HM Treasury

# Asset sale disclosures:
## guidance for government

March 2019

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# Contents

# Chapter 1
# Introduction

## Context

1.1 Parliament holds government accountable for the stewardship of the public finances. In turn, it is the Treasury's role, as an economics and finance ministry, to hold government departments to account for their financial decisions concerning the management of public wealth. Efficient management of government assets, which are many multiples of the value of public spending and revenue, contributes to the effective delivery of public services and the long-run sustainability of public finances.

1.2 Where a government asset no longer serves a public purpose, or that purpose can be more efficiently realised through its transfer to private or non-government hands, a government department or Arm's Length Body (ALB) may choose to sell that asset. An asset sale occurs when the ownership of a physical, intangible or financial asset is transferred to the private sector in exchange for cash or equivalent financial benefit. In addition to a thorough policy rationale, a sale must be assessed to determine whether it represents Value for Money (VfM) and supports the long-term sustainability of the public finances. Moreover, the method and timing of the sale should be chosen to maximise the net benefit and minimise the risks to the government's financial position.

1.3 When assessing the value of an asset and deciding whether and how to sell it:

- the Green Book, Chapter 6: 'Valuation of Costs and Benefits', page 43 provides guidance on valuing asset sales[1]
- the Green Book supplementary guidance on 'Value for money and the valuation of public sector assets' provides more detailed guidance on using Green Book principles to value assets in the context of sales[2]
- business case guidance sets out how departments should make the case for selling an asset[3]
- the guide for the disposal of surplus land provides guidance for the sale of land[4]

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1 'The Green Book', HM Treasury, 2018.

2 'Value for money and the valuation of public sector assets', HM Treasury, 2008.

3 'Guide to developing the project business case', HM Treasury, 2018.

4 'Guide for the Disposal of Surplus Land', Cabinet Office, 2017.

- the guidance on the commercial dimension of the business case in both the Green Book and business case guidance assists departments in assessing the financial impacts of a sale

1.4 More generally, 'Managing Public Money' recommends that all public organisations should publish regular information about their plans, performance and use of public assets.[5]

1.5 When considering substantial new sales, departments should consult with and draw on the expertise of UK Government Investments (UKGI) and/or Cabinet Office (in respect of smaller sales, partial sales and/or joint ventures), in addition to advice from Treasury.

1.6 However, existing guidance does not specify how to demonstrate to Parliament and the public that a completed sale delivers VfM and contributes to the sustainability of the public finances. As part of the initial findings of the Balance Sheet Review (BSR), and in response to recommendations by the National Audit Office (NAO) and the Public Accounts Committee (PAC), the government committed in its July 2018 report, Managing Fiscal Risks, to further increase transparency regarding the impact of asset sales on departmental balance sheets and the public finances.[6] This guidance fulfils that commitment.

1.7 The Treasury is also reviewing the existing body of guidance related to the identification of assets for sale, valuation of those assets, and modality of the sale itself. Treasury will publish updated guidance in these areas in 2019.

1.8 The remainder of this document is set out as follows:

- chapter 2 describes the process for disclosing an asset sale to Parliament
- chapter 3 describes the contents of the disclosure
- annex A provides an example of a Written Ministerial Statement (WMS) disclosing the impacts of a hypothetical sale

5 Annex 4.15, 'Managing Public Money', HM Treasury, 2018.

6 'Managing Fiscal Risks', HM Treasury, 2018.

# Chapter 2

# Disclosing the impacts of a sale

2.1 This chapter describes how the financial and fiscal implications of an asset sale should be disclosed to Parliament in the form of a WMS. It prescribes when the statement applies and its contents, at what point the statement needs to be laid, who has responsibility for the statement, and what sales may be exempt from the disclosure.

2.2 In cases where the sale creates a contingent liability, the contingent liability framework applies and is required to give Parliament the appropriate notice. For further detail, see 2.8.

## Disclosure applicability

2.3 The WMS should detail the reasons for the sale, the choice of sale format, as well as the short-term and long-term impacts of the asset sale on the department's balance sheet and the public finances. To maintain proportionality, a WMS is only required for those assets where the value of the asset[1] is either greater than the department's delegated limit or where the sale is considered novel, contentious, or repercussive. The latter is defined as a sale that meets any of the following criteria:

- the sale of an asset that the government has not sold before
- a sale conducted under a novel kind of contract
- a sale that is expected to generate significant public interest, or
- a sale that is expected to generate a significant loss/profit

2.4 For cases where departments are unclear whether a sale is novel, contentious or repercussive, Treasury may be able to advise. Accounting Officers are ultimately responsible for the assessment of novel, contentious or repercussive sales.

## Disclosure contents

2.5 Parliament expects each organisation to understand how asset disposals affect the delivery of effective public services and the public finances as a whole. Therefore, once the sale has been completed, a WMS should be drafted in order to notify Parliament of both the financial and fiscal impacts of the sale – further detail on both types of impacts can be found in

[1] For cases where the asset under consideration is a stake in a joint venture, the value in question is the value of the government's stake in the asset.

