

Unlocking the value of Public Sector Intangible Assets

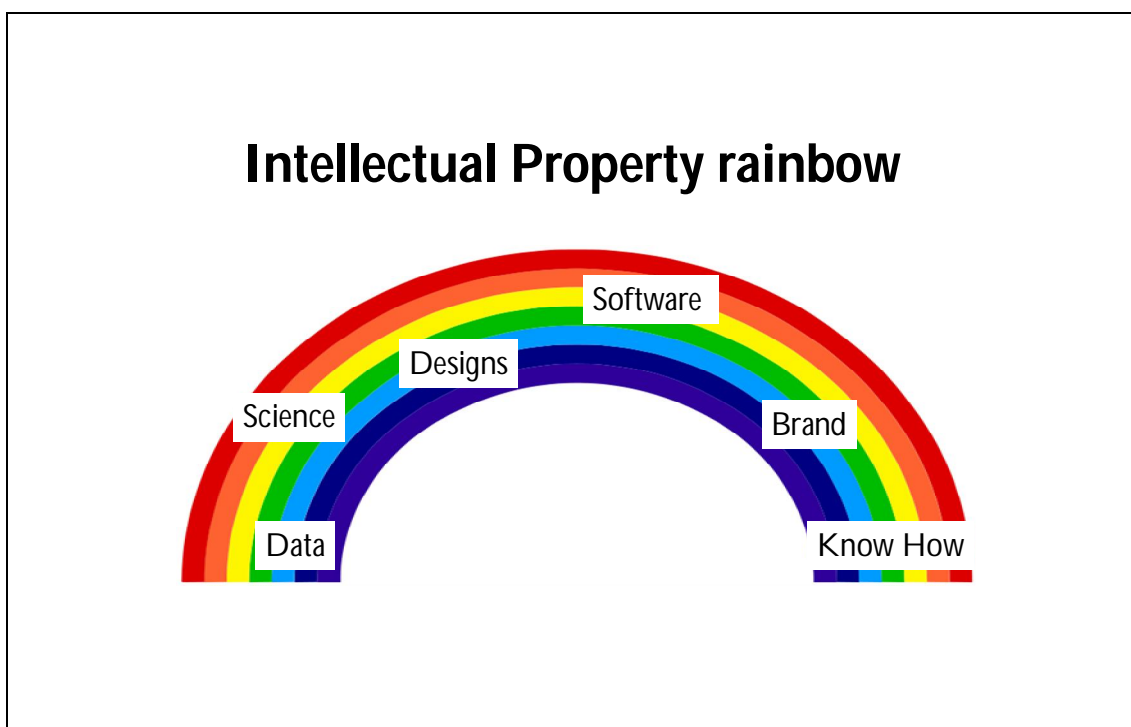
Intangible Assets such as Intellectual Property are firmly on the agenda

“...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’.

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 to be unlocked from intangible assets of which a very major component is Intellectual Property (IP). These assets may 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 Assets present considerable challenge

The Lyons Report contrasted 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”.

But 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 intangible assets really are
- They do not have a strong perception of what 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 the UK Intellectual Property Office are leading a cross-Government review on)
- A perception that Government accounting rules and governance mechanisms have militated against such development
- Intangible assets 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.

This leads to the question “What can be done to make the most of Government intangible assets for the benefit of government, industry and wider society?”

Three Step Guide

To achieve the above, three key elements need to be in place:

1. the right policy environment exists within government itself
2. a process by which government departments can identify intangible assets and deliver real benefits
3. recognition of the different reasons to take action

Let us consider each of these in turn.

1.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”¹ 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. The challenge for public sector Chief Executives will be to take advantage of these developments and respond to the policy pressures.

2. 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 hardware, software inventions, processes, human skillsets etc).

Once the nature of intangible assets and its importance is understood, it is then easier to consider where it might lie and what potential it may have. Many of the barriers to exploitation – regulatory, perceptual, cultural etc – can then be tackled within a context. But this requires leadership from the top of an organisation.

It is critical to identify in the short term intangible assets which have most potential and, in the longer term, to set up processes which ensure that intangible asset rights are established and protected by contract on an ongoing basis.

Some of the intangible 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!)

A high level review of intangible assets will identify possible quicker wins and an assessment of the scale of potential. A sense of future value or worth can be

¹ http://www.cabinetoffice.gov.uk/newsroom/news_releases/2008/080401_taskforce.aspx

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 is undertaken 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. Our view is that the greatest potential will come not from assets created in the past, but from those yet to be created.

3. Recognise and take account of the different reasons to take action.

The key to unlocking the potential is to recognise and build upon the key 'motivational factors' as appropriate. These are characterised below:

- **Assess the risks and compliance framework** – avoiding unnecessary risk (infringing the IP of others) and working within competition law or PFI rules etc
- **Delivering efficiency gains** – utilising intangible assets to help drive further cost effective delivery of services across the public sector
- **Creating commercial ventures** – considering the practicalities of setting up or developing trading funds or other routes to exploitation within the public sector
- **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
- **Freeing data for the benefit of wider society** – creating opportunities to de-personalise data in ways that allow industry, academia and others to derive value from content rich data to create information, learning and wider value and benefit.

The motivations will vary – both with the public body and with the asset type.

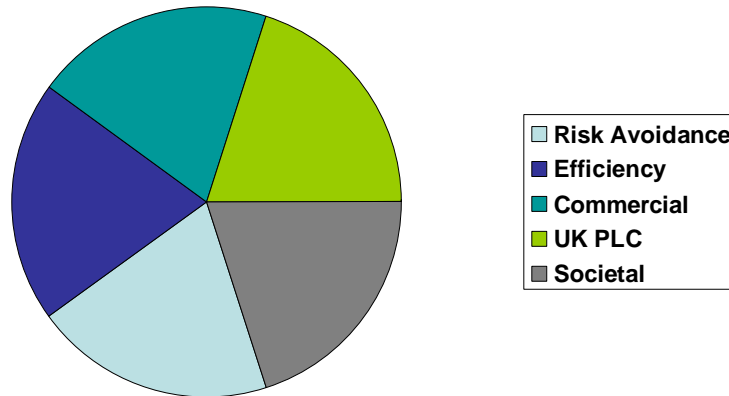
Conclusion

We have seen that policy climate for the exploitation of intangible assets is changing within the UK at present; and not in a way that seeks a narrow focus upon the commercial dimension, but one which permits benefit delivery and value creation in the most appropriate context within or outside government.

But government bodies also need to be equipped and empowered to identify and take intangible assets forward in the most appropriate way, informed by one or more of five identified motivational factors that help to determine whether:

- the intangible assets (particularly IP) should be exploited at all if the risks are too high and benefits too low
- it offers potential efficiency gains (in support of Gershon etc) for the body concerned or more broadly
- the body itself should seek to create value from the intangible assets themselves (creating a commercial venture)
- the intangible assets should be sold, leased or given to industry to capitalise upon
- it can be made available for the benefit of society in a broader context.

Benefits to optimal management of Intellectual Property assets



And the extent to which any of these outcomes can be achieved will depend upon: creating the right incentives to identify the intangible assets in the first place; the provision of expert guidance to map out the most appropriate development route; and the will and necessary resources to make it succeed.

About Shane O'Neill

Shane O'Neill is 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. He has recently been involved in advising policy makers on the issues around intangible asset value realisation from both compliance, commercial and societal benefit point of views.