Selling Government Services into Wider Markets
Policy and Guidance Note

Enterprise & Growth Unit
HM Treasury
July 1998

The Wider Markets Initiative
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The Wider Markets Initiative
This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn
Comptroller and Auditor General
National Audit Office
20 January 2006

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There have been other over-riding management priorities

The public sector can do more to recognise and exploit opportunities

The lack of an obligation to assess opportunities has left some assets underutilised

Re-energising the Wider Markets Initiative requires leadership and commitment, at all levels, to a businesslike approach

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EXECUTIVE SUMMARY
Public assets such as land, buildings, people and intellectual property, which are needed to deliver core services, can often be used more fully. The Wider Markets Initiative is a government policy designed to encourage the more intensive use of such assets through the development of new, non statutory goods and services which are sold on a commercial basis. The more efficient use of public assets that results helps the public sector to reduce its cost base and improve its skills base.

The nature of the initiative

The Treasury established the Wider Markets Initiative in 1998 and contracted Partnerships UK to support it in 1999. The policy is discretionary – there are no income generation or other targets. This is to avoid any adverse impact on core activity and so that decisions on commercial, income generating activities are not distorted.

There is a central requirement for departments to have a Wider Markets Officer to provide guidance, to act as a point of contact and to track activity. There is also an incentive for the public sector to carry out wider markets activity as departments can retain income generated to offset against expenditure or to count towards efficiency targets. There are, however, cultural, bureaucratic and resource barriers which run counter to this incentive.

The central monitoring and support arrangements are not substantial. As at late 2005 there was one Treasury official with policy responsibility for the initiative. The Wider Markets Unit in Partnerships UK also has one dedicated full time person to provide, free of charge to public bodies:

- a help desk to respond to general queries;
- project specific support;
- a service to review wider markets projects and assist in their development; and
- guidance material.

The 2004 Lyons’ review of public sector asset management recommended that efficient management of retained assets should be explicitly prioritised and should include the more intensive sweating of physical or intellectual property assets. The review noted difficulties in identifying intangible assets and recommended that steps should be taken to re-energise activity to identify and exploit these assets.

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1 Partnerships UK launched in 1999 out of HM Treasury Task Force and funded in 2000 and 2001, is a joint venture, with a majority stake held by the private sector. The cost of support to the Wider Markets Initiative is included with other services funded by the public sector. Further details are given in Appendix 3: Partnerships UK and Figure 17.


executive summary

Scope of the report

6  We examined the implementation of the Wider Markets Initiative. Improvements could be made by considering the Initiative as an integral part of asset management. Asset management itself would need to be treated as an important function. It would also require better information, including a systematic assessment of potential and, where significant sums are involved, reliable information on profit generated.

Achievements to date

7  Some parts of the public sector were trading commercially before the Wider Markets Initiative was established. To date, especially in the context of departments overall expenditure, the revenue generated by wider markets projects launched since the start of the initiative is small.4 As many of the businesses are in their infancy they do not yet provide an accurate guide to the potential offered by the Wider Markets Initiative. Our examination indicates that there is likely to be untapped potential.

8  While public bodies are able to produce information on the revenue earned, most, apart from trading funds, have information gaps about the cost of generating income. For example, during the course of our examination we could not find reconciled management information on wider markets activity, combining revenue, cost and performance information. It would not have been possible for us to construct an analysis of all wider markets projects, because of lack of data. To illustrate the possibilities, however, we did construct a quantitative financial analysis of the alternative uses for the Boxer Towers available to the Ministry of Defence. This showed the wider markets solution to be the best choice (paragraph 2.20).

9  Interviews with Finance Directors showed that, given the demands of meeting ambitious headcount and asset disposal targets, management of retained assets was generally low down their list of priorities and excluded wider markets activity. A major driver for this activity was budgetary pressures and a desire to generate extra revenue to spend on core activities. The one department in four that had actively promoted wider market activity had been as much driven by funding pressures as being aware of opportunities.

10 Following the Lyons’ review of public sector asset management, the 2005 Budget required all departments to develop an asset management strategy, driven by their business plans, as the responsibility of finance directors, to be considered and approved at board level. Interviews with Finance Directors took place shortly afterwards in May and June. They agreed that the Wider Markets Initiative deserved more attention than hitherto. They also considered that the public sector would gain from developing a more enterprising and businesslike approach to asset utilisation and knowledge management.

11 While at central government or even departmental level the Wider Markets Initiative is currently having a small impact, at a local level the position is different. The local level is where most wider markets revenue is applied and where even a few thousand pounds can make a significant morale boosting difference by allowing deferred spending to take place. Several public bodies reported that staff job satisfaction increased with the additional skills and responsibilities required when undertaking wider markets activity. Others report that staff used in wider markets activity brought the experience they had gained delivering commercial services back to the conduct of core services, leading to improved quality in terms of objectives and delivery.

4  A survey (para 3.23) is under way by Partnerships UK to remedy the lack of information on wider markets activity (see also Appendix 1).
Obstacles to wider market activity

12 The potential for wider markets activity is highly variable across departments. Barriers to wider markets activity include a culture of risk aversion and a lack of commercially skilled individuals. Many departments have not attempted to gain an understanding of the nature or full extent of potential opportunities arising out of their own assets or of the bodies they are responsible for. There are difficulties in identifying and estimating the potential benefits of, as yet, unrecognised opportunities. A well-informed assessment undertaken by a trained Wider Markets Officer, with external help if appropriate, on a systematic basis would be needed before any reliable attempt could be made.

13 The profile of Wider Markets Officers varies between departments. Only one third of Wider Markets Officers, as at mid 2005, had been in post for more than a year and engaged substantively with the initiative. Generally, the Wider Markets Officers do not appear to be ‘championing’ wider markets to their departments, but respond when opportunities are identified by individuals or bodies within departments.

14 A businesslike approach to such opportunities would necessitate good risk management and delivery skills, allied to experience of making commercial decisions. The acquisition of such skills would be likely to benefit core work. Achieving these skills requires prior experience or significant training. Some staff recruited from within the civil service acquire these commercial skills ‘on the job’, but their hard won experience is lost once they are posted elsewhere, with new appointees starting afresh. Although Partnerships UK runs a ‘help desk’, more extensive existing wider markets knowledge and experience is not made available easily and automatically to other public bodies that have just identified an opportunity. There is often scope to help the public sector avoid ‘reinventing the wheel’.

15 Suitable personal and unit rewards would also be needed to reward those who identify opportunities and to motivate those charged with turning the opportunity into a commercial reality. As a result of the Baker Review, (paragraph 3.30), incentives have recently been increased in one area within the existing public service framework – to reward scientific discoveries that are commercially exploited.

16 In complex cases bodies are encouraged by the Treasury policy guidance to look for a private sector partner, if one can be found, to:
- fund additional investment in people, infrastructure and resources;
- introduce commercial skills and routes to market that the public sector is unlikely to have; and
- accelerate the development of commercial opportunities so obtaining returns faster than might be the case if the public body were to exploit its assets alone.
On identifying underutilised assets

1. As part of their response to the Treasury’s drive to increase efficiency, departmental management boards should include asset management, and thus the Wider Markets Initiative, in the annual business planning of the department and its sponsored bodies.

2. Departments have a responsibility for managing and, on a regular basis, updating a comprehensive record of their assets. Departments should make sure that intangible assets, including intellectual property, are also covered.

3. Departments should conduct assessments of potential for wider markets projects. These assessments of underutilised assets and their potential for wider markets activity should be made available to the Treasury and Partnerships UK. Over a two year period, Partnerships UK should aim to carry out an external review of those departmental assessments that show neither activity nor identified opportunities.

4. Departments should provide Wider Markets Officers, on taking up their post, with training to equip them to undertake a proper review and appraisal of opportunities.

On promoting ideas with revenue potential

5. Departments should monitor the effectiveness of their current arrangements for collecting and rewarding staff ideas for savings and for income generation. Where there has been little response, departments should mobilise management effort and consider increasing the incentives. One model of good practice is provided by the Ministry of Defence ‘Gems’ award scheme.

6. Based on the cases examined, there is currently inadequate information on the profitability of much wider markets activity. For each wider markets activity departments need clear objectives and financial targets, and accounting systems to measure financial performance.

7. Partnerships UK should analyse and report at least annually on wider markets activity with a view to increased cross fertilisation and co-ordination of opportunities, knowledge and practice across the public sector.
On becoming more businesslike

8 A fresh approach has to be led from the top. Departments should nominate a ‘champion’ at or close to Management Board level, as the Ministry of Defence does, to give the discretionary initiative a higher profile.

9 In selecting Wider Markets Officers, departments should see them as a long term investment and seek individuals with commercial experience. The officers selected should have access to top management and resources, and spend sufficient time in post for the effective performance of their duties.

10 Partnerships UK should build on the training which it has hitherto provided to Wider Markets Officers to embed the skills, experience and capacity necessary to develop and spread commercial skills that can lead to better management and delivery of public services.

11 Public sector bodies that have run a wider markets activity as a separately accountable cost centre, and on that basis confidently forecast achieving a sustainable level of revenue and profit, should give early consideration to a change of structure to enhance business and risk management. Depending on the scale of their revenue, options include setting up an agency or trading fund, or separately incorporating the relevant commercial activities as a registered company. The option would be selected to introduce commercial discipline, additional accounting transparency and more scope to develop the business.

5 Under the proposals in the new Company Law Reform Bill these will be subject to audit and scrutiny by the Comptroller and Auditor General.
PART ONE
Wider markets activity uses core assets more intensively
The Treasury seeks improved value for money from public assets

1.1 Successive governments have taken measures to encourage better management in the public sector. In the late 1990s a number of measures were introduced to encourage the public sector to become more businesslike and focus on managing resources rather than cash.\(^6\) These include switching over from cash accounting to resource based accounting, the establishment of a National Asset Register and the Wider Markets Initiative. The aim of the measures was to encourage public bodies to understand and manage their assets better. They encourage the disposal of non core assets and better utilisation of core assets.

The Wider Markets Initiative has a role in the better management of assets

1.2 Public assets – such as land, buildings, people and intellectual property – needed to deliver core public sector activity can often be used more fully. The Treasury established the Wider Markets Initiative\(^7\) in 1998 and contracted Partnerships UK to support it in 1999 (see Figure 1 overleaf). This discretionary policy is about:

“changing the culture in Whitehall. It’s about giving departments incentives to operate efficiently rather than just telling them to do so. It’s about the Treasury giving them guidance and support. A partnership in agreement as well as between government and the private sector.”\(^8\)

It involves making new, non-statutory, use of core assets, through the sale or lease of goods and services in a competitive market on a commercial basis. Many public bodies, such as the Post Office and the British Waterways Board, already had a history of trading and operating commercially before the initiative was launched.

