

# Integrating

- Accounting with Public Asset/ Investment Management -

- PSA with PAM/PIM -

**PULSAR** 

5-7 June 2024 in Montenegro

In Short

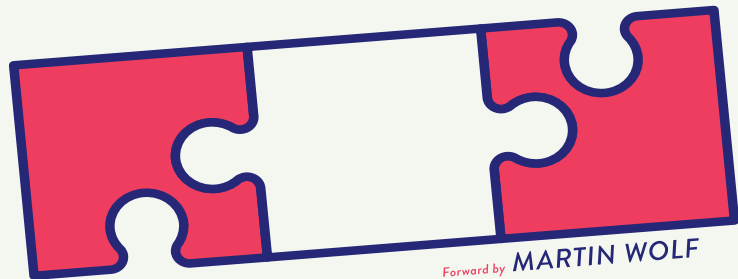
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It's Politics

end of story!

# PUBLIC NET WORTH

ACCOUNTING • GOVERNMENT • DEMOCRACY



IAN BALL  
WILLEM BUITER  
JOHN CROMPTON  
DAG DETTER  
JACOB SOLL



We have the tools  
to improve  
long-term public finances  
without  
cutting public services  
or  
increasing taxes.

# The Opportunity

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Accrual-based metrics enable and encourage

**Increased Revenues**

Through better asset and liability management

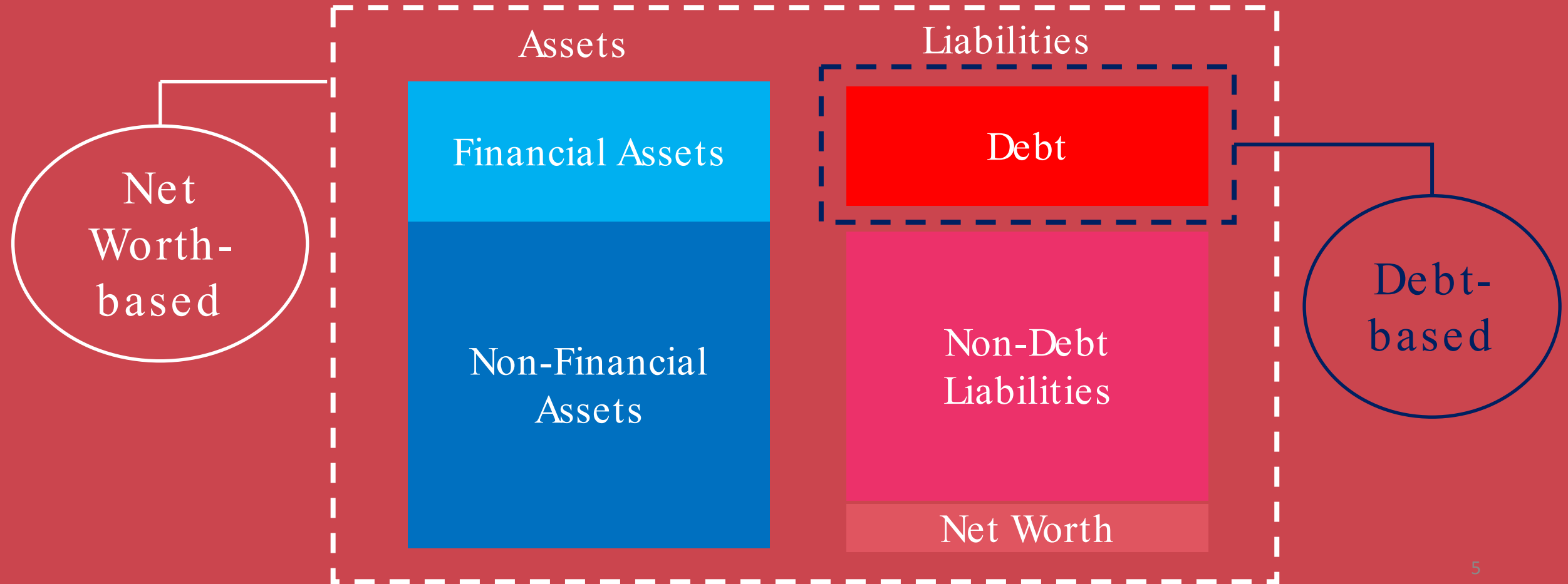
**Reduced costs**

Through better debtor and creditor management

**Several per cent of GDP p.a.**

# Changing Focus

## Applying Accounting to Fiscal Rules or Targets



# The Critical Action

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Institutionalising  
an accrual-based  
budgeting system

