happened this year when NHS Trusts were reclassified to the central government sector for all years back to 1991), while GAAP based accounts provide a snapshot in time of assets owned by departments and are not re-stated for sector classification changes in the same way as National Accounts.

3.8 However, these frameworks may not always capture significant value within the public sector – a notable example being the value of property rights that are created by the Government. The potential to create these is not regarded as an asset under either the National Accounts or UK GAAP frameworks. The value arises at the point a purchaser is prepared to pay for the property right, and can be recognised in accounting terms only when a sale agreement has been concluded (as happened with third generation radio spectrum).

3.9 Looking forward, current work to produce a Whole of Government Accounts (WGA) framework will eventually provide a consolidated public sector balance sheet based on UK GAAP definitions that will complement the National Accounts data. This work raises a range of complex policy and practical issues (including different accounting policies across different sectors and properly eliminating intra-government transactions), but the Government has committed to publishing Whole of Government Accounts for the 2006-07 financial year.

4 Asset management – current practice and guidance

Good practice in asset management

4.1 In recent years, there have already been a number of important developments that have helped create an environment for improved asset management across the public sector. Much of this has arisen as a result of the Government's explicit aim to increase investment in the public sector infrastructure.

4.2 With the introduction of resource accounting and budgeting and the National Asset Register in central government as well as asset management planning in local government, there is an ever growing realisation of the potential that improved asset management may bring in terms of better public service delivery and outcomes.

4.3 There is already a body of knowledge on what constitutes good practice in asset management both generally and within the public sector. Most recently, the Royal Institution of Chartered Surveyors (RICS) invited a number of organisations, including the LGA, ODPM, Department for Education and Skills (DfES) and the Chartered Institute of Public Finance and Accountancy (CIPFA), to work together in partnership to prepare best practice guidance on implementing good asset management in local government. That guidance was published in November 2004.

4.4 Based on our discussions with experts in the field of asset management from the public and private sectors and examining the available guidance on the subject, the key message seems to be that good asset management planning must complement an organisation's strategic or business planning.

4.5 In an ever changing, more customer focussed and efficient public sector, I believe it is no longer tenable for those charged with managing our public services to separate asset management from their core business planning. The successful outcome of the latter will more and more depend on how effectively the organisation manages its assets. The consensus seems to be that delivering this in practice within an organisation requires:

1. Firstly understanding what the current asset base is;
2. Secondly, working out what assets are required to underpin current and future service needs; and
3. Thirdly, deciding what this means in terms of future asset acquisitions, disposals and maintenance.

Understanding the existing asset base

4.6 Assets are essential to the efficient functioning of all organisations both large and small. It is important that organisations know what their assets are and have some reliable way of determining their values if deployed for another use. The starting point must be the systematic collation and gathering of raw data on the organisation's asset base and the attachment of appropriate valuations. From our analysis to date of asset management practices, it appears that whilst public sector bodies have been increasingly successful in recording details of their assets, it is not so clear what strategic use they have been making of that information in their business planning.

Forecasting future asset requirements

4.7 Another area of consensus is that organisations should ensure that their forward business strategy is supported by a sound, rational and fit for purpose asset base. Looking ahead to the medium to longer term, organisations need to regularly identify the strategic core assets that are essential to the effective delivery of the services they provide and those that are surplus.

4.8 In an age of improving information and communication technology where services may increasingly be delivered electronically, the location of assets such as buildings needs to be carefully considered. Opportunities for sharing assets, particularly at local level, with other organisations both in the public and private sectors, should also be explored.

Developing an asset management strategy

4.9 Once there is a clear view of what the future strategic core assets should be (including new acquisitions) and what assets are no longer required, existing guidance suggests that departments need to develop asset management strategies which:

- **Provide a cogent rationale for the proposed assets base** and how that fits in with departmental business planning along with a quantification of the costs and benefits. In addition to the business case, departments should also take account of the financial implications for other parts of the public sector as well as the wider economic impact that any reconfiguration of assets may have on the local economy;
- **Identify those surplus assets that should be disposed of** and the rationale for their disposal taking into account the alternative use opportunities. They should also consider the costs and benefits of disposing of those assets in a piecemeal way or as part of a larger package and whether disposal should be through direct sale at optimum market conditions or through possible transfer to the private sector in return for risk transfer and service provision. It is also important to describe how any revenue from those disposals will be used to benefit public service delivery;
- **Set out how retained assets will be efficiently utilised** and cost effectively maintained to a good standard. Departments need to benchmark their use of assets such as office space against best practice and to explore scope for better use of retained assets. Maintenance of assets may be achieved by a range of methods from in-house delivery to contracted-out privately delivered services or in partnership with other local public sector organisations;
- **Describe the revenue generating potential of retained assets**, and the steps necessary to achieve a viable and steady revenue stream. Departments and public bodies may have strategic assets, sometimes not very visible, that are either under-utilised or no longer function as they were originally intended but could, with a degree of imagination, provide significant revenue for the department. Change of use, new planning permission or partnership with other organisations could be the catalyst for generating a new and valuable income stream. The plans should describe the steps that will be taken to realise the potential revenue; and
- **Set out the asset acquisition agenda** to further corporate business objectives and create a fit for purpose assets base. In reconfiguring its assets base, a department may need to acquire assets such as buildings or land adjacent to existing assets, exploring options to lease or make use of the property by other means alongside the possibility of outright acquisition. If acquisitions are to be made, the strategies should describe how they would be achieved in a way that balances benefits to service delivery with value for money.