1.3 The initiative therefore encourages, but does not oblige, the public sector to adopt a more businesslike approach to making use of public assets. There are no income generating or other targets. This is for a number of reasons including concern to avoid such activity having a negative impact on core activity and to avoid distorting decision making in relation to commercial income generating activities. The policy is that such activity must not impact adversely on the delivery of core activity. Departments have an incentive to undertake it as income generated from wider markets projects can be used to offset administration costs and meet efficiency targets.\(^9\) There are however cultural, bureaucratic and resource barriers which limit uptake of the initiative.

1.4 The benefits of wider markets activity include:

- reducing the cost base and improving the skills base in the public sector through the cash returns from sales revenues;

\(^6\) See Appendix 4: Resource Accounting for further information on the extension of resource accounting, already in use in some public bodies, to departments.


\(^8\) Paymaster General, 26 October 1998, HM Treasury Press Notice 176/98.

\(^9\) The classification of wider markets income as ‘negative expenditure’ means that it counts against ‘Gershon’ efficiency targets.
the commercial experience gained for staff members, directly relevant to contracting private sector resources to play a part in the better delivery of core services; and

- corporate income taxes on profits generated (if set up as separate businesses).

1.5 The requirements of the Wider Markets Initiative are:

- new activity must be financed from within existing resources;
- there may be flexibility in the extent to which income needs to be accounted for on an annual basis depending on departments’ usual arrangements;
- the case for any new assets should be based on requirements for delivering core departmental objectives; and
- any substantial investment should normally come from the private sector.

1.6 The Treasury manages the policy with a light touch as departments are free to decide, on a discretionary basis, how far to engage with the initiative. As at late 2005 there was one Treasury official with policy responsibility for the initiative. The Wider Markets Unit in Partnerships UK now forms part of the Commercialisation Team (together with the Science and Technology Unit), with the equivalent of one full time dedicated person to provide:

- a help desk to respond to general queries;
- project specific support;
- a service to review Wider Markets projects and assist in their development; and
- guidance material.

These services are free to public service bodies.

To deter waste, there is a capital charge on fixed assets

1.7 To help improve asset management and prepare for resource accounting and budgeting, departments were required to identify and value their assets. The National Asset Register was introduced in 1997 and revised in 2001 to provide greater visibility of these assets. Generally, there is a disincentive to allow assets to lie underutilised – as part of resource accounting assets attract a capital charge of 3.5 per cent. This is intended to encourage the disposal of unnecessary assets and the effective use of those that are essential. Wider markets activity helps departments reduce the impact of the capital charge by allowing them to generate income to offset the charge.

Guidance has helped encourage wider market activity

1.8 Public bodies have a long history of ad hoc commercial activity. For the most part such activity evolved out of arrangements at a local level. The Treasury’s ‘Fees and Charges Guide’ is the longstanding guidance on costing government services. Although primarily concerned with public bodies providing statutory services to the public and others, it also contains guidance relating

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to commercial services sold to the wider public sector, the private sector and general consumers. This guidance offers flexibility on the costing and pricing of products and services supplied by departments, agencies, trading funds and other public bodies:

“While each service is normally expected to recover full cost, there are some circumstances in which this general principle may be modified for commercial services to achieve greater efficiency and sensitivity to patterns of demand or cost”.

1.9 Specific guidance has been produced for the Wider Markets Initiative\textsuperscript{11} to help public bodies to improve the oversight and management of their commercial activities. Treasury guidance on wider markets\textsuperscript{12} starts with the proposition that a full cost attribution should be used although it also allows for exceptions. The Ministry of Defence has been particularly pro active in improving the overall quality of the management of its commercial activities, including producing its own detailed guidance for internal use.

A wide variety of wider markets activity has been undertaken

1.10 Wider markets activity covers exploiting software, databases, expertise, skills, brands and intellectual property as well as physical assets such as land and buildings. Utilising these assets more fully can involve selling existing goods and services, developing new goods and services from existing assets, licensing and leasing arrangements, and sponsorship activities (Figure 2).

1.11 When undertaking wider markets activity public bodies must conduct detailed analysis of the proposed activity and their capacity and ability to deliver such activity successfully. The level of analysis or due diligence should be proportionate to the risk profile of the proposed activity. Wider markets activity encompasses projects with very different risk profiles, illustrated in simple terms by the quadrants in Figure 3 overleaf.

1.12 British Waterways Board has a range of commercial activities, generating £88.3 million in 2003-04 towards the care and upkeep of the waterways.\textsuperscript{13} British Waterways has adopted a portfolio approach to managing its risks in forming these ventures, which includes the sale of water to the water utilities. Another venture, the Watergrid project, involved treating water for sale to new customers, the end users. This project did not meet its targets because the new market sectors failed to develop as expected. While judging the Watergrid project as unsuccessful, British Waterways has used the experience gained to help it develop several new projects in partnership with the private sector, primarily in property development. The most recent is to develop their estate of public houses in a venture, with a private sector partner, called The Waterside Pub Partnership.

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
Examples of types of Wider Market Projects \\
\hline
\textbf{Facilities}  \\
- Leasing of spare warehousing  \\
- Hire of spare office and conference facilities  \\
- Hire of sporting facilities  \\
- TV and film opportunities: sites, extras, video footage, etc  \\
- Dual use of specialised physical assets – infrastructure and equipment  \\
- Restaurants, Cafes and Gift Shops  \\
\hline
\textbf{Services}  \\
- Commercial sales of in-house services: printing, translation, mail sorting, and dispatch  \\
- Advertising and sponsorship  \\
- Merchandising  \\
- Licensing of IT applications  \\
- E-Services  \\
- Sales of training/teaching courses  \\
- Consultancy services  \\
\hline
\textbf{Products}  \\
- Licensing and repackaging of datasets  \\
- Sale of anonymised data  \\
- ‘Value added’ products based on public information  \\
\hline
\end{tabular}
\caption{Examples of types of Wider Market Projects}
\end{table}

Across the public sector there is a variety of wider markets activity.

11 Both Treasury and Partnerships UK have produced guidance on commercialisation topics (See Figure 10).
13 British Waterways Board income from new wider markets ventures was £1.8 million in 2003-04 and increased by £5.1 million in 2004-05 (Source: Annual Report and Accounts).
1.13 For the most part wider markets activity has involved the development of existing products or knowledge to enhance their appeal to customers. Some projects such as the Probate Service’s ‘Probate Online’ (Case Example One: Probate Online) target new markets. In this case one market segment is non United Kingdom residents, based overseas. The revenue earned is additional funding from outside the United Kingdom tax base.

1.14 The Army has taken a wider ranging approach to the initiative. In developing a pipeline of new products, such as the ‘army training shoe’, it is seeking to identify and exploit separate segments of the market. The target market for each product is different and, to succeed, the Army has had to position the product for each market segment. To achieve this it has selected, for pilot projects, a number of private sector partners which have what it considers appropriate experience.

Exploiting new markets has most impact at local level

1.15 While at central government or even departmental level the Wider Markets Initiative is currently having a small impact, at a local level the position is different. The local level is where most wider markets revenue is applied and where even a few thousand pounds can make a significant morale boosting difference by allowing deferred spending to take place. The Department for Constitutional Affairs has been able to undertake a programme of rolling office refurbishments from the proceeds of hiring court facilities for use as meeting venues when they are not in use as courts.

1.16 The opportunity to earn additional revenue is also built into the provisions of some new facilities by the private sector, with a view to selling this capacity under wider markets arrangements. Flagship Training Ltd markets and project manages major and bespoke training which is delivered by the Royal Navy to commercial companies and foreign customers. Flagship’s facilities have additional capacity, over and above the Royal Navy’s needs. This capacity is marketed on a commercial basis, for instance providing engineering training to Network Rail’s apprentices. The arrangements allow this additional training capacity to be available to the Royal Navy if needed. In this way the Royal Navy has acquired a surge training capacity without incurring either the initial build cost or the long term maintenance cost.

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**Different risk profiles of wider market activity**

The risk associated with a new business activity increases with its novelty. Dealing with existing customers and products is lower risk. Dealing with either new products or new customers increases the risk, while attempting both at the same time has the highest risk. The diagram shows the spread of wider markets activity.

![Diagram showing different risk profiles of wider market activity](image)

**Source:** National Audit Office

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14 For an explanation of the categorisation used for selecting the cases in Figure 3, see Appendix 1.
Probate Online

A will is a formal document setting out what a person wants to happen to their possessions after their death.

Since 1858 wills subject to probate have been registered with the Probate Service. The probate service maintains a register of wills containing the name of the person, their occupation, their address and the date of their death. This accurate information is of value to genealogists.

The information is currently held in 1,013 folio bound volumes at the Principal Probate Registry in Holborn, London. The public can examine the folio volumes, which are only available during office hours, and for a statutory fee obtain a copy. The copying service is provided under contract to the Probate Service by Iron Mountain (UK) Limited.

The Probate Service examined the demand for a digital version of the registers and assessed that demand for copies of extracts of the register could be increased by between 700 and 2,000 per cent. It is anticipated that a substantial part of this revenue will be generated from non United Kingdom residents. On the basis of this predicted increase in demand for their service Iron Mountain (UK) Limited agreed to meet the full cost of digitising the entire probate record back to 1858. They will also install and maintain a new IT system for the project.

The Probate Service aims to make the indexes available on-line, from 1996 to the current date, this financial year. They will then work back from 1995 to 1858, making sections available on-line, as and when they are digitised, so that by the end of the following year, all records back to 1858 will be published on the Internet.

The Probate Service retains the intellectual property rights in the dataset and has not had to make any contribution towards the cost of these projects. It will continue to receive its share of the copying fee. The public benefits from an improved level of service.
PART TWO

Where undertaken, Wider Markets activity has generally delivered benefits
Improving the utilisation of assets has not generally been a priority

2.1 Over the last decade the public sector has taken significant steps to dispose of surplus assets. Less effort has gone on encouraging better utilisation of core assets although this has started to change. Following the Lyons Review of public sector asset management the 2005 Budget required all departments to develop an asset management strategy, driven by their business plans, as the responsibility of finance directors, to be considered and approved at board level. In interviews with several departments shortly afterwards (in May/June) Finance Directors agreed that the Wider Markets Initiative probably deserved more attention than hitherto.