# What is required?

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Data



Institution



Capacity



# FINANCIAL TIMES

MONDAY 23 MAY 2022

INTERNATIONAL NEWSPAPER OF THE YEAR

EUROPE

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## **What is not measured does not count.**

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

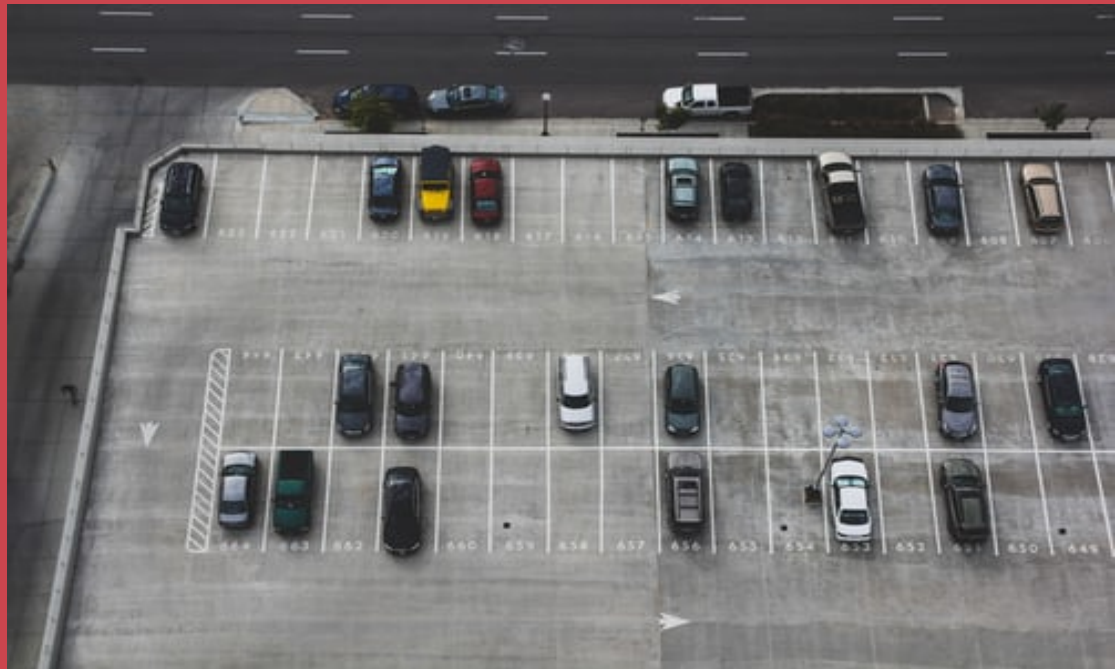
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# Accounting determines decision

