Chapter 14
Municipal Property During the Post-socialist Transition in Slovakia

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Abstract When local governments gain significant new powers, their main concern is the maintenance and expansion of their assets. This has been particularly true among the transition countries of Central and Eastern Europe. Looking at Bratislava, the capital of Slovakia, this paper examines changes which occurred after the collapse of communist rule in 1990. Slovakia underwent four main phases of transition. Each had its impact on local government assets and asset formation. The first was a phase of restitution and de-étatisation, when central government restored properties to local governments when those governments were themselves re-established, often transferring control of formerly state-owned enterprises. This was followed by a phase of asset consolidation. Firms were rationalised, broken up, sold off, or closed down. Assets were inventoried, and some sold to support local spending. A third phase was the establishment of a new, decentralised system of government. Local governments received a dedicated income based on income tax and gained the freedom to impose local taxes and fees. At this time, schools and other public buildings, and surplus facilities, such as army bases, passed into local government hands. The final period, which has recently ended, was again one of consolidation. Transfers of property and other assets took place against a backdrop of rapid economic change. Land buildings often became unexpectedly valuable, forcing local governments to choose between retaining them to generate long-term income or selling them to reduce debt, repair and improve infrastructure, and expand the city's asset base. Local governments had to become familiar with borrowing practices and learn to manage local debt. Change required new institutions to oversee the management and privatisation process at both the national and local levels and forced local governments to become familiar with the operation of property and debt markets. Local governments had to decide which services should be privatised, which should be run as public-private partnerships, which should remain under municipal control, and which should be run jointly with other local governments. The gradual process of change allowed most Slovak governments to successfully cope with increased powers. However, over the longer term, local governments need

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to further develop expertise in strategic planning and in asset management to ensure that they have rainy-day reserves and to protect and expand existing asset-derived revenue streams.

Keywords Municipal asset management • Asset management strategies • Municipal asset management oversight • Public private partnerships

Introduction: A Review of Issues in Local Government Asset Management

This chapter describes and evaluates the use development of municipal assets during the transition period in Slovakia. Slovakia, one of the post-socialist Central-East European countries, underwent radical changes in the field of local government (e.g. Buček 2006). The development of municipal assets is one of the less covered issues (among rare exceptions, there is work by Papcúnová and Balážová 2006). This chapter reviews the relevant legal framework. This is followed by an evaluation of changes from a period of uncertain and insufficient local government assets in the early nineties to the present period of larger and more diversified assets. The value and structure of municipal assets in Slovakia is briefly discussed. Using Bratislava, the capital of the Slovak Republic, as an example, one can see practical features of municipal asset formation, structure, and local government approaches. Developments in Bratislava resemble processes in other cities. The chapter focuses especially on issues of real-estate property, financial investments and reserves, and municipal companies. It also attempts to identify the changing importance of different kinds of municipal assets to city administration and city development. Particular attention is paid to the latest period, including a discussion of the impact of the financial crisis which started in 2008 on municipal assets and asset management.

The data used is taken from the final accounts of the Slovak Republic, and official documents from the Bratislava city government, including final accounts and annual reports. A document published by a team of authors led by the Mayor of Bratislava from 1990 to 1998, P. Kresánek (Kresánek et al. 1998), has been a particularly useful source of information. As well as including an effort to provide a long-term outline of municipal assets in Slovakia, the chapter attempts to provide greater details for the period from 2000 onwards. Data on municipal assets from the early 1990s is unreliable. Data from before 2009 are shown in Slovak crowns (due to the fluctuating exchange rate, they are not converted to euro), while more recent data are shown in euros, the national currency since 2009 (for orientation, the final exchange rate was €1 to 30.126 Slovak crowns). Within the text, the terms 'municipal assets' and 'municipal property' are used as being synonymous. They include all forms of local government ownership. Real (estate) property is used to describe what is usually the most extensive part of municipal assets – land and buildings. This chapter also refers to other asset-related items such as inventory, receivables, and financial accounts. Bratislava has a citywide government but also 17 district governments. In the case of Bratislava, the terms 'citywide government' and 'city government' are used to indicate that we are not dealing with a lower level of local government in Bratislava.

Local governments need to have administrative freedom and control over their assets if they are to successfully function over the long term. There is a long tradition of local government self-administration and ownership: it is perhaps the most common and historically developed case of public ownership. Various local government tasks, public administration, and public service provision require a diverse range and a large number of buildings and facilities and a range of equipment. The size of assets and their need and use is closely related to local government powers. At the same time, municipal assets influence long-term development and the overall perception of local public-sector roles. In recent decades, there has been an extensive retreat from the direct provision of services by local government, often influenced by the adoption of new public management approaches, in favour of contract-based private delivery and outsourcing, and public-private partnerships (e.g. Diefenbach 2009; Bovaird 2006). This is inevitably accompanied by a reduction in ownership of assets. For example, a retreat from mass public housing provision means reduced local ownership of public housing. Similarly, the private delivery of public services diminishes the need for the ownership of equipment, service vehicles, and other materiel. Of course, following Buchanan's service club theorem, municipal ownership reflects local political as well as local public preferences in public services and goods provision (Buchanan 1965). Thus, there is great diversity in the composition and size of assets among local governments. It is also important to note how assets can influence the financial situation of individual local governments in terms of ratings of solvency and access to borrowing.

In many countries, thanks to their long existence, local governments often own a range of significant assets. The largest part is often real-estate property (land, buildings, infrastructure), but also important are movable property (vehicles and equipment), financial assets (various kinds of funds and bonds), assets in companies, and increasingly intangible assets (such as software and copyrights). Usually, a substantial part of these assets is directly owned and administered by local governments. Nevertheless, a significant proportion of assets are often transferred to legal entities, various organisations, or companies wholly or jointly owned by local governments. Frequently, in fields that require more private sector experience, or activities suitable for approaches typical of the non-governmental and non-profit sector, local governments are co-owner of entities with other partners.

Municipal assets can be categorised in several ways. We can distinguish short-term, medium-term, and long-term assets. Long-term assets often attract the highest interest. Municipal asset evaluation plays an important role in this process. One group of assets directly serves the administrative and control functions of local government. This is especially the case for town halls, other office buildings, related facilities, and equipment. Another group of assets supports the provision of public goods and services such as schools, social centres, libraries, police station, fire stations, and municipal infrastructure. These types of property are characterised by the absence of frequent ownership changes. Even in small local government units, a minimum amount of municipal assets is needed to undertake and maintain basic functions. Unneeded parts of municipal property can be used by local governments for business-based activities to generate additional income or provide a contribution or incentive to encourage needed development projects. Such entrepreneurial activities fall outside the main roles of local governments and must be managed with a full awareness of related risks. They are circumscribed by many prudential rules. Municipal entrepreneurial activities can be seen in municipally owned companies or in shareholdings in business entities. Some municipal assets such as property are rented out to serve local activities and businesses. Entrepreneurial activities can also involve financial operations, especially brief use of free financial resources such as short-term loans or loans at reduced interest rates. These kinds of activities are common, particularly among large urban governments.

The ownership rights of local governments are conferred in through legislation. These influence the composition of municipal assets and limit freedom in decision-making over their exploitation, including buying, selling, and renting. Management approaches or transactions regarding municipal assets are, in principle, based on decision-making by elected local bodies but are not free from external interests and public disputes. New municipal assets are gained through purchase, new construction, intergovernmental transfers, and, in exceptional cases, donations from citizens, private organisations, or non-governmental entities. Municipal assets are dynamic, and their structure and value is continually changing. Larger cities often have a large stock of diversified assets. Their efficient exploitation requires experienced management, competent operation, and well-working maintenance. One particular requirement is a precise registration and evaluation of local government assets. Local governments with more assets need specialised departments, well-paid professionals, and access to specific software including, for example, GIS applications.

For local governments with a developed asset base, besides the acquisition or disposal of property, the key issue is efficient administration of those assets. This is not an easy task. As Jolicoeur and Barrett (2004) have noted, public interest and the interest of elected officials often focus on new construction and major renovations and less on the sustainability of current infrastructure. The shortage of funding for acceptable maintenance leads to physical deterioration. Due to their prevalence and visibility, real-estate properties often receive the most attention. Kaganova and Nayyar-Stone (2000) summarised development in this sector as entailing a shift from public ownership of real estate, increased recognition of public real estate as a productive asset, and the adoption of private sector practices. However, local governments should be interested in the efficient financial and operational management of their whole portfolio of assets, applying strategic asset management practices such as those described in Fernholz and Fernholz (2006). Local governments also face market turbulence and must recognise differences between the accounting value and market value of their assets, particularly real estate. Well-administered municipal assets can substantially influence the competitive position of cities and can foster a positive perception among residents and the business community.

