

Improvement Network

Briefing: Local government asset sales

Purpose of briefing: A briefing on the Prime Minister's announcement that local government should sell assets of a value of £13 billion

Section 1 - background

- 1 The Prime Minister announced public sector asset sales worth £16 billion in a speech to [Bloomberg](#) on 12 October. Liam Byrne discussed the timing of the sales on the World at One that day, stating that 'we want to make progress in the next two years but the assets we have identified we want to begin selling off between about 2011 and 2014'.
- 2 According to the final report from the OEP [Ref 1], the public sector's property assets have a book value of around £370 billion. Local government property (including council housing) accounts for two thirds of this total: £232 billion. Central government and public corporations account for one third: £130 billion.
- 3 The Prime Minister announced that £3 billion of the required £16 billion will come from central government assets, including the following.

Asset	Comment
The student loan book	According to <i>The Guardian</i> [Ref 2], the government had intended to sell £6 billion of the £18 billion student loan book earlier this year but delayed it, fearing it would not get a good return.
Tote	Gordon Brown originally planned to sell the Tote in 1997, but was blocked by Robin Cook. It was later included as a 2001 manifesto pledge but, according to <i>The Independent</i> [Ref 3], the attempted sale to a racing industry trust was stopped by the European Commission. In 2007, a consortium of Tote executives and the Racehorse Owners Association was prepared to buy the Tote for £400 million, but the sale collapsed because of opposition from within the Treasury.
Dartford bridge and tunnel	This sale was announced by Alistair Darling last month. The plan has been criticised by the AA, which fears that toll charges will rise as a result. The AA said that the government reneged on a promise that tolls would cease when the crossing was paid for, in 2002, by introducing new legislation that turned the fee into a charge, rather than a toll [Ref 4].
Urenco, the uranium processing company	The government has a 32 per cent stake in Urenco, which owns nuclear fuel plants in Britain, Germany and the Netherlands. The stake is controlled by the Shareholder Executive, which was created in 2003 to better manage the government's performance as a shareholder in businesses. The other two thirds are owned by the Dutch Ultra-Centrifuge Nederland and German Uranit. The <i>Times</i> states that the sale would be subject to national security considerations, with the government potentially maintaining a small interest in the company [Ref 5].
Channel tunnel	(Also the Land Registry, British Waterways and the QE2 conference centre). Although these and other sales have been suggested but not pursued over the last year or so, the government is now willing to sell because market conditions are improving.

- 4 The remaining £13 billion will be realised from local government. Speaking on the Today Programme, Lord Mandelson [Ref 6] stated that councils could sell:

...business parks, industrial estates, leisure centres - even local airports - which could and should realise asset value which will mean that we can both pay down debt but also not make the sort of savage across-the-board cuts in services and government investment that the Conservative Party is advocating.

- 5 The figure of £16 billion is over and above the £30 billion worth of asset sales identified in Sir Michael Lyons' 2004 report *Better Management of Public Sector Assets*. Nearly half the figure recommended by Sir Michael came from council housing, and more than a quarter from sales by local government.

Section 2 – asset sales in Budget 2009

- 6 A proposal for asset sales was included in Budget 2009:

building on the findings of the OEP, the Government will put in place new incentives and mechanisms with the aim of realising up to £16 billion of property and other asset sales in the three years from 2011-12, freeing up additional resources on top of capital budgets to fund investment priorities.

- 7 Supplementary information, published on the Treasury's website [Ref 8], shows projections only up to 2010/11, and therefore does not reflect the £16 billion figure.