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Cost/ Current use



potential value of asset is not recognised unless privatised

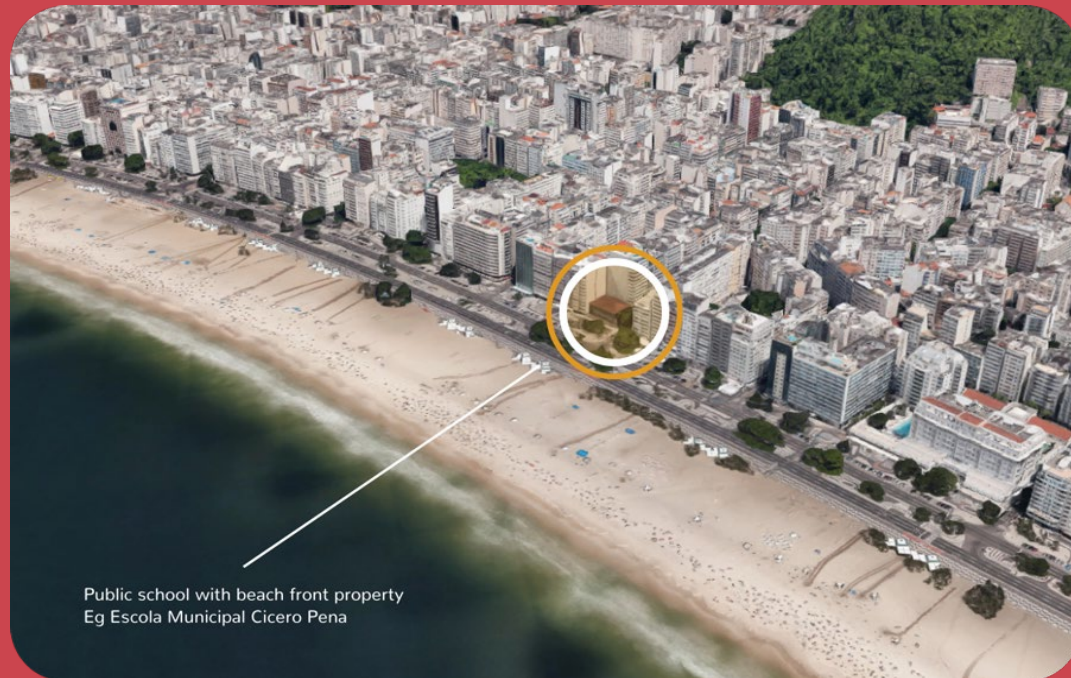
Market value/ Best use



‘maximise potential value and cash flow by developing the asset

# Potential value of assets overlooked

## Public School on Copacobana - Rio de Janeiro



- Escola Municipal Cicero Pena among 5-star hotels
- Relocation is welfare improving
- Developing asset to best use
- Increase revenues to fund better school
- Better environment for students

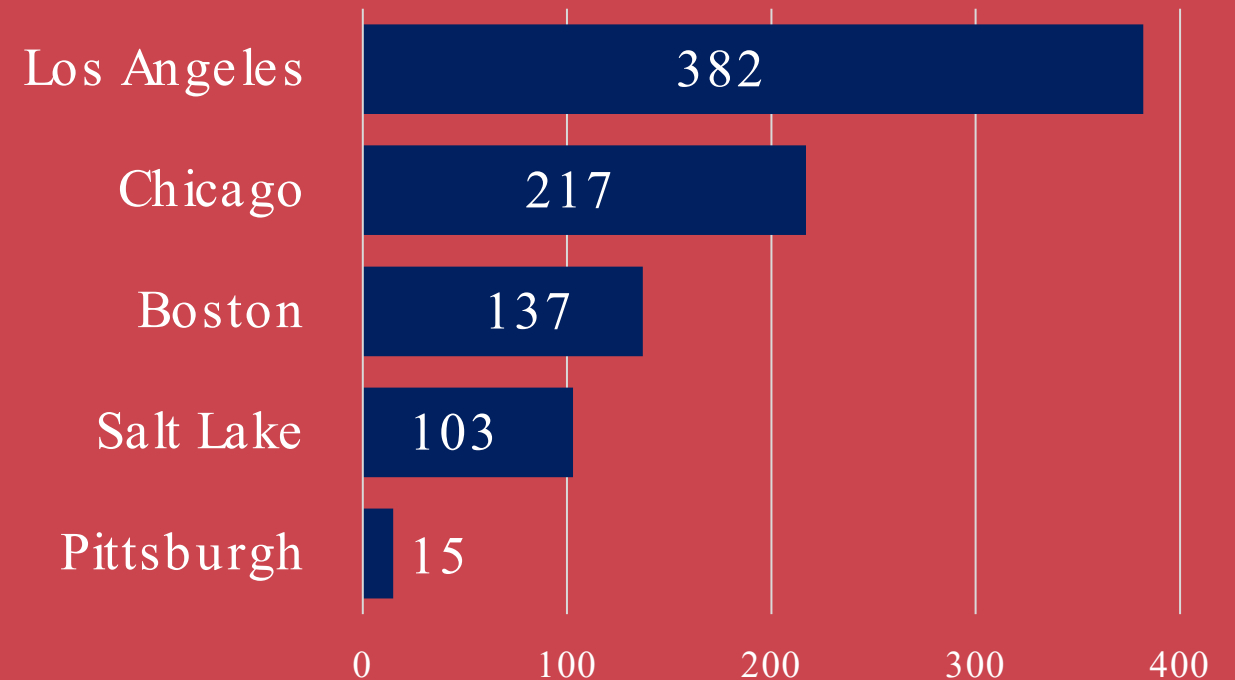
**Relocation - increase city income and student outcomes**

