

# ThinkSpace

Reshaping Public Services



## The hidden treasure

### Unlocking the value of Public Sector Intangible Assets

Intangible Assets such as Intellectual Property are firmly on the agenda

**Andy Vernon** and **Duncan Matheson** of PA Consulting Group and **Shane O'Neill** a member of the Government's Advisory Panel on Public Sector Information (APPSI), a Non Departmental Public Body charged with advising Ministers on information matters examine how the government can drive out efficiencies and create public value by maximising the potential of intangible public sector assets.

Fresh thinking to deliver more with less

“...The stock of public sector assets in the UK is currently valued at £818 billion. This figure is a conservative estimate of the importance of public sector assets to the national economy given that it probably under-values certain asset types, in particular intangibles such as intellectual property...”

**Operational Efficiency Programme announcement, Yvette Cooper, July 2008**

Successive efficiency drives (such as the Wider Markets initiative, Gershon, Lyons and the Operational Efficiency Review), have emphasised the need for public sector bodies to realise more benefit from its assets - to drive extra efficiencies, utilise spare capacity, or even divest these when they are 'non-core'. Most recently the Power of Information Report has identified the latent potential in public sector intangible assets from a societal and innovations standpoint.

Until comparatively recently, that emphasis has been on physical and service type assets. But the growth of the knowledge economy has focused policy makers on the potential that can be unlocked from intangible assets of which a very major component is Intellectual Property (IP). Lyons first drew attention to the potential of public sector intangibles assets – contrasting the small proportion of intangible assets reported on public sector balance sheets with that of large companies such as BP and GlaxoSmithKline: “The contrast is surprising. Though it needs to be treated with caution, it suggests there may be a systemic failure to recognise and value intangibles in the public sector”. And most recently a major strand of the Operational Efficiency Review is presently focused on such assets.

These include data, software inventions, patents and trademarks, but additionally human skillsets and processes which are even less likely to be included in any asset register or balance sheet. Over the years, the Public Sector has paid for the development of a wide range of Intellectual Property. In many instances, this is lying distributed in several databases and other locations, undisturbed in archives, or in the memories of those who commissioned and oversaw the projects that led to its genesis. And therefore not available to a wide range of potential exploitation opportunities.

### Intangible asset exploitation faces some important challenges

Before anything can be realised there needs to be a clear understanding of what intangible assets exist and the most effective mechanisms to assess their worth in terms of their commercial or other potential.

The difficulty is that Government has characteristically been poor at this for a number of reasons:

- Public sector bodies are not clear on what constitute intangible assets
- They do not have a strong perception of which intangible assets they and their subsidiary bodies hold and are developing
- There are no clear guidelines how to assess the potential value of intangible assets (a project on which the UK Intellectual Property Office are leading a cross-Government review)
- A perception that Government accounting rules and governance mechanisms have influenced against such development
- Intangible assets even when recognised and identified are difficult to assess in value terms without specific, relevant, market knowledge
- Routes and processes that could lead to cost effective exploitation (eg tools, skills and incentives) are not well developed in the public sector or nurtured in a manner that can short circuit the path to success
- There is a complexity and ambiguity around the regulatory and guidance frameworks which further inhibits effective exploitation.

### How can Government make the most of intangible assets for the benefit of the public sector, industry and wider society?

The key to realising the benefits of the public sector's intangible assets is to create a framework that empowers and provides incentives for public sector organisations to both identify latent intangible assets to best unlock their potential. A potential which may be of local self-interest, and / or for the benefit of UK plc and society at large.

This requires the implementation of three key activities:

- Ensure that the right policy environment exists within government itself
- Enable government departments to identify intangible assets and deliver real benefits
- Recognise and take account of the appropriate 'motivational context' to allow the most suitable route to unlocking the value of those assets

As we have already stated there are initiatives under way and progress has been made in addressing these activities. However, as efficiency becomes increasingly important it is imperative these are driven forward if benefits are to be realised.

### Ensure that the right policy environment exists within government itself

Recent shifts in the policy and regulatory landscape have created conditions for change.