4.10 Ultimate responsibility for an organisation's asset planning and management strategy must rest at the most senior level, usually board level, within that organisation. It is seen as important that finance directors, not just estates managers, have direct responsibility for producing the organisation's asset strategy and that senior management at board level is fully engaged in evaluating and approving that strategy. Departments need to put in place mechanisms that formalise those responsibilities and accountabilities. Local authorities need to ensure that asset management plans are considered at local cabinet level.

The framework for departments

4.11 Since the 1990s, the Government has instituted a number of inter-related reforms to improve management of the public sector asset base as well as to improve the delivery of new investment plans. These reforms are discussed in further detail below, include the introduction of resource accounting and budgeting, the National Asset Register (NAR), Departmental Investment Strategies, the ability for departments to retain the proceeds from asset sales and the use of asset disposal targets.

4.12 The NAR provides a detailed list of the assets owned by each departmental group within central government and is designed to ensure that the rationale for ownership of assets by the public sector remains clear and that the public sector asset base is being put to best use. In doing so, the NAR complements accruals accounting information (see below) in helping the public sector to make informed decisions on the best use of its asset base.

4.13 The first NAR was published in 1997 and an updated version was published in 2001: this updated version included asset values and set out significant changes to the central government asset base since 1997. The Government announced earlier in the year that it intends to publish a further NAR in late 2005 in order to inform decisions on new investment allocations in the next Spending Review.

4.14 Prior to 1998, the public sector lacked a coherent approach to managing investment programmes and ensuring that new investment was effectively contributing to the delivery of public services. Departmental Investment Strategies (DISs) are a public statement of departmental plans to allocate capital budgets to meet its objectives and PSA targets and how they will achieve value for money in delivering new investment. In addition to setting out new investment plans, DIS's also include information on the department's existing asset base and how it intends to make best use of these assets, including through asset disposals. Departments are currently in the process of updating their DIS's and these should fully reflect the recommendations in this report.

4.15 An important component of the DIS framework has been the use of departmental targets to improve asset utilisation. Examples of these include:

- a target for the then Lord Chancellor's Department to reduce over-capacity in courtrooms by 10 per cent, which was achieved by allowing courts to be used for other purposes (e.g. asylum appeal hearings) and rationalising the court estate by co-locating courts and disposing of surplus properties, and
- a target for the Ministry of Defence to dispose of assets worth £700 million by March 2002, which it comfortably exceeded by generating receipts totalling £810 million over the period.

4.16 As an incentive to dispose of surplus fixed assets, departments have, since 1998, been allowed to retain the receipts from the sale of fixed assets to support further investment, instead of having to return these receipts to the Treasury. There are two aggregate limits to this incentive regime: departments can only retain receipts where the proceeds from an individual sale are not more than £100 million or the value of total receipts received in-year does not exceed 3 per cent of a department's total budget. These limits are designed to ensure that asset rich departments do not use asset sales to distort the Government's overall spending priorities but, as far as I have been able to establish, have not been exceeded in practice by departments. I have been assured that were departments to generate disposal proceeds above these limits then the Treasury would consider each individual case on its merits.

4.17 In 2000, the Government enacted legislation that requires departments to prepare their accounts consistent with UK generally accepted accounting practice (adapted as appropriate for the public sector context). This means that the United Kingdom is one of the few countries to fully report its assets, liabilities and other key financial information on a comparable basis to the private sector.

4.18 This approach has gradually been extended to departmental budgets to ensure that they incorporate the cost to the public sector of delivering services. From 2003-04 Departmental Expenditure Limit (DEL) budgets now include the costs of holding and using assets within their budgets through taking account of:

- Depreciation, which measures the consumption or use of assets over time; and
- The cost of capital charge, which represents the opportunity cost to the department of investing in a specific asset.

4.19 Including these costs in departmental budgets enables them to make more informed decisions about how to use their asset base, including, for example, whether they pursue alternative means of service delivery and whether to dispose of assets to release resources for other priorities.

4.20 In 1998, the Government published guidance on selling services into wider markets and created the 'Wider Markets Framework' within which departments, agencies and NDPBs are encouraged to make better use of their assets (physical and intangible) and where appropriate, engage in commercial services based on them.

The framework for local government

4.21 Since 2001, local authorities have been required to produce asset management plans (AMPs). As part of the first stage in improving local asset management, all authorities were required to produce 'fit for purpose' AMPs for assessment by ODPM. The second stage is to encourage and support authorities, partly through the Beacon scheme, to improve their criteria for sound asset management and to ensure that they are more broadly based and that corporate management and council members have 'buy-in'. Authorities are asked to demonstrate whether their assets serve their objectives and whether they are using existing assets to their best.

4.22 There are four other main drivers in local government to encourage better asset management:

- Councils' own ambitions to respond to the diverse needs of their communities including interests in promoting local development;

- Their requirements as part of the Government's efficiency programme, which are forcing authorities to look to better asset use;
- The pressure to keep council tax down; and
- Comprehensive performance assessments, under which capital assets and their management are scrutinised both at a corporate and service delivery level.

4.23 Abolishing 'receipts taken into account' (RTIAs) in April 2002 removed a disincentive on authorities to generate capital receipts from disposals. Until then, RTIAs had meant that receipts would offset a proportion of their central government capital support.

4.24 The introduction of depreciation as part of capital finance modernisation will further encourage local authorities to look more closely at their assets.

4.25 There is an emerging view that a steady flow of revenue from better asset management may in some cases be preferable to receipts from straightforward disposals. Some commercial activities assist in regeneration and there is often pressure to keep commercial property if it is earning its keep and providing additional revenue. ODPM provides guidance in the context of AMPs as well as encouraging training to build up expertise.