Treasury's 'Guide to Developing the Project Business Case'.[2] This should detail the impact of the sale on public service delivery, the key public sector finance aggregates, and overall fiscal sustainability.[3] The WMS provided to Parliament should also include a justification for the chosen format of the sale (e.g. retaining partial ownership, selling the whole asset).

2.6 Specifically, it should include the following sections:

- a qualitative policy rationale for the sale
- a justification of the format and timing of a sale
- the proceeds of the sale
- an explanation of whether the sale was above, at or below the retention value range
- the impact of the sale on Public Sector Net Borrowing (PSNB), Public Sector Net Debt (PSND), Public Sector Net Financial Liabilities (PSNFL), and Public Sector Net Liabilities (PSNL)

## Disclosure timing

2.7 As specified in 'Managing Public Money', departments are required to get approval from Treasury before selling an asset if the sale is outside their delegated limits or is novel, contentious or repercussive. The WMS should be approved by Treasury before it is laid in Parliament.

2.8 If a sale creates a contingent liability, regardless of trigger and as per the contingent liability guidance,[4] Parliament requires advance notice that a department or Arm's Length Body (ALB) is incurring a contingent liability. Therefore, once Treasury has approved the contingent liability incurred by an asset sale, a Departmental Minute, accompanied by a parallel WMS, is needed to notify Parliament before the sale takes place.[5]

2.9 If the circumstances of the sale with a contingent liability prevent a public disclosure (for example, due to commercially sensitive negotiations) and a Departmental Minute, accompanied by a parallel WMS, cannot be issued before sale, the department is permitted to write confidentially to the chair of the Parliamentary Accounts Committee (PAC) and relevant departmental select committee chairs to inform them of the liability to be incurred. A Departmental Minute and WMS can then be issued immediately following the sale.

2.10 Depending on the context, the asset sale disclosure can be submitted to Parliament alongside the contingent liability or afterwards. If there is no contingent liability, disclosures may be laid in Parliament as soon as practicable after the sale has taken place.

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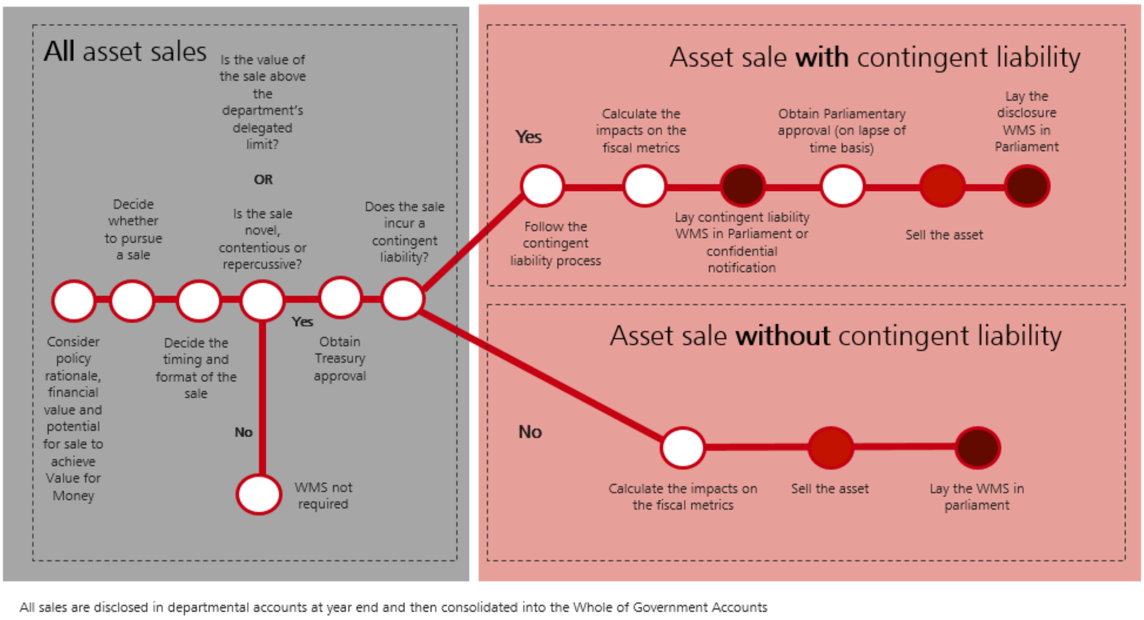
[2] Guide to developing the project business case', HM Treasury, 2018.

[3] Further detail on specifics can be found in Chapter 3.

[4] For example, some sales require that the government provide an indemnity. For further information see 'Contingent liability approval framework: guidance', HM Treasury, 2017.

[5] This is a summary of the process; departments should follow the full process as described in Annex 5.4 of Managing Public Money.