2.2 Even the best run organisations cannot achieve 100 per cent utilisation, requiring spare capacity to account for equipment failures, training needs, sickness and variations in demand. Some departments, such as the Ministry of Defence, need to keep significant capacity available in case contingent events occur. Other bodies such as the Centre for Environment Fisheries and Aquaculture Science require high levels of particular expertise for a short period to complete tasks, such as the National Marine Monitoring programme. Both have found uses for this spare capacity (paragraph 2.11) but other public bodies have been less active.

2.3 The scale of potential wider market opportunities for each department varies. We would intuitively expect those with large headcount and/or large holdings of assets to have wider market opportunities (Figure 4 overleaf). A coherent, auditable and well-informed assessment of the opportunities on a systematic basis by departments would be needed before any reliable figures could be given as to the potential of such activity across the public sector.

There has been no systematic attempt to evaluate the potential for wider markets activity

2.4 On the whole, our interviews with finance directors show that many departments have in the past been unable or unwilling to gather the information required to conduct analysis of the intensity with which assets are used. In the private sector, shareholders can act as a strong incentive on company management to develop and implement active asset management strategies to ensure that their assets are used efficiently to achieve business objectives. In past years, the subject of asset management had been given a low priority by public sector management boards, given the demands of meeting ambitious headcount and asset disposal targets. The Budget statement 2005 (paragraph 2.1) and the corporate governance code (paragraph 3.13) should encourage this.
2.5 A specific aim of the Wider Markets Initiative is to improve the exploitation of public sector intellectual property. Across the public sector there have been difficulties in identifying and measuring the value of intellectual property assets. Significant national datasets such as: the Driver and Vehicle Licensing Agency’s driver records and the Ordnance Survey’s National Geographic Database have not been measured and recorded as assets. Some omissions may have substantial value and potential.

2.6 Although, as part of the Wider Markets Initiative each department is required to have a Wider Markets Officer, the profile of Wider Markets Officers varies between departments (Figure 5). Generally, the Wider Markets Officers do not appear to be ‘championing’ wider markets to their department, but respond when opportunities are identified.

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NOTES
1 Department for Education and Skills loans have been excluded for the purposes of this table. Further detail is included at Appendix 2 Departmental Assets.
* asterisked departments have made recent assessments.

16 The Comptroller and Auditor General has qualified the Ordnance Survey’s accounts in this regard. The DVLA income cannot be forecast with any degree of certainty and is currently not significant in terms of the Driver and Vehicle Licensing Agency accounts.
2.7 Energetic Wider Markets Officers in public bodies have provided information and training aimed at ensuring that career civil servants have a good understanding of their role in developing and delivering new public services on an enhanced basis. The Ministry of Defence provides a good example of good practice in such activity. In most departments the post of the Wider Markets Officer is not a full time post, but is an adjunct to other responsibilities. In some departments a part time post is appropriate but this is not always the case. Moreover, the effectiveness of the Wider Markets Officers appears to be diluted by frequent changes in post and personnel. Lists of Wider Markets Officers are often out of date. In some cases, previous Wider Markets Officers did not know who currently occupied the post. This will inevitably disrupt the flow of information within departments, and also between departments, Partnerships UK and the Treasury.

2.8 There is also little continuity in post – only one third of Wider Markets Officers, as at mid 2005, had been engaged with the initiative for more than a year. Figure 6 illustrates the difficulties faced in such departments. This lack of engagement may have resulted in potential worthwhile wider market activity being unrealised. A positive correlation is apparent between the level of activity prevalent in a department and the time allocated to the activity by the Wider Markets Officer.

### Typical quotes from Wider Markets Officer survey replies

The quotes below represent a selection of replies to our queries regarding Wider Markets Officers.

- “Exploitation of wider markets has not been a priority in recent times.”
- “I do not have formal links with colleagues dealing with asset management and efficiency.”
- “There is no specific budget for Wider Markets activities.”
- “[We] were not aware that income generation and asset management/efficiency drives were collectively known as WMIs within the Department, so could not identify any Wider Market Officers within their boundaries.”
- “I spend virtually no time on Wider Markets issues and it is not assessed in my performance appraisal.”
- “[Trusts] have staff looking at finance and procurement issues but not specifically dealing with Wider Markets issues.”
- “…I am babysitting this work… until I go off on maternity leave.”

Source: National Audit Office
The 77 per cent of Wider Markets Officers who spend five per cent or less time on the initiative (Figure 5) can be fulfilling their primary responsibilities effectively, which are:

- to provide a point of contact for both external and internal parties;
- to provide assistance and guidance to project teams in identifying and establishing wider markets opportunities; and
- to maintain a log/knowledge of current wider markets activity within the department.

Where specific factors apply there have been successes, elsewhere the impact is patchy.

2.9 Our study has noted a number of successful applications of the Wider Markets Initiative. At present the cash sums raised provide an incentive for the activity but tend to be modest, sometimes measured in thousands of pounds, and for reasons discussed in paragraph 3.22 the net profit figures are unclear. Nevertheless, the case examples show assets being used more productively, costs being cut without affecting services (apart from enhancements) and improvements to staff skills and morale. The nature of the activity is diverse both in type and scale ranging from logo bearing thimbles to large property deals. These functioning projects tend to have a number of features in common.

2.10 The most consistent feature of active wider markets projects is the presence of an entrepreneurial individual with the skill, drive and determination to push the project forward. Generally, although not exclusively, our study found these individuals have some private sector experience. They tend to be in senior positions, such as chief executive in smaller bodies and middle ranking positions in larger bodies, where they are both sufficiently close to the project to grasp the detail and senior enough to influence decision making within the organisation. This ‘project management’ function is separate to the creation of the business idea.

2.11 The creation of business ideas for wider markets projects has come from a number of sources. It is something which is not easy to do in a systematic manner. Our case examples show a mixture of opportunity and/or necessity to be common sources of business ideas for the wider markets case examples we examined. The Boxer Tower project (Case Example Two: Boxer Towers) made particular use of the opportunity presented by the mobile telephone industry’s need to build out their third generation mobile phone networks.

**CASE EXAMPLE TWO**

**Boxer Communication Towers**

The 114 Boxer communication towers were part of a network, built during the cold war, to provide survivable secure communications between Royal Air Force stations in the event of Warsaw Pact attack. Once the network was deactivated the high specification Boxer Towers were redundant. The towers remained an annual cost due to the need for safety inspections. Demolition would cost £50,000 per tower. The location of the towers within secure Ministry of Defence facilities made disposal difficult.

Following a competitive process the Defence Communications Services Agency entered into partnership with NTL (now known as Arqiva) for a 20 year period in December 2001. Arqiva is paid a basic lease fee of £3,000 per tower for managing, maintaining the towers to an agreed standard and marketing them.

Arqiva generates revenue by sub letting space on the towers to mobile telephone operators. The towers are attractive to third party operators because of their secure locations and the high quality of the towers. From the gross revenue Arqiva deducts a ten per cent management fee. The remainder of the income is split 88 per cent/12 per cent between the Ministry of Defence and Arqiva. Over the life of the deal the Ministry of Defence expect to achieve average annual gross revenues of £720,000.

The deal is now being extended to other Ministry of Defence towers and to leases of land for new tower builds (subject to planning permission being granted). For new tower builds the cost of maintenance reduces £1,500 per tower per annum, but the profit share remains the same. Five percent of the Ministry of Defence’s share of the revenue is retained by the Defence Communications Services Agency to cover administrative costs. The Defence Communications Services Agency has used some of this money to establish a small development fund to cover the cost of adding towers from other communications systems to the scheme. The remainder being returned to the unit or establishment at which the relevant tower is located.
The Centre for Environment Fisheries and Aquaculture Science (Case Example Three: CEFAS Technology) is an example of a public body successfully addressing a decline in the funding of its core activity through wider markets activity.

When present, management commitment has overcome concerns about vires, regularity, probity and competition that inhibit activity

2.12 Public bodies have come into existence by a number of means, for example: a Royal Charter or an Act of Parliament. A body may not have the vires (legal powers) to undertake wider markets activity. There may, for example, be constraints on the scope of a public body’s activity or its ability to form a joint venture company. While bodies of similar type may share limitations that can be significant barriers to activity, other limitations are unique to particular organisations and may not be obvious (Case Example Four: Military Personnel, overleaf).

2.13 The exact nature of the body determines the ease with which it can conduct wider markets activity. Some bodies may need to seek specific Parliamentary authority for expenditure to conduct wider markets activity. Our study noted a particular difficulty for executive agencies that operate as ‘net agencies’.

2.14 A ‘net agency’ is a public body which is not structured solely as a spending body, but has trading income and seeks to balance its books in each financial year. This requirement may act as a disincentive to such a body undertaking wider markets activity which is unable to break even within one year. Few ventures, public or private, are able to achieve this speed of return. The effective result is that ‘net agencies’ are initially prevented from directly undertaking any wider markets activity with a lengthy payback period. Nevertheless it is possible for such barriers to be overcome. The Centre for Environment Fisheries and Aquaculture Science took such activity forward by spinning off a company (Case Example Three: CEFAS Technology).

CASE EXAMPLE THREE

CEFAS Technology

The Centre for Environment Fisheries and Aquaculture Science is an executive agency of the Department for The Environment Food and Rural Affairs. CEFAS has an annual turnover of approximately £40 million. Two thirds is generated through a memorandum of understanding with DEFRA. The remainder comes from contracts with: the European Union; the Food Standards Agency; other government departments and foreign governments. The majority of its wider markets activity (i.e. non-DEFRA related work) takes the form of consultancy work. In its 7-8 years as an agency commercial activity has grown from £200,000 to £10,000,000 per annum. As a net cost agency there exists ‘an array of hindrances’ to commercial activity. Particularly they relate to the annual limits imposed by government accounting rules. CEFAS work within the resource accounting guidelines but have found that a spin-off company, CEFAS Technology Limited, which was created to deal with an early alliance, has also enabled limited risk management on one contract by providing more flexibility across year ends. This company is 100 per cent owned by the Secretary of State, with the shares held in trust by the Chief Executive of CEFAS.

