

# Intangibles in the Public Sector: Policy Considerations

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## WP7: Intangible assets in the public sector and policy

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### Objectives

- Understand the role of policy in investing in and using intangibles for innovation
- **Understanding the policy support needs and opportunities to generate and use intangibles for innovation in the public** and private sector

### The journey so far

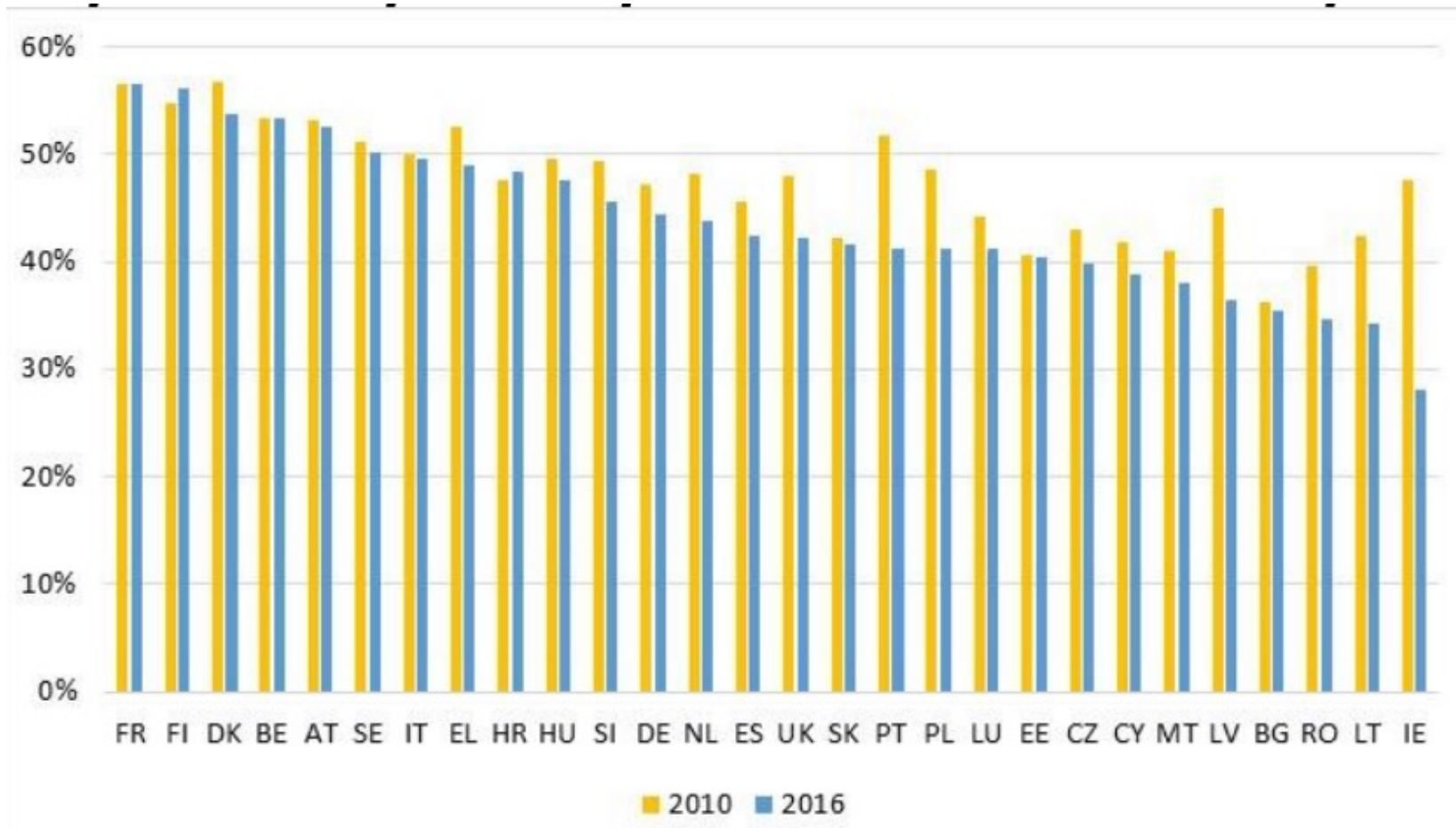
- *Delivered:* “Public Policy and Intangibles: A Conceptualisation and Critical Appraisal” - Literature review on intangibles and public policies
- *Delivered:* Policy brief on “Public Policy and Intangibles”