Table 2.3: Loans and sales of assets

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections 2009-10 2010-11	
Sales of fixed assets				
Sale of Chelsea Barracks ¹	1.0	0.0	0.0	0.0
Other Central government	1.6	0.8	1.0	1.0
Local authorities	2.4	1.0	0.6	0.7
Housing Revenue Account ²	1.9	0.8	0.8	1.5
Total sales of fixed assets	6.9	2.7	2.4	3.2
Loans and sales of financial assets				
Sale of shares in British Energy	2.3	4.4	0.0	0.0
Sale of shares in QinetiQ	0.0	0.3	0.0	0.0
Other loans and transactions in financial asset	-4.9	-5.2	-6.6	-6.8
Total loans and sales of financial assets	-2.5	-0.5	-6.6	-6.8
Total loans and sales of assets	4.4	2.1	-4.2	-3.6

¹ Sale completed January 2008, though some of the cash receipts will be deferred to the following three years.

² Capital transactions by local authorities' Housing Revenue Accounts are no longer classified to the local authority sub-sector and so are shown separately.

- 8 The Property strand of the Operational Efficiency Programme (OEP) identified potential efficiencies over the next ten years of £20 billion in receipts from disposals (excluding council housing) and £5 billion a year in running costs across the whole public sector estate. Its report suggested that departments may need initially to prioritise significant up-front investment in order to achieve these efficiencies.
- 9 A list of asset sales proposed in the OEP is set out in the annex.

Section 3 – correcting the deficit

- 10 According to *The Guardian* [ref 2], Gordon Brown aims to end all 'non-core government business activities'. The government is also considering whether any other major projects (especially in defence) can be stopped, as part of a programme to meet the government's pledge of halving the deficit over the next four years.

- 11 Asset sales of £16 billion would amount to less than 10 per cent of public sector net borrowing in 2010/11. The table below sets out figures taken from tables C4 and C5 of Budget 2009.

Year	PSNB (% of GDP)	PSNB (£ billion)	PSND ¹ (% of GDP)	PSND (£ billion)
2007/08	2.4	34.6	36.5	526.8
2008/09	6.3	90.0	43.0	609.1
2009/10	12.4	175.0	55.4	792.0
2010/11	11.9	173.0	65.0	977.0
2011/12	9.1	140.0	70.9	1,130.0
2012/13	7.2	118.0	74.5	1,262.0
2013/14	5.5	97.0	76.2	1,370.0

Section 4 – positions of the other Parties

- 12 The Conservatives and Liberal Democrats have both reacted to Gordon Brown's proposals:

- David Cameron stated that: 'Obviously we do need to do this, but we must make sure - as every family knows - if you sell something it can help you in the short term, but it doesn't actually help you live within your means in the long term. So, we've still got to get to grips with public spending, get to grips with the deficit - and we must make sure we get good value for money. Let's not forget, this is the prime minister who sold our gold reserves and if he'd sold them later he could have got four times the quantity. So, let's not have any more incompetence from him.'
- Philip Hammond stated that: 'We think that selling down assets in order to pay off debt, when you are in the sort of state that we are in, is a sensible thing to look at, but this is about saving the Prime Minister. It is about trying to get some headline figures that he can feed in to the election.'
- Vince Cable stated that: 'Given the state of the public finances, asset sales, at least in principle, make sense. However as we saw with the sale of the defence technology company QinetiQ, this government does not have a good track record in getting the taxpayer a good price from asset sales. Attempts to sell off large amounts of government land into a very depressed market as we have now would be frankly barmy. These asset sales should be based on a financial calculation not a political one.'
- Margaret Eaton stated that: 'It is disappointing that councils were not consulted about an announcement that could have serious ramifications for the state of their tightly managed budgets. As a matter of routine councils sell off unwanted assets but always make sure that they get the best value for money for the local taxpayer. Local government will dispose of assets if they are not required but, given the current financial climate, this is not a good time to sell.'

References

- Ref 1: Operational Efficiency Programme, Final Report. http://www.hm-treasury.gov.uk/d/oe_p_final_report_210409_pu728.pdf
- Ref 2: Guardian article: 'Gordon Brown's fire sale of public assets to raise £16bn', 12 October 2009: <http://www.guardian.co.uk/politics/2009/oct/12/gordon-brown-public-asset-sale>

¹ Debt at end March; excluding liabilities and unrealised losses from financial sector interventions.

