ASSET MANAGEMENT MODEL
FOR LOCAL GOVERNMENTS

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I. INTRODUCTION

This brochure is written for the people who work in local government: mayors, city secretaries, department heads, or others with asset management responsibilities, and elected officials who often create and carry out local policies. Because a variety of tools ranging from the simple to the more technically complex are discussed here, this information can be used by small rural municipalities, as well as by larger cities with greater resources.

The brochure present models developed to deal with many of asset management issues, such as difficulty in defining the quantity and type of assets your local government owns, vacancy in publicly-owned properties, low revenue earnings from your assets, and excessive maintenance and management costs.

You will find practical solutions in this brochure for the improvement of real property asset management in your local government. This will be made possible by putting various tools to work. These tools are briefly explained at the end of this publication. The brochure will also present a step by step sequence of activities that can be implemented to fully develop good asset management in local government.

If you find the content of this brochure interesting and would like more detailed information, you can find how to contact the LGRP on the last page of this brochure so that your local government can learn more about the asset management model and benefit from the LGRP project’s experience.
II. GENERAL INFORMATION

What is Asset Management and why it is important for modern local government?

Real property asset management is usually understood as a process of decision making about acquisition, holding, and disposition of real property for the owner’s use and investment. This definition is applicable to both the private and public sectors (local government).

We emphasize portfolio activities to distinguish them from real estate management, which we define as day-to-day operational activities concerning one particular property unit. These activities, like ongoing maintenance or issuing bills and invoices, are of secondary concern.

It is also important to note that the goals of real property asset portfolio management in the public and private sector are somewhat different. At the local level of the public sector, there are two views of the main goals: traditional and non-traditional. Traditional goals are based on supplying the optimal amount of property for public goods and services at the least cost, compared with all alternative feasible arrangements, including private sector provision. Non-traditional goals assume that the local government supports local economic development and obtaining governmental revenues from alternative sources. In the private sector, in contrast to the public sector, the main goals are maximizing corporate value (or profits), or obtaining returns on investment, while optimizing a risk/return combination and liquidity.

Main concepts and principles

Three main issues drive the need for improved local government asset management, as follows:

- Due to ongoing decentralization, local governments have to provide an increasing number of services with limited financial resources.
- The real property assets of the local governments are often very significant in value compared to their annual budget revenue or expenditures. While many properties are not intended to generate revenue, it is possible that revenues could be substantially increased. On the other hand, low expenditures may be interpreted to show that there is a need to increase spending on maintenance of the city’s assets.
- Local governments usually have much more freedom of choice over handling their assets and liabilities than they do over local government revenues. While raising taxes and fees is a politically sensitive process, managing property is far less demanding and risky.
Functions of the Local Government in Croatia

It is meaningful to initiate discussion of the Real Property Asset Management by identifying functions of the local governments. A review of the legal framework shows that there is broad scope of functions for local governments, as follows:

- general administration, such as education, social welfare, housing and town planning, environment, public sanitation, culture, leisure and sports, traffic, transport, utilities, economic services.

However, the standards and norms of carrying out these functions are not explicit. This provides significant opportunities for local governments to define the level of service per capita according to the needs and priorities of their populations.

It is clear that local government is assigned a wider purpose than simply administrative service provision. Local governments are responsible also for economic and social development. In order to succeed in these tasks, local governments will have to comply with global trends and ones that are more based on market solutions, such as:

1. Transformation from provider of services (such as housing for all of its residents) to enabler (creating the framework for services to be delivered by the market).
2. Transformation of treating its real property as a productive asset as opposed to a public good.
3. Management practices should be aligned with the practices of the private sector.

Character of the Local Government Functions

Functions of local governments could be sorted in three groups as follows:

- mandatory - responsibility of local government, as stipulated by law
- discretionary - performed for social, political or other reasons
- surplus or income generating

There are similarities and differences in functions and practices between the public and private sectors, as presented earlier. The major difference is that local governments have to fulfill public functions, and the purpose of its income generation activities is to support fulfillment of these public functions.

Therefore, it is important that we classify property, in order to assign different financial goals and objectives for the use of public property.