## Chart 2.A: Asset sale disclosure timeline




*Source: HM Treasury*

# Disclosure responsibility

2.11 The department's Minister is responsible for laying the WMS (and the Departmental Minute if a contingent liability is included) before Parliament according to the correct timetable. Ministers are also responsible for following the same procedure for sales incurred by their ALBs.

2.12 Public corporations are treated differently and, in line with the Financial Reporting Manual (FReM) and Estimates Manual, they are recognised as an investment asset on the sponsor department's balance sheet. However, the criteria specified in 2.3 apply when a public corporation (PC) sells an asset that materially impacts the value of the PC.

2.13 The criteria in 2.3 also apply should a department choose to sell their ownership of a PC. In this case, the sale counts as an equity transaction.

# Disclosure exemptions

2.14 In some cases, asset sales are commercially sensitive. In line with the process for contingent liabilities, Ministers may disclose the impacts of a sale via a confidential letter to the chair of the PAC and relevant departmental committee in instances where disclosing the impact via a WMS would affect future sales. For example, confidential disclosure may be considered for cases where departments are selling the same or similar assets multiple times in succession.

2.15 Where a sale incurs more than one similar transaction for a given asset, one disclosure is sufficient once the asset is sold. In instances where departments anticipate more than one transaction for a sale, Treasury can advise as to the appropriate disclosure process.

2.16 If departments have concerns about the commercial or legal sensitivity regarding an asset sale, or its implications for national security, Treasury will be able to advise on the appropriate approach.

## Disclosure in the accounts

2.17 Departmental annual reports and accounts report asset sales in the context of the rest of the department's financial activity throughout the year, and its financial position at year end. Disclosures in the accounts are made according to the International Financial Reporting Standards (IFRS), as interpreted for the UK public sector by the FReM.[6]

2.18 The annual reports and accounts are prepared on a fixed timetable, while asset sales may take place at any time throughout the year. If an asset sale coincides with a financial year end, it may be that the accounts reflect some elements of the sale activity in one period and its completion in the next period. For example, an asset may have been sold and removed from a department's balance sheet, but the cash consideration for that asset may still be in transit at year end and may therefore be shown as an outstanding receivable. The reporting related to the asset sale in the WMS may therefore be spread across more than one set of annual reports and accounts. However, the annual reports and accounts will ultimately show the impact of all relevant transactions in the context of the rest of the activity of the department.

2.19 When the departmental accounts are later consolidated into the Whole of Government Accounts (WGA), the impact of the transactions associated with the asset sale will contribute to the full picture of the financial activity and position of government in the relevant financial years.

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6 'The Government financial reporting manual 2018-2019', HM Treasury, 2018.

# Chapter 3

# The substance of the disclosure

3.1 This chapter describes the substance of the asset sale disclosure to Parliament. Disclosures should include a qualitative rationale for the sale and the choice of sale format, as well as the quantitative impacts of the sale on the department's balance sheet and public finances. The latter includes the proceeds of the sale, whether the sale was above, at, or below the asset's retention value range and its impacts on the fiscal metrics (PSNB, PSND, PSNFL and PSNL).

## Rationale

3.2 All disclosures should include an explanation of the policy rationale for selling an asset. This should briefly explain the reason for and the objectives of the sale, and include evidence of what other options were considered. Although the full business case should be retained for the department's records, a summary disclosure of the rationale is sufficient for the WMS (see Annex A for an example).

3.3 The rationale for the asset sale should be based on the strategic element of the business case and should identify the gaps between the desired outcomes and business as usual that the sale seeks to address. Bridging these gaps is the key rationale for intervention. The rationale and objectives should ideally be set out as desired outcomes.

## Timing and format

3.4 In addition to the rationale, departments should also justify the timing of a sale. Several elements inform the timing of an asset sale: the policy decision to sell, the practical actions needed to prepare for a sale and an assessment of sale execution timing in relation to market conditions.

3.5 In considering the optimal timing for a transaction in relation to market conditions, an assessment should be made as to whether the market in question is functioning efficiently, or whether it is subject to distortions (e.g. due to policy, significant economic shocks or other temporary influences which may distort prices)[1]. To gain comfort that market timing is appropriate, the seller should assess the balance of risk and reward associated with the proposed timing, including the uncertainty around changing market conditions and the inability to accurately predict future changes, and judge the relevance of these factors using appropriate information and analysis.

[1] Paragraph 2.4, 'Value for money and the valuation of public sector assets', HM Treasury, 2008.

3.6 Market dynamics will also influence whether a portion of the assets are retained, held in joint venture, or sold in tranches. The format of the sale will also be contingent on the type of asset in question, and whether a liquid market already exists for the asset. Departments should consider all possible business arrangements. For example, this could include retaining a stake in an entity to ensure that the market is not flooded with an excess supply of shares to the point of impacting negatively on value. UKGI may be able to advise as to the most appropriate sale format given the type of asset being sold.