The framework for government shareholdings

4.26 The Shareholder Executive was set up in September 2003 to work with departments to improve the Government's capabilities and performance as a shareholder. The Government is shareholder in a wide range of businesses including the Royal Mail, BNFL, UKAEA, the Royal Mint, Partnerships UK, the Met Office, Defence Science and Technology Laboratory (DSTL), British Waterways and Channel 4.

4.27 The Shareholder Executive has the lead responsibility for managing the Government's interests, and advising Ministers on their role as shareholder, in Royal Mail, BNFL, UKAEA, Actis and Partnerships UK. For the other businesses the Shareholder Executive advises shareholding teams in Departments on the management of their shareholder role.

4.28 The Shareholder Executive provides advice on commercial and policy objectives, including asset management, drawing on individuals with substantial and relevant private sector skills and experience, including corporate finance, private equity investment management, accountancy and corporate development.

5 Measuring the efficiency gain

5.1 Good asset management improves delivery by ensuring that the asset base is aligned with organisational objectives. Better asset management can also release resources, generate revenue and improve value for money in service delivery. Establishing a credible estimate of the aggregate quantifiable benefits of improved asset management requires an analysis of:

- the scale of the current asset base and the likely trend in future disposals;
- the scope for further efficiency savings through better management of retained assets; and
- the revenue generating and disposal potential from the identification and exploitation of intangible assets.

The scale of the current asset base and the likely trend in future disposals

5.2 More than £6.2 billion of public sector assets were disposed of in 2002-03. The disposal and transfer of local authority housing stock accounted for more than half that overall figure (£3.5 billion) whilst local authority non-housing asset stock and central government asset disposals counted for £1.5 billion and £1.2 billion respectively.

5.3 In that year, central government disposals came in large part from defence, health and the Northern Ireland Executive.

5.4 It is important to note that the different categories of disposals that make up the £6.2 billion figure are not directly comparable. Some are disposals of surplus to generate resources for reinvestment. Some relate to partnership deals with the private sector whilst the largest portion are housing transfers which do not transfer risk or generate economic gain in the same way as other transfers of assets. So whilst we can use the asset disposal rate as an indicator of the overall health of, and pace of activity within public sector asset management, we cannot take it to be a direct measure of the amount of funds released for reinvestment.

5.5 The Government has already introduced a number of measures to incentivise the disposal of surplus assets. As these measures bed in we should see an increase in central government asset disposal. However this may be offset by the fact that many of the readiest opportunities for disposal have already been taken. It is impossible to predict which of these factors will prevail but from an analysis of departmental responses to this study, it seems fair to assume that a broad continuation of the current trend of around £1 billion a year in asset disposals is achievable over the next six years, but could be very stretching.

5.6 Local authorities have strong incentives to dispose of surplus assets and the large size of the non housing asset base coupled with increased local flexibility in the retention of disposal receipts leads to me conclude that extrapolating the average rate of non housing disposals over the last three years (since the introduction of the key new incentives in local government asset management) provide a reasonable expectation of disposal rates at the current rate at least over the next 6 years but again considerable risk and uncertainty attaches to this.

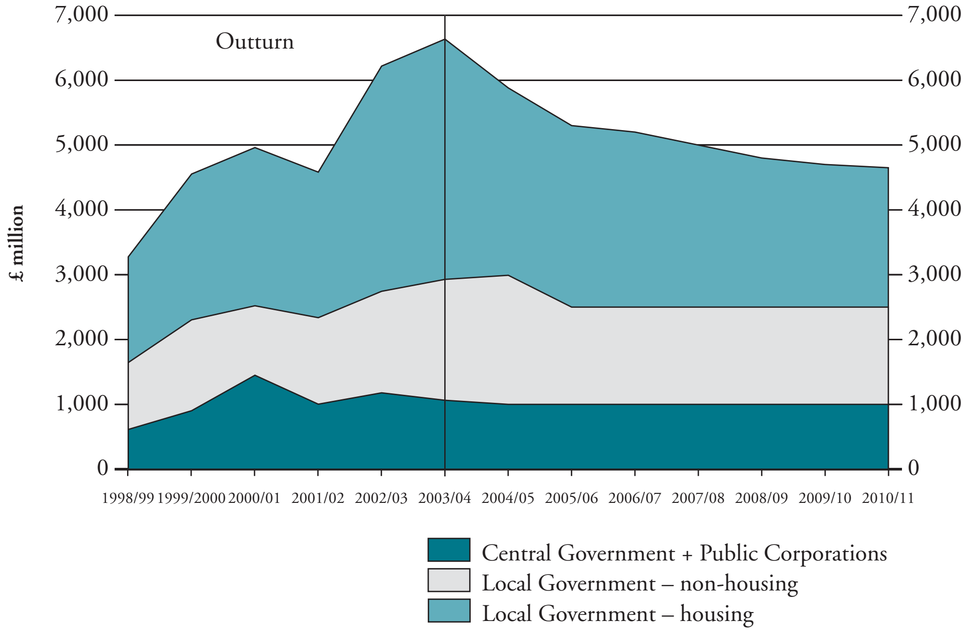
5.7 The disposal of local government housing stock is driven by wider policy objectives in this area. I am grateful to ODPM for indicating an expected decline in local authority housing disposal rates based on their analysis of the likely continuing impact of policies such as the right to buy or large-scale voluntary transfer as well as changes in the levels of housing stock.

5.8 It is important to note that risks attach to these estimates. They are based on an assumption of broad continuity in existing housing policy and presume that existing incentives to dispose of surplus assets will remain in place. They also assume that there will be no new policies on the management of large areas of the UK asset base that would impact on the attainability of the Government's £30 billion disposal objective.

5.9 More importantly, they are heavily dependent on movements in property prices over the next six years which are impossible to accurately predict. Therefore, the estimates above have through necessity, been based on an assumption of relative stability within the property market (or at least, an absence of major upheaval).