# Real Estate – a hidden goldmine

## Benchmark Value

- 1 x GDP
- Half the total market

## Indicative Valuations (\$bn)



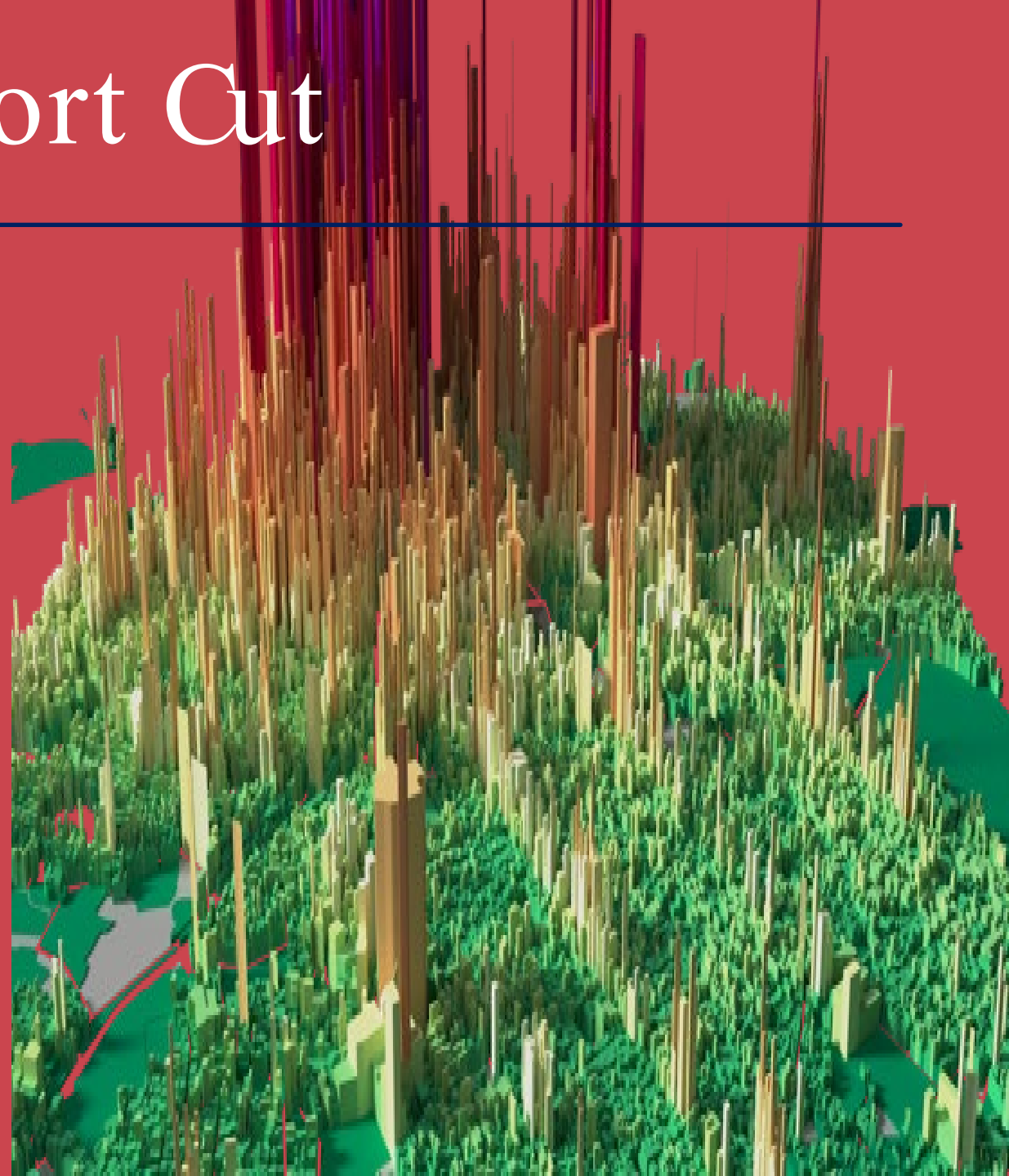
**Pittsburgh: 70 x book value**

# Asset Map - a Short Cut

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