3.7 For large asset sales and market transactions, UKGI should be consulted at an early stage in order to advise as to the most appropriate sale format for the type of asset being sold. For smaller sales, partial sales and possible joint ventures, Cabinet Office's Commercial Models Team should also be consulted.

# Fiscal and financial impacts

## Retention value range

3.8 Valuation of asset sales is specified by the Green Book, except for the sale of government debt which is exempt (see paragraphs 6.26 to 6.35 of the Green Book).[2] Estimates of social value, where applicable, include wider social costs and benefits that may be affected by a sale.

3.9 The retention value is the estimated value (or range of values) which government attributes to retaining an asset in public ownership. The calculation of retention value ranges should use the methodology set out in the Green Book, and Green Book Supplementary Guidance on asset valuation.[3] UKGI may be able to advise departments in developing their approach to calculating the valuation range. The quantitative element of the VfM assessment for asset sales is assessed by comparing whether the price achieved exceeds or equals the government's discounted retention value for the asset.

3.10 Where there is an established and healthy functioning market, then assets are valued at their opportunity cost by comparison with similar asset values in the market. This includes where there is a reasonably comparable market rather than an identical comparison. It applies to both liquid as well as to much less liquid assets such as land. The important point is the comparability of the reference market used for comparison.

3.11 Where there is not an established healthy market that is sufficiently comparable, the value is estimated based upon the discounted value of the expected future net income stream arising from the asset. The discount is the risk-free element of the social time preference rate plus a risk premium based upon a transparent analysis of the total risk.

3.12 Where there is uncertainty in future income streams (for example, related to uncertainty about inflation, forecast demand for the asset, or future dividend

2 'The Green Book', HM Treasury, 2018.

3 'Value for money and the valuation of public sector assets', HM Treasury, 2008.

payments), retention values should typically be calculated as a range, taking into account plausible high and low ranges for key valuation parameters. The most important parameters for which ranges should be considered are typically the projected future income streams and the appropriate discount rate, as these factors usually have the largest impact on valuation. The calculation of retention value ranges should use the methodology set out in the Green Book, and Green Book supplementary guidance on asset valuation.[4] UKGI may be able to advise departments in developing their approach to calculating the valuation range.

3.13 Valuation ranges are generally not disclosed publicly, as doing so would be likely to put the government at commercial disadvantage. The disclosure will therefore state only whether the price achieved was above, within or below the retention value range. Taking the below example, if a price of £110 million were achieved, a disclosure might state simply that the price achieved was within the government's retention value range. A full disclosure example is included in Annex A.

3.14 The retention value should be compared to sale outcomes to assess whether a transaction achieves good value for the taxpayer. For example, if a given asset has a retention range of £100 million-£120 million, and its sale can achieve a market price of £130 million, then the transaction would be above the retention value and considered to be good value. A price between £100 million-£120 million would be within the retention value range and will also generally represent good value. To be clear, any price in the range represents VfM, although if the price were right at the bottom end of the range, then in determining whether good VfM has been achieved, extra consideration should be given as to whether the market is functioning effectively and whether adequate competitive tension has been achieved in the sale process. A price below £100 million in this example would be below the retention value and unlikely to represent VfM. The relevant Accounting Officer is ultimately responsible for the calculation of the retention value.

## Valuing assets with the IFRS

3.15 Independent of Green Book valuations, public sector assets are assigned a value according to two sets of standards for the purposes of government financial reporting and fiscal management – the IFRS and the National Accounts, respectively.

3.16 The IFRS method is the basis for the publication of the financial statements that form part of the annual reports and accounts for organisations across government. The standards are published by the International Accounting Standard Board (IASB) and are adapted and interpreted for use by central government by the Treasury in the FReM.

3.17 Central government annual reports and accounts are consolidated to produce the Whole of Government Accounts (WGA), which uses Public Sector Net Liabilities (PSNL) as its summary measure of the financial position. The primary purpose of IFRS is to give a detailed picture of the financial activity of individual organisations, so that management can be held to

4 Ibid.

account. To support the level of detail required for this accountability, the standards give guidance on how organisations should recognise and report on different types of assets, from tangible assets (such as property, plant, and equipment) to intangible assets (such as intellectual property).

3.18 Financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in the FReM. The relevant IFRS sets out the methodology for determining the detailed treatment of each kind of asset. This is an area of complex judgement, as different standards or approaches may apply to the same asset in different circumstances.

3.19 While IFRS informs the preparation of departmental accounts and is based on relevant accounting standards, it does not fully take into account a range of considerations – including the opportunity cost to society of having cash tied up in an asset or the risk that the government is exposed to in holding it – that the government also considers when assessing whether an asset sale is VfM. This is better captured by the retention value, calculated in line with the Green Book.