CEFAS believes that participation in the Wider Markets Initiative has brought the changes described below:

- Better utilisation of assets – By commercially exploiting assets which are not being fully used, CEFAS has reduced the cost of providing core services to a level which DEFRA can afford.
- Changed staff behaviour – While there has been some resistance from longer service employees, many new hires more readily accept the concept of commercial activity. The activity has had a positive effect on staff skills. Exposure to contract based work has improved skills generally and in particular meeting obligations and budgeting.
2.15 Where civil servants engage in commercial activities this can give rise to concerns, for example, about conflicts of interest between statutory duties and commercial activities. Our study found no examples of conflicts of interest. We found that the current guidance and regulations provide an adequate protection for both individuals and organisations if they are applied properly.

2.16 Competition issues can pose problems for public bodies. There have occasionally been accusations of unfair behaviour or concerns about state aids. The Office of Fair Trading is currently undertaking a Market Study, due to report in 2006, into the market for public information. Separately our study found that there already exists a substantial body of national and European competition law applicable to public bodies undertaking wider markets activity. To comply with such rules, guidance generally requires pricing in a competitive market to recover full cost, including a cost of capital charge.

Ensuring that all the regulations are complied with unavoidably absorbs management time.

2.17 Public bodies have faced and addressed these difficult issues in a variety of ways. In England, Wales and Scotland, the Forestry Commission sought legislative changes from the relevant parliamentary body for their commercial activity. The Centre for Environment Fisheries and Aquaculture Science established an incorporated subsidiary to conduct its commercial activities. Each situation required a tailored solution. Wider Markets Officers we interviewed all noted the need for better access to information and practical assistance to avoid different bodies reinventing the wheel.

CASE EXAMPLE FOUR

Military Personnel

Military personnel are directly commissioned, for officers, or enlisted, for other ranks, into the service of the Crown. Consequently, they have no formal contract of employment. Their service is governed by the Service Discipline Acts and Queen’s Regulations.

Military personnel are not contracted to carry out any specific function, but put under the orders of superiors appointed by the Crown. The regime created by the above Acts of Parliament and Regulations require military personnel to obey lawfully given orders. Failure to obey a lawful order is a military offence punishable by a fine, detention or imprisonment. Equally the Service Discipline Acts and Regulations make it quite clear that for an order to be lawful it must have a ‘military purpose’.

This creates a problem for the armed forces in respect of wider markets activity. Purely commercial activity unrelated to the core activities of the armed forces may lack a military purpose. If that is the case then military personnel cannot be ordered to undertake the task.

As no other lawful method of issuing instructions to members of the armed forces exists a purely commercial activity cannot be undertaken.

The Ministry of Defence has to ensure that any wider markets activity it undertakes using service personnel has a ‘military purpose’. For example, its commercialisation of the army training shoe has a military purpose because it is used by army personnel to achieve the standard of fitness required by them to be ready to take part in military operations. Furthermore the revenue earned is fed back into improving morale at a local level.

17 The Office of Science and Technology has produced guidance on managing conflicts of interest (which is available on their website www.dti.gov.uk/ost). This involves procedures to register, assess and monitor potential conflicts. In general commercial activities may only be taken forward after the development of specific measures to manage risks relating to such conflicts. The arrangements rely on transparency and oversight from senior management who do not stand to benefit.

18 The study will look at whether or not the way in which Public Sector Information Holders supply information works well for businesses. It will examine whether Public Sector Information Holders have an unfair advantage selling on information in competition with companies who are reliant on the Public Sector Information Holders for that raw data in the first place.

19 Capital charge in an indicative range between 5.5% and 15% depending on the degree of risk.

20 British Waterways Board used the Regulatory Reform Act to gain the vires to enter into joint ventures.
2.18 Commercial activity, by its nature, requires bodies to take on a degree of risk. Several of the project bodies examined in this study noted an aversion on the part of their sponsoring departments to letting them take on the commercial risks associated with wider markets activity, fearing that the commercial activity would prove a distraction from the provision of core services. Without the support of sponsoring departments it is almost impossible for projects to get off the ground. The timely involvement of the department is required for the approval processes referred to in paragraph 3.14 and to address concerns raised by commercial activity (paragraphs 2.15 to 2.16). Where departments have little appetite for commercial activity, projects have little prospect of successful implementation.

2.19 Already there is a noticeable difference in outcomes between departments. Some bodies and departments arrive at a view that they either cannot or should not undertake wider markets activity. Others, sometimes driven by funding pressures, have seen opportunities and invested time and resource into the initiative. The Ministry of Defence does not yet collect information to allow an accurate estimate of the added value achieved by its wider markets activity, but it already recovers many times the cost of the additional £200,000 per annum it puts into supervising and promoting wider markets activity. It projects a steadily increasing income from wider markets activity.

2.20 The main drivers for this activity in the Ministry of Defence, as elsewhere, include budgetary pressures and a desire to generate extra revenue to spend on core activities. The Armed Forces and the Ministry also value the enhanced reputation and benefit to community relations from wider markets activities. As part of our case example work we conducted a review of the options available to the Ministry of Defence in dealing with the Boxer Towers (Case Example Two: Boxer Towers, page 16). We examined the five alternatives. For each alternative we calculated the Net Present Value of the capital and operating costs and revenues. The ‘No Private Partner’ option gives an estimate of the extra cost the Ministry of Defence would have incurred without a private partner. The wider markets option shows a Net Present Value of £15.4 million, which is £3 million more than the next best option. The results are in Figure 7.

<table>
<thead>
<tr>
<th>Option</th>
<th>Net present value at 3.5% (£ million)</th>
<th>Additional cost of option over WM project (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wider Markets project</td>
<td>15.4</td>
<td></td>
</tr>
<tr>
<td>No private partner</td>
<td>12.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Do nothing</td>
<td>(1.8)</td>
<td>17.2</td>
</tr>
<tr>
<td>Demolish phased</td>
<td>(5.5)</td>
<td>20.9</td>
</tr>
<tr>
<td>Demolish immediately</td>
<td>(6.3)</td>
<td>21.6</td>
</tr>
</tbody>
</table>

Source: National Audit Office

Public servants have had to acquire new skills to act commercially which can enhance the efficiency of public services

2.21 There is a contrast between traditional public sector drivers and those in the commercial sector. Public services are generally focussed on delivering services to a budget, stretching delivery or cutting scope as necessary. Conversely in a more competitive arena, private sector business must deliver the most appealing and efficient service to win custom. Several public bodies reported that staff job satisfaction increased with the additional skills and responsibilities required when undertaking wider markets activity which involved gaining commercial skills. The Centre for Environment Fisheries and Aquaculture Science told us that staff used in wider markets activity brought the commercial experience they had gained back to the conduct of core services, leading to improved quality in terms of focus on meeting objectives and delivery to agreed timescales.
Some private sector businesses have benefited from public assets at no charge

2.22 Some private sector businesses have obtained use of public sector assets at no cost. These businesses are sometimes taking advantage of a non-commercial public sector culture. In some cases, such as the merchandising of military insignia, it happens because of historic custom and practise which has led to the loss of intellectual property rights (Case Example Five: RAF Merchandising). Other situations have arisen from a legislative framework (Case Example Six: Congestion Charging) which failed to anticipate the ways in which public bodies would address public service or asset management issues through commercial activity. The congestion charging example illustrates the need for the public sector to think about and plan for the use of all the public assets involved in a new activity. This is a preliminary to commercial negotiations aimed at allocating costs to the appropriate revenue streams.

**RAF Merchandising**

The Hague Convention on rules concerning air warfare require military aircraft to carry an exterior mark indicating its nationality and its military character. For this purpose the United Kingdom uses the roundel. While several variations have been used, the most common version of the roundel consists of a red spot surrounded by concentric circles of white and blue.

In 2003, as part of its commercial activities, the Royal Air Force sought to trademark the roundel. The high street fashion group Arcadia, owner of Dorothy Perkins, Topshop and Burton, issued a challenge to the trademark application, arguing the roundel was brought into the public domain by the Mod movement of the 1960s.

A trade mark is a type of intellectual property which can be registered for a name or mark that distinguishes one organisation’s goods and services from another. Registration gives a body exclusive use of the mark.

In January 2004, a Trade Marks Registry hearing ruled in favour of Arcadia, which argued that the roundel has been used on clothing worn by Mods, the scooter-riding fraternity in fashion in the sixties who were popularised in the film Quadrophenia. Therefore, Arcadia were able to argue successfully that the Royal Air Force should not be able to restrict the use of this mark which, in the minds of public, does not identify clothing as coming from the Royal Air Force.

The Ministry of Defence has been given the sole rights to use the roundel on items other than clothing. Following this experience the Ministry of Defence has established a tri-service intellectual property rights group to manage the usage and enforcement of rights it has in the intellectual property of all three services.
CASE EXAMPLE SIX

Congestion Charge

The London Congestion Charging Zone incorporates eight square miles of central London. Drivers pay a flat fee for entering this zone between 7am and 6.30pm Monday to Friday (except public holidays). The scheme was introduced on 17 February 2003 using powers in The Greater London (Central Zone) Congestion Charging Order 2001, under the framework for road user charging set out in The Transport Act 2000.

The scheme is administered by a Private Sector Service Provider (The Contractor) under contract to Transport for London. If a driver has not paid the congestion charge by the due time, the name and address of the registered keeper of the vehicle will be collected by the Contractor from the Driver and Vehicle Licensing Agency (DVLA) and a penalty charge notice, at a level set by Transport for London, will be sent out. An average of some 165,000 penalty notices are issued per month. The Contractor charges Transport for London £4.90 per notice for undertaking this activity.

In 2004-05 the scheme generated total revenues of £190 million, of which £72 million was enforcement income. Transport for London incurred annual costs of £92 million out of which The Contractor expects to earn a cumulative £230 million over the next five years.

The Transport Act 2000 obliges The Driver and Vehicle Licensing Agency, at the Agency’s expense, to provide access to its vehicle databases. The Agency also provides and maintains communications links between itself and the administration site. However, the Act gives the Agency no power to charge for the provision of any of these services, so they are supplied free of charge. The provision of this information costs the Driver and Vehicle Licensing Agency £800,000 per annum. In contrast the 157 parking enforcement companies who access data under The Road Vehicles (Registration and Licensing) Regulations 2002 pay the Agency £2.50 per enquiry.
PART THREE

There is scope for the initiative to have greater impact
3.1 The Wider Markets Initiative has not achieved its full potential. This is because the initiative faces a number of obstacles, including the low priority it receives compared to making direct efficiency savings. As discussed in paragraphs 2.12 to 2.16, there are a number of typical concerns, for example:

- Undertaking commercial activity may not be seen as appropriate.
- Legal powers may not cover commercial activities ("vires").
- The possibility of potential conflicts of interest with statutory duties or for staff.
- Whether competing with the private sector raises difficulties.
- The risks inherent in commercial activity.