5.10 Acknowledging the caveats above, I conclude that the Government's objective of £30 billion of asset sales by 2010 is achievable but stretching, and requires the public sector to raise its game to meet it. A realistic scenario, based on an analysis of trends, opportunities and risks, is that central government disposals continue at about £1 billion a year, local government non-housing disposals are at or above £1 billion a year and housing disposals decline from about £3.5 billion a year now to around £2 billion by 2010-11. This scenario is depicted in the chart below. I am also clear that the £30 billion objective assumes a significant continuing engagement with the private sector and that the search for new sources of private investment and expertise is therefore part of this initiative.

Chart 5.1 Public sector asset disposals 1998 to 2011: a possible scenario



Source: HM Treasury

5.11 It should go without saying that disposals are not the 'be all and end all' of asset management. The disposal of surplus assets is just one of three key components of sound asset management and sits alongside the effective management of retained assets and the identification and exploitation of intangible assets.

Better management of retained assets – estimating the efficiency gain

5.12 Better management of retained assets can bring clear quantifiable benefits in the form of income generation or increased productivity but it can also can also bring qualitative benefits such as service improvements or the transfer of significant risk. This means that any financial estimate of the benefits can only convey part of the value to be gained through better asset management.

5.13 On the basis of my investigations, I see readily attainable gains through the better coordination of current asset management plans in central government. In particular, where departments are rationalising their estate in London as a result of the efficiency and relocation reviews, their efforts could be much better coordinated. There are examples of departments vacating buildings that could be filled by other departments consolidating their London estate, greatly reducing the cost of penalties on cancelled leases. The OGC is strengthening its existing role in property coordination including through the planned mandatory use of electronic recording by departments and other public bodies of property holdings, vacant space and accommodation needs (the E-PIMS database). Continued energy is needed in this area.

5.14 From my discussions with OGC, I consider there are also gains to be achieved through the dissemination of best practice in space use. In particular, the intensity of use of office space varies significantly from department to department and there is scope for improving effectiveness in use of office space in a number of departments. The OGC has the lead policy interest in this area and there is scope for brigading this activity more closely with the Government's efficiency programme.

The London civil estate

Approximately 2.5 million square metres of space are currently occupied by central government in London through freehold, leasehold or PFI contracts, of which some 1.9 million square metres are in central London. Taking account of the Government's relocation strategies and efficiency plans announced in 2004, it is likely that around 450,000 square metres of space will no longer be required by 2010 giving rise to potential savings of £270 million a year by 2010-11 in London and the South East. On the same basis in the rest of the United Kingdom, a further 890,000 square metres will no longer be required providing savings of around £355 million a year by 2010-11. As a result, across the whole country, some £625 million a year largely in office accommodation will be saved by 2010-11.

At the same time, through across the board efficiencies in space utilisation led by OGC, another 150,000 square metres should no longer to be needed in the London and the South East with a further 110,000 square metres no longer required in the rest of the country. Taken together, tighter space management of central government's civil estate across the whole of the country could, at 2004 prices, release for other priorities some £135 million a year by 2010-11.

Total savings of £760 million a year therefore should be secured by 2010-11.

5.15 Combining the estimates of the saving through reduced accommodation needs as a result of the efficiency and relocation reviews and through improved space management suggests that the minimum additional efficiency gain through better estate management would be around £760 million a year by 2010-11. It is not yet clear – and needs to be clarified – to what extent this is additional to planned efficiency savings.

5.16 These estimates relate to the better management of only a small proportion of the public sectors' combined assets. Having seen some innovative examples of better asset management by leading local authorities and government departments, I am convinced there is scope to go further. If the rest of the public sector developed capacity in this area and the incentives worked fully, the gains from better management across the entire public sector asset base would be likely to considerably exceed those from office space efficiencies alone.

Identification and exploitation of intangible assets – estimating the efficiency gain

5.17 An intangible asset is an asset that is not physical in nature. Examples include copyrights, patents, intellectual property, and goodwill. As with all assets, the management of intangible assets requires identification of an asset in the first place. By their very nature intangible assets are much more difficult to identify. As such there is no reliable way to estimate the scale of opportunity that lies in the exploitation of as yet unidentified intangible assets. However, we can get a sense of scale of the potential through looking at the gains already achieved through the identification and exploitation of intangible assets in the private sector. For example, BP and GlaxoSmithKline own £12 billion of intangible assets between them. In the next chapter I consider next steps on this issue.

6 Delivering the efficiency gain

6.1 To be sure of meeting its £30 billion asset disposal objective and generating associated efficiency savings, the Government will need to raise its game. This will require detailed planning at departmental and local government level, and active coordination across government. More creative approaches to partnership with the private sector are also part of this story.

6.2 Based on the analysis summarised in the previous two chapters, my study concludes that action is required in three areas to support asset management planning in the public sector:

- A stronger, more rigorous asset management and planning framework, including better coordination at the local level;
- A focussed delivery strand within the efficiency review dedicated to the achievement of the asset disposal objective; and
- Improved deployment of asset management expertise within the public sector.

A stronger, more rigorous asset management and planning framework

6.3 As set out in chapter 4, the Government has introduced a range of incentives and requirements to encourage departments to adopt sound asset management practices. In parallel, the framework for local government has also been significantly sharpened and the clear evidence is that this is already having an impact on improving asset management within central and local government.

Case study: the Ministry of Defence

The Ministry of Defence is undertaking a major programme to consolidate its estates assets. This includes the possible co-location into single headquarters for each of the main services. The Royal Navy is already co-locating with other branches of the service at Whale Island in Portsmouth, and the Army and the Royal Air Force are looking to rationalise and co-locate onto single sites. The Department will also identify sites for disposal as part of that consolidation process taking account of the 2004 Lyons relocation review.

