

A nighttime photograph of a city skyline reflected in a body of water. The sky is a mix of blue and purple, with scattered clouds. Several tall buildings are lit up, their lights reflecting on the water. In the foreground, there are trees and a walkway, also illuminated and reflected. The overall scene is a vibrant urban nightscape.

SOE Reform: Lessons from Other Countries

- for the benefit of society as a whole

FINANCIAL TIMES

MONDAY 23 MAY 2022

INTERNATIONAL NEWSPAPER OF THE YEAR

EUROPE

There should be no excuse

- for those in power to dismiss these ideas

Chris Giles

The time is long past to end the focus on a few narrow numbers that led to chronic under-investment, as well as under-management of valuable assets. It is time for the debate on public finances to shift from being precisely wrong to trying to be roughly right.

Martin Wolf



The Economist

It should be on every

Policy makers desk,

With an instruction to read it today

And act on it tomorrow"

SEPTEMBER 5TH – 11TH 2020



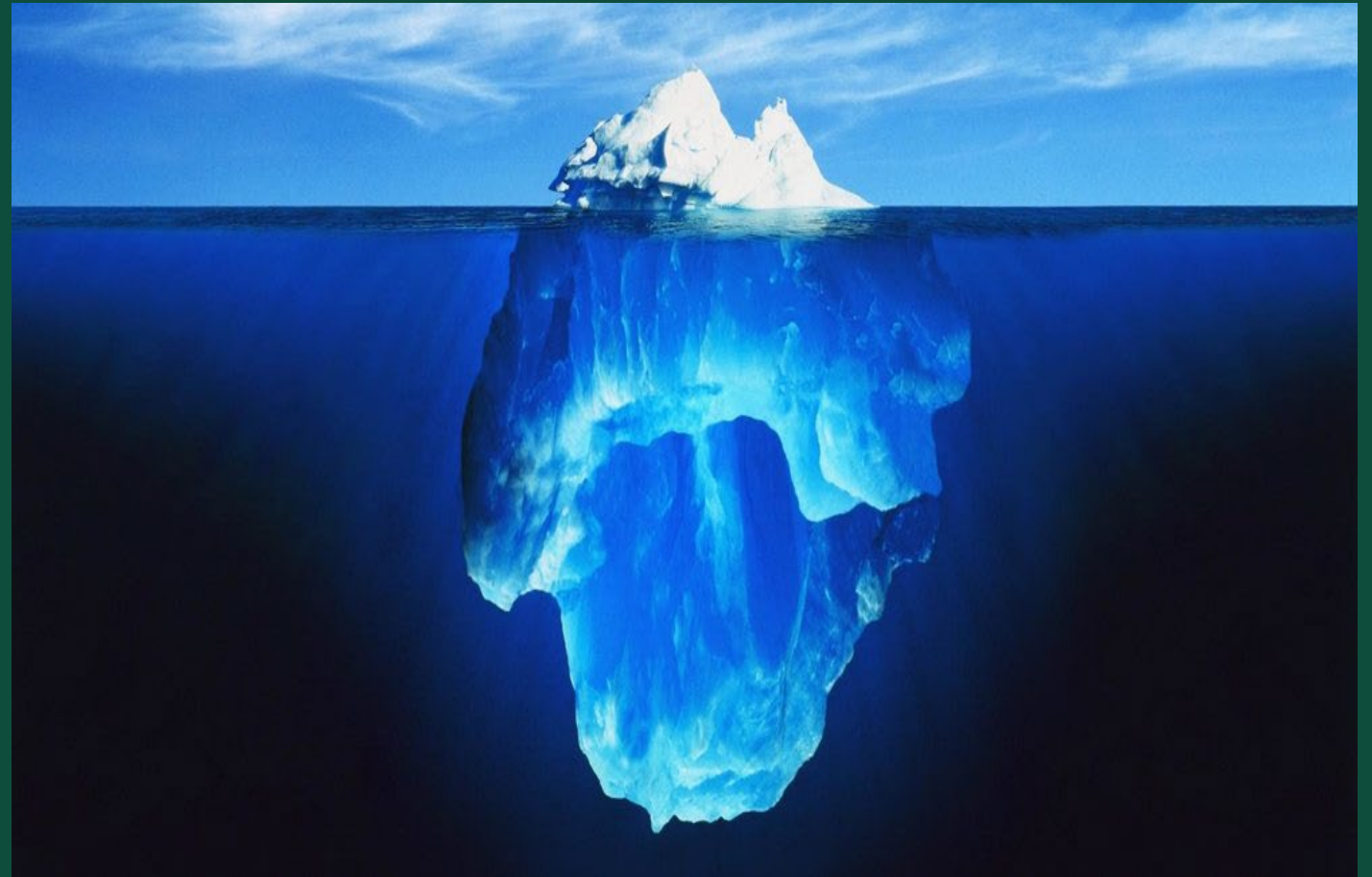
Why manage SOEs?