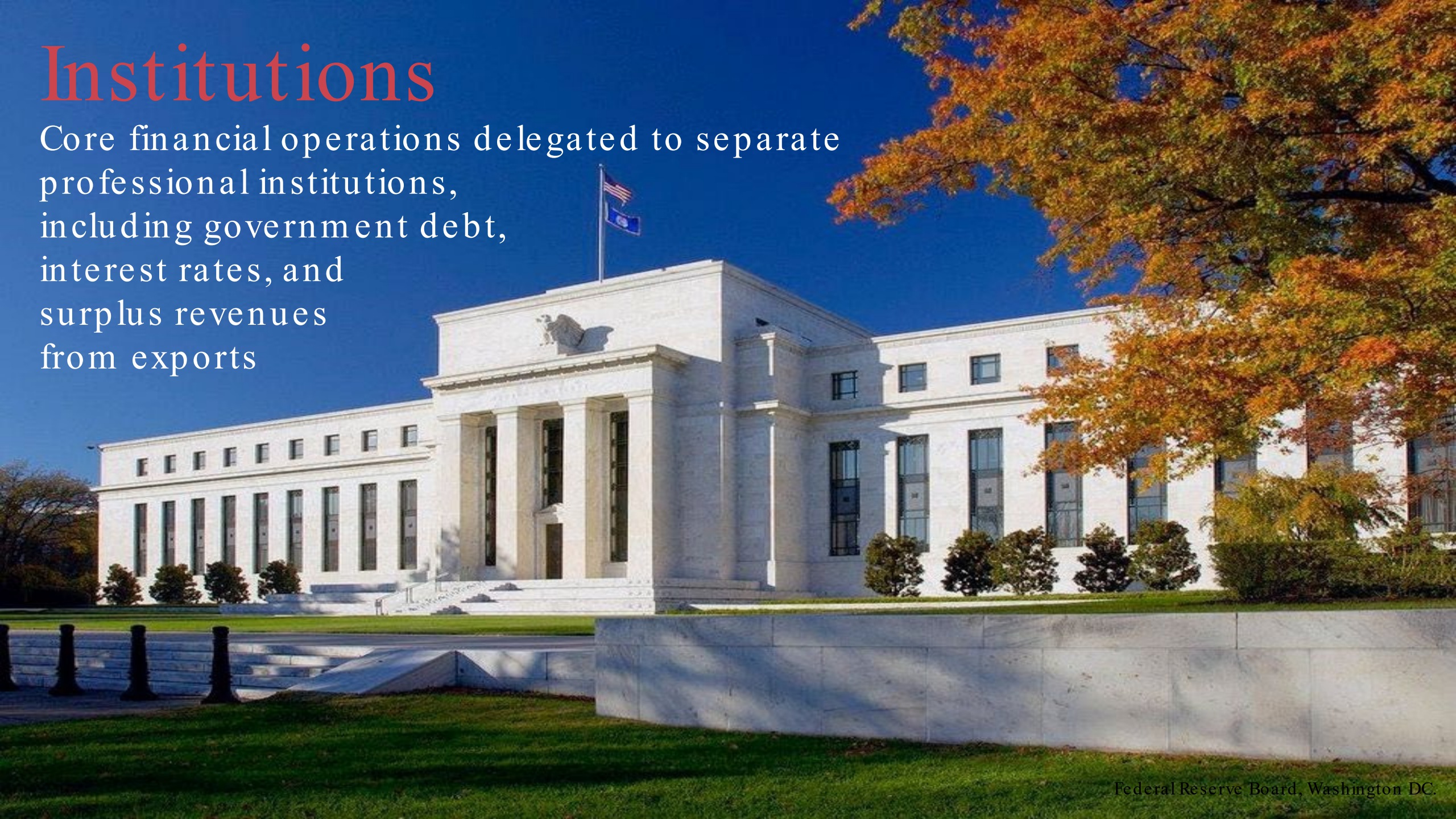
- Indicative value as a feasibility study
- Real estate and operational assets
- Understanding value gaps and development opportunities
- Focus on segments rather than details
- Helps visualise segmentation, structure and strategy