The past year in particular has seen an increased emphasis on the knowledge economy and the public sector's role in it. Examples include:

- the 'Power of Information Taskforce'<sup>1</sup> is stimulating and supporting the public sector's use and exploitation of its information and web technologies (with an emphasis on creating value, e-democratisation and empowerment)
- the enhanced role of the Office of Public Sector Information (OPSI) in helping public sector bodies identify and unveil information to the wider economy in line with the European Directive on Public Sector Information
- the key strand of the Operational Efficiency Review around 'Asset Management and Sales' which will focus on the intangible asset base as well as traditional tangible assets
- the Treasury inspired review of Trading Funds activities by the Shareholder Executive, aimed at clarifying the role of commercial units within Government and the definition of the public task and charging policies
- the current investigations by the UK IPO (Intellectual Property Office) in defining balance sheet treatment (valuation and reporting methodologies) of intangible assets as well as best practice examples of intangible assets exploitation both in the UK and from abroad.

All of these initiatives are likely to coalesce from 2009 onwards, to create a better environment for the development of intangible assets. From the Power of Information Report will come pressures to release more data for innovation and societal benefits. From the Operational Efficiency Review will come pressure to review and have policies on intangible as well as tangible assets and, where appropriate, to deliver value from them. From the Treasury's long awaited review of the Trading Funds, and the forecast enhanced role for the regulator (the Office of Public Sector Information), will come clearer and stronger guidance on how public sector bodies may interact with commercial information providers.

Overall the challenge for public sector Permanent Secretaries and Chief Executives will be to add value to the economy by taking advantage of the change in the government context and respond to the policy pressures to identify and maximise the opportunities intangible assets present.

<sup>1</sup>[http://www.cabinetoffice.gov.uk/newsroom/news\\_releases/2008/080401\\_taskforce.aspx](http://www.cabinetoffice.gov.uk/newsroom/news_releases/2008/080401_taskforce.aspx)

### Enable government departments to exploit intangible assets and deliver real benefits

Public bodies need to understand intangible assets much better if they are to exploit it effectively. This means understanding what they are, why they are important, and how unlocking the value of intangible assets is consistent with economic, political and regulatory policies.

There is a primary need to make all government departments and other public bodies aware of what intangible assets could comprise and the benefits for exploiting this as a means of creating wealth for the organisations concerned, the treasury, industry and wider society. As we have seen, intangible assets are not confined to datasets and information (it includes, amongst other things, hardware, software inventions, processes and human skill-sets).

Once the nature of an intangible asset and its importance is understood, it is then easier to consider where it might lie and what potential it may have (eg for internal external or co-operative exploitation). Many of the barriers to exploitation – for example regulatory, perceptual and cultural – can then be tackled within the right context.

It is critical to identify in the short term intangible assets which have most potential. However, some of these assets in public sector organisations are unable to be exploited as either rights have been given away, are unclear or in dispute (often with other public sector bodies). In the longer term, processes must be set up which ensure that intangible asset rights are established and protected by contract on an ongoing basis.

A high level review of intangible assets will identify possible quick wins and an assessment of the scale of potential. A sense of future value or worth can be relatively quickly surmised from a systematic consideration of identified intangible assets and a study of the market within which the public body operates.

Such an exercise should only be led by resources which are deeply experienced in the commercialisation of intangible assets at a practical level (and preferably in the markets in which the public body serves). Moreover it needs to be a sustainable process rather than a one off exercise.

### Recognise and take account of the appropriate 'motivational context' to allow the most suitable route to unlocking the value of those assets

The key motivational factors will be to avoid risks, delivery efficiencies and create value, either in terms of local cost recoveries, benefits to UK plc, or indeed to society as a whole. Which of these options becomes most attractive will depend on the particular circumstances both of the public body and the type of intangible assets with which it is dealing.

- **Assess the risks and compliance framework** – avoiding unnecessary risk (infringing the IP of others) and working within competition law or PFI rules etc. This is a complex area, often with muddled or contradictory policy guidance. However, it is becoming clearer and there are fewer reasons not to be able to make an assessment in this area.
- **Delivering efficiency gains** – utilising intangible assets to help drive further cost effective delivery of services across the public sector. Why shouldn't assets developed at public expense be re-used and developed for other benefits? Are there organisations better able to deliver these gains, rather than tying up public sector resource in non-public task activities?
- **Creating commercial ventures** – considering the practicalities of enabling value to be created. The Trading Fund model is under review at present, but it is unlikely that public sector bodies will be precluded from establishing commercial operations, where it is justified and properly implemented. But emerging clarity around models for allowing the private sector to build value upon public sector intangible assets may spell the gradual end of the Trading Fund model in the future.
- **Divesting intangible assets (particularly IP) into the private sector** – identifying legitimate options to allow those best placed to compete for and take advantage of the commercial potential that government is not best suited, or is not able, to develop. This again is the sequel to a process of Identification and Assessment
- **Freeing data for the benefit of wider society** – making the process of delivering, particularly information, to industry, academia and others so that they can derive value from public sector intangibles created at taxpayers' expense.

