



National Audit Office

# The Wider Markets Initiative

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## EXECUTIVE SUMMARY



**1** 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

**2** The Treasury established the Wider Markets Initiative in 1998 and contracted Partnerships UK to support it in 1999.<sup>1</sup> The policy is discretionary – there are no income generation or other targets (**paragraph 1.2**).<sup>2</sup> This is to avoid any adverse impact on core activity and so that decisions on commercial, income generating activities are not distorted.

**3** 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 (**paragraph 1.3**). There are, however, cultural, bureaucratic and resource barriers which run counter to this incentive.

**4** 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.

**5** The 2004 Lyons' review of public sector asset management<sup>3</sup> 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.

<sup>1</sup> 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.

<sup>2</sup> HM Treasury Press Notice 176/98 dated 26 October 1998.

<sup>3</sup> *Towards Better Management of Public Sector Assets*, A Report to the Chancellor of the Exchequer by Sir Michael Lyons, December 2004.

## 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.<sup>4</sup> 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.

<sup>4</sup> 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.



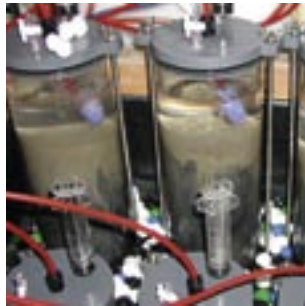
# RECOMMENDATIONS

## 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.<sup>5</sup> The option would be selected to introduce commercial discipline, additional accounting transparency and more scope to develop the business.

<sup>5</sup> Under the proposals in the new Company Law Reform Bill these will be subject to audit and scrutiny by the Comptroller and Auditor General.