Municipal Assets and Their Legal Framework During the Transition Period

Background to Subnational Governance in the Slovak Republic

For local governments in transitional countries, asset-related challenges are different. They need property to function but also need to develop experience in its management and growth. In many transition states, local governments played an important role in providing social and human services. Local government assets frequently played an important role in the economy, and their reform and restructuring was an integral part of economic transition. For example, as Sun (2002) notes, township and village enterprises in China played an important role in the transition economy and the adaptation to a market economy in particular territories. In transition countries, the use of municipal assets provoked debates on service provision, decentralisation, and the democratisation of societies. Assets were an important part of decentralisation in most transition countries. Transfers of property accompanied reforms in local public service provision and the transfer of branches of the national economy such as utilities to local government and the private sector (Péteri and Horváth 2001). Many services were quickly transformed into more contemporary forms of service provision 'outside' the public sector. Problems typically associated with the efficient administration of assets in transition countries were outlined by Kaganova et al. (2001) referring to the case of Kyrgyzstan. The essential feature is that the management, transfer, and sale of municipal assets were among the less transparent issues in local government agendas during the transition, as compared to basic local fiscal policy issues like the formation and adoption of local budgets. This is understandable. Local governments only slowly built asset registers. They managed assets without any well-elaborated strategy, and they were not aware of the real value of assets, particularly since those values were often rapidly changing as land markets and the private sector developed (see, e.g. Kaganova 2008). Integrating assets into the standard fiscal practices of local government and making this process easily understandable and transparent to all citizens has been a long-term task.

The system of administrative divisions and subdivisions in Slovakia has been reshaped during the last two decades. Until the early 2000s, Slovakia was one of the most centralised countries in Central and Southeastern Europe, but over the next decade, the character of country administration changed. Initially, after independence in 1993, subnational public administrative divisions had few powers and resources and less freedom. They relied mainly on transfers from national government. Other sources of revenue included local taxes regulated by national government, fees, and other charges. The powers and resources of subnational governments slowly increased until the onset of the financial crisis in 2007–2009.

Until 1990, the country had three levels of administration below the Republic government: the kraj or region, the okres or district, and local governments. However, there was no local government in the Western European sense of the term.

All the different levels were part of the central state administration. They were mainly administrative and planning organs, used for statistical and accounting purposes. Local governments were also mainly administrative organs which managed local housing, infrastructure, the provision of shop space, and basic local services (see, e.g. Ryder 1990, 1992). Due to the strong identification of regional government with previous regime, the ruling communist party, and the system of central planning, the kraj level of government was abolished in 1990.

After 1990, the construction of a new system of public administration started. Its main and constant feature is its dual character, with separate lines of state administration and local government. Local government was introduced immediately in 1990. Regional government was introduced in 2001. Both levels of government are managed independently from national government by directly elected mayors/chairpersons and local/regional councils. Initially, they had extremely limited competences and few financial powers and relied mainly on transfers from central government. Their scope for action increased as a result of reforms to decentralise government between 2002 and 2005. This was due partly to the need to met European Union accession criteria but also a result of the ideological orientation of the coalition government in power at the time, led by Mikulas Dzurinda. Fiscal decentralisation came into force in 2005. Since then, local and regional governments have been relatively financially independent thanks to more stable and guaranteed sources of income. According to legislation, 23.5 % of income taxes collected by the national government were allocated to the regions and 70.3 % to local governments. The rest went to the central state budget. Since then, the national government has relied mainly on VAT and excise taxes for revenue. Municipal authorities were also given the right to set real-estate taxes and to set other local taxes and fees.

Despite the growth in autonomy, the situation of the state administration has been unstable. The district (okres) state administration continued to exist after 1990, but there were frequent reorganisations and transfers of powers. Regional state administration (the kraj) was reintroduced in 1996, accompanied by a redrawing of territorial boundaries at district and regional (okres and kraj) levels. During the course of decentralisation reforms, the okres were increasingly seen as being a redundant layer of state administration which created unnecessary administrative costs. In 2004 they were abolished as administrative units, although they remain as statistical regions. Similarly, the regional offices of the state administration were abolished in 2007. However, numerous field and circuit offices of the state administration are still organised by okres and kraj, subordinated to various ministries. In addition, in 2013, it has been rumoured that the okres maybe brought back as an administrative district, a move favoured by the government then in power.

Thus, the role of state administration has diminished due to decentralisation. Today, the country has two levels of government below the national level: miestnu samosprávu (local government) and samospravne kraje (self-governing regions). The creation of new layers of government, the creation of new local and regional administrations, and changing and unclear legislation complicated urban and regional management. The extensive and drawn-out process of restructuring inhibited the creation of planning documents and local policies, as well as the creation and implementation of development and management programmes. Uncertainty about the future form of local government and delay in its reorganisation led to a loss of expertise among government employees. It created a vacuum in governance which, in many cases, allowed relatively sophisticated developers and investors to step in and exploit gaps in regulations to promote new projects.

Municipal Assets of Local Governments

The role, size, and exploitation of municipal assets strongly depend on the legal framework and its implementation. Although the legal framework's basic elements were formulated in the early 1990s, they were subject to many amendments during the next two decades. Such changes reflected varying approaches, experiences, and reforms, as well as the growing range of aspirations of local governments in managing their assets. As a result, asset ownership, its autonomous administration, and efforts for its expansion and diversification are features in the evolution of local government in Slovakia. It supports their basic functioning and service provision and has a symbolic value for citizens, such as the case of town halls. Municipal assets are one of the main local government financial resources. Legislation has supported the enlargement, wider use, diversification, and better management practices of municipal assets. These changes reflect the strengthened position of local government in society. In a narrow sense, this position can be seen in the growing role of municipal governments within the public sector. Decision-making over municipal assets is now a typical part of local policy. The current framework allows a more 'businesslike' and sophisticated form of asset use, for example, in the field of local economic development or by allowing participation in financial markets. Nevertheless, long-term experience has led to the introduction of more precise rules and limits, e.g. in favour of more efficient and transparent asset administration.

The position of municipal assets and local government is guaranteed by the Constitution of the Slovak Republic. In legal terms, asset ownership is equal to other forms of ownership. However, local governments must follow current legislation in the administration of assets. The first time that municipal assets were referred to in national legislation was in the initial legislation concerning local government which appeared in 1990 (Act No. 369/1990 Coll.). It defined municipal assets as all properties, as well as property rights, under municipal ownership. These assets were to serve local governments in fulfilling their basic tasks. According to this legislation, municipal assets could be used for public purposes, to serve the needs of local government or to serve its entrepreneurial activities. This introductory and brief mention of municipal assets was not sufficient. It did not substantially influence the practices of asset administration or the size and value of municipal property.

A more detailed framework of asset ownership and administration was defined by the Municipal Asset Act adopted in 1991 (Act No. 138/1991 Coll., later amended on various occasions). The almost exclusive state ownership practised during the previous regime needed specific legislation to enable the distribution of public assets to newly formed lower levels of government and other public-sector bodies. The Act led to the transfer of a large amount of state assets to local governments. It also allowed local governments to transfer property to local government organisations or companies they created. The Act emphasised that local government bodies had to manage municipal assets to support local development, to the benefit of citizens, respecting the limits of local environmental protection. They were obliged to look after their property (prevent damage, destruction, loss) and increase its value. Creating an asset register was among the mandatory tasks. Municipal asset legislation defined which issues had to be regulated by local by-laws and which decisions were only valid if approved by the local (city) council, for example, the sale of real estate, the sale of other assets above a threshold price, the leasing or sale of property rights, and auctions. The legislation also stated that all contracts concerning municipal assets must be in written form. Basic information on municipal assets must be included in the basic accounting documents of local governments. Local governments must follow rules of asset depreciation to list the real value of assets. Nevertheless, some of these tasks were only gradually implemented by local governments.

An important aspect of local government is the level of autonomy that local government bodies have in managing their assets. Thanks to the dual model of public administration adopted in Slovakia with separate lines of government and state administration, intervention by higher levels of government is possible only through legislation. No other direct intrusion by the central state government or other state institutions is permitted. Although ownership rights give local governments a relatively free hand in managing assets, each local government has its own main auditor, and they are subject to internal and external audit supervision. All parts of the Final Account must be approved by the auditor. The Supreme Audit Office of the Slovak Republic also has the right to supervise municipal asset operations, thanks to a constitutional amendment adopted at the beginning of previous decade. Local governments must also follow additional rules defined in legislation concerning their assets, particularly the Budgetary Rules Act (concerning financial resources, Act No. 523/2004 Coll.) and the Business Code (concerning participation in business companies, Act No. 513/1991 Coll. as amended), as well as legislation concerning bonds, securities, investment services, and funds.

In 2009, the latest large-scale changes related to asset management were adopted. They focused on strengthening transparency in municipal asset management and transfers. This was a reaction to widely perceived problems of conflicts of interest, clientelism, and nepotism. More precise rules were introduced concerning transfers of municipal property. Transfers must be made on the basis of public tendering, auctions, or a generalised market value determined by set rules in the case of direct sales to particular persons or legal entities, which have often been disputed. Local governments can no longer make a direct sale if the value exceeds €40 thousand. Local governments also cannot directly sell property to their mayor, councillors, the statutory representatives of local public companies (established by local government), chairs of local offices, local government employees, the internal auditor, or their relatives.

Decision-making is a key element in municipal asset management. As local elected bodies, councils and mayors have a central role. Nevertheless, a significant role is also held by professionals employed in city departments responsible for the administration of all kinds of assets. Decisions in this area require transparency. They require unambiguous rules regulating the use of assets and strategies of acquiring and selling them. There should be a regular assessment of property and property use, focusing on efficiency. In transition countries, the implantation and enforcement of transparent management approaches have been even more important: the rules concerning municipal asset administration include special by-laws adopted by city (local) councils.