Case study: East of England local authority

In 2003, a county council in the east of England implemented an asset management programme that led to improvements across its property and asset portfolios. The council achieved its target of £30 million of capital receipts, an increase of £3 million above previous targets, for re-investment in its services.

6.4 However, whilst there are examples of good asset management within leading local authorities and some government departments, the adoption of good practice does not appear to be the norm across the public sector. The following sections set out the main messages that emerged from our investigation of asset management practice within local and central government and suggest actions the Government could take to encourage more widespread adoption of good asset management practices.

Strengthening the framework for central government

6.5 Asset management is a key part of business planning which connects at a strategic level decisions about an organisation's business needs, the deployment of its assets, and its future investment needs. The government has laid the foundations for a rational approach to asset management, but the evidence suggests that it does not yet have the strategic profile it needs. I suggest a number of actions that the Government, at departmental level, and at the centre, needs to take if it is to be confident of achieving its £30 billion asset disposal objective and wider efficiency gains.

6.6 A starting point must be a stronger link between asset management and investment planning in government. This government is committed to increasing capital investment in public infrastructure. In its spending reviews, the Treasury takes account of how well departments are managing and disposing of assets in determining capital allocations. But this linkage must be strengthened. Departments must be clear that the case for new capital allocations must be supported by robust evidence that they are managing their current assets efficiently and making disposals as appropriate.

6.7 At a higher level of aggregation, there is a need to ensure that planning for public investment over a longer time horizon, from both taxpayer and private sources, is properly informed by an understanding of the whole of government efficiency gains possible from better use of existing assets and the potential to recycle disposal proceeds to fund new investment.

Recommendation 1

The Government should review the linkage between investment and asset management at a strategic level, to ensure a national framework which balances planning for future capital investment, from both public and private sources, with full exploitation and maintenance of existing assets.

As part of this process, the Government should strengthen the dialogue with departments on asset management in the run up to future spending reviews; and consider the implications for bodies whose assets lie outside the public sector, but which receive public funding.

Action: Departments with the Treasury

6.8 The evidence gathered through our discussions with government departments, and from their submissions to this study, suggests that the adoption of best practice in central government is piecemeal with few departments giving asset management sufficient consideration as part of their business planning. One main area of weakness is a lack of active board level consideration of asset management. This finding also concurs with the conclusions of recent NAO and Audit Commission work in this area and is reinforced by the experience of the private sector. A related suggestion is that a focus on bidding for new resources in the context of spending reviews can tend to crowd out more strategic thinking in departments on the allocation and management of resources, including assets.

6.9 The view of one representative private sector organisation was that property management is not afforded a high priority either in the public or private sectors. As a result, property teams are not close to senior management and are thus unable to take genuinely strategic views of property assets. In addition, because of the low profile of property management within organisations, when property managers move to senior management levels, they often lose their property remit. Unfortunately, this seems to be commonplace at boardroom level.

6.10 To ensure sufficient board level engagement with these issues, departments should be required to produce detailed asset management plans, linked to their business plans and drawing on the good practice messages described in Chapter 4.

6.11 The broad framework for central government should:

- Emphasise asset management as a key element of sound business practice;
- Reinforce existing good practice and incentivise innovation;
- Support the transfer of public expenditure to the delivery of front-line services; and
- Promote the current efficiency agenda, ensuring that any new processes are not burdensome and
- Avoid overloading those responsible for managing services.

Recommendation 2

Departments should be required to develop asset management strategies driven by their business plans, which are the responsibility of finance directors and considered at board level. These should cover assets in the control of departments, their agencies and sponsored bodies.

Action: Departments

6.12 It has been emphasised to me that the incentives for asset management are broadly permissive. Departments are allowed to keep receipts from asset disposals if up to 3 per cent of their budget or less than £100 million. Treasury clawback of funds from asset disposals is limited and has been justified by the need for macro budgetary control (for example to transfer windfall gains from departments that happen to be asset rich to spending priority areas).

6.13 However, it is not clear to me that all departments understand the freedom and flexibilities they have. For example, one department feared that asset disposals would automatically lead to a corresponding clawback from their budget, despite the fact that in most cases they would be able to retain the proceeds from asset sales. It was also not always clear whether departments were aware that efficiencies delivered through better asset management could count against their agreed efficiency targets. Even when departments were aware of these freedoms and incentives at the board level they were not always cascaded down the chain and therefore the incentives on individual budget holders within departments to improve their asset management were limited.

6.14 Departments identified a number of barriers to better asset management. I am not convinced that these are major hurdles, but they suggest a need to look anew at the framework of incentives and how well it is understood.

- A shortage of pump-priming funds to prepare assets for disposal. In simple terms, departments may have to incur costs today in order to realise returns tomorrow. Perceived short term constraints should not be a barrier to substantial long term benefits.

- Currently, departments have to surrender excess on receipts against estimated value of receipts. Under Parliamentary rules, departments are required to provide a taut and realistic forecast of receipts. Should higher receipts be realised, those extra receipts have to be surrendered to the Treasury. I have been assured that Departments are able, in the light of better valuation, to make supplementary Estimates with revised (increased) capital receipts matched by revised capital provision to finance any additional expenditure.
- In its response, one department suggested that the low level of capital charges (currently 3.5 per cent) was not high enough to incentivise the disposal of unnecessary assets. In the UK, there is a clear economic rationale for the current rate of charges, reflecting the cost of government borrowing (though I am aware that other governments, for example New Zealand, set capital charges which are high in relation to some measures of government borrowing).
- Heritage buildings with high 'book' values. There are particular accounting problems associated with heritage buildings whose book value is likely to exceed their market value.

