Asset Management: An International Perspective
Olga Kaganova

Abstract
In this commentary for The Guardian - online, senior fellow Olga Kaganova discusses how local governments don't usually have advanced asset management practices even though 65-99 percent of the value of the wealth owned on the taxpayers' behalf is concentrated in land, built-up property and infrastructure.

Governments control large property portfolios and liabilities so it is surprising how little attention is paid to asset management

Governments at all levels control large and diverse portfolios of real estate, infrastructure and businesses. At local government level, the lion's share of wealth owned on the taxpayers' behalf is concentrated in land, built-up property and infrastructure: roughly 65%-99% of the value of all local government assets.

Governments property is also associated with liabilities, often unknown or hidden, such as costs of land decontamination or deferred maintenance of buildings. Given this, it is surprising how little attention has been paid to asset management. One reason is that key elements of public governance – traditional budgeting systems, election cycles etc – are often not well suited for prudent asset management.

Even in the UK, which is generally regarded as a leader in improving government asset management, the majority of councils do not use advanced asset management practices. Another common problem is that there is often a lack of explicit asset management policies and regulatory frameworks, allowing short-sighted or poor practices to continue. Surprisingly, governments in developed countries fare not much better than those in developing ones. Nearly half the states in the US, for example, do not have basic property and asset data.

The unfolding fiscal crisis in many countries coincided with a steep decline in real estate markets and jointly these two factors have had a profound impact on government property and related services – one that will continue into the foreseeable future.

On the positive side, this crisis has drawn attention to the management of government property in general. In particular, various organisations have "discovered" the subject or have become more actively engaged in it. Some governments, squeezed to cut expenses and increase revenues, have initiated structural changes in asset management. Symptomatically, the 2011 annual conference of Chartered Institute of Public Finance and Accountancy (Cipfa) in the UK will be "Public assets under the spotlight".

Both the British government and the Obama administration are pushing for the modernisation of asset management to improve efficiency: consolidating government agencies in a smaller number of buildings, introducing innovations in workplace management to reduce office space per employee, disposing of surplus property, and greening government buildings.

Private sector experts are being called on to assist in this change. On the negative side, government property has suffered irreversible losses in many countries. The fire-sale of government property, use of sale proceeds for covering operating deficits, and accelerating under-investment in maintenance of existing infrastructure and property, further bring governments closer to a crisis of ageing infrastructure.

The reduction of public services associated with public property will continue, at least in many local jurisdictions in the US, resulting in closed libraries, swimming pools, public toilets and so on. The real question is whether public services and related property holdings will shrink – they will – but how this will unfold: chaotically or rationally. Nevertheless, asset management continues evolving and producing hot topics for the professionals involved, from new thinking on valuation of public property to REITs as a vehicle for privatization of public property.

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