3.2 A more businesslike approach across the public sector would help overcome these and other obstacles and would be likely to lead to worthwhile benefits. The challenge from the top down, and learning from private business, is to improve knowledge management as well as asset management. It would require: putting effort into identifying opportunities; managing the risks and assessing the results; the acquisition of skills; and greater personal and unit rewards within the existing public service framework. In more complex cases departments may need a private partner.

There have been other over-riding management priorities

3.3 Our interviews with senior management in departments show that achieving efficiency targets is usually an overriding priority. Two reviews published in 2004, as part of the Government’s overall efficiency agenda, resulted in targets being set for efficiency gains.\(^{21}\)

The Lyons December 2004 review also recommended that efficient management of retained assets should be explicitly prioritised and should include the more intensive sweating of assets. It noted weaknesses in managing intangible assets and made the following recommendation:

“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”.\(^{22}\)

3.4 As described in paragraph 1.3, targets are not considered appropriate for wider markets activity. There are sound reasons for selecting a voluntary initiative. The absence of revenue targets for wider markets activity reinforces departments’ confidence that they will be able to keep the commercial income generated.\(^{23}\) It reduces the fear of budget reductions as a result of expected revenues from wider market opportunities when Government funding priorities are balanced across the range of public spending.

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\(^{23}\) Treasury spending teams should be consulted on how income should be apportioned where a department’s aggregated annual income from wider markets projects exceed 5 per cent of discretionary spending within the Departmental Expenditure Limit.
3.5 In addition, many departments lack commercial skills and forcing them to undertake wider markets activity would absorb senior management time, particularly in finding appropriate staff resources. There is also a risk that pressure from the centre could inadvertently lead to inappropriate risk taking. This might be caused by failing to get to grips with all the guidance and/or by a lack of commercial experience. Nevertheless, giving greater priority to treating management of core assets in a businesslike way, would be very likely to lead to greater efficiency.

The public sector can do more to recognise and exploit opportunities

Public bodies would need to think in business development terms

3.6 To engage successfully in wider markets activity staff require a broad range of business and intellectual property management skills, allied to the commercial experience to assess opportunities realistically and to negotiate successfully. Achieving this requires significant training or prior experience. Our study found that where staff undertaking wider markets activity were recruited from within the civil service, few had any commercial experience and were forced to learn the required commercial skills ‘on the job’. When, in accordance with normal practice, those staff were promoted or posted elsewhere few organisations had in place plans to consolidate the acquired commercial skills and experience, with new appointees starting afresh.

3.7 One of the hardest parts of launching a new venture is the ‘creation’ of the initial business idea. In the private sector, venture capital firms recognise that most deals result from the endeavour of entrepreneurial individuals. Venture capital firms, however, employ specialists in developing industries and technologies to identify opportunities. In the public sector greater specialist resource would be needed to assess whether the scale of wider markets opportunities was sufficient to justify adding resources. Greater take-up of training (see paragraph 3.26 and following) and examination of other bodies’ wider markets ventures to see if the opportunity could be adapted and applied to their own organisation would also be beneficial.

The lack of an obligation to assess opportunities has left some assets underutilised

3.8 Despite Treasury guidance which states that departments should appoint a Wider Markets Officer, some departments have not done so (see Figure 6), or have not allocated any time for training. Given the benefits of a professional approach to utilisation of core assets, it would be reasonable to expect departments to task Wider Markets Officers, after training, with carrying out a coherent and auditable assessment of the potential opportunities available. Deciding not to pursue wider markets without such an assessment risks foregone upside benefits that should be evaluated before a ‘do nothing’ option is selected.

3.9 Partnerships UK’s business strategy takes into account the limitations it faces as a change agent, in mobilising the public sector largely through guidance and co-ordination. In terms of project support a limited staff resource, amounting to one full time equivalent staff member, has unavoidably led to giving priority to those departments and public bodies that have sought assistance.

3.10 Partnerships UK needs doors to be open, at least for an informed preliminary review of wider markets opportunities. But in many cases there has been no active interlocutor within the public bodies, even on a part-time basis, who has stayed in post long enough to conduct a joint assessment.

Re-energising the Wider Markets Initiative requires leadership and commitment, at all levels, to a businesslike approach

3.11 Based on the Wider Markets Officer survey and Finance Director interviews, we have found limited awareness of the Wider Markets Initiative by both senior and middle management. This was most noticeable in those departments that considered their opportunities to be limited. Success depends on motivational leadership as identified in our earlier report into commercialising public sector science:
“Our examination has shown that where there has been committed and effective leadership at both senior and middle management level there has been significant progress in constructing commercialisation deals with the private sector. Leadership has been a major factor in the fostering of a culture that promotes commercialisation – a prerequisite for success – and has built the capabilities needed to support this culture, without compromising the core public service role in scientific research.”

3.12 Commercial activity in the public sector presents more challenges than those faced by the private sector entrepreneur. There are significantly more regulatory and management hurdles to cross. Before becoming operational, projects need at least the passive support of senior management within departments. A rigid focus on core activities over the medium term, for example two to three years, can stifle initiatives that could improve core service delivery by undertaking, and learning from, wider markets opportunities. Departments that operate a ‘stick to the knitting’ policy discourage bodies and agencies from submitting wider markets proposals. This results in little or no wider markets activity.

3.13 Overcoming the many barriers to activity calls for a champion with the ear of the Management Board on important issues, if not a full member of that Board. This is consistent with an increasingly professional approach to service delivery. The management of any department or agency that explores a wider markets opportunity is likely to trigger a process of cultural change. This will include joining forces with the private sector when appropriate. Those interviewed that have done deals have found such change beneficial – learning lessons from both success and failure. The corporate governance code, recently published by the Treasury implies that this should be on the agenda for department Management Boards because of their responsibility to:

“lead and oversee the process of change, encouraging innovation, and where appropriate enterprise, to enhance the department’s capacity to deliver.”

3.14 Wider markets activity does not take place in a vacuum. Many projects will find themselves in competition with private sector businesses. While it is essential that proper business case review and assessment takes place, this must be completed in a commercially realistic timeframe. All of the above require public bodies to have in place the appropriate approval processes and commercial management frameworks to ensure the proper conduct of commercial activity.

3.15 There is some evidence that opportunities have been missed because of the lack of advance planning, low prioritisation of commercial opportunities or slow reaction times – or some combination of the three. Like others, the Centre for Environment Fisheries and Aquaculture Science has found that public procurement rules and approval procedures can, and on occasion do, conflict with the timetable of commercial partners. For similar reasons, the Driver and Vehicle Licensing Agency was unable to submit a bid to produce voter registration cards for the Northern Ireland administration when in a position to offer a technically sound solution. This would have used spare capacity on existing driver photocard production equipment with the potential to generate £130,000 of revenue surplus over three years.

3.16 Much more effort is required to address all the barriers to wider markets activity. For example Figure 8 overleaf shows the option appraisal diagram, taken from the original Treasury guidance on selling into wider markets, which confronts the would-be project champion. Although this guidance was not intended to be prescriptive, the accompanying diagram appears to set out a number of stark choices that lead to the box marked “STOP”. Apart from the first choice (on legality), before coming to this conclusion, an appropriate question for at least one further iteration would be “Can the proposed activity be modified to address the problem?”

Asset management, including intellectual property, will need to be taken seriously

3.17 Following the efficiency and asset management reports referred to in paragraph 3.3, Finance Directors in major departments are giving more priority to asset management. Not all public bodies, however, recognise that the potentially underutilised assets that they should manage include intellectual property, know-how and human resources. Our February 2002 examination on commercialising public sector science identified a number of alternative ways of generating benefits from intellectual property. These are set out in Figure 9 on page 27.

Is the proposed activity of a discretionary and commercial nature?

No → Wider Markets initiative not applicable

Yes

Should the asset be used for wider markets?

No

Yes

Is the proposed wider markets activity appropriate and legal?

No

Yes

Is there a market for the good/or service?

No

Yes

Is it financially worthwhile?

No

Yes

Will public sector budgets, services and reputation be protected?

No

Yes

Is there a need for private sector skills, competences or finance?

No → STOP

Yes

Implement in-house activity
Develop business case
Market product services
Contracts for sale

Implement simple PPP
Develop business case
Identify and select partner
Agree contracts with partner

Implement complex PPP
Develop business case
Identify and select partner
Develop and agree final business case with partner
Develop and agree legal and organisational structure with partner

Source: HM Treasury
Value given away for non-financial benefits needs to be assessed

3.18 During the course of our study the argument was sometimes made for the provision of goods and services, which could earn wider markets revenue, as a public relations activity. This can take many forms such as give away items or the provision of personnel or equipment at reduced or no cost. The benefits can include enhanced recognition of the body and its role, improved public reputation or additional uptake of its core services.

3.19 The private sector also carries out similar public relations activities. An important part of the private sector approach is measuring the net impact of the public relations activity. In the first instance the provision will be fully costed. New business generated from a public relations event is tracked to ensure that the additional revenue exceeds the cost. Our study found no evidence of public bodies conducting similar benchmarking of the net outcome of providing goods and services as a public relations activity. Without this value for money exercise the merit of some public relations activity must be open to question.

Recording of activities should be consistent and more detailed

3.20 Even those departments that are in the lead could benefit from improved financial information and cost management. The Ministry of Defence is rolling out a database, developed in one branch of the armed services, which increases assurance that activities are worthwhile and helps to focus management attention on those that have the most potential.

3.21 During the course of our examination we could not find reconciled management information on wider markets activity, combining revenue cost and performance information. While public bodies were able to produce information on the revenue earned, many, apart from trading funds, have information gaps about the cost of generating income through some of their other activities. This finding is consistent with the findings of other studies conducted by the National Audit Office, such as ‘Income Generated by the Museums and Galleries’. As a result there can be no calculation of the profitability of wider markets activity either as a whole or at departmental level. Public bodies’ understanding of their overall business position lags well behind commercial practice.

