# Cash in the attic

## Realising the proceeds from government-owned property

Nigel Hawkins

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# Executive Summary

• This paper addresses the issue of surplus state-owned land, property and infrastructure (LPI) assets. Under various guises, over £600 billion (including Local Authority assets) of tangible assets remain in the public sector. In some cases, this can be justified; in many others, it cannot. The burden of proof needs reversing – these assets should be privately-owned unless there is a compelling case for them to remain state-owned.

• Via a progressive sell-down of these state-owned LPI assets, around £40 billion – approximately £23 billion from surplus real estate and c£17 billion (excluding the Government's bank stakes) from related privatisations - could be raised by 2017/18. The proceeds could be used either to finance temporary Income Tax/ National Insurance contribution cuts or to pay down part of the vast national debt, which is now closing on £1.2 trillion.

• The latest edition of the National Asset Register (NAR), published in 2007, shows tangible assets of £337 billion, a figure that will have risen sharply in recent years. In part, the NAR 2007 has been superseded by the Government Property Unit (GPU), which manages the Civil Estate, and by the Defence Infrastructure Organisation (DIO).

• Strong pressure needs to be exerted on the GPU to meet its £20 billion long-term disposal proceeds target – there are rumours that it is 'wobbling' on this

commitment – and on the Ministry of Defence (MoD) whose real estate comprises some 238,000 hectares and may be worth some £20 billion. The DIO is seeking to sell off surplus assets but a more aggressive approach is needed, especially with the large training base areas.

• Most health assets are either hospital-related or are land and buildings occupied by Primary Care Trusts (PCTs). The estimated value in the NAR 2007 of the English fixed assets is about £40 billion: the current value would exceed £50 billion. By selling down just 5% of the £10 billion plus land assets alone would raise around £500 million.

• Transport, mainly the £73 billion Highways Agency valuation in England, is a key component of the NAR's 2007 £337 billion total. To realise sizeable revenue from these assets, either the introduction of more widespread motorway tolls or of a vignette – time based – system or the raising of road taxes – higher fuel duty or an increased VED rate - would probably be needed.

• Aside from the ongoing government process to sell the Royal Mail and its 33% Urenco stake, it should also sell down a minority share-holding in Network Rail – in three tranches over a five-year period, thereby raising over £7 billion. But the government should retain a stake of over 50%.

• Within Scotland, Wales and Northern Ireland - treated separately by the NAR – the asset base amounts to approximately £75 billion. Over £44 billion of this figure is accounted for by roads. Much of the remainder relates to water assets in Scotland and Northern Ireland, both of which should in time be privatised – proceeds from these two sales could exceed £4 billion.

• Whilst the NAR omits the valuable tangible assets of Local Authorities, worth at least £200 billion, pressure should be placed upon them to pursue further council house stock sales along with selling valuable non-core activities. The latter would include the Local Authority share-holdings in the Manchester Airport Group, whose current value - following the completion of its Stansted Airport deal - comfortably exceeds £1 billion.

• Also omitted is the Crown Estate, with tangible fixed assets of over £8 billion. Whilst restructuring the Crown Estate would give rise to unique constitutional and legal issues, the fact remains that the Crown Estate is an amorphous collection of

assets. Its urban portfolio, mainly in London's West End, is very valuable, whilst the residue of the Estate could be split up.

• Aside from eventually selling down its 82% stake in Royal Bank of Scotland (RBS) and its 33% stake in Lloyds – an overriding priority – as well as the Royal Mail and the state's 33% stake in Urenco, the government should also press ahead with the sale of various state-owned buildings, a policy to which the Italian government has recently committed itself. Through the sale of some 800 buildings, Italy seeks to raise almost £3 billion.

# Introduction

When it is proposed that state-owned assets, including real estate holdings, should be sold, there is often the refrain that they should remain in the public sector. But why?

In some cases, there are compelling reasons, often on security grounds, why a private company might be an inappropriate owner of such assets. However, these instances should be quite rare. After all, BAE Systems and QinetiQ - to name just two privatised companies - have ownership of some very sensitive defence data.

Instead, this paper argues that the burden of proof should be reversed, namely that state-owned assets should be placed in the private sector, unless there is a very persuasive case why this should not be so.

After all, selling surplus real estate within existing state-owned businesses would also enable such assets to be better used. As such, many currently under-used sites, within the public sector domain, would be suitable for private sector development – and especially for house-building.

Considerable effort is required both to identify and to drive ahead the disposal process of surplus state-owned land, property and infrastructure (LPI) assets, especially since the UK's public sector net debt (PSND) continues to soar. Recently, it breached the previously unimaginable £1 trillion figure and seems destined to

reach at least £1.5 trillion and possibly more.

Consequently, there needs to be an unequivocal determination within all parts of government, and especially the MoD, to give high priority to the generation of new funds from the sale of state-owned assets. Similar sentiments apply to the Government Property Unit's (GPU) management of the Civil Estate – the GPU plans to generate £20 billion of proceeds from the sale of surplus state-owned assets.

Indeed, a real sense of urgency is needed, a feature that has been noticeable recently with some EU governments as they seek to address their appallingly high national debt figures along with the consequential excessive bond yields, which make further public borrowing so expensive – and risky.

Various EU countries are embracing privatisation with a zeal that was missing during the days of plenty. Greece is seeking to sell swathes of its public sector assets, along with Portugal and Spain. All three countries are at the heart of the Euro-zone crisis and, not surprisingly, are finding it difficult to achieve reasonable returns from those assets that are currently for sale.

More specifically, Italy has recently announced plans to sell some 800 publicly-owned buildings. It is expecting proceeds of just below £3 billion from this sale. Most interest is likely to be on state-owned buildings in Rome, Milan and Florence although the famous Palazzo Diedo on Venice's Grand Canal is certain to attract potential buyers.