Management of assets for mandatory functions should include the following objectives: making the use of public facilities more efficient; minimizing operating costs; and locating government offices in functional, not prime areas of real estate.

Management of assets used for discretionary purposes should be based on minimizing subsidies by reducing the difference between the market rent and actual rent. Public program alternatives should be designed to reduce the need for subsidies as much as possible.

In managing surplus properties, leasing and selling property creates income. If neither lease nor sale is possible, maintenance costs should be reduced to reflect the value and use of the property.
Local governments in Croatia own substantial amounts of real property of very diverse types. This is similar to the situation in other transitional countries. At the same time, even in the most developed countries in the world, local government property is among the least utilized resources.

There are many opportunities to improve management of local governments’ real property assets.

Contents of Real Property Portfolios in Croatia

Real property portfolios in Croatia contain very diverse properties. The major characteristics of these portfolios, both in Croatia and in other transitional countries, are as follows:

- Rapid devolution of property made many local governments the largest property owners in urban areas
- Large real estate portfolios are being transferred from direct ownership into ownership by enterprises that are owned by local governments
- Fiscal disincentives for further privatization
- Large portfolios of social or core services properties with negative cash flows are being transferred to local governments
- Large portions of portfolios are obsolete properties with negative residual value
- Real estate amounts from 50 to 95% of the total value of local government assets
- Most local governments have no inventory of physical assets, and even more rarely an accounting of the value of these assets
- A clear understanding of assets and liabilities is a precondition for moving forward intelligently with financial management in local governments
- Public real estate is one of the most underutilized local resources in many local governments across the world
- There is a need to establish appropriate standards of accounting and reporting public property

The transitional processes of devolution and restitution lead to frequent and significant changes in the content and size of local governments’ asset portfolios. These processes may also lead to an incomplete inventory of local public property, problems in the development of knowledge and skills in asset management, and in the adjustment of management capacity within local governments.

Revenues of real property assets in Croatia on average bring in eight percent of the local government’s revenues. This is the fourth largest source of revenue, after personal income tax, taxes and fees, and enterprise taxes. Deviations among local governments are significant, in absolute terms and as a percentage of local revenues, from 1.3 percent to 25.3 percent.
III. THE MODEL

The primary purpose of the Asset Management Model is to provide local governments in Croatia with tools for increasing the benefits they can derive from their property holdings. It presents the main rationale for improving the management of real property assets owned by local governments and ways to address the contents of real property portfolios. It also includes a set of recommendations for a systematic approach to realizing effective real property asset management. Possible outcomes of the application of the Asset Management Model are major development opportunities for many cities and municipalities.

Step by step implementation - Recommendations for Improved Real Property Asset Management

The Asset Management Model consists of ten major recommendations, as follows:

1. Introduce a new system of data maintenance for each real property unit
2. Transitional issues
3. Property classification
4. Real estate and business appraisal
5. Operating statements for income generating properties
6. Intensive financial analysis of projects, properties and portfolios
7. Deregulation of business rentals
8. Reporting on property
9. Management consolidation
10. Strategic planning

While these recommendations should be implemented sequentially, some of the activities can be performed simultaneously. The complete Asset Management Model contains a detailed explanation and description of these recommendations.

Tools for effective implementation of the model

The model is structured around the priority of approaching private sector practices where possible, particularly in expanding management effectiveness. In summary, private sector asset management utilizes various tools:

- Site based management, accounting, budgeting, and operations
- Large databases with baseline and operational assessments
- Annual updates
- Private market benchmarks
- Different methods for the calculation of rents.

For local governments, these practices can be summarized as follows:

- Formulation of a strategic role for real estate in attaining local government goals
- Use of property-type specific financial tools and performance standards
- Property classification and application
- Implementation of portfolio management
IV. REPLICATION OF THE MODEL

Pilot activities - Key Achievements to Date

The Asset Management Model was developed and implemented in the City of Varaždin.

The LGRP’s cooperation with the City of Varaždin is an on-going process that has already led to notable changes in the City’s approach to property management. This has altered the behavior among policy- and decision-makers and technical experts so that there have been changes in regulatory and institutional arrangements. Furthermore, the results of the collaboration have yielded innovations and changes in the City’s asset management practices.