Increase:

- Productivity
- Growth
- Investments
- Economic diversification
- Fiscal space
- Debt sustainability

Reduce:

- Fiscal risk
- Corruption



To the benefit of society as a whole

Hidden Public Assets

Value equals global capital markets

- 2 x global GDP
- Unaccounted
- Unregulated
- Inefficient capital allocation

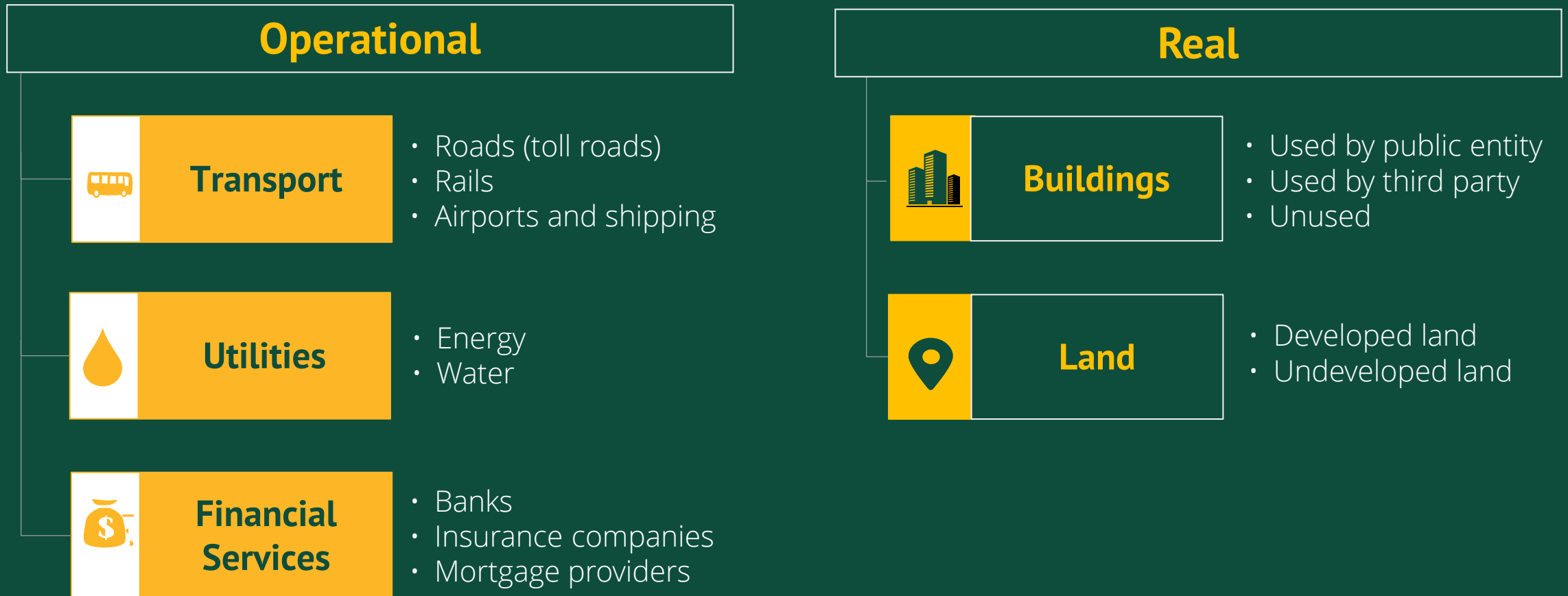
Public real estate dominates its segment