**National Asset Register**

A key source for this paper is the National Asset Register (NAR), which was last published in 2007. Consequently, its valuation data has obvious limitations especially since the fixed asset values are based on March 2005 estimates.

However, in the absence of more up-to-date information, the NAR 2007 has been widely used in this paper, although, in some cases, current valuations have had to be derived from the published NAR data.

Furthermore, in the intervening period, not only have valuations changed – in some cases, materially – but also the asset base has been significantly impacted both by additions and, to a lesser extent, by disposals.

More specifically, the MoD's major procurement programme, along with the NHS hospital-building programme, will have added considerably to the asset base in the intervening eight years.

It is not clear when the next NAR will be compiled. Hence, this paper has made various adjustments to the out-of-date valuation figures.

As the NAR 2007 confirmed, the government owns a vast portfolio of assets. At that time, namely March 2005, they were valued at over £337 billion; over 87% of this asset base was listed as tangible. It is likely that, over eight years later, this figure would be higher at some £400 billion.

Key details from the NAR 2007, on a departmental basis, of these assets are set out below in Figure 1 – the numbers have been rounded.

| Department | Tangible Fixed Assets (£m) | Intangible Fixed Assets (£m) | Fixed Assets Investment (£m) | Total Asset Base (£m) |
|---|---|---|---|---|
| Attorney General | 58 | 1 | 0 | 59 |
| Cabinet Office | 241 | 1 | 0 | 242 |
| Chancellor of the Exchequer's Depts. | 1,457 | 39 | 1,640 | 3,136 |
| Communities and Local Government | 295 | 3 | 136 | 433 |
| Constitutional Affairs | 2,365 | 0 | 857 | 3,222 |
| Culture, Media and Sport | 4,179 | 21 | 219 | 4,420 |
| Defence | 70,385 | 22,648 | 352 | 93,385 |
| Education and Skills | 239 | 12 | 41 | 291 |
| Environment, Food and Rural Affairs | 4,230 | 18 | 58 | 4,305 |
| Foreign and Commonwealth Office | 1,519 | 2 | 0 | 1,521 |
| Health | 39,737 | 370 | 112 | 40,219 |
| Home Office | 6,825 | 22 | 36 | 6,883 |
| International Development | 75 | 0 | 2,521 | 2,597 |
| Northern Ireland | 38,723 | 19 | 57 | 38,798 |
| Scotland | 20,843 | 37 | 2,119 | 22,998 |
| Trade and Industry | 10,164 | 894 | 8,097 | 19,155 |
| Transport | 80,664 | 361 | 0 | 81,025 |

| Wales | 11,991 | 1 | 1,612 | 13,604 |
|---|---|---|---|---|
| Work and Pensions | 786 | 26 | 0 | 812 |
| Total Asset Base | 294,776 | 24,473 | 17,855 | 337,104 |

*Figure 1 - National Asset Register 2007*

Within this publicly-owned asset base, two figures stand out – the nearly £81 billion estimated for the Department for Transport's (DfT) tangible fixed assets and the over £70 billion estimated for the MoD's tangible fixed assets. Whilst the large majority of this latter asset base is no doubt operationally necessary, some of it is not.

The Department of Health's (DoH) figure of just under £40 billion will also have risen sharply given the very substantial capital investment in the NHS since 2005.

Hence, every effort should be made to sell off surplus LPI assets, especially by the MoD, which has argued – somewhat unpersuasively - in the past that there is relatively modest scope to dispose of part of its valuable property portfolio.

**Government Property Unit**

To streamline the ownership arrangements of the UK's publicly-owned property assets, the GPU was set up in 2010.

In 'State of the Estate in 2010', published in 2011, there was an unequivocal commitment - 'In the longer term, we aim to raise more than £20 billion by selling surplus properties from across the estate, again releasing property which can be used for new economic activity'.

Part of the £20 billion estimated proceeds will come from the sale of land owned by the MoD so that care needs to be taken to avoid double-counting. Worryingly, however, this key commitment was neither repeated in 'State of the Estate in 2011' nor in 'State of the Estate 2012'.

Nonetheless, despite serious reservations about the GPU's ability – and resolve – to meet its disposal targets, its key role is to improve the strategic management of the government's Civil Estate, which is split into four components as described in Figure 2 below:

| Estate | Major Components |
|---|---|
| Mandated | Government Departments, Executive Agencies, Executive Non-Departmental Public Bodies (NDPBs), Special Health Authorities, Government Offices, FCO Estate in the UK, English Heritage Administrative Estate, Defence Administrative Estate, Her Majesty's Courts and Tribunals Service, and Laboratories. |
| Civil | Specialist Facilities Owned, Leased and Occupied by Departments, Agencies and NDPBs, including Museums, Galleries, Power Stations and Port Facilities, as well as Infrastructure including Flood Agencies, Roads, Canals and Railways, along with English Heritage (EH) Estate and Historic Royal Palaces |
| Central Government | Defence Military Estate, Prisons Estate, NHS Estate, DEFRA Rural Estate and FCO/Home Office (HO) Overseas Estate |
| Public Sector | GP Surgeries and Clinics, Schools, Higher and Further Education, Police, Fire and Rescue, Local Government Estate, Devolved Assemblies, Parliament's Estate, the Crown Estate and Public Corporations |

*Figure 2 – GPU Responsibilities. (Source: State of the Estate 2010)*

While some sales have taken place since 2010, the size of the mandated estate is still almost 9.2 million cubic metres, with some 5,600 holdings. Premises in London account for around 40% of operating costs and for 20% of the total space. And - almost unbelievably - in Bristol, according to the 'State of the Estate in 2010', central government occupied no fewer than 100 different addresses.

Given this profile, the scope for disposals of surplus properties, especially in London, is self-evident. Importantly, too, various initiatives to control costs are underway including the decision to impose a moratorium on new property leases and lease extensions within the Mandated Estate.