Below is a list of outputs and activities related to the application of the asset management model in the City of Varaždin:

- Agreement to take a comprehensive approach to asset management in Varaždin based on modern management practices
- Scan of the asset environment in the demonstration area, key local government organizational structures, and existing practices. Evaluation of the current assets, and work patterns related to asset management within the local government. Presentation of recommendations for change based on an asset management methodology appropriate for the City,
- Agreement to a comprehensive approach to implementing all recommendations through a set of action plans for each recommendation, development of a timeline for implementing all recommendations presented to the City Council, City Government and heads of departments within the City administration,
- **Asset Management Inventory Guide** (generic for all local governments), implemented in the City of Varaždin. This guide supported the creation of a complete inventory of assets and associated classification scheme for assets in the City of Varaždin (based on the first recommendation of the LGRP Scan/Report of the Asset Management Environment in the City of Varaždin),
- Proposal for a new Asset Management Ordinance/Statute in the City of Varaždin (based on findings of the LGRP Asset Management Scan)
- Computerized financial models for evaluating financial performance of various portfolios of City’s real estate, beginning with its portfolio of business rentals. The current versions of the models and the limited availability of market data allow only rough estimates, which have, nevertheless, been useful for policy debate and decision-making in the City Government. With the addition of appropriate accounting and finance software, the City will be able to link financial data to property related data,
- Computerized financial models for evaluating indirect subsidies to non-governmental organizations, along with recommendations for improvement of performance,

- Detailed implementation-related recommendations, concerning systems and methods for developing property disposition programs. These recommendations can assist in prioritizing “surplus” properties for disposition and for choosing among modes of disposition, such as various forms of leasing, privatization, and joint ventures, methods for appraising the market sale and lease value of individual properties, and procedures for asset disposition.

**What local government should do to implement the Model**

If your local government wants additional information about the LGRP and the models it has developed to help local governments in Croatia successfully adapt to their increased responsibilities, we suggest that you:

- visit our web page ([www.urban-institute.hr](http://www.urban-institute.hr)) where downloadable files on the process will be available,
- sign up for our LGRP newsletter; and
- read printed materials

The LGRP is conducting regional conferences to present more details on the models. A survey distributed during the conferences will ask attendees to express their willingness and commitment to devote local resources in implementing a particular tool. Analysis of survey results will help us identify the level of interest in each model and select the most appropriate method to help local governments replicate each model. Possibilities include:

- LGRP technicians will train Croatian consultants, who then will be offering assistance to local governments in implementing the model
- LGRP will conduct a series of seminars with homework assignments leading to a step-by-step implementation,
- LGRP will hold other conferences, workshops, or seminars.

Representatives of local governments that have indicated an interest in implementing the model will be invited to those activities should it provide to be the most suitable method to implement the model.
THE URBAN INSTITUTE

The Urban Institute is a nonprofit policy and research organization established in Washington, DC in 1968 to investigate social and economic problems confronting the U.S. and government policies and programs designed to alleviate them. UI is internationally known and respected as an objective, nonpartisan source of expertise and analysis for informed policy deliberation and debate. UI has expanded its role to include analysis of analogous problems and policies in developing countries and transition economies. Recent and ongoing projects have been engaged in Bosnia and Herzegovina, Latvia, Russia, Georgia, Armenia, Hungary, Poland, Macedonia, Croatia, Albania, Bulgaria, and Slovakia.

THE URBAN INSTITUTE IN CROATIA

Since the early 1990s, the Urban Institute has been active in Croatia, assisting the public and nonprofit sector in urban service provision, financial management, and capacity building in war-affected areas along with collaboration with many cities and towns to implement technical assistance.

In Croatia, UI maintains an office in Zagreb with an 8-person team of highly skilled local staff and expatriate country director.

The Local Government Reform Project offers technical assistance to local governments. There are four components in the Scope of Work for this project to address local government reform in Croatia:

1. Improve Fiscal and Management Efficiencies of local governments
2. Improve Investment Opportunities for Economic Development
3. Improve Citizen Participation in Local Governance