- 1 x GDP
- Hidden
- Underutilised

Yield 4.5% of GDP, if professionally managed



Public Commercial Assets



Professionally managed, could generate an income

Core component of Singapore

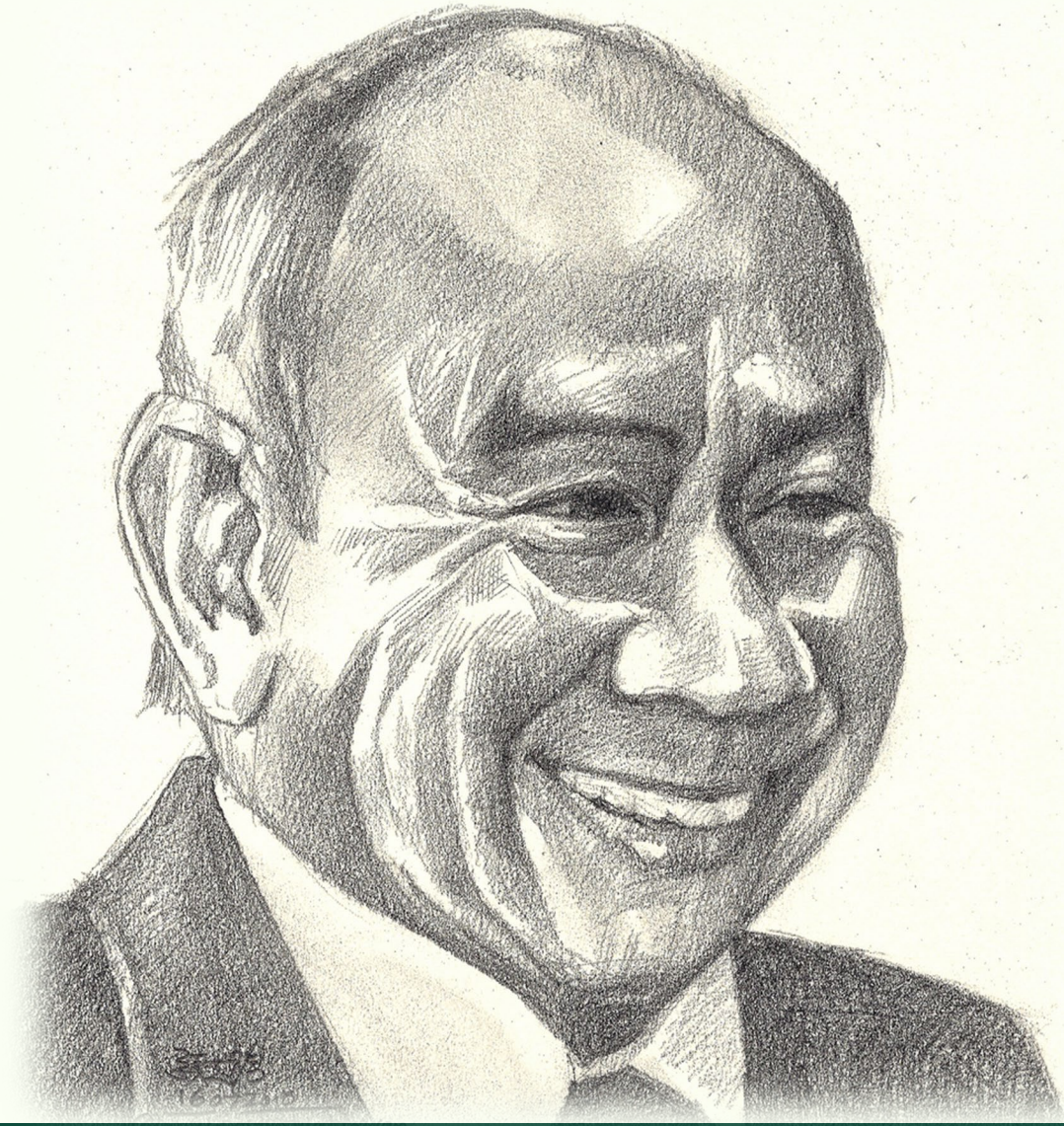


At independence, Singapore had the same financial metrics as Malaysia



Managing public assets helped move the economy from developing to developed in a single generation

Separating asset management from policy



“One of the tragic illusions that many countries entertain is the notion that politicians and civil servants can successfully perform entrepreneurial functions.”

“It is curious that, in the face of overwhelming evidence to the contrary, the belief persists.”

Goh Keng Swee, Former Singapore Deputy PM, 1972

What is required?

Data



Institution



Capacity



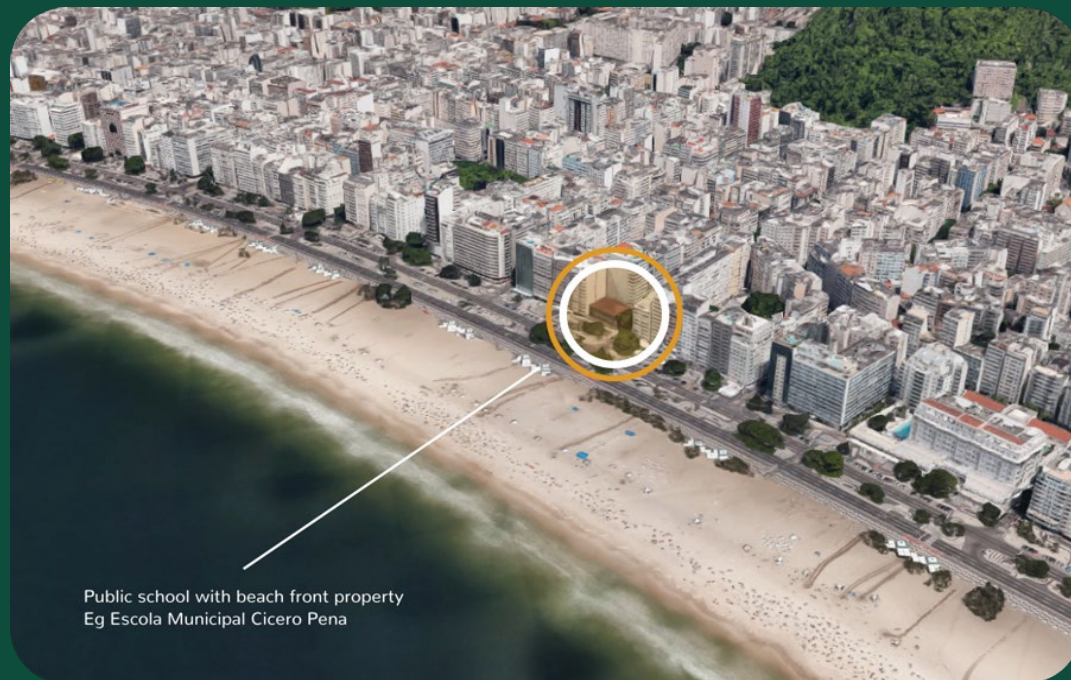


Relevant Data

Nileometer- ancient instrument to measure flood levels and determine the amount of tax