The Slovak legal framework allows several forms of municipal assets, discussed in Žárska et al. (2008) and Staroňová and Sičáková-Beblavá (2006). The most complicated issues arise in the use of real-estate property. Most properties are directly used by local governments. In such cases, local government as a legal entity uses property for administrative purposes or the provision of local public services. There are also cases where local government places property under the administration of a subject organisation established by local government without having the status of a legal entity. Two basic forms are used – the budgetary organisation (with its budget and resources determined by local government) and the contributory organisation (functioning thanks to a financial contribution provided from the local government budget). Other forms often involve a formal change of ownership. The most usual is the nonfinancial transfer of municipal assets to a business (usually a limited or a joint stock company). Local governments often establish a wholly owned business in which they are the only owner/shareholder, giving them full control. They can also use their own assets to establish a non-profit organisation or foundation or can share their assets in associations of local governments. Among other cases of municipal asset use, we can find property used as collateral for loans or to issue municipal bonds. However, local governments may not become a guarantor for loans made to a private entrepreneur or legal entity not created by the local governments themselves. Financial assets appear in many forms, including reserve funds, investments in bonds, minority stakes in corporations, etc.

Property rental is another frequent form of municipal property exploitation. Sometimes, the renters of municipal property are established by local governments, but they can be other legal entities, including citizens. Praxis in Slovakia reflects two possible principles in setting rent – market or nonmarket. The local market rent level applies in the case of market-rate renting. Various circumstances are taken into account in the case of nonmarket-rate renting. Nonmarket conditions can be obtained by businesses which provide services lacking in the locality or which are not very accessible. They can also be provided to increase competition in the local market, to compensate firms for their investment in municipal property (maintenance), or to foster employment or entrepreneurship in the locality – that is, to support local economic growth. Another example is the local provision of public-sector rental housing, allowing nonmarket rent for social reasons. Nonmarket conditions are often short term, negotiated for a precisely defined period of time. Related agreements provide opportunities to abrogate such conditions if contractual obligations are not fulfilled.

The most serious decision concerning municipal assets is their sale. Sale means that local governments lose ownership rights to property they sell. It is generally expected that local governments should sell only property they do not need, that is, 'surplus' property, with no special functional or development potential. However, in many cases during the transition, local governments were forced to sell assets despite an expected increase in value and despite their importance to city operations. This is because they more urgently needed resources to rehabilitate or modernise selected property or they faced financial scarcity and needed resources to cover the costs. In such urgent cases, local governments sold very useful assets, often because there was little of no demand for other assets. The highest risk of selling is the risk of a poor price due to the need to sell, as well as the loss of property which could have significant future impacts, such as the sale of land in a good location. In the case of property sales, land and buildings can be sold at less than the market price, but in such circumstances, the future use of property has to be guaranteed. It should be an elementary rule to use the revenue from asset sales to acquire new assets. Local governments should have a well-elaborated policy in 'both directions' – regarding both sales and acquisition, especially in sensitive cases such as the sale of land and buildings.

Information on municipal assets in Slovakia comes mainly from government accounting documents. Slovak accountancy practices concerning assets have improved and currently approximate international standards. Despite numerous changes, especially since the early 2000s, it is possible to use balance sheets published in the annual Final Account of the Slovak Republic to evaluate developments in the field of municipal assets. The situation was different in the 1990s. Reliable data concerning municipal assets were generally unavailable during the early transition period. The main causes were the incomplete registration of property and the large amount of property under litigation. Accounting practices were unstable and non-standard. Changes in the allocation of assets among different categories were frequent. A specific problem was the unwillingness to provide data. In the field of municipal assets, this was characteristic of the transition from a centrally planned economy. Papcúnova and Balážová (2006) argue that this was why such data are missing from Statistical Yearbooks and other documents. It is also why there has not been more extensive publication in this field in Slovakia. Now (2013–2014) the situation has improved. We can view the structure of municipal assets, divided into fixed and current assets, based on the balance sheet, consisting of intangible assets, tangible fixed assets, and financial assets which compose fixed (noncurrent) assets. Current assets consist mainly of financial accounts, inventory, and receivables. Public finance databases, compiled under the supervision of the Ministry of Finance, publish information on assets including depreciation. Separate information is provided concerning organisations to which local governments contribute. Data on individual local governments is still missing from centralised databases because access to such data is legally protected. However, access to such data has improved thanks to the penetration of the Internet, improvement in the content of local government web pages, and the growth of e-government at the local level.

Formation of the Municipal Asset Base During the Transition Period in Slovakia

The formation of the municipal asset base has been one of the most important aspects of the introduction of local government and its full-scale functioning during the transition period. The municipal asset base has developed in two basic ways. First, local governments obtained property located on their territory through transfers defined by legislation as part of the process of wide-scale societal transformation, the introduction of local self-government, and public administration reforms. Second, in parallel, local governments built up their asset base through their own initiative through purchases or other forms of acquisition. These two methods have been applied in varying degrees throughout the 20 years since the start of the transition (described, e.g. in Papcúnová and Balážová 2006). Restructuring and reform-related transfers prevailed in some periods, while in others, local government use of its own resources played the leading role, characterised by the mobilisation of local resources, taking credits for property-related projects, and applying for EU funds. Despite the continued development of the municipal asset base, future waves of property transfers based on legislation and intergovernmental transfers are unlikely. This suggests a move to a post-transformation period – the main transitional processes are almost complete, and more standard ways of asset formations will dominate in the future.

The development of municipal asset bases has gone through several distinct phases: two transfer periods and two consolidation periods. The first years (1991–1993) can be characterised as the *restitution-de-étatisation period*. These two important transformation processes substantially influenced this initial period. The main tool was the Municipal Assets Act and its amendments, adopted in 1992 and 1993. The restitution process meant local governments took over the 'historical' property they owned until December 31, 1949. This included such assets as town halls, other local public buildings, land, agricultural land, and forests. Although the transfer process often took some time, most of this historical property was transferred to local governments during these years. This 'return' of property substantially strengthened the position of local governments, especially in the case of cities which had traditionally owned property. Some assets had been city-owned for centuries. However, it should be noted that local governments faced restitution claims from citizens and other legal entities who asked for the return of property expropriated by the communist regime which had initially been included in local government assets. This affected the extent of municipal assets and led to uncertainty in the exploitation and administration of some of the assets. In turn, this resulted in reduced maintenance and neglect. In many cases, lack of clarity in property rights was a long-term problem, thanks to slow-working courts and the complicated verification of competing ownership rights.

The second main source of property obtained by local governments in the initial transition period reflected their participation in the *de-étatisation* of the economy. The local level was crucial in reducing the role and scope of state ownership in society. Local governments participated in a shift towards a more balanced ownership structure alongside the privatisation process. Local governments received a significant part of the assets (the most valuable was real-estate property) located on their territory, previously managed by their communist-era institutional predecessors (known as 'local/city national committees'). They also obtained property located on their territory that had been part of various state-owned enterprises and other state-owned organisations. Mass housing projects were also transferred to local governments, as well as other state investments on the territory of local government as defined in legislation. Thus local governments became the interim owners of housing stock previously owned by the state. The process of privatising housing stock started at the end of this period. Citizens could buy their apartments, mostly in large-scale housing estates, at favourable prices. Local government served as a 'privatisation agency', obtaining income from selling housing. This process was long and administratively demanding. One result is that there is only a limited number of public housing units in Slovak villages and cities, serving mostly as social housing.

In many cases, the state transferred other properties located on their territory to local governments, based on agreements with the concerned governments. Local governments also gained buildings and facilities built during the communist period by the joint action of local citizens on the principle of community self-help. They also received small firms and service providers not included in so-called small privatisation and small firms which were unsold, even at auction, and not privatised. In addition, during the communist regime, large state enterprises often owned various elements of social infrastructure, such as housing and nurseries. The transformation process led to local governments obtaining such property. They also became owners of many local sport facilities. As a result, within a few years, local governments became the leading owner of public-sector assets on their territory. Due to long-term disinvestment, most of the transferred property was in a poor state, needed reconstruction, and was often no longer suitable for its original use.

The second period (1994–2001) can be considered a *consolidation period*, as far as the asset base is concerned. On the one hand, local governments attempted to administer newly obtained property, while on the other, they tried to formulate approaches to the expansion of their asset base. They developed experience in property management and exploitation. Many of them systematically attempted to harmonise their powers and attempted to develop priorities towards their property. They had to decide on how to the use the existing asset base, particularly real estate, which was often in poor condition. The sale of property was frequent. For financial reasons, local governments were often unable to take care of or develop property. For example, they lacked the resources to rehabilitate all their real-estate property. They were often forced to sell or rent their property, because their incomes, based on transfers from the state budget, were insufficient. Income from property sales was needed to subsidise the costs of providing local services (Tichý and Žárska 2005). Some property was sold following the simple rational calculation that it was not urgently needed or did not fall within the standard remit of local governments. Many local councils decided to concentrate on a limited number of services and priorities whose adequate provision could be secured only with the help of property sales. Resources obtained from selling one part of civic assets were often used for the reconstruction of another, allowing local governments to concentrate on what they thought was the more important part of their assets. Such an approach caused large-scale changes within the structure and use of assets. The large number of property sales was also due to limited borrowing opportunities caused by undeveloped domestic financial markets, accompanied by high borrowing costs. The sale of property peaked in the late 1990s, reaching a maximum in 1997–1998, while the financial situation eased. However, the sale of property reduced the opportunities for raising funds from outside the state budget by renting or leasing, and loss of assets deterred access to credits. Instead, reliance on external resources such as EU pre-accession funds increased.