# Agenda

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- Importance of public sector intangibles
- Definitions of public sector intangibles
- Prevalent classification schema for public sector intangibles
- Literature overview of public sector intangibles
- Framework for analysis of public sector intangibles: The Public Value Paradigm
- Summary of current policies on public sector intangibles
- Tensions in policies for public sector intangibles
- Conclusions
- Next steps

## Total public expenditure as % of GDP (2010-2016)



Source: A comparative overview of public administration characteristics and performance in EU28 (Thijs, Hammerschmid, Palaric (2017))

## Why Intangibles in the Public Sector?

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- Public sector in the EU runs between 40%- 50%+
- COVID-19 has resulted in vast expansion of the public sector
- Intangibles are crucial for productivity and innovation in the public sector
- Public policy for intangibles in the public sector confronts different challenges than private sector

## Public Sector Intangibles - Definitions

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- Assets that are not physical in nature covering patents, brands, license to data, expertise, organisational know-how, and the financial value of the government's sovereign powers (HM Treasury, 2018)
- Assets with public ownership that cannot be touched, grasped, easily costed, counted, and quantified. Includes research and knowledge, Crown copyright, trademarks, designs, and reputation (Blaug & Lekhi, 2009)
- Above definitions do not explicitly identify the exclusion criteria
- ...making the definition of public sector intangible assets porous
- Nonmarket investments by the General Government and Non-profit institutions serving households
  - Excludes Government sponsored enterprises and non-profits with pricing power
  - Excludes financial investments

We adopt the SPINTAN (2016) definition for the purpose of this presentation

- Clearly identifies the exclusion criteria
- Easier to distinguish public sector intangibles from other categories of intangible assets

# Classification of Public Sector Intangibles

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## UK HM Treasury Classification

- Sovereign Powers (Cannot be measured, not recognised in formal reporting)
  - Power to raise taxes, Ability to issue pollution permits, Allocate spectrum licenses
- Knowledge Assets
  - Organisational know-how, methodologies, Technological expertise, algorithms
- Statistical Intangible Assets
  - Organisational capital, Training, Data generated by and for public agencies
- Intellectual Property
  - Brands, R&D, Cultural Assets
- Intellectual Property Rights
  - Patents, Trademarks, Copyrights, Designs
- Accounting
  - Software, some development expenditure, licenses

## SPINTAN

- Information, Scientific, and Cultural Assets
  - Software
  - Databases, including open data
  - Basic and applied science research, industrial and defense R&D
  - Cultural and heritage, including design
  - Mineral exploration
- Societal Competencies/Social Infrastructure
  - Branding of the public sector agencies
  - Organisational Capital of the public sector
    - Professional/managerial capital
    - Purchased organisational services
  - Employer-provided training in the public sector
  - Schooling-produced human capital

## Jarboe (2009)

- Information and Intellectual Property
  - R&D funding
  - Arts and humanities/museum funding
- Government information creation
  - Statistical agencies
  - Weather service
  - Library of Congress, CBO, GAO
  - PTO
- Individual Human Capital (Know-How)
  - Education & Training
  - Training of government personnel (military)
- Social Capital (Alliances and Networks)
  - Organizational building and technical assistance
  - Community (HUD, EDA, HHS, USDA extension service)
  - Company (MEP, SBA)
- Brands and Marketing (Reputation)
  - Export Promotion
  - Product safety, food safety, drug safety (investments in product reputation)