Potential value of assets overlooked

Escola Municipal Cicero Pena



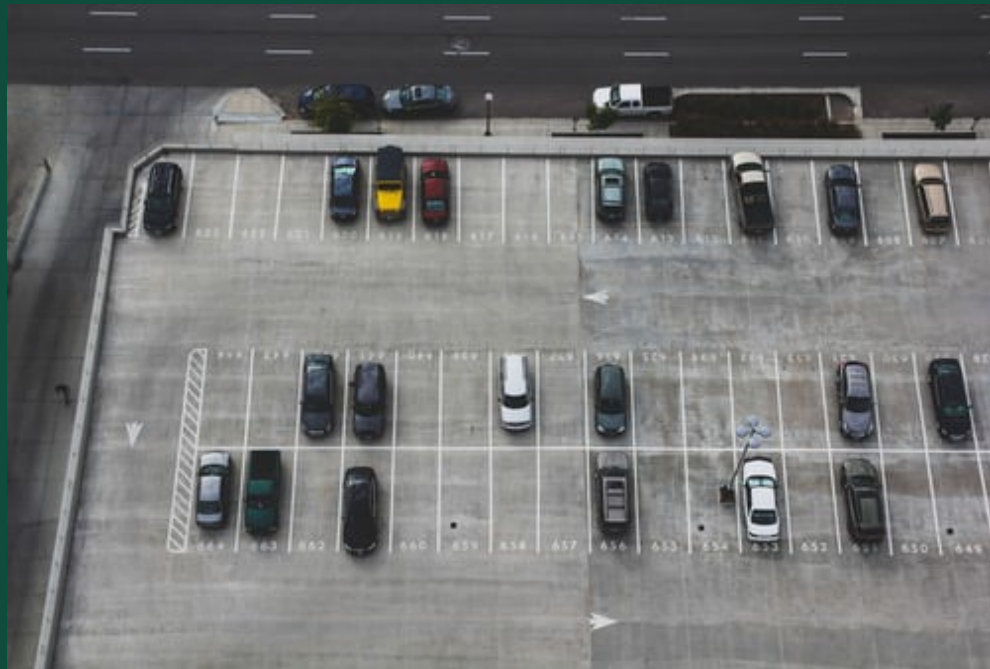
Accounting for better decisions

- School among 5-star hotels on Copacobana in Brazil
- Relocation is welfare improving
- Developing asset to best use
- Increase revenues to fund better school
- Better environment for students

Relocation - increase city income and student outcomes

Accounting determines decision

Cash perspective



Current use – potential value of asset not recognised unless privatised

Accrual perspective



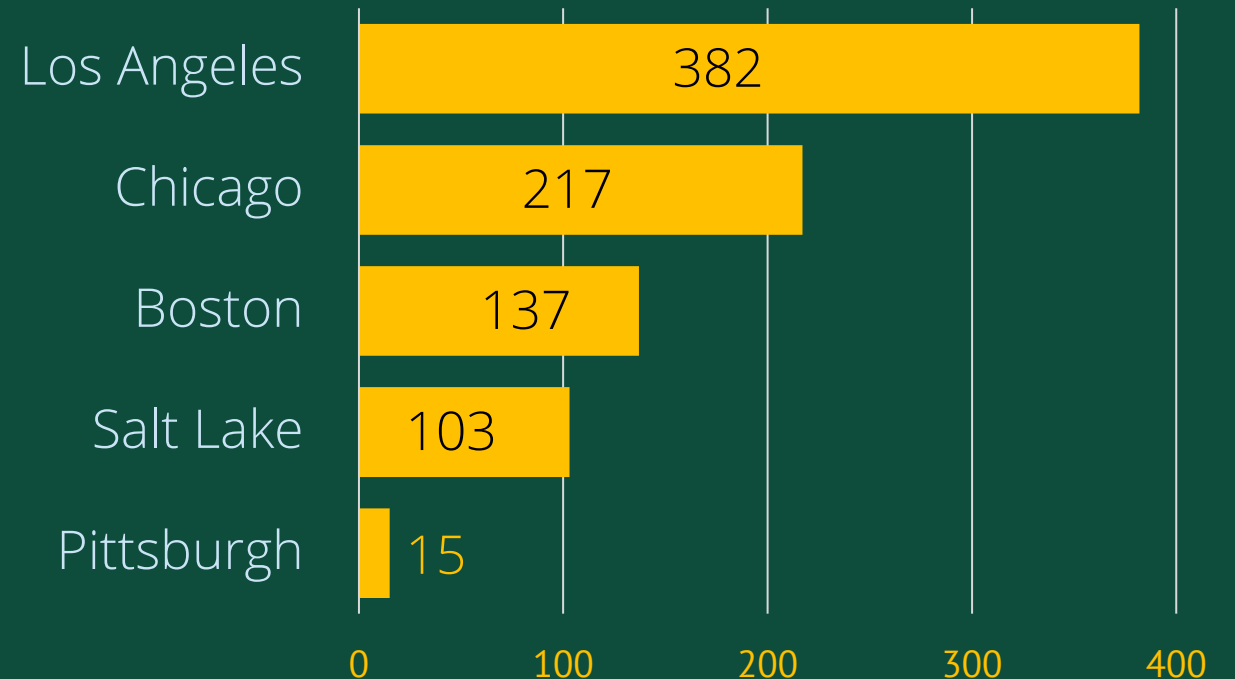
Best use – maximise potential value and cash flow by developing the asset

Real Estate – a hidden goldmine

Value Comparison

- **1 x GDP**
- **50% of total market**

Indicative Valuations (\$bn)



Pittsburgh: 70 x book value

Example - London Transport (TfL)

TfL estimated property value: £100 billion



Book value £19 bn

Implied value £17 - 21 bn

Hidden value £80 bn

Total no of properties 11,400

...of which 1,000 ratable

remaining 10,400

Implications for UK Public Finances

Property assets worth £1.5tn missing?