In terms of capital values, leading professional services firm, Deloitte, estimates that over 500 public sector buildings, worth approximately £10 billion, are currently sitting empty. About 20% of these are freehold and could be sold.

By way of example, the 106-year old War Office, with over 1,000 rooms and more than two miles of corridors, could raise £100 million of proceeds: a long-term lease on its near neighbour, Admiralty Arch, was recently sold on a long-term lease for £60 million.

In this paper, special attention is focussed – for the purposes of indentifying surplus state-owned LPI assets - on the three most valuable estates, as compiled on a

departmental basis; these are the estates of the MoD, of the DoH and of the DfT.

## Defence Infrastructure Organisation

In April 2011, the government sought to streamline the various defence-related organisations that owned the Defence Estate. In fact, the prime agency was the Defence Estates around which the new Defence Infrastructure Organisation (DIO) has been structured.

In effect, this organisation has partly subsumed the role that the Defence Estates played within the NAR and is intended to provide more focus on its activities.

Following the 2011 Budget, the MoD is committed to sell enough land by 2014/15 for 30,000 new homes. Such a policy might give rise to proceeds of about £1 billion.

Subsequently, in his statement to Parliament in July 2011, the former Secretary for Defence, Liam Fox MP, set out specific details of the Government's defence policy.

With regard to the sale of surplus property assets, he said 'Let me turn to bases. The decisions that we have taken in the Strategic Defence and Security Review (SDSR) to reduce aircraft types, bring the Army back from Germany and form the Army into five multi-role brigades will enable us to rationalise the defence estate and dispose of high-value sites that are no longer needed'. Hansard, Column 644, July 18th 2011

In fact, what is needed at the MoD is a more radical approach, which identifies considerably more 'high-value sites', especially in the south of England, and then markets them with vigour.

## Local Authorities

Crucially, the NAR 2007 excludes the asset bases of the UK's Local Authorities, which – in most cases – are very considerable, although the stock of council houses is the key component.

Indeed, the Treasury Select Committee recently concluded that 'the bulk of public sector estate belongs to local government'. As such, Local Authorities need to be persuaded, through financial incentives, or required by law, to undertake further sales of surplus property assets.

In overall terms, through an extrapolation of the former Audit Commission's figures, it is estimated that Local Authorities own assets worth over £200 billion, around half of which is accounted for by council-owned housing. In essence, there are three types of other Local Authority-owned property:

• Property used directly to deliver local services, notably education;

• Property which supports service delivery, including town halls;

• Non-operational property, such as surplus land and commercial/industrial estates.

As such, Local Authorities are clearly sitting on a very valuable asset base, including some 21,000 schools, 3,800 libraries and 1,800 swimming pools/leisure centres in England and Wales alone.

Indeed, each County Council is estimated to own over £700 million of property assets, two-thirds of which relate to education. These assets include school playing fields, many of which have been sold off over the last thirty years – they often abut existing housing estates and therefore are of particular interest to house-builders.

Whilst there are often good cases for such parcels of land to be sold, there are also very sound reasons – health and social especially – for playing fields to be retained so that school sport activities can be maintained: a sensible balance needs to be struck.

The potential value of surplus Local Authority LPI assets is illustrated by the recent accounts of Birmingham and Manchester City Councils; they show Property, Plant, Equipment and Heritage valuations of £5.3 billion and £2.5 billion respectively.

Importantly, within the above figures, the Other Land and Buildings valuations amounted to £2.5 billion and £0.9 billion respectively, thereby denoting that relatively small percentage sales could give rise to substantial proceeds.

Of course, Local Authorities own a wide range of assets, many of which - such as derelict parks with minimal development potential - are virtually unsaleable. At the other end of the scale, there are some assets, which are potentially very valuable.

The most obvious example is Manchester City Council's 35% shareholding in the expanded Manchester Airports Group (MAG), which was valued in the accounts

(on a 55% basis) at its cost price of £112 million – and is probably the 'jewel in the Local Authorities' crown'.

Following the completed acquisition of Stansted Airport for £1.5 billion, MAG's value should comfortably exceed £1 billion.

Given the very high value currently being placed on airport ownership - as evidenced by the recent Edinburgh and Stansted airport sales - Manchester City Council and the other local authorities with smaller stakes should be required – or at least strongly encouraged – to sell their share-holdings.

After all, whilst Local Authority ownership of major utilities in Germany is standard, it is unusual in the UK: Hull City Council's ownership of Kingston Communications, which was floated in 1999, is the only other similar precedent in recent memory.

Whilst Transport for London (TfL) is not strictly a Local Authority business, it too lies outside the remit of the NAR 2007. TfL was established in 2003 and its main operations are the running of the London Underground and of London's buses – over 1.2 million passenger journeys per day are made on the former: for the latter, the comparable figure is 2.3 million passengers.

With gross fare income of £3.8 billion in 2012/13, TfL is a major business. Its tangible fixed assets at March 2013 exceeded £27 billion, £16.9 billion of which were defined as infrastructure and other buildings.

In time, and once the step-change in the London Underground investment programme is completed, TfL may be suitable for some form of privatisation – long-term infrastructure funds would be potential investors. However, with last year's grant of £5.5 billion comfortably exceeding total revenues, major financial restructuring may be needed.

### Crown Estate

The history of the Crown Estate dates back at least to 1066 and, perhaps, as far back as the reign of Edward the Confessor who died in the same year. Its ownership lies, not with the current government, but with the reigning monarch; it is not part of her private property, but 'in right of the crown'. Her successor is in line to inherit these assets on the same principle.

However, in recent years, as the off-shore wind industry has developed, the operations of the Crown Estate have become more prominent and commercial; its assets are excluded from the NAR 2007.

In its 2012/13 accounts, the Crown Estate reported revenues of £356 million along with a £253 million surplus. Importantly, the latest valuation - at March 2013 – amounted to £8.1 billion, with the urban estate accounting for £5.9 billion of this figure: the rural estate was valued at £1.4 billion.