### Opportunities and risks arising from intellectual property rights

<table>
<thead>
<tr>
<th>Action</th>
<th>Risks</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apply for patent(s)</td>
<td>Small sunk cost</td>
<td>Gain time to develop opportunity</td>
</tr>
<tr>
<td>Take out patent(s)</td>
<td>Non-refundable costs</td>
<td>Exclusivity, build portfolio</td>
</tr>
<tr>
<td>Assign intellectual property to spin-out</td>
<td>Lack of competition</td>
<td>Take research forward with exploitation targets</td>
</tr>
<tr>
<td>Sell rights to future intellectual property</td>
<td>Little guide to value and may impact on other funders?</td>
<td>Raises extra funds early</td>
</tr>
<tr>
<td>Sell an ‘option’ to buy future intellectual property</td>
<td>Third party’s right to re-bid may inhibit competition</td>
<td>Vehicle to package IP</td>
</tr>
<tr>
<td>Take equity stake</td>
<td>Depends on level/dilution balanced with partner’s strength</td>
<td>May secure a better deal from a better placed party</td>
</tr>
<tr>
<td>Negotiate royalties</td>
<td>Licensee may not exploit</td>
<td>Sponsor may become a partner</td>
</tr>
<tr>
<td>Agree to secrecy</td>
<td>Less dissemination and open debate of the science</td>
<td>Undiluted earnings stream</td>
</tr>
</tbody>
</table>

Source: Delivering the Commercialisation and Public Sector Science, HC580 Session 2001-2002, 8 February 2002

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28 Advertising and Public Relations firms offer these metrics to their clients, often through specialised subsidiaries.

3.22 Public bodies can find it difficult to separate out costs already incurred to provide core services, against specific wider markets activity. For example, deciding the portion (if any) of security costs at a working military establishment, where a Boxer Tower is also located, that should be charged to the wider markets activity (see Case Example Two). In the early stages of a new activity, accounting systems lack the granularity to allow a portion of costs to be routinely married to revenues and enable the contribution of individual activities to be easily identified. While systems could be changed from the outset, more detailed costing and reporting would normally be undertaken as an activity grows, generating material revenues. But the discretionary and devolved nature of the initiative means that there is no requirement to consolidate results and report them back to departments. These factors have made it difficult for Partnerships UK and the Treasury to measure the results to date of the Wider Markets Initiative.

3.23 As a result, the main indicator of wider markets performance is a measure of changes in the level of gross income received from the private sector. In mid 2005 Partnerships UK announced a comprehensive survey of wider markets activities across England and Wales that will attempt to obtain some of the more detailed information that is currently only reported by trading funds. Partnerships UK’s experience is that many wider markets opportunities are on a small scale and, outside the science sector, relatively few are large. To date, especially in the context of departments overall expenditure, the revenue generated by wider markets projects launched since the start of the initiative is small, running into low tens of millions. Recognising that hard information is necessary has led Partnerships UK, with the Treasury, from the beginning of 2005, to develop the metrics for the first comprehensive survey of wider markets activity across England and Wales since the policy was introduced.

3.24 As a department engages with the initiative and endorses suitable commercial activities, it will need to become more of a learning organisation. It will need to become able to differentiate between classes of risk, and adjust the controls, possibly changing the organisation structure where appropriate. In larger projects the public sector seeks to mobilise new resources from the private sector and incidentally to transfer away those risks that can best be managed by the private sector. While diluting their share of revenues, this approach protects the more active public sector organisations from inadvertently raising their risk profile in most areas, apart from retaining an unavoidable level of reputational risk.

Developing capable people calls for adding skills and providing access to expertise

3.25 Partnerships UK has produced with HM Treasury a number of best practice guidance documents covering a range of commercialisation topics. These guidance documents are intended to be non-prescriptive ‘route-maps’ through the issues, offering generic advice and frameworks that can be applied to specific circumstances by all public bodies.

3.26 Civil servants are likely to need help in developing an outline business case for a commercial venture. Most of all, this involves identifying customers who value a service above its cost – as opposed to matching a need to a budget. Specialist help is needed and part of the role of Partnerships UK is to provide guidance and help bring it to bear. Training topics and required skills include customer service, marketing, commercial and legal awareness, pricing techniques, negotiating skills, project management and finance.

10 Commercialisation Guidance

PUK has produced with HM Treasury a number of best practice guidance documents covering a range of commercialisation topics. These guidance documents are intended to be non-prescriptive ‘route-maps’ through the issues, offering generic advice and frameworks that can be applied to specific circumstances by all public bodies.

- A Guidance Note for Public Sector Bodies forming Joint Venture
- Generic Business Plan
- Partner Selection document
- Provision of Incentive Schemes
- Licensing Technology
- Intellectual Property Management Strategy (to be published in 2006)
- Public Sector Research Establishments – Research Councils
- UK Best Practice Guidance for Commercial Managers
- Selling Services into Wider Markets (2002 revision to HM Treasury guidance)

Source: Partnerships UK website


31 The Shareholder Executive, was established in September 2003 to promote a professional approach to public sector ownership of business ventures. Their analysis of the forms of organisation structure available is reproduced as Appendix 5.
3.27 The offer and take-up of formal training met the original demand, which was not then as extensive as the initiative now potentially warrants. Partnerships UK organised a two-day induction course run by the Civil Service College on two occasions in 2002 and 2004. The course covered the wider markets policy as well as an introduction to writing business plans and marketing. The focus of the course, at a cost of £675, was very much geared to introducing the policy for those nominated to be Wider Markets Officers in departments. In addition Partnerships UK has hosted seminars and provided conference speakers covering a range of commercialisation topics including exploiting intellectual property, commercial partnerships and routes to funding (Figure 11).

3.28 Relatively few participants in these events have come from senior management, or from frontline staff. The second Civil Service College course was mainly attended by Ministry of Defence personnel (who also contributed speakers) and had only one delegate from another department. This course format was discontinued following mutual agreement. Instead the Ministry of Defence put in place a series of introductory courses for wider markets practitioners as well as awareness days. The latter events brought in outside speakers on related topics such as intellectual property rights, licensing and marketing.

3.29 There is scope to improve on formal training arrangements and increase the cross-fertilisation of ideas that have commercial potential. Partnerships UK, through its help desk role, provides support to departmental internal seminars and training courses, arranging and speaking at external conferences and other commercialisation events, and one-to-one meetings with interested departments and other public bodies. The Ministry of Defence has made efforts to invite Wider Markets Officers from other departments to attend or speak at their training events. There has been take-up from the Driver and Vehicle Licensing Agency, HM Court Service, Customs & Excise and the Foreign & Commonwealth Office.

### Opportunities for wider markets training

There have been a limited number of wider markets training opportunities.

<table>
<thead>
<tr>
<th>Month</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2001</td>
<td>PPP Expo (included wider markets)</td>
</tr>
<tr>
<td>May 2002</td>
<td>Wider Markets Officers Forum (PUK event)</td>
</tr>
<tr>
<td>October 2002</td>
<td>Wider Markets Officers Forum (PUK event)</td>
</tr>
<tr>
<td>October 2002</td>
<td>WMI Conference (third party event)</td>
</tr>
<tr>
<td>October 2003</td>
<td>Wider Markets Forum (third party event)</td>
</tr>
<tr>
<td>March 2004</td>
<td>Wider Markets Officers Forum (PUK event)</td>
</tr>
<tr>
<td>October 2004</td>
<td>Commercialisation Conference (PUK/City &amp; Financial)</td>
</tr>
<tr>
<td>September 2005</td>
<td>Wider Markets Forum (PUK event)</td>
</tr>
</tbody>
</table>

Source: Partnerships UK

3.30 The private sector makes extensive use of incentives at all levels to reward those who identify opportunities and to motivate those charged with turning the opportunity into a commercial reality. The existence of substantial incentives to entrepreneurs forms an important part of the appraisal by financial institutions before they lend to, or invest in, new commercial ventures. As a result of the Baker Review incentives have recently been increased in one area – to reward scientific discoveries that have commercial applications.  

3.31 For ideas that lead to savings, income generation, or to better services the Ministry of Defence has an award scheme known as ‘GEMS’, based on seeking out new ideas (Figure 12 overleaf). This scheme can reward teams or individuals. Although awards are funded centrally it is mainly decentralised and smaller awards can be made locally by 230 local award groups. According to the Department, the £22.6 million savings from GEMS suggestions made last year were unsurpassed by any other United Kingdom organisation, public or private.

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32 Research took place before the merger between HM Customs & Excise and the Inland Revenue.
33 In response to Creating Knowledge Creating Wealth – Realising The Economic Potential Of Public Sector Research Establishments, A Report By John Baker To The Minister For Science And The Financial Secretary To The Treasury, August 1999
34 The GEMS Scheme operates under very favourable tax exemptions agreed with the Inland Revenue. This means that most GEMS awards are paid free of tax, except those which relate to normal duty, or for awards above £5,000 where the amount above £5,000 is taxed. The Inland Revenue rules also allow the tax-free payment of encouragement awards up to £50.
3.32 In comparison with the private sector, the level of participation measured by the numbers of ideas received was low, at less than one per cent of staff. The Ministry of Defence are looking for all staff, encouraged by their managers, to increase this into the range from two per cent to three per cent. However a general civil service policy limits cash incentive payments in terms of the salary bill. This is not a problem for a large department but could be a severe constraint when applied to a smaller public sector bodies, and contrasts with the rewards available to public sector scientists.

Developing infrastructure, people and systems can increase activity and help manage risk

3.33 For active departments, developing the infrastructure would include putting in place internal processes and procedures and structures to facilitate wider markets activities such as nominating champions in the teams, commissioning ‘opportunities audits’ and putting in place some standardised ‘contract for sale’ processes. There is a natural tendency to manage headcount in ‘full time equivalent’ terms, losing sight of the spare operational capacity that undoubtedly exists outside peak periods. The Comptroller & Auditor General’s report on ‘Income Generated by the Museums and Galleries’ drew attention to the scope for smaller bodies to pool people resources and exchange staff.

3.34 Undertaking wider markets activity requires that active departments develop suitable roles for specialists and generalists (Figure 13). It remains exceptional for wider markets activity to be considered within performance appraisals for generalists or for specialists who are not in a full-time commercial role.