- unaccounted for
- unreported hence undermanaged

Additional fiscal space:

- Every 1% yield = £15 bn per year

UK public sector net worth deficit

- might be 60% smaller
- £1 trillion versus £2.5 trillion

HM TREASURY

Better accounting - better data



If not measured – doesn't count

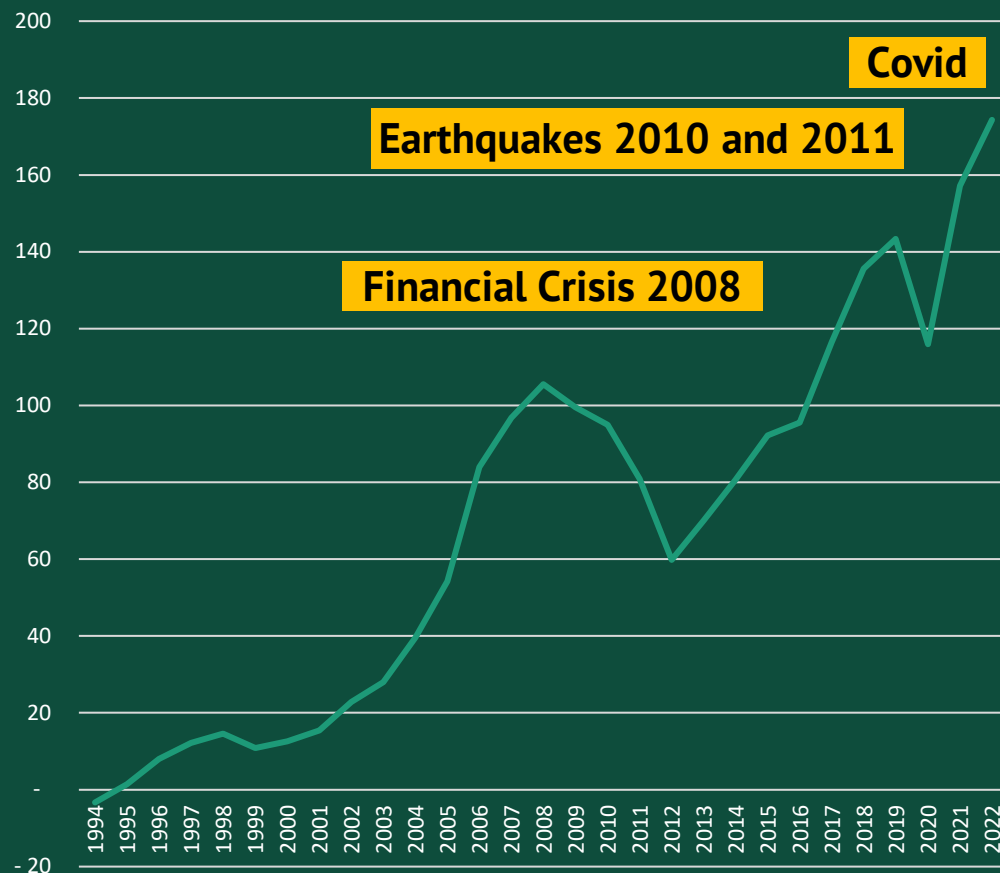
- Find all assets
- All levels of government
- Mark to market value
- Link balance sheet with budget
- 'Net worth' as key fiscal measure

Better data – better decisions

Accrual accounting was invented by Muhammad Al-Khwarizmi (830 AD), but only made the modern world when discovered by Luca Pacioli (1494), in the dynamic age of the Italian city states. It still remains to be adopted by the public sector

Net worth as key fiscal policy target

NZ Net worth 1994-2022 (NZ\$ billion)



International Research

Ignoring Net worth:

- Misleading
- Mismeasures debt sustainability
- Creates bias against investment

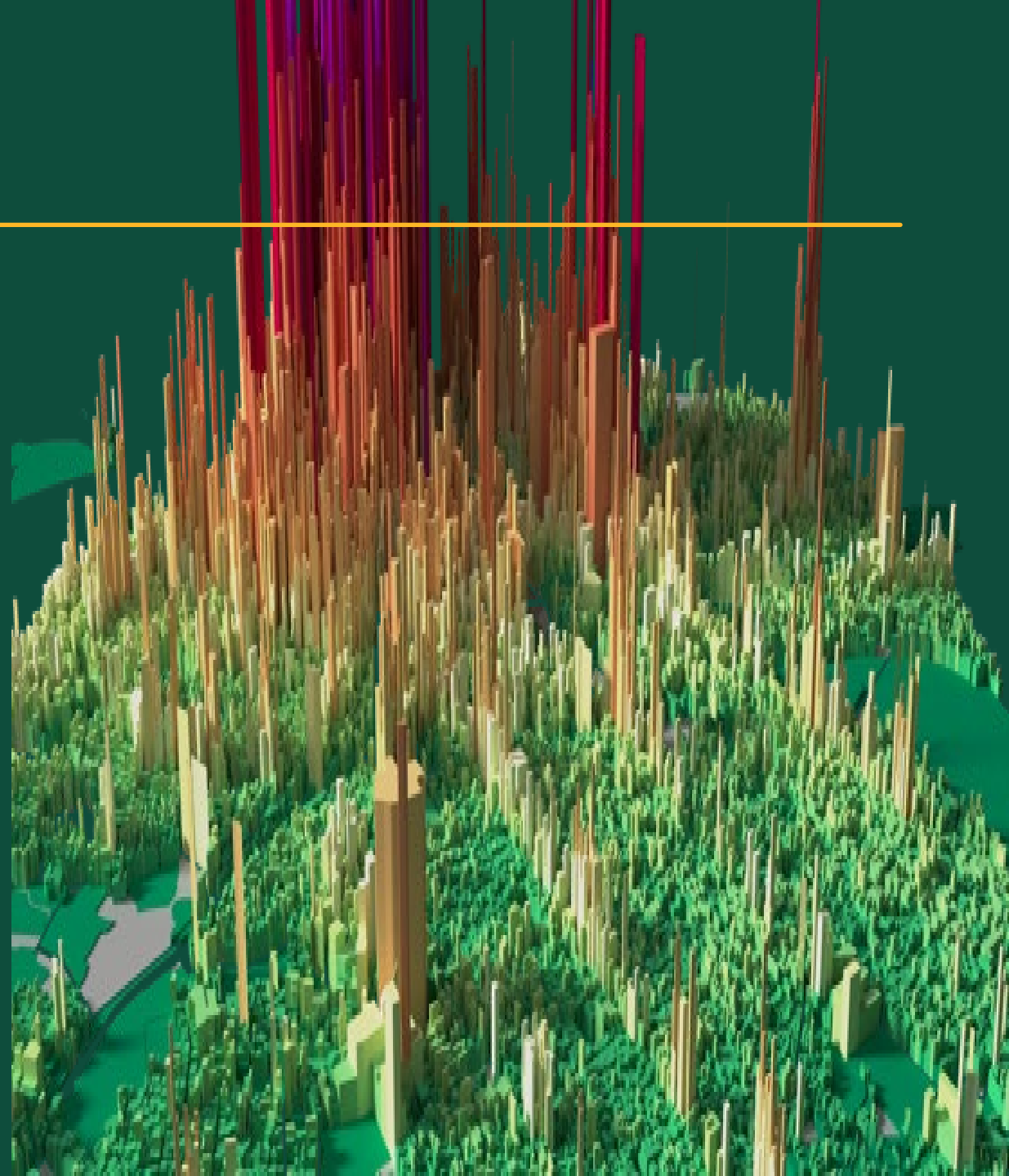
Stronger Net Worth:

- recover faster from recessions
- lower borrowing costs

A Short Cut

The Asset Map

- Indicative value as feasibility study
- Real estate and operational assets
- Understanding value gaps and development opportunities
- Focus on segments rather than details
- Helps visualize segmentation, structure and strategy
- Speed is of essence



The first Asset Map - almost 1000 years ago

In 1085 - William the Conqueror finalised the 'Doomsday Book'

- Inventory all the asset in the land
- Understand what revenue they should generate
- What was due to the Crown in rent or taxes.
- Took only a year to complete

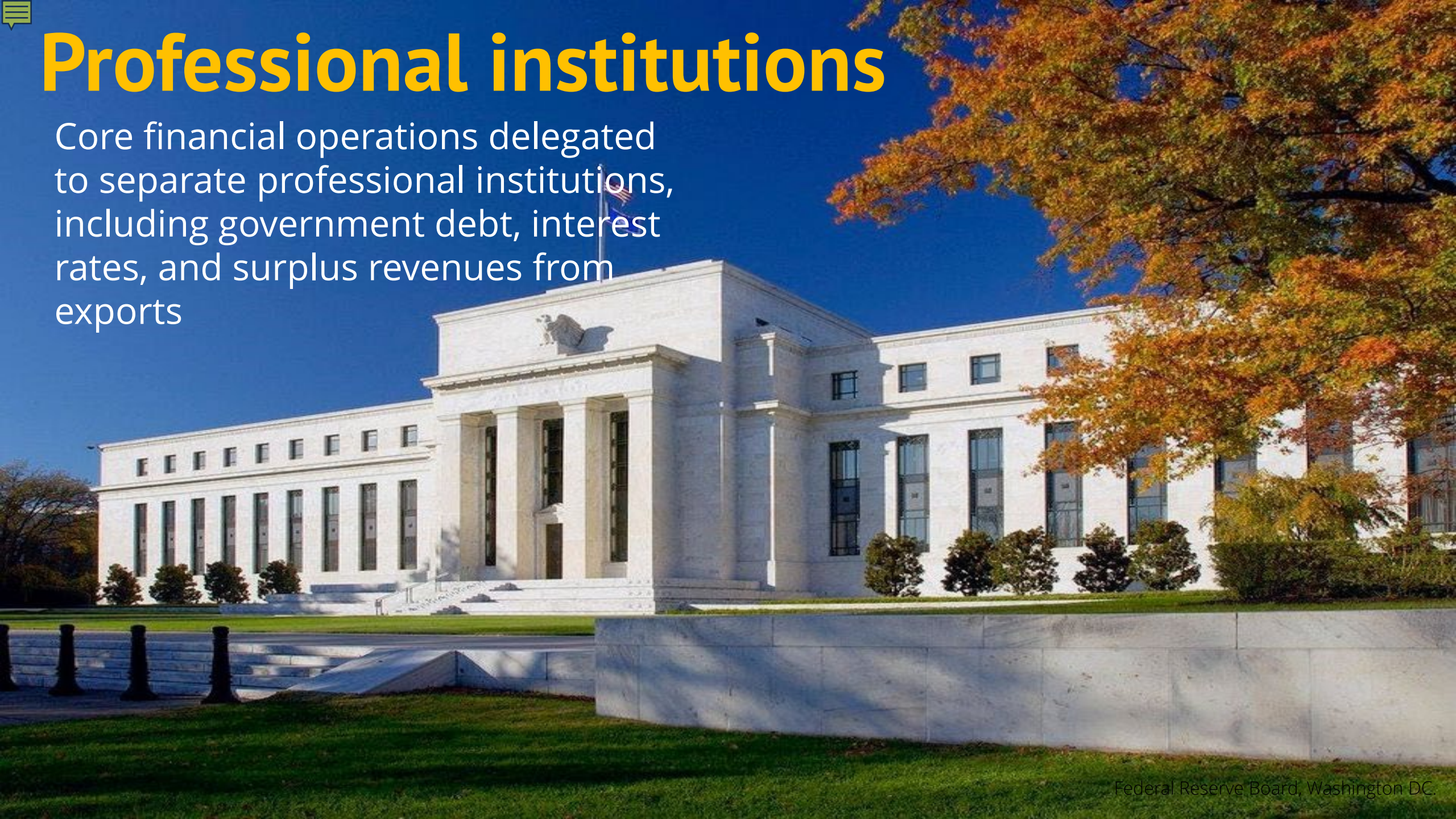
Modern technology and political will - gets it done