In reality, the Crown Estate's operations are heavily dependent upon history, with much of its underlying value being its property assets in London's West End.

Of course, its unique ownership features mean that any rationalisation would be immensely complex. Indeed, profound constitutional and legal issues would arise if it were decided to undertake a major restructuring or break-up of the Crown Estate.

In effect, it runs four separate businesses. The very valuable urban estate could be readily sold, with long-term infrastructure investors or property companies, such as Land Securities, being obvious potential buyers.

Its rural property portfolio would be less attractive, with many long-term fixed rental agreements being in place. Whilst some of the Crown Estate's rural assets could be sold off, the remainder could be integrated into either the Forestry Commission or into the Environmental Agency.

Crown Estate's off-shore licensing assets would sit most comfortably within the off-shore licensing regime of the Department of Energy and Climate Change (DECC). Such a policy move would provide a more direct licensing procedure for off-shore wind investment, which could parallel the long-standing oil and gas permitting system.

With regard to the Crown Estate's property assets in the Windsor area, as well as other palace responsibilities, there would be a compelling political case to ensure they remain within the control - if not the actual ownership - of the Monarchy itself.

**Other Publicly-Owned Assets**

Outside the superseded NAR 2007, the GPU, the DIO, Local Authorities and the Crown Estate, there are various other assets that are effectively – directly or indirectly

– state-owned. In some cases, they are very valuable.

The government's 82% stake in the Royal Bank of Scotland (RBS) and its 33% stake in Lloyds are excluded from the NAR 2007 and from any detailed analysis in this paper.

Currently, the share price of RBS is well below the government's entry price. Although the Lloyds share price has rallied, it seems unlikely that the sale of major stakes will take place within the next year, although a 6% stake was recently sold.

In fact, many of the government's commercial investments are held by the Shareholder Executive. Relatively few have substantial LPI asset bases, with the exception of Scottish Water whose monetary value is actually driven by its earnings capacity rather than by its disparate, and mainly rural, land-holdings.

# 1. Defence

Whilst the NAR 2007 identified an asset base of £93 billion for the MoD, the potential for generating sizeable sales value from surplus LPI assets is considerably lower, perhaps amounting to around £3 billion.

In recent years, the defence procurement budget has continued to soar. As such, the highest proportion of this £93 billion figure is accounted for by single-use military equipment, including Tornado aircraft and Trident submarines.

Whilst there is undoubtedly potential to sell surplus military equipment overseas, this issue lies outside the scope of this paper. Furthermore, deriving some significant value from the NAR 2007 intangible asset figure of £22.6 billon - mainly incurred development expenditure on such projects as Typhoon aircraft - should also be addressed.

However, even at 2005 prices used in the NAR 2007, MoD land and buildings were valued at £15.6 billion. A more recent valuation from DIO places a figure of £20 billion for the Defence Estate on assets ranging from barracks - such as at Aldershot - and airfields to rural training areas. Furthermore, the annual cost of new construction, maintenance and property management exceeds £2 billion.

In terms of the Defence Estate itself, the published land and foreshore holdings data indicates that, in 2010, it amounted to 238,000 hectares – equivalent to 919

square miles. Almost 80% of this estate was located in England, whilst around two-thirds was attributable to the Army.

Not surprisingly, within the Defence Estate, Army training areas and ranges represent by far the largest element. Indeed, over the last decade, the area used for these activities has remained virtually unchanged.

Figure 3 below lists the largest areas of the Defence Estate.

| Site | County | Hectares | Other Data |
|---|---|---|---|
| Catterick and Feldom | Yorkshire | 8,000 | Permanent training centre since 1921 |
| Otterburn | Northumbria | 22,900 | Operational since 1911; largest single impact range in UK |
| Dartmoor | Devon | 12,760 | Used since early 1800s; light forces training base |
| RAF Spadeadam | Cumbria | 3,642 | Largest RAF station in the UK |
| Sennybridge | Powys | 14,500 | Requisitioned in 1939; this is the third largest base nationwide |

*Figure 3 - Defence Estate. N.B. A small part of this estate is either leased or licensed (Source: UK Defence Statistics 2011)*

Despite the relatively low land price per hectare, there remains a strong case for selling down part of the MoD training estate. In fact, the DIO itself has outlined a comparatively modest surplus land disposal programme, which it hopes to implement by 2014/15: it included the planned sale of the 415 hectare former RAF airfield at Machrihanish, near Campbelltown, in Argyll and Bute that has recently taken place via a local buy-out.

In total, the approximate area earmarked for sale amounts to around 1,800 hectares, with a potential 30,000+ new homes. The most important site is the former Waterbeach Barracks in Cambridgeshire, where 12,500 new homes are planned, half of which will be on MoD land.

In extrapolating a value from these planned disposals, a 20% land cost based on an average house price of £170,000 has been used: these figures are similar – although some allowance has been made for falling land values since 2008 - to those recently published by Persimmon, the UK's leading house-builder. As such,

a 30,000 house-building programme might be expected to generate proceeds of about £1 billion.

Given the robust demand for housing in the south-east, the MoD should focus on selling surplus land assets in south of England. In particular, the scope for part sales at the large Army base at Aldershot in Hampshire – the Aldershot Urban Extension – requires detailed analysis, whilst planning approval for around 1,200 dwellings has now been secured for the Princess Royal Barracks at Deepcut, Surrey.

Furthermore, as part of the phased withdrawal of Army troops from Germany, the government recently announced that four bases in Kent, North Yorkshire, Edinburgh and Pembrokeshire would be closed. This policy should generate sizable disposable proceeds. In addition, there is a strong case for moving the Household Cavalry out of its Hyde Park Barracks, which could be sold.

More generally, a far more aggressive approach should be required from the MoD, whereby a swathe of surplus LPI defence assets – not just an occasional site - should be progressively offered for sale over the next decade. After all, many such assets were either developed – or acquired – during the era of the Cold War; in many cases, their suitability – more than two decades after the end of the Cold War - is now dubious.