From 2002 to 2004, Slovakia underwent a wide-scale reform of public administration. This led to the next phase of local government asset formation. The national government decentralised important powers to the local level in stages, in fields such as education, social care, transport, health, and environmental management (Act No. 416/2001). The Municipal Assets Act was amended twice, in 2001 and 2003. This third period, *a decentralisation period* of asset formation (2002–2004), caused another large increase in property owned by local governments. It mainly concerned assets directly related to the transferred powers. These typically included primary schools and other school facilities, social care centres, and health centres. Local governments became the sole owner of those assets located on their territory. Some property of this nature was also transferred to the newly introduced regional (Kraje) governments, such as secondary schools, specialised social care centres, and some cultural facilities. Although some of the transferred property was in a poor state, local governments quickly incorporated these assets into their administration.

The subsequent era, from 2005 onwards, can be described as the *modernisation period*. The local government assets increased but needed extensive upgrading and restructuring for appropriate and efficient use. The improvement of the physical and functional state of property, and the refurbishment and modernisation of real-estate property obtained during the preceding decentralisation period, has been widespread. Local governments concentrated on basic renovations to roofs, windows, and heating systems and the reduction of energy use in buildings to lower operating and maintenance costs. This was possible thanks to increased yields from taxes, better access to EU funds, and more extensive borrowing options under increasingly favourable conditions. Greater reliance on their own resources also played an important role, thanks to setting real-estate taxes. During this time, some local governments gained assets related to reduced activities at border crossings (redundant facilities when Slovakia acceded to the Schengen Zone, leaving customs borders only between Slovakia and Ukraine) and through reductions in the size and number of military bases, including facilities and training areas previously owned by the Army of the Slovak Republic. The restructuring and rehabilitation of these newly acquired assets have been slowed by the impact of the global financial crisis from 2008 onwards. In addition, as the growth of assets has slowed in many cities and villages, pressure to sell property and spend financial reserves has grown.

The transfer of powers and related assets is subject to conditions imposed by the national government. Among the most important has been an obligation to maintain the existing use of transferred property (e.g. schools). A change of use requires a complicated administrative procedure, supervised by the relevant state administrative bodies. Some changes have occurred, for example, in many school buildings which are no longer needed, thanks to a decrease in population growth leading to a drop in the number of school-age children. The legislation defined a fixed time period before the use of newly transferred property could be changed, although in some cases this was later shortened. After the termination of such limits, local councils could freely decide how to use such assets, depending on their preference and local needs. Local governments took over such property not just as passive actors as in connection with the transfer of powers but also because of positive expectations. They viewed the transfer as strengthening their asset base. One minor complication was the fact that in many cases local governments obtained property with significant liabilities. Nevertheless, the functional use of property which was transferred was often changed within a few years.

The latest process of property transfers differed from that at the start of the 1990s. The first transfer was part of a wider post-socialist transformation. At the beginning of this decade, the scope of the transfer was narrower, closely linked to transferred powers, and needed for their execution. In both cases, property was in a poor state. The 'state' was 'pleased' to transfer property to local governments because it also transferred the need for investments in reconstruction and transferred operating costs to the local level. The two consolidation periods, characterised by a more active role for government, was different as well. In the first one, during the 1990s, local governments faced a large-scale scarcity of resources. They remained part of a relatively unreformed economy, with limited access to external resources. This influenced the approach of local governments towards their property, causing frequent sales and reduced investments. Local governments were in a much better situation during the period since 2005. Modernisation expenditures were possible, thanks to increasing income from property, and access to EU funds after 2004, and to increased tax income related to booming economic growth in Slovak economy until 2008.

The Value and Structure of Municipal Assets in Slovakia

Data regarding municipal assets show continual growth in value and only slight changes in structure. In recent years, the most important impact on the structure and size of assets has been the period of economic growth through 2008, replaced by the financial and economic crisis.

Aggregate data for all Slovak local governments clearly documents a continuous growth in asset value, but with visible periods of acceleration or deceleration of growth. Figure 14.1 shows slow asset value growth from 2000, showing the increase in growth since 2002. The total value of municipal property was SKK 394 billion (net of liabilities, €13.1 billion) in 2009, or €16.7 billion (when liabilities are excluded). The highest year-to-year growth rate in the last decade was in 2002,

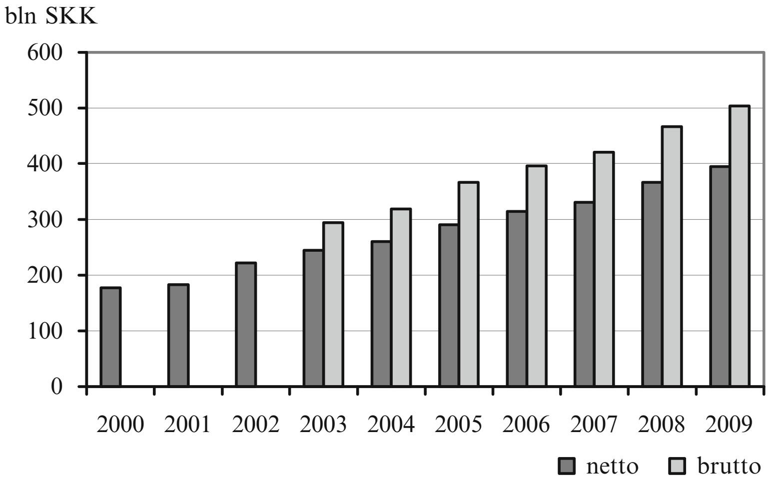

Fig. 14.1 The development of the total value of municipal property in Slovakia. Note: Brutto values not available for years 2000–2002 (Source: Ministry of Finance of the Slovak Republic (2002–2009)

Table 14.1 Basic structure of municipal asset value in 2003–2009 (in per cent)

	2003	2005	2007	2009[a]
Intangible assets	0.11	0.10	0.14	0.2
Tangible assets	81.15	75.66	76.38	77.71
Financial assets	9.20	14.80	15.03	13.75
Inventory	0.29	0.12	0.09	0.07
Receivables	5.51	4.70	3.70	3.28
Financial accounts	3.63	4.45	4.57	4.84
Other	0.13	0.18	0.10	0.15
Total assets	100.00	100.00	100.00	100.00
Liabilities	2.57	10.38	11.35	13.16
Net asset value	97.43	89.62	88.65	86.84

Source: Adopted from Ministry of Finance of the Slovak Republic (2002–2009)
[a]Without accounting relations among public administration entities, introduced in 2008

reflecting the start of the decentralisation of powers, accompanied by the transfer of related assets. A higher rate of asset growth can also be observed in 2005. This is the consequence of two effects. This was the first year of fiscal decentralisation and reflects different flows of resources and reflects the expansion of investment and funding in the year before local elections in 2006. The next upswing in the rate of asset growth 2008 and 2009 reflects the positive effect of the economic cycle and increased access to EU funds, before the effects of the financial crisis effects prevailed. Nevertheless, a precise valuation of assets value must take into account the liabilities of local governments resulting in a lower net value (see Table 14.1). From this point of view, development appears less positive. Total local government liabilities reach the equivalent of 11 % of total asset value in 2007, increasing to

13.6 % in 2009 (or 16.4 % if relations with other public-sector entities are included). By contrast, local government liabilities were less than 3 % of assets in 2003. The level of depreciation of tangible assets also increased, reaching 27.2 % in 2009, compared to 22.4 % in 2004.

The structure of assets has not changed substantially in recent years (see Table 14.1). Throughout the decade just past, noncurrent assets have composed about 90 % of total local government assets in Slovakia. Over the longer term, there has been a reduction of tangible assets in favour of financial assets. This trend stopped due to the financial and economic crisis in 2009, when the value of financial assets decreased. Local governments were forced to use financial assets to meet financial needs unmet by regular income sources, particularly due to a drop in tax revenues.

Tangible assets account for the dominant share of assets, about three quarters. Papcúnova and Balážová (2006), in a detailed analysis of assets, mentioned two groups of tangible assets that are crucial. These are buildings and land, each of which composes about 40 % of total tangible assets. Equipment, vehicles, and similar assets are less important, although assets under construction are often significant. Financial assets, equalling about €1.7 billion in 2009, are composed mostly of securities or consist of participation in companies but have been growing rapidly. The value of intangible assets is small (about €20 million in 2009 after depreciation). However, this class of assets, composed mostly of software and other licences, is growing. The greatest growth is in the field of receivables, consisting mainly of tax receivables, penalties, and transfers from state institutions. The management of receivables has improved over recent years as local governments have become more efficient in this field. Their share in income and assets is decreasing, but their total volume, about €400 million, remains high. Local governments also have a large amount of reserves in bank accounts, mostly in various specialised funds, but despite growing in absolute terms, the relative share of these resources decreased in 2009 compared to 2008.

Despite this more or less optimistic overview, any discussion of municipal assets in Slovakia must recognise that the situation of individual local governments is extremely variable (Buček et al. 2010). Some are quite ‘rich’ (or their assets are growing quickly), but many have a minimum asset base, with no financial investments, and no real property outside the ‘seat’ of local offices. This is strongly influenced by a very fragmented administrative system of settlements almost 2,900, which is dominated by rural settlements with very small populations. In such units, the total value of assets is usually low.