Professional institutions

Core financial operations delegated to separate professional institutions, including government debt, interest rates, and surplus revenues from exports





Holding Co – bridge to private sector

Private sector discipline

Commercial objective

- Maximize value

Independent holding company

- Arms-length from short-term political influence

Proper Accounting

- As-if listed company



Meeting on equal terms

Financial discipline

- Prevent waste and corruption

Separate balance sheet

- Risk management capacity and accountability

IFRS

- Shared language

For the benefit of society as a whole

Public vs Sovereign Wealth Funds

Public Wealth Funds

- Active management of operational and real assets
- Development, restructuring, and monetisation of the individual assets
- National (NWF) and Urban (UWF) or Segmental

Example: **Temasek**

Sovereign Wealth Funds

- Managing reserve liquidity
- Typically investing in liquid international debt and equity markets
- Designed to optimise a diversified portfolio achieving balance between risk and return

Example: **GIC**

Setting up the holding company



Professional Capacity

The City of London Corporation -
possibly the first professional public asset manager



Professional governance

COMMERCIAL OBJECTIVE



INDEPENDENCE

PROPER ACCOUNTING

Non-Executive recruitment

Objective

Strategy

Experience

Maximising Value

Operational

Similar sector or industry

Capital Structure

CFO, Corporate Finance

Business Development

M&A , Private Equity

Minimising Risk

Financial Control

Auditor or CFO



Execution

Portfolio perspective

Independent holding company

- Delegate accountability
- IFRS accounting
- Dividend policy
- Capable execution team
- Independent advisors

Individual Assets

Market driven approach

- Update corporate strategy
- Divest non-core assets
- Competitive process
- Dual track, if suitable
- Strong management team
- Professional advisors

Competition, competition, competition

Value Maximising Process

Commercialise

Business Plan

- assessment
- benchmarking

Optimise

Strategy

- Operational
- Capital structure
- Bus. development

Economies of Scale

- Real estate portfolio

Privatise

Fair value

- timely disposal vs further developed

Relevant point in market's cycle

- Broader aim to maximise yield across the entire portfolio

Avoiding an undue transfer of public wealth to the private sector

Development champion

TEMASEK

ROE 14 % over 46 years

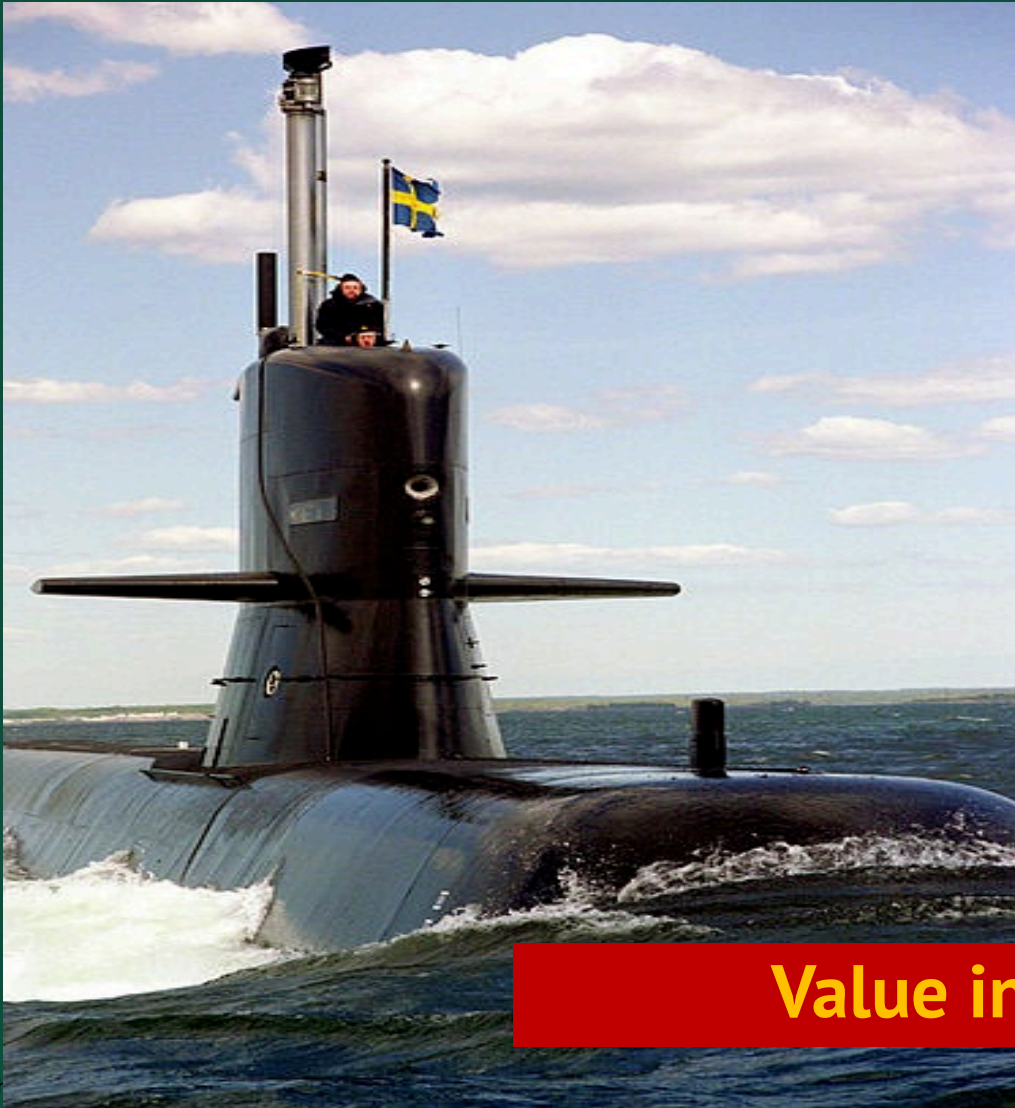
- World-leading industries
 - defence and ports
- Regional champions
 - telecom, banking and real estate
- \$3bn p.a. in dividends