# 2. Health

Although NHS plant, equipment and the NHS's many buildings are valued at around £50 billion, only a small proportion of these assets are suitable for sale. But, if just 5% of the over £10 billion of land assets held by the NHS in England were sold, it could bring the Treasury around £500 million.

In the NAR 2007, the NHS' asset base in England was valued at just over £40 billion. The heavy hospital and Primary Care Trust (PCT) investment programme of recent years will have increased this total figure markedly.

Importantly, the NAR 2007 attributed over 80% of the underlying value, almost £33 billion, to assets under the ownership of NHS Trusts and Foundation Trusts. Of this figure, the combined land assets were valued at £8.4 billion. Most of the remainder was owned by PCTs, whose land asset element amounted to £2.1 billion.

More recent figures indicate NHS assets being worth over £50 billion, virtually all of which was accounted for by property, plant and equipment.

Furthermore, with land assets being worth over £10 billion at 2005 prices, there is clearly scope for releasing some value, even though the overwhelming majority of the land estate is required as part of core NHS activities. Yet, if just 5% - a relatively modest amount - of the NHS' land assets in England were sold, proceeds of some £500 million could be expected.

Such a view was recognised by the publication in 2011 of the DoH's Disposal Strategy – Land for Housing. This document confirmed the size of the NHS Estate at 7,461 hectares compared with 8,600 hectares ten years previously.

It also set out plans for the sale of surplus land, giving rise to the construction of roughly 2,300 new homes per year by 2014/15 – a relatively modest target. Nevertheless, the DoH's circular to NHS Chief Executives in June 2012 re-affirmed its plans to release more land upon which new homes could be built.

More specifically, the DoH has earmarked various property sites for sale, the largest of which are listed in Figure 4 below:

| NHS Trust | Property | Land Area (Hectares) |
|---|---|---|
| North Essex Partnership | Old Severalls Hospital | 58.3 |
| Doncaster and Bassetlaw Hospitals | Old Nurses Home Land and Car Park | 30.0 |
| Northamptonshire Healthcare | Princess Marina Hospital | 18.0 |
| Northumberland, Tyne and Wear | West Plot, Northgate Hospital | 15.0 |
| Suffolk Mental Health Partnership | 31 Acres of the St Clements Hospital Site | 12.6 |
| Portsmouth Hospitals | St Mary's Hospital West Wing | 11.5 |
| Hull and East Yorkshire Hospitals | Ex Princess Royal Hospital | 10.6 |
| Central Manchester University Hospitals | Ex Booth Hall Children's Hospital Site | 10.1 |

*Figure 4 – Key DoH Development Projects (Source: Dept. of Health)*

In terms of the old Severalls Hospital – a former asylum, which is now abandoned - Crest Nicholson is the chosen developer, with 248 new homes planned initially, increasing in time to 1,500 units.

Furthermore, within its Retained Estate, the DoH has identified the development potential of part of the Harperbury Hospital estate at Radlett, Hertfordshire – between 225 and 400 new homes could be built there.

Nevertheless, given that there are over 350 hospitals in the UK, the planned disposals are distinctly modest. It is also noticeable that most of the major land disposal plans are being undertaken by the 143 Foundation Trusts in England, whose management is often more outward-looking; in some cases, too, the need to reduce the net debt of a Foundation Trust may be the key driver.

# 3. Transport

The Treasury could bring in around £7 billion from selling off 49.9% of Network Rail, as well as part of the £14.8 billion from the road network's land bank. Theoretically denationalising roads could bring in somewhere up to £100 billion, depending on toll structures and how much of the network was sold.

Within the NAR 2007 valuation for transport of almost £81 billion, the Highways Agency accounts for over £73 billion of this figure. Details of the major constituents of the transport infrastructure in England, which are based on 2005 data, are set out in Figure 5 below:

| Infrastructure | Main Statistics | NAR 2007 Value (£ billion) |
|---|---|---|
| Trunk roads | 8,398km of carriageway | 20.3 |
| Motorways | 3,073km of carriageway | 18.6 |
| Structures | 13,876 of various types | 18.1 |
| Land take | 40,543 hectares | 14.8 |

*Figure 5 – Main Transport Infrastructure (Source: NAR 2007)*

Currently, only the recently-built M6 motorway levies road tolls in the UK, which are collected by Midland Express under a 53-year concession: due primarily to low traffic volumes, losses are currently being incurred.

Furthermore, with the exception of a limited Congestion Charge area in the historic

centre of Durham, London is the only UK city to levy a Congestion Charge, which applies in the busiest part of the capital.

The contrast with much of Europe, including France which charges a substantial *péage* on many of its motorways, is stark. Some other EU countries, including Austria and the Czech Republic, use a vignette system for vehicles – of up to 3.5 tonnes – travelling on their motorways and expressways.

It has been proposed that the management of England's motorways and trunk roads should be transferred from the Highways Agency and franchised out to private contractors, who would be responsible for road maintenance and other related services. To finance these activities, private contractors would be permitted to levy charges payable by motorists.

To collect these charges, there are various options, including:

• The operation of toll booths;

• The introduction of a vignette system;

• The use of number-plate recognition technology and of internet payments (replicating London's Congestion Charge).

Projections by those, including investment banks, who have analysed such franchise schemes in depth suggest possible one-off proceeds of up to £100 billion – a vast sum but one that it very difficult to calculate, especially since it would be highly dependent upon the level of charges, of whatever type, that is applied to motorists using tolled roads.

Currently, road-users pay approximately £35 billion per year in taxes, mainly through fuel duty. Whilst only a small proportion of this tax-take is spent on the roads programme, there is a persuasive case to levy a vignette charge or a similar electronically-based system, initially on motorway use, to build up a road-financing fund.