- Ref 3: Independent article: 'For sale: one bridge, a bookmaker and millions of student loans, 12 October 2009: <http://www.independent.co.uk/news/uk/politics/for-sale-one-bridge-a-bookmaker-and-millions-of-student-loans-1801328.html>
- Ref 4: Independent article: 'Rising toll fears over crossing sell-off plans', 12 October 2009: <http://www.independent.co.uk/news/uk/politics/rising-toll-fears-over-crossing-selloff-plans-1801488.html>
- Ref 5: Times article: 'Nuclear fuel agency to go in attempt to cut debt', 12 October 2009: http://business.timesonline.co.uk/tol/business/industry_sectors/public_sector/article6870287.ece
- Ref 6: Independent article: 'Mandelson defends public assets sale', 12 October 2009: <http://www.independent.co.uk/news/uk/politics/mandelson-defends-public-assets-sale-1801487.html>
- Ref 7: LGC article: 'LGA disappointment over assets sell-off', 12 October 2009: <http://www.lgcplus.com/finance/recession/lga-disappointment-over-assets-sell-off/5007232.article>
- Ref 8: Budget 2009: http://www.hm-treasury.gov.uk/bud_bud09_repindex.htm. Budget 2009: Supplementary material http://www.hm-treasury.gov.uk/d/Budget2009/bud09_econfinances_968.pdf

Annex

The following asset sales were recommended in the final report of the OEP.

Asset	Principal activity	OEP's findings	Future work
Dartford Crossing (DfT)	Road transport bridge and tunnel crossings of the River Thames at Dartford.	The OEP team, working with the Department and the Shareholder Executive, has considered the commercial options. This work cannot be finalised until decisions are made on the requirement for future capacity and any legislation that specific options might require is determined.	The government will bring forward proposals to realise value by Budget 2010 with progress reported in the 2009 Pre-Budget Report.
Defence Storage and Distribution Agency (DSDA)	Management and infrastructure of MOD equipment - storage and distribution.	Suggested consolidation of elements of the Joint Supply Chain. Also a suggested introduction of internal charging to make the costs of the DSDA transparent.	Grow third party revenues, partnering, the potential disposal of surplus assets and alternative methods of ownership to fund capital requirements.
Land Registry	National registry of property and land ownership.	Plans include: estate rationalisation; outsourcing support to a third party; developing commercial services.	A further update is planned at the 2009 Pre-Budget Report.
Met Office (MOD)	National weather forecasting service.	Create greater working efficiencies – no mention of asset sales.	Assist the Met Office in examining where better efficiencies can be made.
Oil and Pipelines Agency (MOD)	Management of the government's pipeline and Storage system.	Invite private sector to use the Agency's assets.	The next phase of the OEP will explore whether there is a potential role for the private sector in the future financing, ownership or operation of some or all of these assets.
Ordnance Survey	Provider of high quality geographical data covering Great Britain.	Ordnance Survey needs to be more customer-focused and commercially driven if it is to take advantage of the growth in geographical information.	The government has set milestones for delivery in six and 12 months' time and beyond, as well as a process for independent review and challenge of progress.
QE II centre (CLG).	Conference centre located in Westminster for government and private use.	Working with property professionals, explore the opportunity of redeveloping the existing site.	Marketing and disposal could take place at various stages depending on market evolution and prevailing risk and reward considerations, but at the latest by mid 2012.

Asset	Principal activity	OEP's findings	Future work
Royal Mint	Manufacturer of circulating and commemorative coins.	Facilitate further commercial growth. There is a strong case for the introduction of private capital into the Royal Mint.	The government will vest the Mint as a business, with the intention of completing the process later this year.
British Waterways (Defra)	Ownership and maintenance of canal infrastructure and land alongside the waterways.	Manage the canal-side property portfolio through a dedicated, wholly-owned subsidiary of British Waterways.	British Waterways and Defra to work closely with HM Treasury and Shareholder Executive to take this change forward.