The leading public asset manager

Swedish Experiment

Stattum



Introduced private sector discipline

- Largest employer in Sweden
- Value represented 1/4 of the domestic business sector

Metamorphosis of the portfolio

- Turned around some 60 companies
- Boosted growth in the economy
- Improved returns and dividends
- Intensified market competition
- Increased productivity

Value increase 2 x the local stock market

Public without taxes



Rail-plus-property model

- A network the size of NYC
- Developed the real estate above the stations
- Maintain low fares with income from commercial activities



Once, probably the best subway system in the world

Doubling rail capacity

Independent rail real estate

OpCo/PropCo – property portfolio

- Demerged properties from operations
- Built a 'Silicon Valley' inside the city
- New city centers above rail tracks
- Doubled the national rail capacity
- Dividends to the government



Housing Olympics

LCR

Accidental developer

- King's Cross area:
 - from a derelict place
 - to innovation district
- Helped fund the Olympic Games
- Railway stations across the UK



Funding subway



5 sq. km development

Harbour and military garrison:

- 33 000 residential units
- 100 000 work-spaces
- Universities, schools, kindergartens etc



Funded the extension of the subway

Regenerating

HAFENCITY
HAMBURG



2 sq. km development

Former city harbour:

- 12 000 residential units
- 45 000 work-spaces
- 12 educational facilities
- Concert Hall



Paying pensions

Vasakronan

ROE 19% (last 5 years)

- Former State Agency
- Doubled density of portfolio
- 7000 new homes
- Innovation District

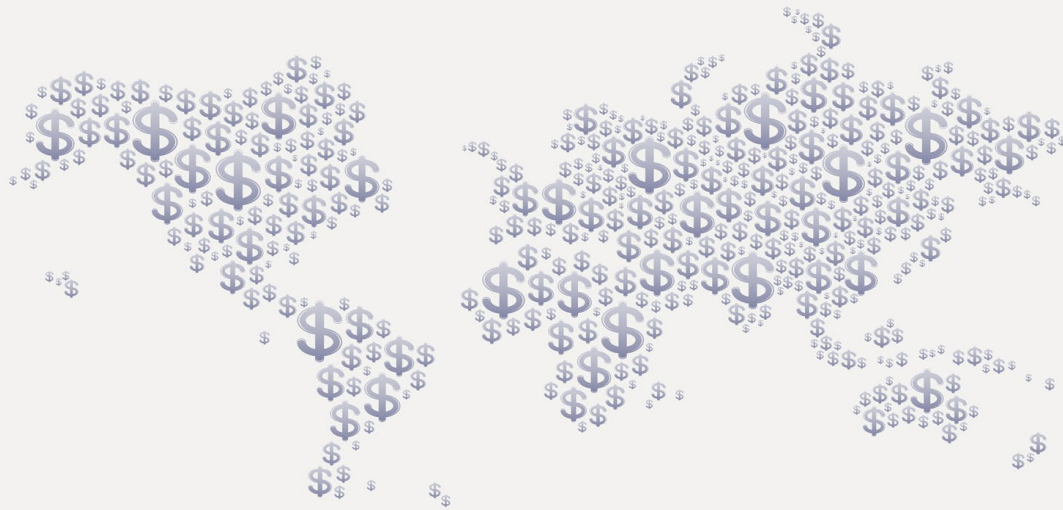


Source: Company website, annual reports & financial data.



The **PUBLIC** WEALTH of NATIONS

How Management of Public
Assets Can Boost or Bust
Economic Growth



**DAG DETTER and
STEFAN FÖLSTER**

BOOK OF
THE YEAR

Financial Times
&
The Economist

... a wake-up call for
governments
to become more responsible
in managing their citizen's
wealth
and securing the foundation
for future generations

Marcel Fratzscher, President