Such a fund would be hypothecated for initially maintaining – and in time for improving – the UK's motorway network. As a partial off-set, VED rates could either be frozen – or even cut. In time, this fund of motorway revenues could provide the financial basis for privatising the maintenance of the motorway network, a principle

that could be extended to other trunk roads.

The political reality is that, not unnaturally, this form of road privatisation would be widely seen as an alternative – or perhaps additional - road tax. To that extent, it would be very different from other privatisations. Consequently, it has been excluded – for the moment at least - as a potential privatisation revenue generator, a conclusion similar to that apparently reached by the DfT in recent years.

Irrespective of road-pricing policy and whether a vignette system should be introduced, there is still scope for addressing whether part of the 40,543 hectares of land take – valued at £14.8 billion in NAR 2007 - could be sold off. Much of it is located in unattractive sites but part of it may be suitable for sale, especially since it will probably offer good transport communications.

More specifically, within the NAR 2007 figures, there is also an allowance for the London and Continental Railways (LCR) share-holding. However, subsequent changes to the ownership of the Channel Tunnel Rail Link – now renamed High Speed One (HS1) – have taken place; indeed, a 30-year lease of HS1 has been granted to a consortium of leading pension funds.

Due to its unusual status - as a not-for-profit company set up in 2002 as a successor to the ill-fated Railtrack - Network Rail's assets are excluded from the NAR 2007.

Network Rail itself runs, maintains and develops around 20,000 miles of railway track in the UK, the signalling system, some 40,000 bridges/tunnels and many level crossings; furthermore, it operates 17 core stations.

At present, Network Rail is undertaking a £35 billion five-year investment programme, which is due to end in 2014. Despite the heavy investment over the last decade, notably the notorious £9 billion West Coast Main Line (WCML) upgrade project, much of its asset base remains in a poor condition, especially many of its railway bridges. Consequently, formidable investment levels seem inevitable for the foreseeable future.

Nevertheless, given Network Rail's prodigious level of cash consumption which has driven up its net debt - notwithstanding its bureaucratic governance structure - there is real scope for efficiency improvements that full or partial privatisation could, in time, deliver.

Even a partial return to the private sector would need to take very careful account of Network Rail's capital expenditure requirements, which are already the subject of in-depth analysis under the existing regulatory regime. The impact of any regulatory revisions, which could arise as a result of substantive changes to the existing railways' network financing regime, would also be very relevant to potential investors.

In terms of tangible fixed assets, Network Rail's balance sheet at March 2013 provided a book value of over £46 billion, virtually all of which was accounted for by the railway network.

There was also a more modest £751 million valuation for its investment properties. However, many sites owned by Network Rail are small - and often oblong shapes of land abutting a railway line; but some are suitable for sale.

Overall, these figures would certainly have investment attractions for some infrastructure funds, especially if reasonable dividends were to be paid. Such funds are very keen on long-term investments, particularly if the construction risk is low, since they can offset their long-term liabilities.

Given the inevitably controversial process of seeking to return Network Rail to the private sector – even if a 50.1% majority stake were retained by the government - it would be preferable to undertake any sales process in tranches.

As such, preparing a 15% initial offer of shares to leading financial institutions - in order to judge the underlying appetite of investors - would be a prudent first step. Assuming that this placing were well supported by investors, further placings of 15% and 19.9% could then be undertaken.

With a March 2013 Regulatory Asset Value (RAV) of £46.4 billion and net debt of £30.4 billion, a full sale of Network Rail (with a decent dividend) could be expected to raise almost £16 billion even if there were no premium to its RAV. With most utilities, material premia are currently being paid, but Network Rail may attract offers similar to its RAV. Hence, if a 49.9% stake were sold in three tranches, it should raise around £7 billion.

# 4. Trade and industry

The government could receive a total of £6 billion from selling Royal Mail and its stake in Urenco, notwithstanding £30 billion to £50 billion from selling its bank shareholdings.

Within the NAR 2007, the Department for Trade and Industry (DTI) – as it was then called – accounted for just over £10 billion of tangible fixed assets and roughly £8 billion of fixed asset investments.

Crucially, these figures exclude the government's major share-holdings in two leading banks – the 82% stake in RBS and the 39% stake in Lloyds – which were acquired subsequently.

Despite a rally in recent months partly due to the watering-down of the Basel III capital proposals, shares in RBS remain well below the price paid when the government acquired its stake. By contrast, Lloyds' shares have recovered strongly. At current valuations, the government's 82% RBS stake, following confirmation of its exit from its Asset Protection Scheme (APS) is worth about £30 billion, whilst the 36% stake in Lloyds is worth approximately £16 billion.

Furthermore, the NAR 2007 figures for DTI assets – based on 2005 valuations - pre-dated the government's sale of BNFL to the Japanese company, Toshiba, in 2006: the latter now owns a 67% stake in BNFL. Hence, this substantial component

within the DTI's NAR 2007 asset base should be disregarded.

However, there is also a £1.9 billion figure in respect of the Post Office, whose ownership structure has been fundamentally changed since the last NAR was published.

Following the passing of the Postal Services Act 2011, Royal Mail Holdings, which is directly owned by the government, became the controlling company of both Royal Mail Group Ltd and also of Post Office Ltd.

Within this legislation, there was also provision for a major change in the treatment of pension liabilities, especially with respect to deferred benefit entitlements, so that almost all of the defined benefit elements of the Royal Mail Pension Plan (RMPP) was transferred to the government in April 2012.

Following the resolution of the complex pension issue, the long-delayed privatisation of Royal Mail now becomes more feasible despite rapidly falling mail volumes.

In 2012/13, Royal Mail handled 58 million UK addressed letter items daily compared with 63 million in 2011/12. Increasing use of e-mails and texts is continuing to impact Royal Mail's core business, whose finances have benefited from sharp increases – approved by Ofcom - in the cost of stamps. Moreover, its parcels business, which accounts for almost half its revenues, is growing strongly.