3.20 Chart 3.A gives a summary of the standards that are usually applied to each asset class. Due to the level of judgement involved in applying IFRS, this is only an indicative list. The categories of assets outlined in Chart 3.A contain sub-groups that may have different valuation methods when following IFRS. Each category of asset could also have multiple valuation methods, depending on the asset in question and the purpose of holding it.

3.21 It is the responsibility of the Accounting Officer in each organisation to ensure that the correct treatment is applied to each asset, in agreement with their auditors. Chapter 6 of the FReM gives more detail on the application of IFRS to the public sector, and chapter 7 of the FReM gives further guidance on accounting for assets.

## Disclosing the impacts on the fiscal aggregates

3.22 In additional to disclosing the financial impact of an asset sale on their IFRS-based balance sheet, the responsible department should also disclose the impact of the sale on the main National Accounts-based aggregates used in fiscal forecasting and statistical reporting on the Public Sector Finances.

3.23 The National Accounts methodology is consistent with the European System of National and Regional Accounts (ESA 2010), which is an internationally compatible EU accounting framework for the systematic and detailed description of an economy. In the UK, the National Accounts are the basis for the calculation of PSNB, PSND and PSNFL. As shown in Chart 3.A, most assets are valued using market value because the accounts are in general based on the use of exchange values – the value at which assets could be exchanged for cash.[5]

[5] In the case of fixed assets, if a market valuation is not possible, then they can be valued at purchase prices reduced by the accumulated depreciation.

## Chart 3.A: Assets valued with National Accounts and IFRS

| Assets | National Accounts | International Financial Reporting Standard |
|---|---|---|
| Monetary gold and SDRs | Market | IAS 2 *Inventories*; IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10 *Events after the Reporting Period*; IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*; IAS 21 *The Effects of Changes in Foreign Exchange Rates*; IAS 36 *Impairment of Assets*; IAS 40 *Investment Property* |
| Cash and deposits | Nominal | IAS 7 *Statement of Cash Flows*; IAS 10; IAS 20; IAS 21 |
| Debt securities | Market | IFRS 7 *Financial Instruments: Disclosures*; IFRS 9 *Financial Instruments*; IAS 10; IAS 20; IAS 21; IAS 32 *Financial Instruments: Presentation*; IAS 36; IAS 39 *Financial Instruments: Recognition and Measurement* |
| Loans | Nominal (principal & accrued interest) | IFRS 7; IFRS 9; IAS 10; IAS 20; IAS 21; IAS 32; IAS 36 |
| Shares | Market | IFRS 7; IFRS 9; IAS 10; IAS 20; IAS 21; IAS 32 |
| Insurance | Market | IFRS 4 *Insurance Contracts*; IFRS 7; IFRS 9; IAS 10; IAS 20; IAS 32 |
| Pension funds | Market | IFRS 7; IFRS 9; IAS 10; IAS 19 *Employee Benefits;* IAS 20; IAS 21; IAS 26 *Accounting and Reporting by Retirement Benefit Plans;* IAS 33 |
| Derivatives | Market | IFRS 7; IFRS 9; IAS 10; IAS 20; IAS 21; IAS 32 |
| Accounts receivable | Nominal | IFRS 9; IFRS 15 *Revenue from Contracts with Customers*; IAS 10; IAS 20; IAS 21; IAS 32 |
| Property, plant and equipment | Market | IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*; IFRS 13 *Fair Value Measurement*; IAS 10; IAS 16 *Property, Plant and Equipment*; IAS 20; IAS 36; IAS 40 *Investment Property* |
| Intangible assets | Under review | IAS 10; IAS 20; IAS 21; IAS 36; IAS 38 *Intangible Assets* |

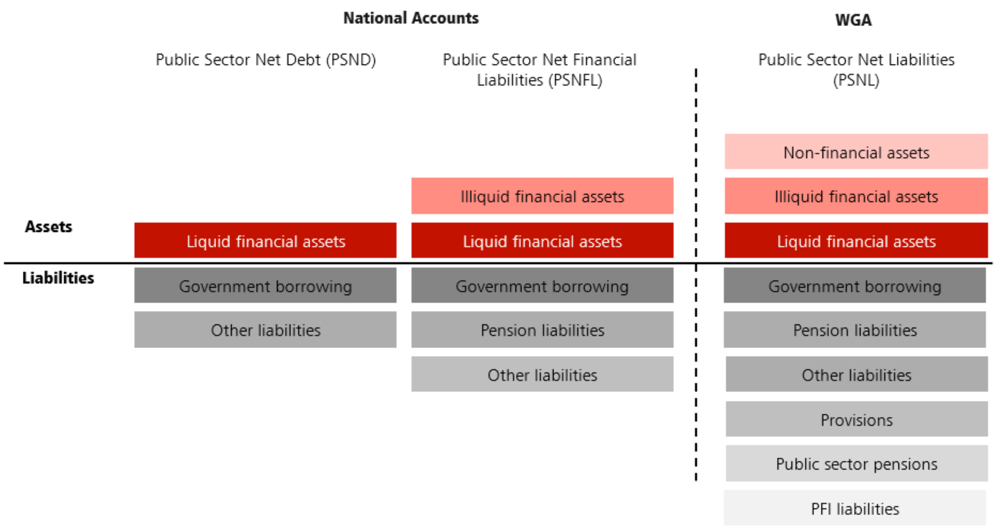
*Source: HM Treasury, EU Commission*

3.24 Three of the fiscal aggregates required in the disclosure provide alternative summary measures of the government's financial position:

- PSND includes government borrowing and currency and deposits netted off against liquid financial assets, such as cash and deposits. For more detail, see 3.31
- PSNFL includes all financial assets, as well as some additional liabilities, such as certain pensions. For more detail, see 3.33
- PSNL is the widest measure of the government's balance sheet – it includes all public sector assets and liabilities. For more detail, see 3.37

3.25 PSND and PSNFL recognise and value assets and liabilities according to the principles set out in the National Accounts, while PSNL follows IFRS accounting standards. The composition of each metric is summarised visually in Chart 3.B.

## Chart 3.B: Components of different fiscal aggregates




*Source: WGA, ONS*

3.26 In addition to recording the impact of the sale on these balance sheet aggregates, the disclosure also requires that departments report the impacts of asset sales on Public Sector Net Borrowing (PSNB).

3.27 Treasury has responsibility for the management of the public sector balance sheet, as reflected by the metrics summarised above. Although the impact of a sale on these metrics is a good first indication of the consequences for the balance sheet, on occasion the impacts may be mixed (for example, a sale may improve PSND but worsen PSNFL). Accounting Officers remain responsible for the VfM of an individual transaction but should consult Treasury for assessments of mixed impacts on the wider fiscal aggregates.

3.28 The complete calculation requirement for each metric by asset type is summarised in Chart 3.C. The key determinant of the impact of the sale on the fiscal aggregates is the type of asset that is being sold. For example, what appears to be a non-financial asset (e.g. a building), might also include financial assets (e.g. the assets of the Special Purpose Vehicle (SPV) that was originally set up to manage the building). In this case, selling the building would entail selling the SPV (including all its assets and liabilities), which would count as the sale of a financial asset.

## Chart 3.C: Calculating the impacts on the fiscal metrics

| What has been sold? | PSNB (initial) | PSNB (long-term) | PSND (initial) | PSND (long-term) | PSNFL (initial) | PSNFL (long-term) | PSNL |
|---|---|---|---|---|---|---|---|
| | Calculating the benefits | | | | | | |
| Financial assets: A company or SPV | None | Loss of forecast accrued receipts less spending | Cash receipt from sale (less any gilts or liquid assets)* | Loss of cash receipts less spending | Cash receipt from sale less the value of assets held | None | IFRS treatment applies |
| Financial assets: A simple illiquid asset (eg. a share) | None | Loss of any future forecast accrued interest | Cash received from sale less cash disposal costs | Loss of any forecast cash interest | Cash receipt from sale less the value of asset held | Loss of any future accrued interest | IFRS treatment applies |
| Non-financial assets | Cash received from sale less disposal costs | None | Cash received from sale less cash disposal costs | None | Cash received from sale less disposal costs | None | IFRS treatment applies |

*These should be cancelled before sale

*Source: HM Treasury*

3.29 As shown in Chart 3.C, the impact of a sale on PSND, PSNFL and PSNL will depend on the value of the assets. Departments should refer to Chart 3.A regarding which assets are carried at which values. Further detail on how to calculate each metric shown in Chart 3.C can be found in 3.31 to 3.43. A breakdown of the calculations behind the example WMS is also included in Annex A.

3.30 The impacts of the sale on the fiscal aggregates should include both the initial impact of the sale and the long-term impact of the sale. In line with fiscal forecasting, "long-term" is the impact on the fiscal metrics in the five years following the sale. For PSND and PSNFL, this is disclosed as the cumulative impact, whereas for PSNB, the impact is disclosed on a per annum basis (see Annex A for an example). Unlike the calculation of the retention value range, the impacts on the fiscal metrics are not discounted to their present value.

## Public Sector Net Debt (PSND)

3.31 Public Sector Net Debt (PSND) is the sum of government borrowing and other liabilities such as currency and deposits, net of liquid financial assets. It is the current chosen metric for the government's supplementary fiscal target to reduce debt as a share of GDP in 2020-2021. PSND is a relatively narrow measure and includes only 'debt' liabilities (debt securities, loans, currency and deposits) and 'liquid' assets (mostly currency and deposits and additional currency assets that the government uses for cash management). It therefore provides an approximate stock equivalent of the cash deficit – the 'public sector net cash requirement.' Chart 3.D provides a more detailed list of the financial assets and liabilities included in the calculation of PSND.