Speed is of essence

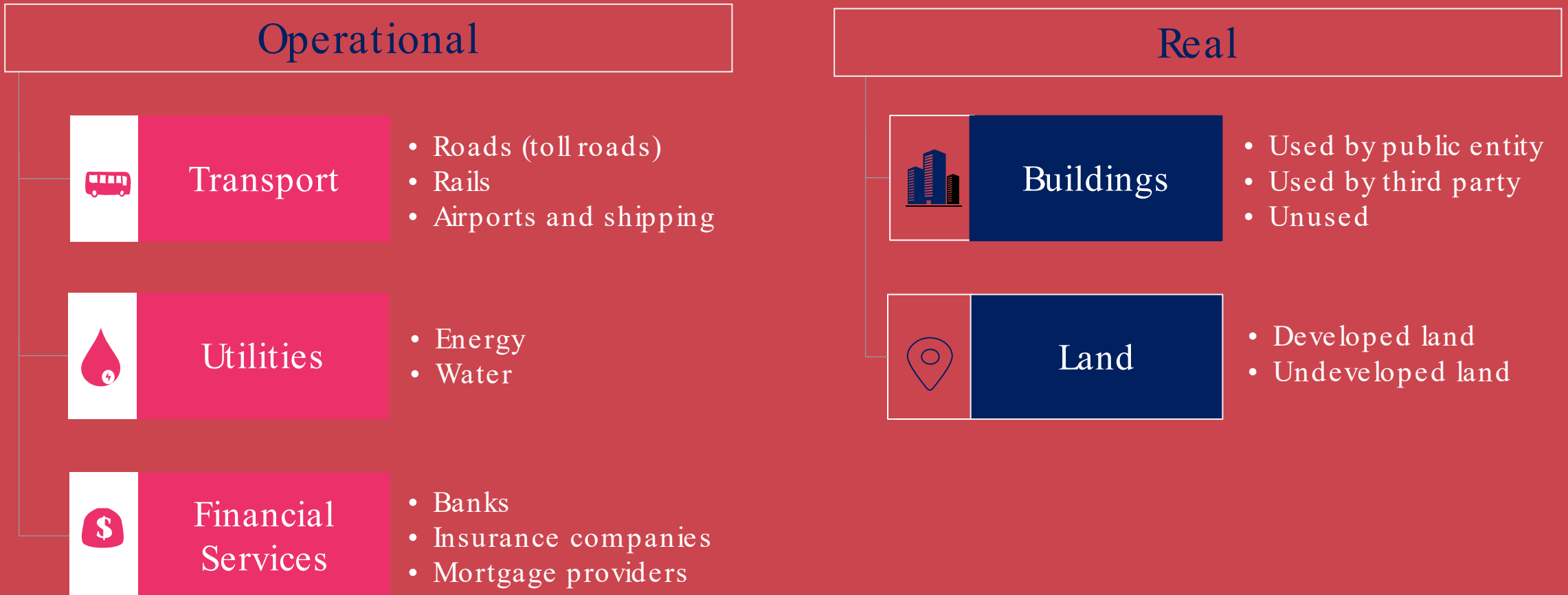


# Institutions

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



# Public Commercial Assets



Professionally managed, could generate an income

# Separating management and policy

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“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**