3.35 A more structured approach could also mean taking a pilot project approach to setting up trading subsidiaries or, when costs or complexity are an issue, identifying a public or private sector partner with a suitable existing trading entity:

“Many of the museums and galleries have brought more commercial approaches and new skills to their trading activities by establishing trading subsidiaries. The ten that have trading subsidiaries see considerable benefits in terms of improved management focus on commercial objectives and the input of skilled and knowledgeable non-executive directors. But concerns about the cost and complexity of managing separate legal entities have prevented other museums and galleries, particularly smaller ones, from going down this route.”

3.36 Partnerships UK has found that those departments that have invested effort in establishing and making the most of their Wider Markets Officers are best able to identify and manage wider markets opportunities. At the early planning stage, Partnerships UK encourages public bodies to consider the need for audits of opportunities (including Intellectual Property audits). This is one way of establishing potential commercial opportunities and taking inventories of available skills and resources.

3.37 Wider Markets Officers have most impact when the public body concerned also puts in place systems or processes covering the business areas of planning, fund raising, performance measurement and networking to share knowledge and experience. A local body with a potential deal is made aware of the essential information that identifies the risks and the rewards of the activity. This may take a similar form to the data activity sheet shown in Figure 14.

---

**The Ministry of Defence GEMS Scheme**

<table>
<thead>
<tr>
<th>GEMS statistics for Financial year 2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of suggestions: 2,169</td>
</tr>
<tr>
<td>Number of awards: 1,437</td>
</tr>
<tr>
<td>Amount saved: £22,642,537</td>
</tr>
<tr>
<td>Amount awarded: £348,599</td>
</tr>
</tbody>
</table>

Source: Ministry of Defence

**Departmental wider markets roles**

A variety of roles are required to pursue wider markets activity.

**Generalists**
- Senior Management
- Budget/Finance staff
- Line management in the area concerned

**Potential specialists**
- Wider markets/Commercial staff
- Safety/Security specialists
- An estates officer
- Intellectual Property lead
- Partnerships UK help desk

Source: National Audit Office

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35 In the past this was 0.2 per cent of the total salary bill, but can now be tailored according to business needs.
Raising finance on a risk sharing basis may be required for significant new investment

3.38 The Treasury guidance permits some public investment in human or physical resources (related to the wider markets activity) provided that it is marginal and that all costs are covered by existing budgets. Otherwise the guidance requires that any substantial new investment in a wider markets project should normally be undertaken by a private sector partner. The involvement of a private sector partner is intended to deliver:

- a method of reducing the risks of additional investment in people and resources wherever possible;
- a means of introducing commercial skills and routes to market that the public sector body is not likely to have; and
- a means of accelerating the development of commercial opportunities and obtaining returns faster than might be the case if the public body were to exploit its assets alone.

3.39 Involving a private sector partner may not be appropriate for all wider markets activities. In cases where the commercial risks are well known and manageable and there is no requirement for substantial investment, a private sector partnering approach dilutes the public sector share of the rewards. The Committee of Public Accounts in its report on ‘Income Generated by Museums and Galleries’ pointed out that such partnership is not as simple a solution as borrowing:

“The museums and galleries cannot borrow money freely on the financial markets because as non-departmental public bodies they are subject to government controls over public sector borrowing. Instead most of the museums and galleries use partnerships with the private sector to finance their investment in income generating activity. While partnership provides a way to access funds, it can be difficult to attract suitable partners, can lead to lower returns and is more complex than borrowing.”

The Wider Markets Initiative will benefit from improved monitoring and knowledge sharing

3.40 For each of the wider markets activities already described in Figure 2 there is likely, somewhere, to be a public body that has already been active for some time. The resulting knowledge and experience is not easily and automatically made available to public bodies that have just identified an opportunity to get started. There is often scope to avoid “reinventing the wheel”. The Ministry of Defence, for example, now has a website and a films location co-ordinator that brings in a consistent contract approach for letting film locations.

3.41 As referred to in paragraph 3.23 Partnerships UK has developed a web-based questionnaire that looks at wider markets activity by volume, type, numbers of people involved and financial values generated since 1998. This survey has been tested on a number of public bodies and was launched at the end of November 2005.
The key study question is whether the Wider Markets Initiative is contributing effectively to the larger drive to more efficient use of public assets. This high level review has concentrated on the relationships between the Treasury, departments and Partnerships UK (the boxed area in Figure 15) and whether enough has been done to raise awareness of potential benefits and to measure outcomes.

Our examination covered:

- Whether there is inefficient use of assets in the public sector; whether the extent of underutilised assets has been identified or, if not, whether capturing information about underutilised assets has been planned;

- Whether there has been an effective response to the potential inefficient use of public assets (by central Government and/or by public bodies);

- Whether the Wider Markets Initiative framework is fit for purpose; whether procedures exist to match spare capacity to acceptable market opportunities; whether internal procedures and guidance are suitable; and whether appropriate resources of skills, time and money are available (avoiding duplication of effort and/or fixed costs); and

- Whether the outcome of the Wider Markets Initiative has been satisfactory for the Treasury and other stakeholders.

To illustrate how the initiative is working, we have drawn on those public bodies where the assets are held primarily to deliver statutory services, and which may offer opportunities for greater use. It is not an examination of public bodies, such as the Post Office, which are structured to operate commercially.
Main aspects of the National Audit Office’s Methodology

In undertaking this examination we:

- Designed the examination using experience acquired on earlier studies of privatisations, commercialisation of public sector science and departmental monitoring;
- Reviewed information from the departmental staff, advisers and records of a sample of wider markets proposals and initiatives undertaken;
- Met with Wider Markets Officers and Finance Directors of selected Government departments;
- Consulted with HM Treasury and Partnerships UK and reviewed current opportunities, procedures and policies across different government departments;
- Interviewed Wider Markets Initiatives partner organisations.

Collection of information

We gathered available information from a number of sources. There was no departmental data to identify the number of deals closed under the initiative, the total revenues earned or the costs incurred. The sources included:

- Semi-structured interviews with Partnerships UK and HM Treasury;
- Structured interviews with identified departmental Wider Markets Officers and advisors;
- Review of experiences from Wider Markets Initiative partner organisations;
- Survey of departmental Wider Markets Officers;
- Review of case examples, literature and internet searches relevant to the topic.

Survey of departmental Wider Markets Officers

To determine the effectiveness of the Wider Markets Initiative, we surveyed the departmental Wider Markets Officers to determine:

- Their responsibilities
- The resources devoted to the initiative
- The level of activity in their department
- Future wider markets activities planned
- Their view on the success or failure of the initiative, the priority within the department and any lessons learned from past activities.

Case Examples

We considered undertaking research at grass roots level into the potential take up to the initiative and to quantify current activity. Our initial planning estimated, given the current lack of centrally held information, that an examination of this type would require at least 6.5 man years of effort. Extrapolating the findings would not necessarily reveal the untapped potential for wider markets activity or put a figure on revenues forgone by departments not pursuing the Wider Markets Initiative.

Instead we drew a number of case examples from our work in order to illustrate higher level points made in the study. We selected cases to provide a range of examples across government, with different types of activities, risk profiles and potential outcomes. This diversity has been illustrated by using the Ansoff matrix (Figure 16 overleaf) The examples were based on semi-structured interviews to capture the views of those involved on facets of wider markets activity, such as the barriers to the initiative and drivers of success. In one case, we constructed an analysis of the options open to the Ministry of Defence to quantify
the financial impact of the Wider Markets option chosen for the Boxer Towers. The analysis examined a series of potential scenarios available to the Ministry of Defence using a range of inputs which give a conservative view of the saving made. It would not have been practical for us to construct an analysis of all Wider Markets projects in part due to lack of data.

Professor H Igor Ansoff first published his growth vector matrix or product-market matrix in the Harvard Business Review in the Sept/Oct edition of 1957. It has become one of the principal tools of analysis used in the formulation of business and marketing strategy.

The matrix is used to review the range of products/services that a company sells, as well as to help plan the future product range by offering four strategic options:

- **Option 1: market penetration**, which involves increasing the sales of existing products in existing markets. This is often regarded as the least risky strategy because the business is familiar with both its customer base and its market. However, as the market changes and develops there may not be long-term growth potential in pursuing this strategy;

- **Option 2: product development**, which involves introducing new products to existing markets. With this strategy the business has an understanding of its current customers but is taking a measured risk due to the unfamiliarity of the new products;

- **Option 3: market development**, which will allow the business to find new markets for existing products. The business has a familiarity with its current product, which reduces risk, but is looking at a new market, which introduces a degree of uncertainty; and,

- **Option 4: diversification**. This is the most risky of the four options, introducing new products into new markets with no knowledge of either the product or the market. This option is pursued when a fully developed business case shows a satisfactory prospect of high returns.

**Seeking views of interested parties**

In addition to Partnerships UK and the departments most concerned, we consulted various bodies and individuals connected to Public Private Partnerships and Wider Markets activities during the course of our work. These included:

- Members of the Lyons Review team;
- Andrew Stamp (Morgan Harris Burrows); and
- Christina McComb (Shareholder Executive).
# Departmental Assets

## Government Departments’ Fixed Assets Summary

<table>
<thead>
<tr>
<th>Departments</th>
<th>Tangible Fixed Assets £000</th>
<th>Intangible Fixed Assets £000</th>
<th>Investments £000</th>
<th>Total Fixed Assets £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>More than £10,000m</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Defence</td>
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<td>20,186,743</td>
<td>420,838</td>
<td>87,344,838</td>
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<td>Department for Transport</td>
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<td>68,113</td>
<td>569,805</td>
<td>71,267,053</td>
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<td>Department of Health</td>
<td>5,370,833</td>
<td>54,251</td>
<td>18,561,601</td>
<td>23,986,685</td>
</tr>
<tr>
<td><strong>From £1,000m to £10,000m</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Office</td>
<td>6,347,903</td>
<td>37,077</td>
<td>37,241</td>
<td>6,422,221</td>
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<td>Department of Trade and Industry</td>
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<td>747</td>
<td>4,030,209</td>
<td>4,178,270</td>
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<tr>
<td>Department for Constitutional Affairs</td>
<td>1,732,515</td>
<td></td>
<td>987,942</td>
<td>2,720,457</td>
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<tr>
<td><strong>Less than £1,000m</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department for International Development</td>
<td>70,290</td>
<td>550</td>
<td>1,751,249</td>
<td>1,822,089</td>
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<tr>
<td>HM Treasury</td>
<td>123,023</td>
<td>1,934</td>
<td>1,585,370</td>
<td>1,710,327</td>
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<tr>
<td>Foreign and Commonwealth Office</td>
<td>1,227,362</td>
<td>1,032</td>
<td></td>
<td>1,228,394</td>
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<tr>
<td>Department for Environment, Food and Rural Affairs</td>
<td>741,239</td>
<td>4,030</td>
<td>5,665</td>
<td>769,778</td>
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<tr>
<td>Department for Work and Pensions</td>
<td>599,663</td>
<td></td>
<td>589</td>
<td>600,252</td>
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<tr>
<td>Inland Revenue</td>
<td>555,500</td>
<td></td>
<td></td>
<td>555,500</td>
</tr>
<tr>
<td>Cabinet Office</td>
<td>255,351</td>
<td>2,073</td>
<td>479</td>
<td>257,903</td>
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<tr>
<td>HM Customs and Excise</td>
<td>245,511</td>
<td>7,247</td>
<td></td>
<td>252,758</td>
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<tr>
<td>Office of the Deputy Prime Minister</td>
<td>144,242</td>
<td>361</td>
<td>46,591</td>
<td>191,194</td>
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<tr>
<td>Department for Education and Skills</td>
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<td>1,417</td>
<td></td>
<td>81,910</td>
</tr>
<tr>
<td>Department for Culture, Media and Sport</td>
<td>67,402</td>
<td>158</td>
<td></td>
<td>67,560</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>155,075,033</td>
<td>20,374,577</td>
<td>28,007,579</td>
<td>203,457,189</td>
</tr>
</tbody>
</table>