6.15 Finally, it has been suggested the mixed performance in central government asset management in part results from the relatively limited pressure on departmental capital budgets in recent years compared to their much tighter resource budgets. This may have meant that departments have been under insufficient pressure to think creatively about how to maximise value from their assets. Any lingering misperception that capital is in some way a "free good" becomes increasingly dysfunctional with the prospect of tight funding settlements in future.

Recommendation 3

The Government should confirm and where necessary strengthen the incentives for disposal and efficient management of assets, in particular as follows:

- There is an urgent need to reaffirm existing budgetary freedoms and incentives for departments to dispose of assets, and to realise the benefits of efficient asset management;
- Departments must cascade freedoms and flexibilities throughout their organisations agencies and sponsored bodies to ensure that there are sufficient incentives at business unit level to manage and where necessary dispose of assets;
- Departments must ensure that managerial responsibilities for asset management within public organisations are clear; and
- The Government should examine the scope for strengthening the incentive effects of the resource accounting and budgeting framework on asset management.

Action: Departments with the Treasury

Improving scrutiny and challenge

6.16 Private companies have shareholders who provide scrutiny of company management and perform a challenge function. This acts as a powerful incentive for company boards to develop and implement active asset management strategies to ensure their asset base is efficiently used and supports their business objectives. The Shareholder Executive represents Government's shareholding interests in Royal Mail, BNFL, UKAEA, Partnerships UK and Actis and serves a comparable function with Government-owned companies.

6.17 In the public sector, this type of external scrutiny and challenge is limited and whilst I would not recommend an extension of the Shareholder' Executives current remit, further work is necessary to determine whether a more general application of the Shareholder Executive model could provide valuable scrutiny and challenge across a broader range of businesses in which the public sector has a stake.

Strengthening the framework for local asset management

6.18 ODPM's work with local government in recent years to develop asset management and capital planning has had some impact. However, whilst there has been improvement in this area, the picture is still mixed with some local authorities much more advanced than others in integrating asset management with their overall business planning, and with continuing weaknesses, identified by the Audit Commission.

6.19 The Audit Commission's view is that property is largely seen as an operational matter rather than as a strategic resource. Often, there is no corporate approach to land and property management. A number of local authorities still lack a clear asset management strategy and a strong steer to aid decisions on property. In many cases, responsibility for decisions on property is dispersed among operational departments with little attempt to achieve a corporate and board level overview of the local authority's property portfolio.

6.20 The Commission also pointed to a failure to identify clearly, at senior management levels, the contribution that good asset management could make to the achievement of an authority's objectives and it found no obvious links between corporate strategy planning decisions and asset disposal and acquisition decisions. The new guidance on asset management issued by the Royal Institute of Chartered Surveyors and sponsored by the Office of the Deputy Prime Minister in November 2004 will go some way in giving local authorities a better sense of the importance of good asset management in delivery of their objectives.

6.21 From discussions with local authorities I am not convinced there is a need to further reform the existing framework of incentives. To quote one local authority *"in the end, the real incentive is doing it well – if we (local authorities) manage our assets well then the benefits to us are real and substantial."*

6.22 But evidence from the Audit Commission and elsewhere suggests much more is still to be done to get the incentives to bite. I believe that we are likely to get the most efficient use of resources and the best fit of services to local need and preference if we devolve decision-making and keep monitoring and regulation to a minimum consistent with clear accountability. However there is now a pressing need to capture the current good practice and innovation in leading local authorities and disseminate it throughout the sector to help bring all local authorities to the level of the best.

6.23 I have been struck by examples of good practice in the coordination of asset management at a local level across administrative boundaries. Of particular note are examples where local government has played a lead role in maximising the value of local public sector assets through co-ordination of services and the sharing of infrastructure with other local service providers.

Case study: Newcastle upon Tyne City Council

Newcastle upon Tyne City Council is undertaking a project to deliver a range of public services covering local government, health and central government services through four inner city centres. The rationalisation of a large number of public offices across the city into four locations is expected to lead to the provision of better front line services to the public as well as reduced operating costs for all the public agencies involved.

6.24 This type of local co-ordination has improved value for money in the use of assets to deliver local services and should be encouraged and supported. Our discussions with local authorities found them willing and keen to take the lead in this area. However, it was pointed out that their progress was in some places limited due to unwillingness on the part of other local service providers to engage with them in the development of local asset management plans.

Recommendation 4

I welcome the role that local authorities are taking in leading local asset management plans. This role should be recognised, encouraged and, where possible, strengthened through the spread of good practice models.

Central government needs to convey a clear expectation of departments and other public agencies that they should engage with their local government partners in developing and delivering local asset plans.

Action: Local authorities, departments, with ODPM

6.25 I also found other good examples of coordination. For example English Partnerships work with public and private sector partners to support sustainable growth in England. Amongst other things, they act as a catalyst for development through acquiring and preparing sites for development by their public and private sector partners. Of particular note are their focus on maximising the contribution of private investment, to minimise the public costs of site preparation, and a creative approach to optimising value through packaging and phasing of disposals. The model used by English Partnerships has had some success and more work needs to be done to determine whether there are elements of the model that could be applied elsewhere in the context of regeneration and also more generally.

Case study – English Partnerships

Lancaster Luneside East

Luneside East in Lancaster comprises a number of former heavy industry brownfield sites that have for years been locked in planning and development disputes over who should take forward assembly and remediation of the sites. English Partnerships brokered a new approach that allows the local authority to apply private sector expertise and capital to provide a solution. Funding for the project is being provided by English Partnerships, the North West Development Agency and the private sector, which will also assume the risk associated with the successful regeneration of the sites.