Municipal Asset Formation in Large-City Local Government: The Case of Bratislava

The Institutional and Regulatory Framework

As a large capital city, Bratislava provides a good opportunity to observe the development of the portfolio of municipal assets in Slovakia. It is the capital and the largest city with 430 thousand inhabitants and is by far Slovakia’s leading economic centre. It has a two-tier model of local government, found only in one other city in Slovakia, the second largest city, Košice. The Bratislava citywide and city district governments together generate approximately about 15 % of the total incomes/expenditures of local governments in Slovakia. The citywide government owns 11.7 % of local government assets in Slovakia. Alongside these assets, it owns about 30 % of total assets in so-called contributory organisations, which are organisations, often non-governmental, which receive some of their funding from municipal authorities. Assets owned by city districts are outside the scope of this review. However, city districts, particularly larger ones, have a large stock of assets, including those transferred earlier from the citywide level of government.

The local regulatory framework concerning municipal assets must conform to national legislation. Besides the legislation already discussed, the *Act on Bratislava* (Act. No. 377/1990 Coll.) and amendments, valid since 2009, provide a more detailed framework for the sensitive issues of powers and resources, as well as assets of both levels of Bratislava's government. The most important aspect of this Act contains precise rules regarding the distribution of income obtained from real estate sold by citywide as well as city district governments. Ninety percent of income from the sale of real estate by citywide government goes to the citywide government, and 10 % goes to the district government in which the property is located. In the case of real estate owned by city districts, the reverse holds true: 90 % goes to the city district and 10 % to the citywide government. There are also specific rules for real estate owned by the citywide level but administered by city districts. In the case of city districts with more than 40 thousand inhabitants, the income from selling such real property is distributed 50:50 between citywide government and district government. Smaller city districts have more favourable conditions. They obtain 60 % of income, while the citywide government gets only 40 %. Specific powers are directly linked to particular types of assets. City district governments are responsible for primary education – school and nurseries, the maintenance of local third- and fourth-class roads, and local public spaces. The legislation also defines what has to be specified by City Statute, including issues that must be declared in by-laws concerning principles of asset administration.

Asset administration rules are set out in detail by City Statute and other local regulations and by-laws dealing with property (part six of the City Statute). The relation between the citywide government and city district government is very precisely spelled out. For example, any proposed changes from the original function of assets transferred from the city government, or the use of such assets as collateral, must be approved by the citywide government. Further rules concerning municipal assets are stated in the City Council legislative document, *Principles of Assets Administration* (Slov. Zásady hospodárenia s majetkom hlavného mesta Slovenskej republiky Bratislavy 1993), and its amendments. It defines operational rules of asset administration and registration. The section focusing on transfers of property to city district governments and city organisations is particularly important. Rules are specified concerning obsolete or surplus property. It also includes rules regarding the commercial and other uses of municipal assets, including renting. All rental agreements exceeding 10 years must be approved by the City Council. The paragraphs dealing with liabilities are also extremely important. Although their main focus is on real-estate property, there are also rules concerning financial resources, cash, and securities. There are more detailed rules concerning the operation of the city executive rules of the city and its organisations. Additionally the document contains rules regarding the withdrawal of property from city district control and from the control of city-owned organisations. The document very precisely specifies which operations and uses must be approved by the City Council, as well as specifying the powers of the citywide lord mayor. Last, but not least, there is a section defining sanctions for breaking rules set by these local regulatory documents. The management of city assets is regularly supervised by the city's internal main auditor, as well as an external auditor. The *Supreme Audit Office of the Slovak Republic* performed audits focusing on organisations, assets, and liabilities of the Bratislava government during spring 2010, recommending minor adjustments and corrections. These rules should also foster increased transparency in all asset-related operations.

The ownership of such an extensive range of assets requires adequate administration. The City Council has the main decision-making rights over city assets. It must approve any important asset-related decision, including all the creation of any regulations concerning the management and use of each asset. The special Permanent Commission of the City Council has a special role, overseeing all city assets and their utilisation. The everyday administration of municipal assets split among several departments within the City Magistracy is part of the local government executive. Due to the large stock of real-estate property, there are two main specialised departments. The first deals with property administration including divisions focused on legal affairs, information and documentation, registration of property, and the collection of liabilities. The second department focuses on the administration of rented property, related contracts, and litigation. The department responsible for the technical administration and maintenance of buildings, including housing, also has a significant role. These three real-estate management-orientated departments of the City Magistracy employ over 60 officials (2010). Management of the road network is under a separate administration, due to its specialist tasks and needs. A special department focused on financial resources oversees financial assets and related activities such as strategies, analysis, transactions, and debt management, which fall outside standard budgetary issues.

Basic Structure and Main Categories of Assets

Bratislava's citywide government enjoys an extensive asset base. Land and buildings are by far the biggest part. As early as the end of 1993, the City Magistracy reported that the nonmarket value of real property was SKK 90 bln (SKK 74.5 bln in land, the rest in buildings and buildings under construction). The citywide level of government directly administered 60 % of this property by value (Buček 1995). This estimated property value reflected the accounting practices of the time. More realistic information is available for 1997 when reliable accounting rules had been established for property valuation. According to Kresánek et al. (1998), the value of land was app. SKK 17 bln and the value of buildings and buildings under construction was SKK 15.5 bln. They also stated that between 1991 and 1997, citywide government sold only 1 % of its land. At that time, the city owned 47.6 km^2 of land, 13 % of the city's total area, and 6,201 buildings. However, the process of identifying and registering all of the city's real estate was not finished, even as late as 1997.

In 2009–2010, the value of all the municipal assets of Bratislava's citywide government was €1.89 billion, about €20 million less than in 2008. The structure of assets is strongly biased towards noncurrent assets which compose slightly below 80 % of total assets (79.6 % in 2009). Almost 60 % of total assets are tangible assets, mainly land and buildings. The major part of this category serves public service provision. Nevertheless, the citywide government is an important player in property development, thanks to the large stock of real estate suitable for development purposes. Financial assets, comprising 20 % of assets, have stagnated since 2008. Non-tangible assets are marginal, although their share is increasing (0.25 % in 2009). Current assets are dominated by assets jointly owned with other governments and governmental agencies. They accounted for 11.1 % of total assets in 2009. The city successfully reduced receivables which constituted just 6.7 % of assets, or €127 million in 2009. The value of resources in financial accounts fell from €37.6 million in 2008 to €19.2 million in 2009. This is linked to fallout from the financial crisis. In contrast, liabilities did not change substantially in recent years. In 2009, they amounted to €344 million. Figure 14.2 provides an overview of assets owned by Bratislava citywide government and changes over time.

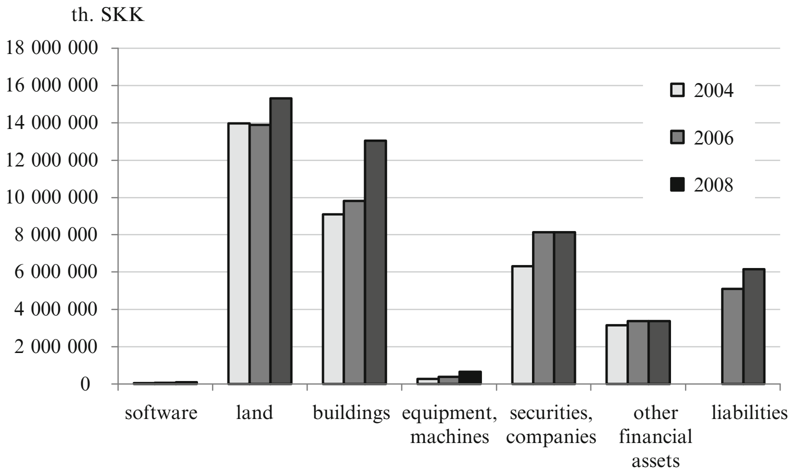

Fig. 14.2 Selected items of Bratislava citywide government assets. Note: date excludes liabilities; liabilities in 2004 not available (Source: Bratislava City Magistracy, Annual Reports (2004–2008) and Final Accounts 2006–2009 (Adopted))

Unsurprisingly, thanks to the large asset stock, the city has been very active in selling, buying, and exchanging property. Selling property is an important source of income for the city, reaching nearly SKK 1.7 billion in 2008 – almost €60 million. Sales of real estate have generally far exceeded purchases. However, one should note that it is difficult to estimate the market value of a large part of the city's real estate, and a significant amount of property consists of service infrastructure, public open space, park land, and similar uses. In recent years, the scope of other assets, for example, in businesses or financial investments, has stagnated. As well, the asset position of the city is reduced by a large volume of liabilities.