## Public Sector Intangibles – A brief literature overview

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- Limited literature on public sector intangibles *as such*
- Primarily highlights the necessity to recognise and account for public sector investments in intangibles in SNA (Blaug & Lekhi, 2009; SPINTAN, 2016; Corrado et al., 2017; HM Treasury, 2018)
- Discusses measurement issues
  - Industries to be included in public sector (SPINTAN, 2016)
  - Nonmarket assets to be recognised as intangibles (Jarboe, 2009; SPINTAN, 2016; Corrado et al., 2017; HM Treasury, 2018)
- Significant understanding of public investments in software and databases through research on E-government
  - However, this research focuses on policies pertaining to operational efficiency and administration, not on intangibles
- Literature on public sector innovations predominantly around development of organizational capital and information and scientific assets, although terminology used is different (De Vries et al., 2016)



## Public Sector Intangibles – A brief literature overview

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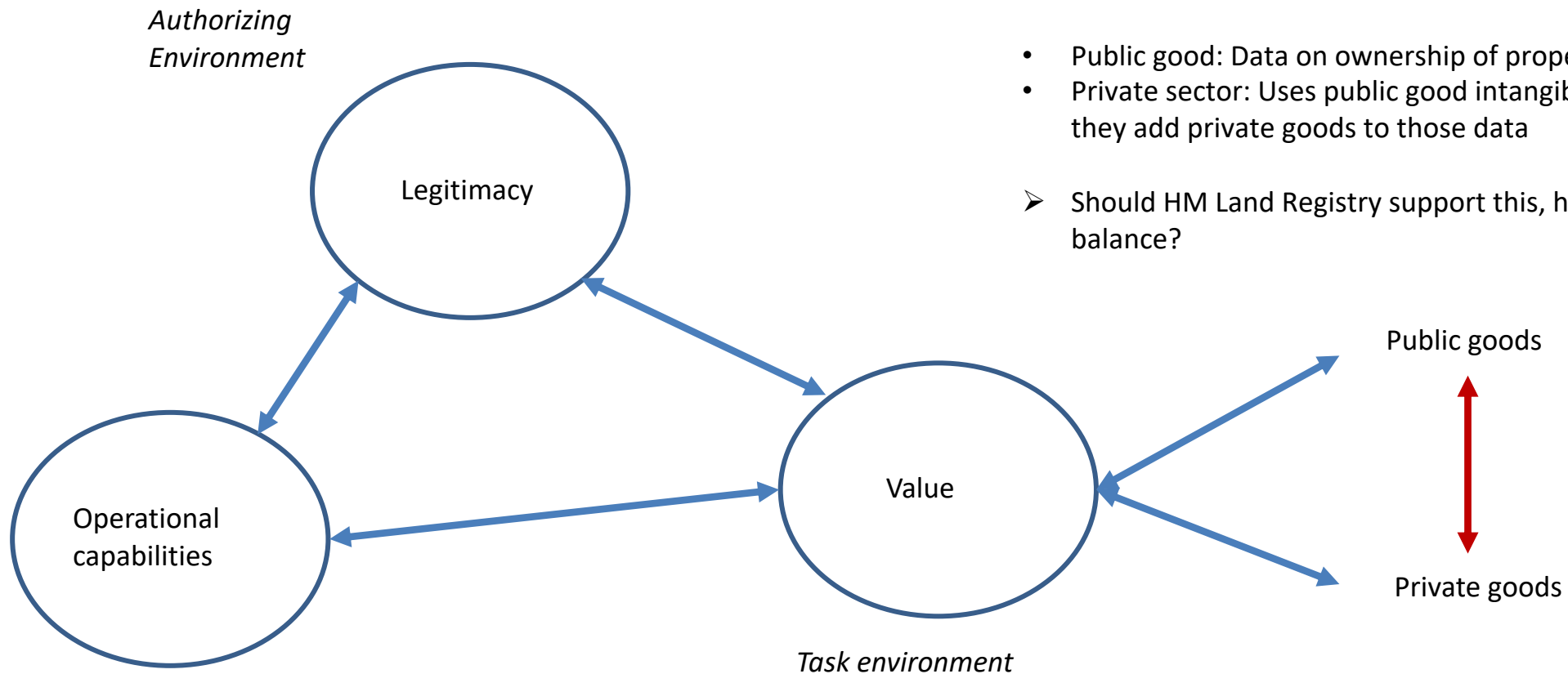
- Limited understanding of mechanisms underlying generation and development of intangibles for innovation
- Does not recognise the inherent tensions in policies for investments in intangibles by the public sector
- Role of political leadership and its influence on intangibles for innovation systems is generally overlooked in studies