- one of the founding fathers of Singapore

# Professional governance

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COMMERCIAL OBJECTIVE



POLITICAL  
INDEPENDENCE

PROPER  
ACCOUNTING



# Public vs Sovereign Wealth Funds

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## Public

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

Example: Temasek

## Sovereign

- Management of reserve liquidity
- Liquid international debt and equity securities
- Designed to optimise a diversified portfolio - balance risk and return

Example: GIC

# Holding Co – bridge to private sector

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## Private sector discipline

### Commercial Objective

- Maximise value

### Independence

- 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 and accountability

### IFRS

- Shared language



For the benefit of society as a whole

# Capacity

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



# Value Maximising Process

Commercialise

Optimise

Privatise

## Business Plan

- Assessment
- Benchmarking

## Strategy

- Operational
- Capital structure
- Bus. development

## Economies of Scale

- Real estate portfolio

## Fair value

- Timely disposal vs further developed

## Timing

- Broader aim to maximise yield across the entire portfolio

**Avoiding an undue transfer of public wealth to the private sector**

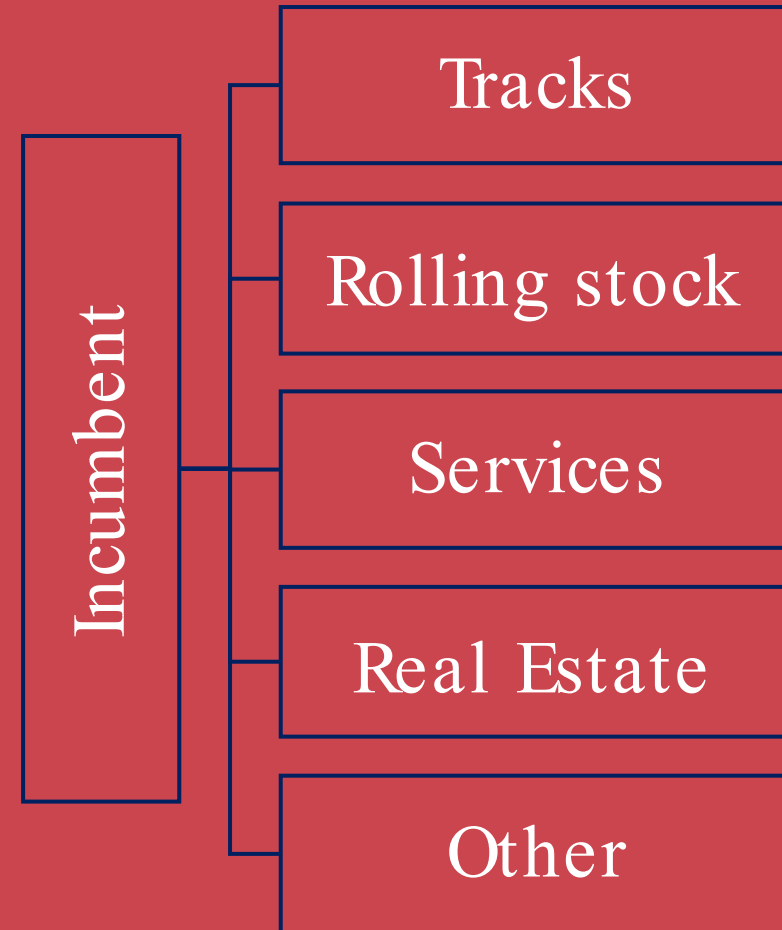
# Streamline conglomerates

## Reversing agglomeration

- Simplify internal accounting
- Remove subsidies
- Streamline business model
- Improve dividends