### Chart 3.D: The valuation of PSND components

| | Monetary gold & SDRs | Cash and deposits | Debt securities (gilts) | Loans |
|---|---|---|---|---|
| Assets | Market | Nominal | Market | N/A |
| Liabilities | N/A | Face | Face (redemption value) | Face (principal) |

*Source: HM Treasury*

3.32 For sales of non-financial and financial assets, the immediate impact on PSND is the cash receipts from the sale less any cash disposal costs. There could be an ongoing impact on PSND from foregoing future forecasted cash interest or other income streams. These should be included in the disclosure.

## Public Sector Net Financial Liabilities (PSNFL)

3.33 Public Sector Net Financial Liabilities (PSNFL) is a more comprehensive measure of the public sector balance sheet which encompasses all of the financial assets and liabilities held by the public sector. PSNFL therefore provides a summary of the performance of the government's financial balance sheet. It was first published in December 2016 as an experimental, but official, statistic. In April 2018, PSNFL was deemed to be no longer experimental.

3.34 PSNFL includes the following liabilities, which are not included in PSND:

- monetary, gold and special drawing rights (SDRs)
- equity
- insurance, pension and standardised guarantees
- financial derivatives and employee stock options
- other accounts payable

3.35 PSNFL includes the following assets, which are not included in PSND:

- loans
- equity
- insurance, pension and standardised guarantees
- financial derivatives and employee stock options
- other accounts receivable

## Chart 3.E: The valuation of PSNFL components

| | Monetary gold & SDRs | Cash and deposits | Debt securities (gilts) | Loans | Shares | Insurance & pension funds | Derivatives | Accounts payable/receivable |
|---|---|---|---|---|---|---|---|---|
| Assets | Market | Nominal | Market | Nominal (principal & accrue interest) | Market | Market | Market | Nominal |
| Liabilities | Market | Face | Face (redemption value) | Face (principal) | Market | Actuarial valuation | Market | Nominal |

*Source: HM Treasury. Note that the Office for National Statistics has indicated nominal value will not be applied to student loans.*

3.36 For PSNFL, the immediate impact of all types of financial asset sales is the difference between the cash received for the sale and the carrying value of the asset(s) as laid out in Chart 3.C (for sales of non-financial assets, it is just the cash received from the sale). For some asset sales, the data may not be granular enough to isolate, or the value of the asset to be sold may not be easily determined. In these instances, the disclosure can be made using the implied PSNFL impact. The implied impact is the difference between the cash received for the sale and the carrying value of the asset on aggregate PSNFL, estimated using the valuations set out in Chart 3.E. Treasury may be able to advise on a valuation in these cases. There may be an ongoing impact on PSNFL from foregoing future forecast accrued interest on loans. These should be included in the disclosure.

## Public Sector Net Liabilities (PSNL)

3.37 PSNL includes all public sector assets (including non-financial assets such as property, plant and equipment) and all liabilities (such as pension entitlements of public sector employees, private finance initiative (PFI) liabilities and provisions). By incorporating government's fixed assets as well as long-term liabilities, PSNL provides the most comprehensive measure of the government's financial position and long-term solvency. PSNL is the summary measure of the government's financial position, as described in the WGA.

3.38 Assets and liabilities included in departmental accounting balance sheets, and therefore in PSNL, are valued in accordance with IFRS, as interpreted for the UK public sector by the FReM. The amounts may be different from those calculated under PSND and PSNFL, which are both calculated using the National Accounts – a statistical framework prepared using the ESA10 framework, which is set by the Eurostat.

3.39 For example, if a department sold a piece of land, only the cash received (less cost of sale) would have an impact on PSNB, PSND, and PSNFL, which do not recognise non-financial assets. However, PSNL would show both the cash received (less cost of sale) *and* the removal of the value of the property. If the land was valued at £40 million by the department, and was sold for £42 million in cash with a £1 million cost of sale, then the impact on PSNB, PSND, and PSNFL would be a net reduction of £41 million in each case reflecting the cash received. The impact on PSNL would be a net reduction in liabilities of only £1 million, as the loss of the £40 million fixed asset would be taken into account.

## Public Sector Net Borrowing (PSNB)

3.40 Public Sector Net Borrowing (PSNB) is the difference between total public sector receipts and expenditure on an accrued basis each year. PSNB is the headline measure of the deficit or surplus. Unlike the measure of the 'Current Budget Deficit', PSNB takes into account capital spending as well as day to day spending.

3.41 Only sales of non-financial assets (for example land, buildings and intangible assets) have an immediate impact on PSNB, which is calculated as the gross cash receipt less any disposal costs in the year the sale takes place.

3.42 However, there may also be an ongoing PSNB impact from the difference between the forecast for future income less future spending (both on a National Accounts basis). Interest savings from having to issue less debt in the year of sale will also have a positive impact on PSNB. In line with fiscal forecasting, the PSNB impact should be disclosed on a per annum basis for the five years following the sale.