City assets are primarily used for city administration and service provision. During the transition processes, assets were an important source of income for the city. Today, 2012–2013, the city obtains an important part of its resources from dividends, rents from real estate, credit yields, borrowing, and bank accounts. However, the sale of assets, predominantly real estate, remains an important source. For example, yields from city assets – mostly sales of property, housing privatisation, and property rental – generated one third of the total income of the citywide government budget as early as 1992 and 1993 (Buček 1995). The erratic nature of this component of the city income is shown by a dramatic 14 % decrease in income from property sales in 2009 compared to the previous year, when this income from this source reached an all-time high. When all asset-based revenues are combined, this revenue source played a substantial role in the city's income, excluding financial operations. Between 2006 and 2008, it provided between 23.4 % and 29.6 % of the total. Through property sales and rental, the citywide government was an active participant in the construction and development boom going on at the time. As a result, the onset of the economic crisis in 2008 had serious consequences for the city revenues. Real-estate income fell from almost a 30 % share of the total city budget income, excluding financial operations in 2008, to just 11 % in 2009. This is by far the worst performance of this type of asset within the last 5 years (in 2005 it was 14 %). As Fig. 14.3 documents, the growth of real-estate revenue in previous years depended on the sale of property, and the drop in sales is the cause of the steep decrease in asset-related income in 2009. As a result, overall spending, from all city resources and reserve funds, declined. Revenues from rents remained more stable, and in recent years they have exceeded €10 million a year. This means that the city has become reliant on sources other than property sales which were vulnerable to the economic crisis.

The financial base of the city also consists of reserves which are mainly loans from commercial banks, as well as transfers from previous budget surpluses. They are an important part of assets. They give the local government flexibility in planning and executing its policies, as well as flexibility if facing unexpected situations or opportunities. Unlike smaller cities, which tend to borrow on a small scale, according to the needs of particular projects or investments, in Bratislava, city representatives prefer to assemble a larger stock of cash reserves in advance. This strategy has been observed since the mid-1990s. The city government has been fiscally conservative, and these reserves have been carefully managed. Although quite high, they remained untapped for a long period. The city government even uses existing

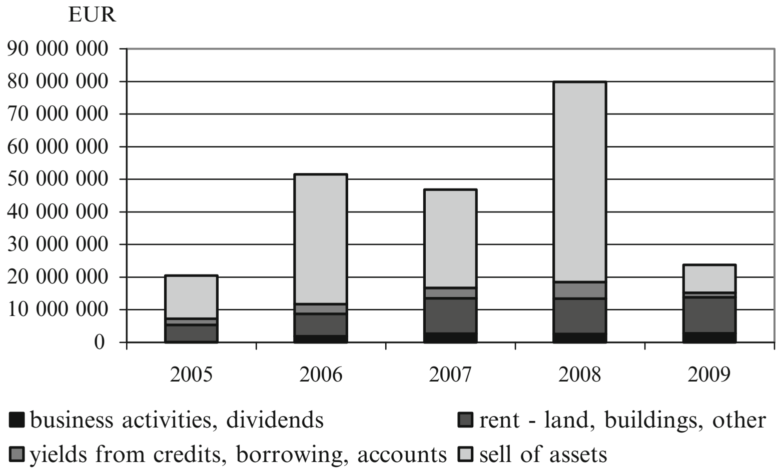

Fig. 14.3 Asset-related revenues in Bratislava citywide government in 2005–2009 (Source: Bratislava City Magistracy, Annual Reports (2004–2008) and Final Accounts 2006–2009 (Adopted))

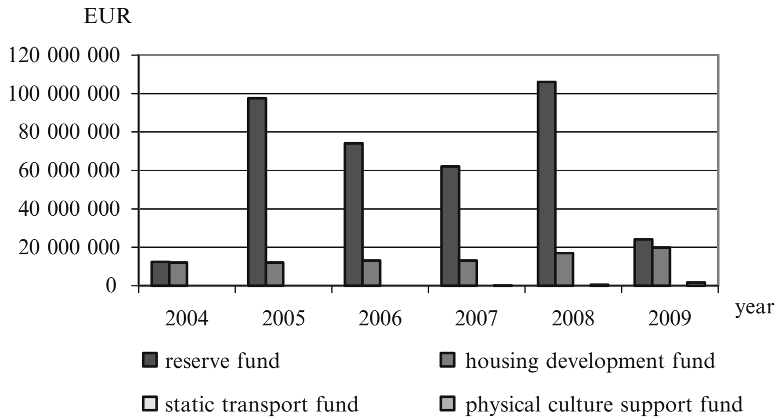

Fig. 14.4 Non-budgetary funds of citywide government (as of December 31) (Source: Bratislava City Magistracy, Annual Reports (2004–2008) and Final Accounts 2006–2009 (Adopted))

reserves to repay borrowing, if suitable projects and investments are not decided on. Frequently, the city has had plans to finance projects, but the preparation was too slow, or they failed to gain political support among the City Council and the general public, and never went ahead. As a result, the city has avoided the extreme debt burden which has appeared in recent years in some other larger Slovak cities (Košice, Banská Bystrica). Nevertheless, in 2009, the main *reserve fund* decreased from more than €100 million to less than €25 million (Fig. 14.4). Besides the impact of the crisis, another reason for such a cut in reserves relates to the end of the electoral term (local elections took place in autumn 2010). The then lord mayor was elected as an MP in the June 2010 parliamentary elections and was moving to the national level of policy-making, but there was still an expansion of investment typical of the end of an electoral cycle. The second main reason for the decline is because Bratislava was preparing for the biggest sport event in Slovakia for years – the 2011 World Ice Hockey Championship. It was involved in reconstruction and other construction activities at the main site of this event – the ice hockey arena, as well as additional investment in infrastructure and mass transport. An important part of the money spent on the construction of the ice hockey stadium was covered by transfers from the state budget, but construction costs far exceeded initial estimates (€96 million versus €40 to 45 million). Construction led to the depletion of the city's financial reserves, leaving it vulnerable to future macroeconomic shocks. These could force the city to borrow more and worsen its financial situation.

In passing, it is worth noting that during the transition period in the 1990s, the city lost cash reserves through bank losses. The City of Bratislava government lost about €12 million (SKK 360 million) in a small bank, Slovenská Kreditná Banka, a.s., that went into bankruptcy. Attracted predominantly by the high rates on deposits offered by the bank, the city transferred part of its reserves, mainly from municipal bonds, during the latter half of the 1990s. Unfortunately, Bratislava failed to respond quickly to indications that the bank was in trouble. Later attempts to obtain back part of money were unsuccessful, and only SKK 13.7 million was recovered. Later investigation proved that as well as acting in a financially imprudent manner, Bratislava had also been the subject of fraud (Hospodárske noviny, June 20, 2005).

Municipal Assets in Companies and Organisations

Local government involvement in businesses constitutes a significant part of municipal assets. Bratislava's citywide government has been involved in company ownership since 1990. The numerous changes in ownership reflect the approaches typical of different periods. The current number of companies was influenced by the existence of 'inherited' entities, their nature of their transformation, as well as the business-oriented activities of local government according to changing priorities. At present, the city has holdings in 15 companies, with a value which exceeded €193 million in 2007. Many of the companies with city involvement have large assets of their own. For example, the most valuable company BVS, a.s. (a regional water and sewage company), owns a total of €340 million assets. A city mass transport company (DPB, a.s.) has total assets of €10.5 million. The waste management and disposal company (OLO, a.s.) has assets of its own totalling €40 million. The city has frequently used real-estate property as part of its basic capital in establishing new companies. Budgetary and contributory organisations established by the city government are particularly dependent on the use of city property.

The city government pays particular attention in overseeing and monitoring those companies with which it is involved. A special department within the Office of the Mayor, the City Magistracy, is responsible for managing city interests in these companies. The City Council regularly obtains information on their operation in several ways. It must approve their main financial documents, especially their final accounts. Besides this, the City Council obtains reports dealing with the situation in these companies and adopts strategic decisions concerning their future (e.g. Bratislava City Magistracy 2006, 2008). A strategic document submitted to the City Council in March 2009 (Bratislava City Magistracy 2009) is among the most recent documents concerning the future of the city's involvement in such companies. It summarised the situation of individual companies and proposed basic decisions concerning their future from the point of view of the city government in terms of 'hold', 'expand', or 'sell', shown in Table 14.3. The City Council also regularly makes important management decisions concerning individual companies, such as 'sell' or 'increase the capital', as well as personnel and other issues, and regularly reviews land and buildings allocated to its organisations, particularly with regard to extensions, renovations, and modernisation.

During the communist-era centrally planned regime, the role of local public administration in managing companies was extensive. It went far beyond providing more or less typical public services and local administration. Before 1990, the centrally planned economy had no private ownership. This meant that the predecessors of local government controlled a range of enterprises in a vast number of economic sectors in which local government is usually not active. They included industrial enterprises, construction companies, restaurants, and other activities. It led to the early post-socialist city government era 'inheriting' ten large and internally diversified companies from the previous era (Kresánek et al. 1998). These companies could only be marginally successful under new market conditions and urgently needed restructuring as a first step. From July 1, 1990, this resulted in their breakup, along sectoral or branch lines, into 31 new companies. That allowed a selective approach to deciding their future during 1991–1992. Bratislava was unique in Slovakia, since no other city had such a large stock of companies under its control.