In terms of its fixed assets, which include some surplus property, Royal Mail reported property, plant and equipment of over £1.9 billion; almost half of this figure was accounted for by freehold or long leasehold property assets, some of which may well be surplus to current requirements.

However, arguably its most valuable asset is its 29 million UK customer base, the largest in the UK, which – in terms of consumer data operations and specifically the Postcode Address File – must be highly attractive to companies involved either in marketing or in e-retailing.

Whilst material debt adjustments may be undertaken prior to any Initial Public Offer (IPO)/trade sale, Royal Mail's value is probably around £4 billion. Comparisons with leading EU post office businesses, along with some putative bid prices from private equity investors, probably provide the best guide in assessing the likely market response to an IPO.

Irrespective of the afore-mentioned BNFL sale, one nuclear business with undoubted privatisation potential – though it lies outside this paper's LPI definition - is Urenco, a uranium enrichment company, in which the government holds a 33% stake.

Urenco's putative value has risen very appreciably due to plans - despite the Fukushima accident in Japan - for a large build-out of new nuclear plant worldwide and the increased fuel volumes that will eventually be consumed as a consequence. Urenco has a current order book worth about £15 billion.

While Urenco's fixed tangible assets had a book value of £4.1 billion at December 2012, selling this 33% stake will not be straightforward since the Dutch government also retains a 33% stake in Urenco, which it has recently agreed to sell. The remaining 33% share-holding is owned by Germany's two leading energy companies – E.On and RWE. The approval of these three shareholders will be required for any disposal to proceed.

Despite the reputed interest of private equity funds and of France's Areva as well as of Japan's Toshiba, placing a value on both Urenco generally, and more specifically on the government's minority 33% stake, is complex. Nonetheless, Urenco's total valuation should exceed £6 billion and may be considerably higher; hence, the government's stake, after allowing for its minority status, should be worth £2 billion.

# 5. Northern Ireland

Privatising water supply and sewerage services in Northern Ireland could free up £500 million. Theoretically, restructuring road ownership could be worth up to £20 billion, although extensive road pricing would be needed.

The NAR 2007 showed a total asset base for Northern Ireland of over £38 billion. Around 60% of this figure was accounted for by roads within the province.

In line with elsewhere in the UK, there are various options for financing road transport activities, which are discussed earlier in the Transport section of this paper.

Whilst NAR 2007 also showed a 2005 tangible fixed asset value for Northern Ireland's water services of £5.2 billion, the 2011/12 Annual Report for Northern Ireland Water (NIW), which is accountable to the Department for Regional Development, confirmed a figure of £2.2 billion, of which just £62 million were land and buildings.

NIW was set up in April 2007 and, in 2010/11, it sold 12 surplus sites. However, various well-publicised operational problems, along with the very sensitive issue of water charges, have delayed the restructuring of the Northern Ireland water and sewerage industry.

Nevertheless, in common with Scotland, there is a formidable capital expenditure programme to be financed by NIW as it gears up to achieve higher standards and to comply with EU Water Directives.

In the longer term, there is a strong case to privatise NIW, once the contentious charging regime issue has been satisfactorily resolved. The ongoing 2013 price review, which proposes pronounced cost savings, and its 2015 successor will be pivotal to this process.

Given annual revenues of £425 million in 2012/13 - no less than £281 million of which were subsidies - and some balance sheet restructuring, NIW might eventually command a valuation of some £500 million. Such a figure would be at a sizeable discount to the RAV at March 2012 of £1.7 billion – prior to net debt of just over £1 billion - but it reflects the risks to investors of financial dependence on the formidable annual customer subsidy, whose long-term future is far from assured.

# 6. Scotland

Selling Scottish Water would be worth around £3.5 billion, but releasing value elsewhere would require major changes in Scotland's road-charging policy, which would potentially be worth around £10 billion.

Over half of Scotland's tangible fixed asset base of £23 billion, as set out in the NAR 2007, is accounted for by roads: the land and buildings component amounts to just £145 million. Clearly, the release of any serious value depends primarily upon the selected road-charging policy, as discussed previously in the Transport section of this paper.

The NAR 2007 also reported a tangible fixed asset value of £2.8 billion for Scotland's water assets, which remained in public sector ownership when the nine English water companies and Welsh Water were floated in 1989. The 2012/13 Annual Report for Scottish Water confirmed an updated tangible fixed asset valuation of £5.3 billion.

Subsequently, Scottish Water, which was formed from the consolidation of three regional water businesses, has undergone considerable re-organisation but would benefit from the injection of private finance to fund its investment programme and to promote further operational efficiencies.

Despite the strong case to extend water privatisation to Scotland, such a policy

would assuredly give rise to complex legal debates between the UK government and the devolved Scottish government, especially with the planned referendum on Scottish independence due to be held in September 2014.

Significantly, whilst the current devolved Scottish Executive repudiates a conventional privatisation for Scottish Water, it has shown some support for a conversion of the latter to a not-for-profit company on the Glas Cymru model (see below).

Scottish Water had a RAV of £6.5 billion as at March 2012 whilst revenues in 2012/13 were £1.1 billion. Clearly, any privatisation value to taxpayers would depend upon the level of debt in its restructured balance sheet. If unchanged from the current net debt figure of £2.9 billion - almost all of which is owed to the UK government - the sale of Scottish Water should raise over £3.5 billion and probably more.

# 7. Wales

The NAR 2007 showed a total asset base for Wales of £13.6 billion. By far the largest component was the £9.4 billion ascribed to the 1,683 kms of trunk roads and the 131 kms of motorway, including the M4 in Wales. A further £2.1 billion was accounted by NHS assets.

To realise significant value from the roads infrastructure in Wales presents the same difficulties as elsewhere in the UK: these – and possible solutions – have been discussed in the Transport section of this paper.