## A Frame for Analysis: Public Value Paradigm

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- Why useful for us: Helps us to understand the tensions around public sector intangibles and policies to support them
- “The value created by government through services, laws regulation and other actions (Kelly et al. 2002)”
- “. . . Public managers do more than steer a market process: they balance technical and political concerns to secure public value’ (Moore, 2004:171)”.
- “Public value creation is said to rely on the politically-mediated expression of collectively determined preferences, that is, what the citizenry determines is valuable (O’Flynn, 2007)”
- Public value focuses on:
  - a wider range of value than public goods;
  - more than outputs; and
  - what has meaning for people, rather than what a public-sector decision-maker might presume is best for them. (Alford & O’Flynn, 2009)

# Public Value Strategic Triangle



## Example: HM Land Registry

- Public good: Data on ownership of properties
  - Private sector: Uses public good intangibles for business, then they add private goods to those data
- Should HM Land Registry support this, how to strike the balance?

## Policies For Public Sector Intangibles: UK Approach

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- “Policies” = mix of “general” policies (overall direction) and organisational strategies
- Strategic documents of public sector organisations do not use the term “intangibles” *per se*, although there are strategies about intangibles
- Development of public sector intangibles an externality of services/goods provided to citizens
- Growth of public sector intangibles to expand the capacity of the private sector
- Limited to no **explicit** consideration of the *intangibles commons* while taking decisions on investments in intangibles
  - Exception is the funding of basic science and technology research
- Policies aimed at public sector intangibles eventually constrained by funding
  - Emphasis on self-sustainability of the public agency rather than investments from the government

Based on case studies of HM Land Registry and Entry policy for Museums

## Tensions In Policies For Public Intangibles

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- Balance between **in-house investments and outsourcing** for the development of intangibles
  - Government labs or research grants
  - Government sector or third sector or the private sector
- Ownership of public sector intangibles for further growth and development
  - E.g. Ownership of citizen data collected by a specific **public sector agency or used by the private sector** to provide private services using machine learning , AI or other advanced technologies
- Routes for commercialisation of innovations
  - **Licensing to specific firms or** licensing to all based on standard terms and conditions
- Balance between **commercial exploitation** of public intangibles for additional revenue and **developing the intangibles commons**
- (Use of taxpayers resources for the value gained by the minority - A common refrain for the provision of all public goods?)
  - E.g., free entry to museums (cultural asset / knowledge), availed by minority of the population, paid for by all the tax payers

## Conclusions

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- No systematic consideration of **intangible commons**: should also be an important consideration of the public sector intangibles policies
- There is no systematic concept for policies on intangibles in the public sector: systematic stock taking and concept needed?
- Policies are made “ad hoc” at the level of the “parent” ministries as well as at the level of individual public agencies
- There is potential to better exploit and develop public intangibles to create more public value and private intangibles: systematic policies needed
- Needed: Balance between the role of public sector intangibles for private sector growth and public concerns over privacy and equity
- Evaluate public value from investments in public sector intangibles over the long term rather than short-term financial returns

## Next Steps

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- Submission of report on public sector intangibles
- Journal article based on the report
- Collate the results from the other work packages and tasks within WP7 to enrich the report on public sector intangibles

# Thank You