The development is expected to create a new quarter of Lancaster, well integrated with its surroundings, and to provide a high quality, mixed use urban neighbourhood with homes, business space and leisure facilities.

Recommendation 5

The Government should examine the scope for extending elements of the approach exemplified by English Partnerships both in relation to the regeneration of complex sites and more widely in optimising the value of disposals.

Action: Treasury on advice from new Task Force (see Recommendation 9)

A focussed delivery strand within the efficiency review

6.26 In order to ensure that asset management is integrated with the wider efficiency considerations and is able to draw on existing expertise and coordination capacity, the development, scrutiny and coordination of departmental asset management should be taken forward as part of the Government's efficiency programme, with clarity about how each department will contribute to the Government's high level objectives for asset management and disposal.

6.27 It is clear to me from my examination of the evidence that there are a number of areas in particular where planning should be taken forward with some urgency:

- **Defence** – Strategic changes underfoot, including the Ministry of Defence's reviews of core sites, service HQs and training needs, suggest significant opportunities to dispose of assets, going beyond the existing target of £560 million by 2007/08. I have also noted the opportunities presented by the large holdings of equipment and stock;

- **The National Health Service** – A recent exercise identified £800 million worth of surplus hospital estate that has now been transferred to English Partnerships for disposal. The NHS is highly devolved and the challenge for the centre is to take a strategic approach to identifying and disposing of the next tranches of assets that will become surplus as a result of service changes;

- **Northern Ireland** – Partly a legacy of the Troubles, the public sector occupies a much bigger part of the economy in Northern Ireland than in other parts of the UK. There are considerable opportunities to dispose of assets and this will be a matter for the devolved administration when it returns;

- **Justice** – courts, prisons and police services account for a significant proportion of public assets. Current and planned service changes offer opportunities for reconfiguring the use of land and buildings;

- **Opportunities for new investment by the private sector**. Housing is one policy area where substantial progress has been made in replacing public investment with private investment. Progress has been made in other policy areas including education and highways but there is undoubtedly greater scope for new initiatives to reduce the strain on the public purse;

- **Opportunities within publicly owned business**. The Government should consider what further steps can be taken to challenge and scrutinise the asset management decisions of publicly owned businesses such as Trust Ports, bearing in mind lessons from the approach being pioneered by the Shareholder Executive; and

- There are **additional opportunities**, representing work in progress by my study team, which need to be taken forward in the implementation phase.

Recommendation 6

In taking forward detailed asset plans, and building on their work to date, departments must show how they will contribute to the Government's objectives for asset management, including £30 billion of disposals by 2010. This work should be integrated with the delivery of the Government's efficiency programme.

Action: Departments and the OGC Efficiency Team

6.28 A significant part of the Government's office estate is leasehold, and whilst this means that disposal opportunities are correspondingly limited, there are opportunities to improve efficiency through better management of this estate.

6.29 There needs to be a clear drive for efficiency gains in the use of existing assets. The OGC is already encouraging more efficient use of workspace, including through coordinating requirements for office space, especially in London. Now is the time for these workstreams to be given new momentum as part of the efficiency programme.

6.30 As a result of my earlier relocation review, and of steps to reduce the size of London headquarters, new momentum has been added to an existing process of rationalising government estate in London. In the wake of the relocation review, the coordination role of OGC is being strengthened and Treasury approval must be sought for new space commitments in London above a certain size. It is too early to say whether these measures are sufficient but there are signs that the activity remains too piecemeal and unjoined-up, with a reluctance by some agencies and departments to make best use of space vacated by others. I would welcome efforts to examine the possibility of managing the London civil estate as a unified portfolio.

Tighter property coordination in central London

Between November 2004 and 2010, there are estimated to be some 85 property lease breaks and leases due to expire on the civil estate in central London accounting for some 250,000 square metres. In line with Government policy to relocate public sector activities outside London and the South East, if Departments were to exercise all of these lease breaks, not renew expiring leases or sign new leases, around £150 million a year by 2010 in accommodation savings could be achieved.

Source: Office of Government Commerce

Case study: space savings

The UK banking sector has saved a total of some 2.8 square metres per person in its offices over the last five years. The savings amount to over £300 million each and every year, just by managing space better which does not include savings through reduced headcount.

Source: IPD Occupier Property Databank

6.31 A related point is that the utilisation rate of office space varies significantly from department to department. Organisations in the public and private sector have demonstrated that new models such as hot-desking and the introduction of innovative working practices can significantly reduce the need for office space and generate substantial savings. Such approaches also provide opportunites for improved customer interfaces, working conditions and environmental sustainability. There is clearly scope for a more concerted drive across the public sector to match examples of best practice.

6.32 Nor is this simply about reducing office space. There are potentially great efficiency gains to be had through the more intensive "sweating" of existing assets. Extending the use of schools for evening community use is one good example. Another example is the opportunity, highlighted by the Audit Commission, for the NHS to make more intensive use of existing operating theatres.

In 2003, the Audit Commission carried out a review of operating theatres in hospitals across England. It considered whether hospital trusts could absorb extra work within existing resources in order to meet tough waiting time targets. The general conclusion was that many trusts should be able to find extra capacity within their existing theatres. NHS Trusts do not need more theatres but need to make better use of them, provided managers and clinicians have the management information to help them improve theatre performance. The report recommended some solutions to overcome these issues.