Local government in Bratislava adopted four main forms in transforming its municipal companies (Buček 2002). Some firms remained under full or partial control of the citywide government. Most started to operate under the new Business Code, with a changed legal status, as joint stock companies (Slov. a.s.) or limited liability companies (Slov. s.r.o.). The initial fragmentation of large, internally diverse companies made it possible for the city to select those firms needed for the city's operation. A second, quite large group of companies were privatised. This group consisted mainly of smaller companies active in retailing, restaurants, accommodation facilities, and personal services (like hairdressers and taxi firms). Local government was not interested in those fields which are more typically private businesses. They were sold under the so-called small privatisation which took place in the early 1990s. Under market conditions, a relatively small number of enterprises underwent formal liquidation. They were not competitive and quickly became deeply indebted. However, this did not negatively influence the provision of local public services. The products and services offered were usually of a purely non-public character (e.g. the 'ZARES' garden centre). Local industrial enterprises, such as those manufacturing furniture or clothing, were also liquidated. In some cases, new private businesses started to operate on their premises. A final group of companies were transferred to state ownership, in expectation of their future transformation and privatisation. This included, for example, smaller companies in the construction industry. Previously, construction companies directly served the development needs of city governments. After the change of regime, local government development projects were low in number for several years, so there was no need to own construction companies. Instead, local governments relied on tendering and contracting out.

After this post-communist 'cleaning' of the old portfolio of city companies, city government shaped its companies according to its own needs (see Table 14.2). These include companies providing essential public services – *DPB, a.s.* (mass transport), *OLO, a.s* (waste collection and disposal) – which have been fully owned by the city government since the early 1990s. The city government holds the controlling share of stock – 59.29 % – of the water and sewage company, *BVS, a.s.*,

Table 14.2 Main companies with city government involvement 1990–2010

		Share on basic capital (in %)	
Company name	Function	In 1998	In 2008
Dopravný podnik Bratislava a.s.	Public transport	100	100
Odvoz a likvidácia odpadu a.s.	Waste collection, disposal, incineration	100	100
Bratislavská vodárenská spoločnosť a.s.	Regional water and sewage company	0	59.28
Mestský parkovací systém s.r.o.	Parking system and services	100	100
Bratislavská integrovaná doprava s.r.o.	Integrated transport company	0	35
KSP s.r.o.	Rent of office/business area	100	100
Metro Bratislava a.s.	City developer company	100	66
Slovenská plavba a prístavy a.s.	River port and transport	0	7
Národné tenisové centrum a.s.	Tennis arena	0	20.52
Incheba a.s.	Exhibition centre	1.58	11.24
Tehelné pole a.s.	Revitalisation of area	0	40
České aerolínie a.s.	Air transport (Czech Airlines)	0.98	0.98
Zámocká spoločnosť a.s.	Revitalisation of under the castle area	10	10
Hasičská poisťovňa a.s.	Insurance company	17.3	17.43
Obchodno spoločenské centrum a.s.	Culture and leisure centre	100	0
Slovakia bus a.s.	Bus maintenance and production	25	0
Inprokon s.r.o.	Clothes cleaning	70	0
Matador – Obnova a.s.	Tyres renewal, car service	49	0
Istrobanka a.s.	Commercial bank	18	0
Intertour a.s.	Tourism	1.52	0

Sources: Kresánek et al. (1998), Bratislava City Magistracy (2006, 2009) owned in common with other 125 local governments in the region where the company operates. This company resulted from the nationwide transformation of the water and sewage sector and has operated in its current form only since 2003. The city also established another company with full ownership, focusing on providing parking places and managing the parking navigation system, *MPS, s.r.o*. The long-term aim of this company is to develop and manage a more sophisticated city parking system integrated with the mass transport network. The last company under the full control of the city government is *KSP, a.s.* Its main activity is renting real-estate property that was originally used by an old socialist industrial enterprise. These corporate assets have generated a small but stable income stream for the city budget. The position of *Incheba, a.s*., in which the city owns a minor stake, is similar. This company is a leader in the exhibition and fair market in Slovakia and has its own exhibition area and facilities in Bratislava. It plays a prestigious role for the city and gives the city an opportunity to enhance its competitive position. The city government also wants to retain shares in this company thanks to the income it generates for the city budget.

The city government also uses separate 'project' companies to manage rare physical urban development activities within its sphere of responsibility. This is the case of *Zámocká spoločnosť a.s.,* a new development under Bratislava castle in the area of Zámocká street, and *Tehelné Pole a.s.*, an area close to the ice hockey arena and Tehelné Pole football stadium. The operation of Zámocká spoločnosť has been particularly controversial, ending in long-term litigation (the city holds only 10 % of shares). *METRO a.s.* was created especially for the construction of the Apollo bridge over the Danube with a state contribution, and the state is a partner in this company. After the completion of this large public investment, the city government intends to use this company for the execution of other construction and development projects. Some of these companies illustrate the slow progress in completing their main objectives within a complicated multi-partnership environment. From this point of view, the Bratislava integrated transport company, *BID, a.s*, offers a good example**.** Creating a well-integrated urban-suburban transport system requires long-term negotiation with many partners.

Besides the large group of companies liquidated at the beginning of the transformation period, over the years, some companies with municipal capital participation went bankrupt, were sold, or were never even active. In most cases, the city government was unsatisfied with their operations or felt it lacked a voice in management. Decisions to end participation in such companies were also influenced by the fact that in most cases they generated no income for the city. In several cases, the city government had to make a considerable effort to regain at least part of its assets. *Slovakia Bus, a.s.,* is a typical case of a later example of a company which was shut down. It was established with the idea of providing services and producing buses for a city-owned mass transport company. This never happened, and the company was wound up after many years of being essentially dormant. *Hasičská Poisťovňa* (an insurance company) was similar, but in this case the city secured back part of its assets. City government more successfully liquidated *Matador-Obnova, a.s.*, a tyre renewal firm, regaining real estate previously transferred to the company. It also obtained financial compensation from its sale. The city government sold its shares in *Intertour***,** a.s., a travel agency which also owned hotels, regaining some of its capital. The city government decided to sell its shares at a minimum of 30 % of their original value. The city also sold its share of *Inprokom, s.r.o.*, a civil engineering firm, to the joint private partner, being dissatisfied with its operations and management.

The city government holds a very marginal share in *České Aerolinie, a.s.* (Czech Airlines, CSA, the former Czechoslovak Airlines), which was obtained during the initial post-socialist transformation of the firm in the early 1990s. This gives it no real influence over the company and brings in income to the city. The decision of the City Council was to sell the shares. Initially, it aimed to sell them to the main shareholder, the Czech Ministry of Finance. A 2009 attempt to privatise CSA by selling all government-owned shares, including Bratislava's, was cancelled. In 2010, the city again decided to sell its shares in CSA but, due to lack of demand, was unable to do so.

Some companies have not been used for the planned purpose, usually because the city and its partners changed their intentions. The company created to operate the water and sewage system is typical. It existed in legal terms from 2002 to 2005. The city government and other shareholders decided not to create separate owner and operating companies for water and sewage, and BVS, a.s., is now an integrated company, owning and operating the water and sewage systems. The fate of *Obchodno-spoločenské centrum, a.s.,* was similar. It was created to remodel an old, communist-era, cultural, leisure, and exhibition centre known as PKO (Slovak: Park kultúry a oddychu – park of culture and rest). However, this model for renewing a partly obsolete area was not successful. The city government already had a new exhibition centre, and subsequently, most of the area was sold to a private developer.

Over time, the city government developed more strategies in this field. In the 1990s, some public-sector companies involved with the city attempted to create a circular relationship. They aimed to serve each other as providers of goods or services. The attempt to build such an interlinked local public economy was unrealistic, and it became clear that this approach was inefficient. The core companies recognised that they could obtain better services and goods at better prices on the open competitive market. For example, a group of firms aimed to serve the local mass transport company DPB, a.s. They included Slovakia Bus (buses production and their maintenance); Matador-Obnova, a.s. (tyres and other services); Hasičská Poisťovňa, a.s. (insurance services to the city government); and Istrobanka, a.s (a commercial bank which could have provided financial services or even loans). This circumscribed vision seemed attractive only during the first years of transition. Most of these companies went into bankruptcy or were sold. Subsequently, the city government took a more pragmatic approach towards its companies. Strategic firms active in crucial public services such as mass transport, parking, or waste management have central positions. The city is interested in companies which are needed to provide basic services or which generate income for the city budget (see Table 14.3). The city government has reduced the number of its companies identified as having

Table 14.3 The economic condition of the main companies with city government participation (in thousands of SKK)

	Receipts			Total economic result of the company			City Council decision
	2007	2006	2005	2007	2006	2005	(March 2009)
Dopravný podnik Bratislava a.s.	1,036,316	1,029,567	1,023,715	−75,595	−197,409	−181,763	Hold/not for sale
Odvoz a likvidácia odpadu a.s.	741,089	536,462	554,727	86,120	87,062	56,812	Hold/not for sale
Bratislavská vodárenská spoločnosť a.s.	2,260,721	2,242,324	1,990,435	156,551	227,298	315,063	Hold/not for sale
Mestský parkovací system s.r.o.	7,723	6,507	6,353	970	69	1,183	Hold/not for sale
Bratislavská integrovaná doprava s.r.o.	0	0	0	−3	−1,364	−445	Hold/not for sale
Metro Bratislava a.s.	15,182	77,926	499,564	−8,423	73,632	22,450	Increase basic capital
Slovenská plavba a prístavy a.s.	1,016,492	824,348	854,731	118,997	74,644	53,041	Hold/not for sale
Incheba a.s.	538,355	506,365	509,563	49,153	46,140	39,565	Hold/not for sale
KSP s.r.o.	31,312	34,063	29,931	4,419	6,250	4,042	Hold/not for sale
Národné tenisové centrum a.s.	71,889	67,465	89,998	249	3,600	10,225	Hold/not for sale
Tehelné pole a.s.	0	0	0	−96	−39	0	Sell
České aerolinie a.s. (in th. CZK)	25,035,319	24,377,078	22,455,928	206,600	−396,951	−496,057	Sell

Source: Bratislava City Magistracy (2008, 2009) (Adopted) a marginal role. This includes firms which generated no income, did not have an important role in service delivery, did not fulfil their original purpose, or where the assets that the city had allocated or contributed were not efficiently used.