3.43 To account for intergenerational impacts of asset sales, departments should include mention of when an asset could plausibly have an infinite life (eg. land, certain intangibles) and therefore a long stream of cash flows past the 5-year horizon. This can feature as part of the narrative of the fiscal impacts (see example in Annex A).

# Annex A
# Example WMS disclosure

A.1 *The following is a hypothetical example WMS that would be laid in Parliament following an asset sale. The circumstances are illustrative and should not be referred to as a precedent for any future sale.*

A.2 I can today inform Parliament that the government has sold PropertyABC to Firm123 for net sale proceeds of £450 million. This follows an extensive review of the options available to the department concerning its property estate by Dr.Josephine Bloggs – and the best route to maintaining a high-quality delivery of PublicServiceMNOP. The conclusions and analysis of the review can be found online.

## Rationale

A.3 Prior to the sale, EmptyBuildingABC had a utilisation rate 29% below the government target of 6 $m^2$/FTE. This sale supports DepartmentXYZ's estates strategy by releasing c.£200 million of its budget to reinvest in the delivery of public services.

A.4 The delivery of the DepartmentXYZ's services will continue uninterrupted for the duration of the sale. The sale of the building will enable DepartmentXYZ to move its current occupants into a new space and invest in an IT-enabled modernisation of PublicServiceMNOP. DepartmentXYZ's analysis showed that with the new investment and technology, the cost of delivering PublicServiceMNOP will reduce by 3% per year over the next 5 years.

## Format and timing

A.5 The decision to sell the building and its associated assets as a whole was contingent on market conditions and a final value for money assessment. This considered whether the market could price the assets efficiently and at a price that was worth more to government than keeping the assets. Market assessment from 3 independent agents indicated that the price was of good value and accounted for the riskiness of the asset, the forecasted uplifts in rental yields and the condition of the site.

## Fiscal impacts

A.6 I can confirm that the net sale proceeds of £450 million were above the government's retention value range. Over the next 5 years, the sale supports an improvement of Public Sector Net Debt by £450 million, as well as Public Sector Net Financial Liabilities, but to a lesser extent – £300 million. The difference between the two impacts results from the divestiture of certain financial assets sold with the building. Public Sector Net Liabilities will increase by £20 million, reflecting the difference between the sale price and the book value of the asset on DepartmentXYZ's accounts. Public Sector Net Borrowing will decrease by £5.5 million per year until 2023-2024. It should be stressed that the impacts on the fiscal aggregates, in line with fiscal forecasting convention, are not discounted to present value. The net impacts of the sale on a selection of fiscal metrics are summarised as follows:

| Metric | Impact (over a five year horizon) |
|---|---|
| Net sale proceeds | £450 million |
| Retention value range | Above |
| Public Sector Net Borrowing | Upfront worsening of £1 million in Year 1.<br><br>Ongoing improvement of £5.5 million p.a in Years 2,3,4,5. |
| Public Sector Net Debt | Improved by a total of £450 million |
| Public Sector Net Financial Liabilities | Improved by a total of £300 million |
| Public Sector Net Liabilities | Worsened by a total of £20 million |

## Detail behind the theoretical calculations

A.7 The below calculations would not feature in the WMS, however, we include them here for clarity.

A.8 In this example, the building was sold for £451 million in cash. The sale included £301 million of fixed assets (the building itself) and £150 million of financial assets (other assets that were part of the Special Purpose Vehicle managing the building).

A.9 Net sale proceeds is the cash received (£451 million) in exchange for the assets sold less the cost of disposal (£1 million) – in this case, £450 million.

A.10 The sale price agreed is above the retention value range, and so the disclosure simply states "above".

A.11 The ongoing impact on Public Sector Net Borrowing is the difference between the savings to debt interest (£6 million) and the foregone rental yields from a portion of the building that the department was renting out (£0.5 million). £6 million less £0.5 million is an estimated £5.5 million benefit to PSNB per annum. There is an additional upfront cost of £1 million to PSNB from disposal in Year 1.

A.12 The impact on Public Sector Net Debt is the cash proceeds, net of disposal costs. In this case, the benefit to PSND is thus £450 million (£451 million – £1 million).

A.13 In the case of Public Sector Net Financial Liabilities, there are two components to consider: the net cash received, as well as the divestiture of certain financial assets. The impact is the difference between the net cash received (£450 million) and the value of the financial assets – in this case, shares with a market value of £150 million. Note the implicit assumption that the market value of the shares at sale was the same as the market value of the shares recorded in the Public Sector Finances (PSF). As explained in 3.36, in this instance, the data was not granular enough to find the original value recorded in PSF, thus the calculation is £450 million less £150 million.

A.14 Public Sector Net Liabilities is calculated using IFRS methodology. In this example, the carrying value of the building and the shares was recorded in the annual report of the department for a summed total of £470 million. The impact is the difference between the net cash received (£450 million) and the value of the assets – £20 million.

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