### Unlocking the real value from public sector intangible assets goes beyond policy clarifications.

We have seen that the policy climate for the extraction of better value from public sector intangible assets is fast changing within the UK. It is change – in these chastened times – which seeks to balance cost recovery needs, efficiency drivers, with compliance and business and citizen empowerment objectives. Change will take leadership from senior civil servants who have the vision to identify the risks to be avoided, and the opportunities to be unleashed. It will take a systematic approach to the identification and assessment of intangible assets; which are intrinsically more difficult to assess. Finally, it will demand some judicious balancing of short and long term gains, local and national self interest, within an emerging knowledge economy where the UK's future, as the past few months have shown, demands public sector stimulus.

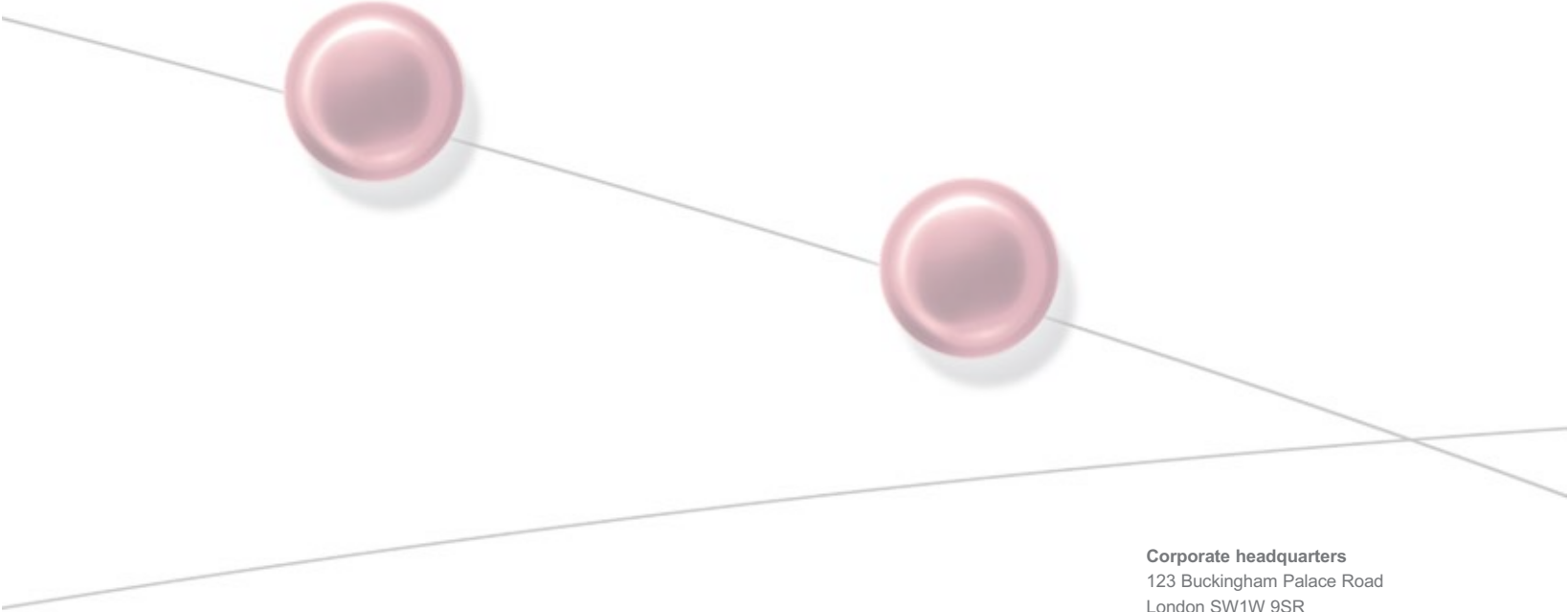
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**Corporate headquarters**  
123 Buckingham Palace Road  
London SW1W 9SR  
United Kingdom  
Tel: +44 20 7730 9000  
Fax: +44 20 7333 5050  
E-mail: [info@paconsulting.com](mailto:info@paconsulting.com)

[www.paconsulting.com](http://www.paconsulting.com)

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