## Balance sheet restructuring

- Bond vs bank financing
- IPO/ M&A



**Boon for capital markets and private sector development**

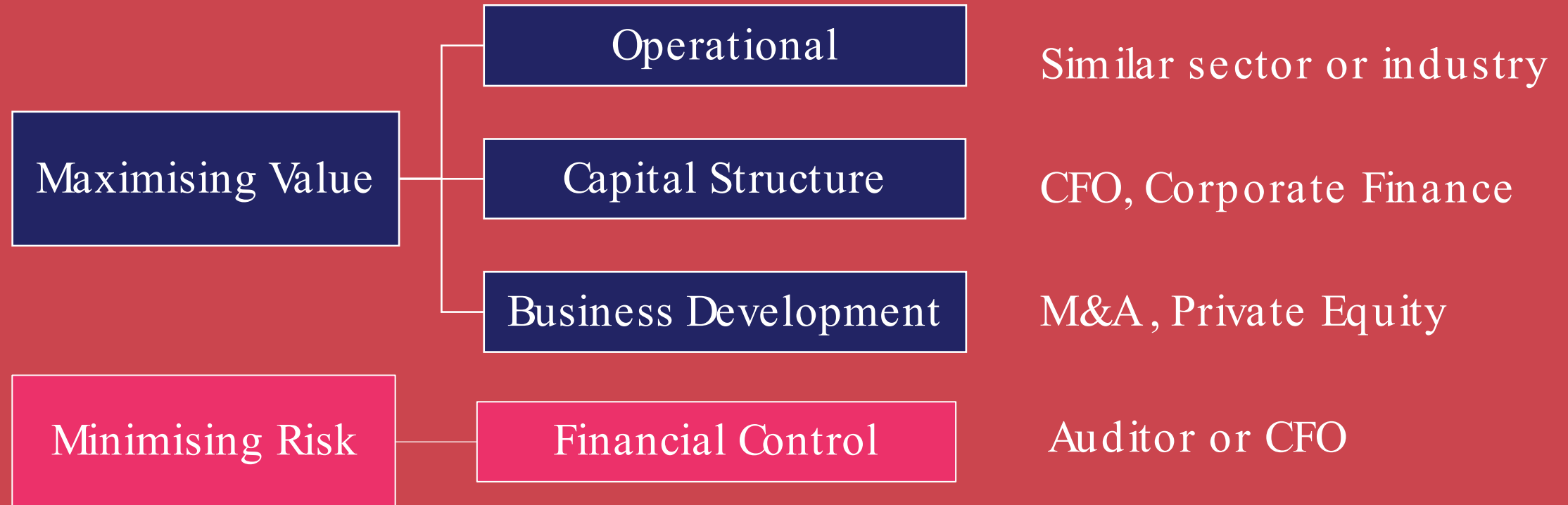
# Non-Executive recruitment

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Objective

Strategy

Experience



# Development leader

TEMASEK

A leading public asset manager

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



ROE 14 % over 46 years

# First European Manager

**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**



# Rail - without taxes



## Rail-plus-property model

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



Once, probably the best subway system in the world

# Doubling rail capacity

## OpCo/ PropCo – model

- Demerged properties from operations
- Built a ‘Silicon Valley’ inside the city
- New city centres above rail tracks
- Dividends to the government



Doubled the national rail capacity

# Olympic Housing

LCR

## Accidental developer

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



Helped fund the Olympic Games

# Funding subway

BY&HAVN

5 sq. km development

Harbour and military garrison

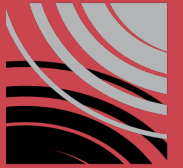
- 33 000 residential units
- 100 000 work-spaces
- Universities, schools, kindergartens etc



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

## State Agency turned Corporate

- Doubled density of portfolio
- 7000 new homes
- Innovation District

**ROE 19%** (last 5 years)



# Conclusion

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Good accounting unlocks resources that help governments address long-term financial challenges, improve service provisions or reduce taxation.

...and get re-elected