Case study: Dyke House School

Dyke House School in Hartlepool provides a range of services. Services already on site are used by over 3,000 adults with the school being described by Ofsted as 'an oasis for the community'. The Avondale Community Centre is based on the school site and is open throughout the year. A City Learning Centre is also on site offering facilities such as a state of the art IT suite and recording studio. The school is also part of a study support pilot and has breakfast clubs throughout the year. School based childcare supports the adult education classes. The school premises themselves are seen as being for everyone in the community to use – rooms are let for residents meetings, children's parties etc. which has generated funding for the school and the Canteen is open to all. A Children's Centre is to be built in conjunction with Sure Start which the school sees as a natural progression to the work done so far.

Recommendation 7

The efficient management of Government's retained assets should be made an explicit theme of the Efficiency Programme, with a clear focus on the scope for reducing office space requirements; the better coordination of space requirements in particular localities ; and the more intensive sweating of assets.

I would welcome in particular an explicit London estate strategy, with specific, timed targets for the reduction in space requirements.

Action: Departments with the OGC Efficiency Team

Generating value from intangible assets

6.33 Another key area where further progress is needed is in the identification of intangible assets. An intangible asset is an asset that is not physical in nature. These assets can be traded in the same way as other assets and include several forms protected by legal rights such as patents, designs, copyright, trade marks and database rights. Intellectual property is the term used to describe intangible assets derived from creative work carried out by individuals or organisations.

6.34 Departmental intangible assets shown in Table 3.1 are much fewer than private sector comparisons would lead one to expect. With the notable exception of the Ministry of Defence, out of a total of 21 UK government departments and devolved administrations listed, as many as 17 have not been able to identify intangible assets valued in excess of £50 million. In contrast, BP and GlaxoSmithKline, just two large companies, owned £12 billion of intangible assets between them at recent valuations. The contrast is surprising. Though it needs to be treated with caution, it suggests that there may be a systemic failure to recognise and value intangibles in the public sector.

6.35 The Government's initiative, Selling into Wider Markets, sets a framework to encourage and incentivise departments and public bodies to make best use of their assets including intellectual property assets. Examples show that combining active management of intangible assets with creativity and innovation can generate significant revenue for reinvestment in public services.

Case study: wider markets

Ministry of Defence

The Army has begun a project to capitalise on its brand through developing its own specialised training shoe. The PT-03 trainers will be the first official Army branded product and were created by the Army Physical Training Corps working with sportswear makers UKGear.

The Department for Environment, Food and Rural Affairs

The Centre for Environment, Fisheries and Aquaculture Science (CEFAS), an agency under the Department for Environment, Food and Rural Affairs has joined with W S Ocean Systems to form a public-private joint venture company called Eco-Sense. Eco-Sense will develop a new generation of marine environment monitoring instruments, and combines CEFAS' science and engineering expertise with WS Ocean's commercial skills in design, manufacture and operational support.

The first of the new monitoring devices was 'Smartbuoy', a floating buoy designed to take high frequency measurements of biological, chemical and physical variables for extended periods in harsh marine environments. The device will be able to check for pollution incidents, and trends in the levels of contaminants and to spot and understand environmental changes.

6.36 However, such examples are few and far between. Government may be failing to capitalise on all the opportunities available and, in order to generate disposals and revenues on the scale possible, needs to develop its capacity in this area.

Recommendation 8

A much more robust approach is needed across the public sector to identifying, valuing and exploiting intangible assets. Current practice is unacceptably variable. Steps should be taken to re-energise activity within departments and their sponsored bodies to identify and exploit intangible assets.

Action Departments, guided by Treasury

Deploying asset management expertise more effectively

6.37 Giving new momentum to asset management in government requires not just a strengthened framework of incentives and a focus on delivery, but an assurance that departments have the capacity to deliver. This capacity will develop in the longer term as a result of the Government's focus on improving corporate governance and financial management in departments. In the short term there is limited scope to increase skills in asset management across government, which puts a premium on deploying existing skill sets most efficiently.

6.38 In the public sector, as in the private sector, expertise is finite. Departments with large asset bases, for example the MoD, have their own expertise. Others have helped pioneer new approaches, for example the PRIME contract negotiated by the former Department of Social Security, which transferred the ownership and management of almost all of its estate to a private sector consortium Land Securities Trillium.

6.39 In this study, I have been made aware of the advice, expertise and models of practice that have been brought to bear by various pockets of excellence at the centre. These include Partnerships UK in relation to PFI and public private partnerships; OGC in relation to property management and procurement; English Partnerships in relation to site assembly and regeneration, the Shareholder Executive in relation to the management of government shareholdings; and the Valuation Office Agency, in relation to valuing assets. Asset management, if not a central responsibility of these agencies, touches on all their work. A body of knowledge on asset management has also emerged from the successive investigations of the National Audit Office, the Public Accounts Committee and the Audit Commission. I have also been made clearly aware of the expertise that lies with the property management and investment banking communities.

6.40 I believe there is a clear need to pull together existing skills within the public sector and to reinforce them with expertise from the private sector to address weaknesses in the capacity of Government to work creatively on optimising disposal values and engaging productively with the private sector. It is with this aim that my final recommendation calls for a short life public private task force.

6.41 I see particular opportunities arising from unmet need for property investment vehicles. A number of investment banks have pointed out a growing and unmet demand within the investment community for opportunities to invest in property. The judicious bundling of public sector assets may offer just such opportunities, as well as a means of creating greater public value. This kind of approach has been pursued in several countries including Germany, France and Italy, and also in Hong Kong. I believe the proposed task force should examine the possibilities.

Recommendation 9

The Government should establish a small, short-life task force, drawing on public and private sector expertise, to advise Treasury ministers, and to work with selected departments to clarify their contribution to the Government's objectives for asset management and disposal. As part of this work the task force should advise on further opportunities for private sector involvement in asset management, including the merits of developing new investment vehicles.

Action: The Treasury