Unlike in Scotland and Northern Ireland, Wales' water industry assets do not appear in the NAR 2007, given the privatisation of Welsh Water in 1989. Its successor, Glas Cymru, is a not-for-profit company that was established following the collapse in the late 1990s of Hyder, whose core businesses were Welsh Water and Swalec. Its funding is currently provided almost entirely by bond-holders.

# 8. Others

Within the £6.9 billion valuation for the Home Office by the NAR 2007, £5.2 billion was ascribed to the UK's prison estate, which – given its well-known Victorian heritage – is mostly elderly.

Four of the UK's leading prisons – all of which are sited in inner-city areas – are listed below in Figure 6.

| Prison | Prisoner Capacity |
|---|---|
| Wandsworth | 1,665 |
| Birmingham (Winson Green) | 1,450 |
| Wormwood Scrubs | 1,277 |
| Pentonville | 1,250 |

*Figure 6 – Leading Inner-City Prisons (Source: HM Prison Service)*

Given the location of several old prisons - not just in gentrified parts of London, such as Wandsworth and Pentonville - but also in other prosperous towns, there is a strong case to consider whether some prisoners should be moved to new prisons in those parts of the country where costs are significantly lower.

In time, some inner-city Victorian prisons could either be re-developed or even demolished and replaced with new homes built on the vacated – and valuable - land.

With respect to the Metropolitan Police, it has recently been confirmed that there are plans to sell New Scotland Yard, its iconic base which has been at the centre of London's policing since 1967: the eventual sales price may reach £150 million. Furthermore, up to a third of the Met's properties – police stations, patrol bases and traffic garages – are lined up for disposal.

Defra has responsibility for both the Forestry Commission and the Environment Agency, which have a combined tangible fixed assets value in the NAR 2007 of around £3 billion.

The Forestry Commission is the UK's largest land manager, as custodian of some 1 million hectares including National Parks, Areas of Outstanding Natural Beauty (AONBs) and Sites of Special Scientific Interest (SSSIs). The Environment Agency, which holds widespread regulatory powers, recently reported operational assets of £3.5 billion, over £1 billion of which were attributable to the Thames Barrier.

However, for various reasons, any privatisation of either body seems very distant, especially since a recent Defra initiative to consider the possible privatisation of the Forestry Commission, much of whose land is located in Scotland, caused a severe political backlash.

# 9. Macroeconomic issues

Aside from the many operational benefits that would accrue from implementing the LPI disposal programme outlined in this paper, the government's finances would also benefit very substantially from the receipt of such proceeds. Given the current absence of significant economic growth, notwithstanding the massive Public Sector Borrowing Requirement (PSBR) projections, such an inflow of funds would certainly be welcome.

Last year, the UK's PSND breached the seemingly unbelievable £1 trillion threshold. It is now approaching £1.2 trillion and it is set to rise sharply thereafter until the current annual deficit is converted into a surplus: this latter scenario – given the current lacklustre economy - is unlikely for many years.

Nonetheless, proceeds of approximately £40 billion by 2017/18 – £23 billion from the sale of surplus state-owned assets and about £17 billion from privatisations, notably from Network Rail – would make a seriously useful contribution in curtailing the soaring level of national indebtedness.

Alternatively, these projected £40 billion proceeds could be used to finance tax cuts – they equate to almost 2p off the basic rate of Income Tax until 2017/18 - or lower National Insurance contributions.

In reality, by pursuing these proposed initiatives, the government – through the sale

of surplus assets – would simply be emulating the conventional policy of any over-extended private sector business.

Overall, it is very difficult to place precise figures on the likely proceeds from any LPI disposal programme. However, on various assumptions, Figure 7 below provides estimates of the proceeds if the disposal of key state-owned LPI assets that have been discussed in this paper were undertaken. In particular, it includes a £20 billion estimate for GPU disposals; there is an additional £3 billion sales proceeds assumption for MoD disposals.

For varying reasons, the following assets are excluded from this projection – the RBS and Lloyds Bank stakes, Local Authority assets, TfL, the Crown Estate, roads, prisons and Defra's LPI holdings.

To determine a mid-case valuation, the finances of sector comparators, where appropriate, have been analysed. In the absence of such publicly-quoted comparators, less rigorous estimates have been used.

| Organisation | Government Stake To Be Sold (%) | Estimated Sales Proceeds (£ billion) | Methodology |
|---|---|---|---|
| GPU | n/a | 20 | £20 billion Target (inc MoD sales) |
| DIO | n/a | 3 | 15% of DIO valuation |
| Network Rail | 49.9 | 7 | RAV-based |
| Royal Mail | 100 | 4 | Comparators, Private Equity bids |
| Urenco | 33 | 2 | Forward P/E and DCF |
| Water (S and NI) | 100 | 4 | Varying premiums/ discounts to RAV |
| Total | | 40 | |

*Figure 7 – Projected Proceeds (Source: Nigel Hawkins Associates)*

# Conclusion

The £40 billion raised from the asset sales recommended in this paper would be able to finance modest tax cuts over a certain period. Tax cuts targeted to increase job creation (such as cuts to employers' National Insurance) could prove to be self-financing.

Although its primary focus is on the sale of surplus state-owned LPI assets, this paper implicitly sets out a radical programme to re-invigorate the privatisation policy that proved so successful during the heyday of the Thatcher Government (1979-1990).

In embracing such an opportunity, it would not only raise very substantial proceeds – to the benefit of the UK's desperately stretched public finances – but also help recreate the commercial drive that lay behind the original privatisation policy that has been replicated worldwide.

Government asset sales are often dismissed as 'selling off the family silver', but the disposals identified in this paper should be largely uncontroversial. As the government grapples with the budget deficit and a stagnant economy, there is a powerful argument for selling off assets now to reduce the size of government and increase economic activity.

Far from being a cost to the public, selling these assets to the private sector would

allow them to be used more productively, increasing overall social welfare. *We should ask not why state assets should remain publicly-owned, but why they should not be in the private sector.*