*Source: Departmental Resource Accounts*

**NOTE**

1. The DfES Resource Accounts 03-04 also list £10,905 million of loans as part of Fixed Assets, which are mainly related to student loans. We have not included these in this asset list as we believe they are a single material item that does not have any Wider Markets potential.
## Government Departments’ Employees Summary

<table>
<thead>
<tr>
<th>Departments</th>
<th>Average numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 15,000</td>
<td></td>
</tr>
<tr>
<td>Ministry of Defence</td>
<td>306,320</td>
</tr>
<tr>
<td>Department of Health</td>
<td>195,410</td>
</tr>
<tr>
<td>Department for Work and Pensions</td>
<td>134,318</td>
</tr>
<tr>
<td>Home Office</td>
<td>88,398</td>
</tr>
<tr>
<td>Inland Revenue</td>
<td>77,480</td>
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<tr>
<td>HM Customs and Excise</td>
<td>23,302</td>
</tr>
<tr>
<td>Foreign and Commonwealth Office</td>
<td>15,651</td>
</tr>
<tr>
<td>From 5,000 to 15,000</td>
<td></td>
</tr>
<tr>
<td>Department for Constitutional Affairs</td>
<td>14,831</td>
</tr>
<tr>
<td>Department for Environment, Food and Rural Affairs</td>
<td>14,466</td>
</tr>
<tr>
<td>Department for Transport</td>
<td>11,499</td>
</tr>
<tr>
<td>Department of Trade and Industry</td>
<td>8,626</td>
</tr>
<tr>
<td>Office of the Deputy Prime Minister</td>
<td>6,816</td>
</tr>
<tr>
<td>Less than 5,000</td>
<td></td>
</tr>
<tr>
<td>Department for Education and Skills</td>
<td>4,931</td>
</tr>
<tr>
<td>Department for International Development</td>
<td>2,876</td>
</tr>
<tr>
<td>Cabinet Office</td>
<td>2,434</td>
</tr>
<tr>
<td>HM Treasury</td>
<td>1,730</td>
</tr>
<tr>
<td>Department for Culture, Media and Sport</td>
<td>753</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>909,841</strong></td>
</tr>
</tbody>
</table>

Source: Departmental Resource Accounts
APPENDIX 3
Partnerships UK

1 Partnerships UK is a Public Private Partnership (Figure 17) which has a unique public sector mission. Its core purpose is:

“to support and accelerate the delivery of infrastructure renewal, high quality public services and the efficient use of public assets through better and stronger partnerships between the public and private sectors.”

2 Partnerships UK offers a blend of public and private sector commercial expertise combined with hands-on experience in the development and delivery of numerous Private Finance Initiative (PFI) and other Public Private Partnership (PPP) projects.

3 To support public bodies implement wider markets activities, a Wider Markets Unit and Science and Technology Commercialisation Unit were established in Partnerships UK in 2000. The Units were funded by the Treasury to allow support to be available free of charge for public sector bodies. In 2003 the units were merged to form a single Commercialisation Team which provides support across wider markets and science and technology commercialisation, through a range of services including:

- A help desk to respond to general queries;
- Project specific support;
- A service to review Wider Markets projects to assist in their development and sign-off; and
- Guidance material and online pro-forma.

4 Partnerships UK receives funding from the Treasury to cover a number of activities. In 2005-06 the Treasury and the Office of Science and Technology provided around £240 thousand of ringfenced support for Wider Markets and other science and technology commercialisation activities.

Partnerships UK Shareholder List

Partnerships UK (PUK), launched in 1999 out of HM Treasury Task Force and funded in 2000 and 2001, is a joint venture, with a majority stake held by the private sector.

<table>
<thead>
<tr>
<th>Company</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>HM Treasury</td>
<td>44.6</td>
</tr>
<tr>
<td>Uberior Infrastructure Investments Limited</td>
<td>8.8</td>
</tr>
<tr>
<td>The Prudential Assurance Company Ltd</td>
<td>8.8</td>
</tr>
<tr>
<td>Abbey National Treasury Services plc</td>
<td>6.7</td>
</tr>
<tr>
<td>Sun Life Assurance Society plc</td>
<td>6.7</td>
</tr>
<tr>
<td>Barclays Industrial Investments Ltd</td>
<td>6.1</td>
</tr>
<tr>
<td>The Royal Bank of Scotland plc</td>
<td>6.1</td>
</tr>
<tr>
<td>The Scottish Ministers</td>
<td>4.4</td>
</tr>
<tr>
<td>Serco Ltd</td>
<td>3.3</td>
</tr>
<tr>
<td>GSL Joint Ventures Limited</td>
<td>2.2</td>
</tr>
<tr>
<td>Boldswitch Ltd (The British Land Company)</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: Partnerships UK website
APPENDIX 4
Resource Accounting

Introduction

Resource Accounting was announced through a White Paper in 1995: “Better Accounting for the Taxpayer’s Money” (Cm 2929). The Government conducted the 2000 Spending Review on a resource basis and 2001-02 estimates were presented to Parliament on a resource basis. Departments produced resource accounts from the year 1999-2000.

Under the previous budgeting system, public spending was generally planned and controlled in cash terms. Cash payments and receipts scored in the year they were made or received. It was not a pure cash system because it included some non-cash items in departmental controls like credit approvals for local authorities, and depreciation at an aggregate level. But generally, what counted was cash.

Under resource accounting what counts is when the resources are consumed, not when they are paid for. Spending is scored as it is incurred, and income as it is earned. So resource accounts include costs such as stocks consumed (rather than bought and sold), provisions to meet future payments, and the cost of using capital assets (depreciation and a cost of capital charge). Payment made in advance of future consumption does not score.

Benefits of Resource Accounting

Budgeting in resource terms offers benefits at both the micro and the macro level. At a macro level it delivers:

- a clearer view of the real costs of providing individual services, which takes account of the full costs of holding assets;
- a more accurate figure for the cost of depreciation in central government;
- a more transparent split of capital and current spending, with public corporations’ investment presented more clearly;
- a better measure of the total value of central government assets, building on what has already been achieved through the National Asset Register.

At the micro level, resource budgeting offers:

- better incentives to manage assets and dispose of those no longer needed, and better incentives in planning investment, as this affects the cost of capital charge;
- new incentives to manage working capital (debtors, creditors and stocks); and
- a clearer distinction between loans and grants.
APPENDIX 5
Publicly Owned Business Framework

Legal Form
There are four main frameworks in use in the public sector commercial activity:

Companies Act Companies
These companies have the same standard formal governance framework as private sector companies and are required to report to the same standards.

Statutory Corporations
These corporations are formed under specific legislation which, in the main, replicates the Companies Act.

Limited Liability Partnerships
LLPs share many of the features of a normal partnership, but offer reduced personal responsibility for business debts.

Trading Funds
These are executive agencies of government that, under the Trading Funds Act 1973, are allowed to net off their revenues and costs.

Impact on Departmental Resources
Government-owned businesses classified by the Office of National Statistics as public corporations can have an impact on the budgets of their parent departments in one of two ways.

Public Corporations
For most PCs, HM Treasury operates a budgeting arrangement whereby departments are required to obtain a dividend from their PC to match a cost of capital charge in their Departmental Expenditure Limit (DEL). Any shortfall in performance by a PC, manifested by a reduction in dividend from the PC, must be covered from the parent department’s Resource DEL, which has a consequent impact on the funds available to the department. The parent department may retain dividends recovered in excess of the cost of capital charge.

Any lending to the PC, either Voted lending from the department or loans from the National Loans Fund, score in the parent department’s Capital DEL. Therefore, capital borrowed by the PC is seen as funding provided by the parent department, which is then unavailable for other uses. As such, the PC must compete with other vote-funded projects for any funding that is required, regardless of the financial return.

Self-Financing Public Corporations
Some PCs are designated as Self-Financing Public Corporations (SFPC). SFPCs must normally trade profitably without subsidies, mainly with non government customers, and must not perform regulatory functions. Status as an SFPC is determined by the Chief Secretary to the Treasury on a case-by-case basis. In contrast to a PC, an SFPC will score in Annually Managed Expenditure (AME) and is therefore more easily managed by the parent department. While HM Treasury may require a contribution from the parent department’s DEL for any underperformance from the SPFC, this contribution is usually substantially less than the actual loss recorded by the SFPC and is often capped. Any over performance does not lead to a DEL credit for the parent department.

Borrowing Regime
For both PCs and SFPCs, the principles of Government Accounting on commercial borrowing are the same. Other than for very short-term borrowing (i.e. overdrafts), government should provide all the external financing for government-owned businesses, and the businesses should not borrow from the private sector. This is because, unless the private sector debt provider is bearing any genuine risk (i.e. that the business will default on the loan), such lending would not offer value for money for the government, as the government is able to borrow more cheaply than the individual business. However, the principles also state that the businesses themselves must be charged at a market rate, to ensure that they do not get any commercial advantage from the ability to borrow at below market rate. The rate of borrowing is set by reference to the market conditions and risk of the sector.