In addition, a large number of budgetary and publicly owned organisations depend on the donation or use of municipal property. Most have a long history in the city. For example, the city museum started in 1868 and city public library system in 1900. These organisations provide specialist services. Some of them are so-called 'budgetary' organisations and depend completely on the city budget. Others, so-called contributory organisations, receive contributions from the city. 'Contributory' organisations, listed in Table 14.4, have considerably higher autonomy than 'budgetary' ones. In 2009, the total value of assets used by 'contributory' organisations was €184.8 million. The greater part of these was noncurrent assets (tangible) with a value exceeding €181 million. Liabilities of these organisations are less than 1 % of total assets. Among 'contributory' organisations, about 3,000 ha of mainly forest area is administered by *City Forests* (Slov. Mestské Lesy). *City ZOO* has 96 ha of land and numerous buildings. Palaces and historical buildings have a high value, and museums and galleries are administered by the city government. A substantial amount of property is allocated to organisations which manage sport and recreation facilities in the city, including sport halls, swimming pools, sport centres, and recreation areas. Budgetary organisations which use city property include 11 social services centres (mostly serving the elderly), 12 local art schools, and 4 leisure time centres.

Table 14.4 City contributory organisations

Name of contributory organisation	Main function
Mestská knižnica	City library
Generálny investor Bratislavy	City developer – manage city's construction activities
Mestské lesy	Forests administration
Marianum – pohrebníctvo mesta Bratislavy	Funeral services and cemeteries administration
Galéria mesta Bratislavy	Art galleries
Múzeum mesta Bratislavy	City museum
Bratislavské kultúrne a informačné stredisko	Culture and information services
Paming – Mestský investor pamiatkovej obnovy	Heritage maintenance (buildings, fountains, memorials)
Mestský ústav ochrany pamiatok	Heritage protection, research, administration
Zoologická záhrada	Zoo garden
Správa telovýchovných a rekreačných služieb	Administration of sport and recreation facilities

Source: Bratislava City Magistracy (2004–2008). Annual Reports

Conclusion

Slovak local government significantly increased and improved its asset base during the transition period. As the previous pages show, the asset situation of local government strongly reflects general societal processes, the character and scope of reforms of the state, and the general economic situation. Local government used many opportunities to obtain property previously owned by the state. However, independent local government initiatives to expand and modernise their assets required favourable economic conditions. Higher tax incomes, opportunities to sell surplus assets at good prices, and favourable access to loans and credit markets depend on the wider economic situation. Not surprisingly, the asset situation improved during a period of strong economic growth between 2004 and 2008. The availability of EU funds to local governments also had a positive effect. As a result, in Slovakia, local government property is now greater in value and extent, serves more functions, and provides more opportunities for entrepreneurially orientated activities. Since 2008, pressures from the financial and economic crisis have diminished some classes of assets, especially financial reserves, needed to cope with fiscal austerity.

The initial transition period was characterised by expansion of assets and by asset differentiation among local governments. Introductory transfers often concerned restitution of historic property. The value of real estate was determined by location. The social and economic situation was, and is also, spatially differentiated. This has generated differences among local governments and the types and value of their assets. Transfers of all sorts are now coming to an end. The processes of decentralisation and de-étatisation are complete. Future asset formation will be based on more traditional, standard methods. Local governments need to mobilise their powers and initiative to maintain the expansion and modernisation of their asset base. They should concentrate on formulating asset-orientated development strategies, taking advantage of increased freedom in setting local taxes and fees, better access to external resources and EU funds, and the income generated by the assets they already own.

The transfer of property to the local level has had many positive effects. Accountability to citizens has forced local councils and mayors to preserve, enhance, and maintain local government assets, although there are rate cases where the opposite has happened. Local governments do not consist of anonymous state officials in a remote office, but a clearly identifiable group of local representatives and officials. In the case of Bratislava, the general improvement in management practice is well documented, and the many strategic documents, procedural rules, and executive manuals created by the city can be seen. Nevertheless, disputes emerge, especially in the selling and exchange of real-estate property or the use of financial reserves.

In the case of Bratislava, local government is moving closer to asset-related activities typical of other large cities but, until recently, less evident in Slovakia. Its activities are increasingly focused on large public properties and facilities designed to serve the public. After the construction of the new National Theatre, the city complemented its cultural facilities by taking over one building of the former National Theatre, now the *City Theatre*. Now a theatre without a fixed drama ensemble, it hosts invited performances by other theatre ensembles. A similar change has taken place in sports facilities. Previously, Bratislava administered mainly smaller facilities for its citizens, but in recent years it has moved towards large sports facilities, enabling it to host prestigious professional events. The first sign was the entry of the city government into the *National Tennis Arena* project as a place for major international tennis tournaments in Slovakia, including Davis Cup and Federation Cup matches. A substantial move in this direction was confirmed by the role of the city government in managing the substantial reconstruction of the ice hockey stadium for the world championship in Bratislava in 2011. The history of its construction illustrates the pitfalls facing municipal governments when they move into unfamiliar areas. The city government participated by providing land, managing the development, and contributing to a significant part of the related investment. Ideally, in projects of this kind, the state budget should account for a major source of finance. The arena was completed on time, before the championship. The original costs were estimated at €40–45 million, which later increased to €70 million, but when the project was completed, the total came to €96 million. Of this sum, approximately €40 million was provided by the national government, and the rest, €56 million, came from the Bratislava municipal budget. The result was a significant increase of local government debt. After the championships, the ice hockey stadium became the home ground of a local hockey club, Slovan Bratislava, which is now part of the International Continental Ice Hockey League. This league is slowly expanding its member clubs. As a rule, matches are sold out, bringing over 10,000 visitors per match. Slovan Bratislava pays about €750,000 annually in rent. However, the city remains the main owner.

A similar role was to be played by the city government in building a new national football stadium, but with a larger share of investment coming from private investors and the Bratislavský Region government. Unfortunately, this construction never started. This was partly due to the election of a new national government, which was less supportive of the project, and changes in the leadership of the Slovak Football Association. After the initial proposal, questions were also raised about the proposed location – an inner city site – some arguing that a location on the city's edge, closer to the motorway network, would be more appropriate. In the meantime, it has become clear that the Bratislava municipal government can neither extensively nor exclusively fund this project, particularly in light of the overspending on the hockey arena. The current expectation (2013) is that finance will come from the private sector – the owners of Slovan Bratislava Football Club – and the national government, but the city will probably supply the land in exchange for a long-term lease. In early 2013, the national government announced a grant scheme to support Slovak football which would run through 2020, providing funding for new stadiums and other investments for clubs playing in the first and second divisions. Projects in some cities are already prepared and will start construction in 2014. Financial support for the National Football Stadium might come from this source, although it falls outside the programme's remit. Lack of a national stadium which meets UEFA standards means that some matches may need to be played in Vienna or Budapest.

A feature of municipal asset use is the increasing use of partnerships among municipal and national governments and private and non-governmental organisations. It seems that there is no way to meet the city's development needs without such an approach. Nevertheless, for years, this approach was not part of city policy, as shown by the low number of joint companies with private partners. Such joint companies were more a result of the general privatisation process than the city government's desire to rely on public-private partnerships. Despite the success of several individual projects which relied on a joint partner framework, such as the new Bratislava airport terminal financed by the state, further partnerships are needed. One example is the reconstruction and renewal of the area around the main railway station. This is highlighted in the analytical sections of the *Bratislava Economic and Social Development Programme* (Bratislava City Magistracy 2010b). It requires a more sophisticated model of joint partnerships, including control of property, joint operation, and joint management. Neither the private nor the public sectors can prepare and complete such expensive development projects on their own.

Since 2009, the importance of municipal assets and their diversification has been confirmed by the financial and economic crisis. Bratislava's government shows the crucial role of reserve assets, especially financial assets. The short-term impact of the crisis has been strong. For example, during the first half of 2010, the city stopped new construction. Declining tax revenue put pressure on other sources of income. The citywide government was unable to raise money from property sales, due to decreased demand on the real-estate market. It was able to operate and maintain its investments only due to accumulated resources in the reserve fund. Since 2009–2010, the financial situation of the Bratislava municipal government has improved, thanks mostly to increased income provided by shared taxes. However, the city has not been able to meet its projected income, due mainly to stagnating property prices and a weak property market. This has led to a drop in interest in buying local government property. Within Bratislava, construction activities are only slowly recovering. Income from the sale and lease of assets improved in 2010 as against 2009 but worsened in 2011, falling to 40% of the 2010 level. As a result, the city continues to have problems in funding its capital budget, and development activities remain curtailed. Total local debt remains above €200 million. Current large investment projects are related to transport, such as a tram linked to the right side of Danube and new public transport vehicles. However, these are financed by European Union funds, with small contributions from local budgets. Therefore, the future of local government finance remains uncertain. A longer-term crisis may cause an increase in borrowing and a reduction of investments.

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