The potential of state commercial property: mapping and managing non-financial public assets

Dag Detter*

Detter & Co,
SE-11452 Stockholm, Sweden
Email: dag@detterco.com
*Corresponding author

Stefan Folster

The Reform Institute,
Kungsgatan 60, 11122 Stockholm, Sweden
Email: Stefan.folster@reforminstitutet.se

Abstract: Most countries' public assets exceed their public debt. While managing public debt has become a matter of great concern during the financial crisis, public assets remain opaque and largely ignored. This article provides some explorative calculations on the size of public wealth at the national level and for some example cities. We describe how some countries and cities are experimenting with institutional setups, such as national and urban wealth funds, aiming to achieve sounder management, better economic outcomes and more transparency for voters.

Keywords: public ownership; public assets; public debt; national wealth fund; urban wealth fund.

Reference to this paper should be made as follows: Detter, D. and Folster, S. (2019) 'The potential of state commercial property: mapping and managing non-financial public assets', *Int. J. Public Policy*, Vol. 15, Nos. 1/2, pp.111–124.

Biographical notes: Dag Detter is specialised on public commercial assets and works as an advisor to local and national governments, investors and international financial institutions such as the IMF, World Bank to help unlock public wealth. He has also been an investment banker and advisor in Asia and Europe and served as Non-Executive Director on a range of boards of private and public companies. As the former President of Stattum, the Swedish government holding company and Director at the Ministry of Industry responsible for government-owned enterprises, he led the comprehensive restructuring of the national government portfolio.

Stefan Folster is the Managing Director of the Reform Institute – a think-tank based in Stockholm with a focus on innovative reforms, and until recently also affiliate Professor in Economics at the Royal Institute of Technology in Stockholm. For many years he was the Chief Economist for the Confederation of Swedish Enterprise.

1 Introduction

Many nations and cities around the world struggle with unmet investment needs. Promising plans for city development and infrastructure are put aside. Too often even the most necessary repairs lack funding. Public debts and political demands for services leave public resources for investments deeply constrained. Yet local and national governments also own vast assets that are rarely developed and utilised well.

In fact, governments know much about their debt, but much less about their assets. Some have taken steps toward appraising their own wealth, but procrastinated at crucial waypoints. Even the UK, which along with Sweden, Australia and New Zealand, is among the most transparent countries in the world in terms of its public sector real estate, has a track record of undervaluing its assets. This has been commented on by the UK National Audit Office (NAO) for quite some time (for example, NAO, 2014). More importantly, many real estate assets are not on the government books or even in the Land Registry since they have been acquired historically. Furthermore, there is no consolidated list of assets, due to the fragmented ownership and lack of focus on stock variables.

In fact, there is not a country in the world that can produce a reasonable public sector balance sheet, including a market value of its portfolio of commercial assets.[1] Even the efforts of pioneering countries would not compare well with what is required in the private sector and what would be required to professionally manage such a portfolio – to maximise value for the shareholder, as well as to optimise the operational use of the properties.

This article shows how some countries and cities have attempted to make governance of public assets more transparent and more independent of day to day politics. In Section 2, public assets and defined and mapped. Section 3 discusses some of the issues that arise with most current forms of governance of public assets. Section 4 describes how some countries have introduced national wealth funds (NWFs). Finally, Sections 5 and 6 provide a similar overview for cities and show how Urban Wealth Funds can help urban development. Section 7 concludes.

2 Defining and valuing public commercial assets

Not all public assets need to be valued properly, such as parks that are not expected to have a commercial aspect even in the future. Our focus in this article is on public commercial assets that can potentially yield some revenue. These consist mainly of publicly owned firms and real-estate and in most countries, to a lesser extent, of natural resources, intellectual property rights and some commercial infrastructure such as toll roads.

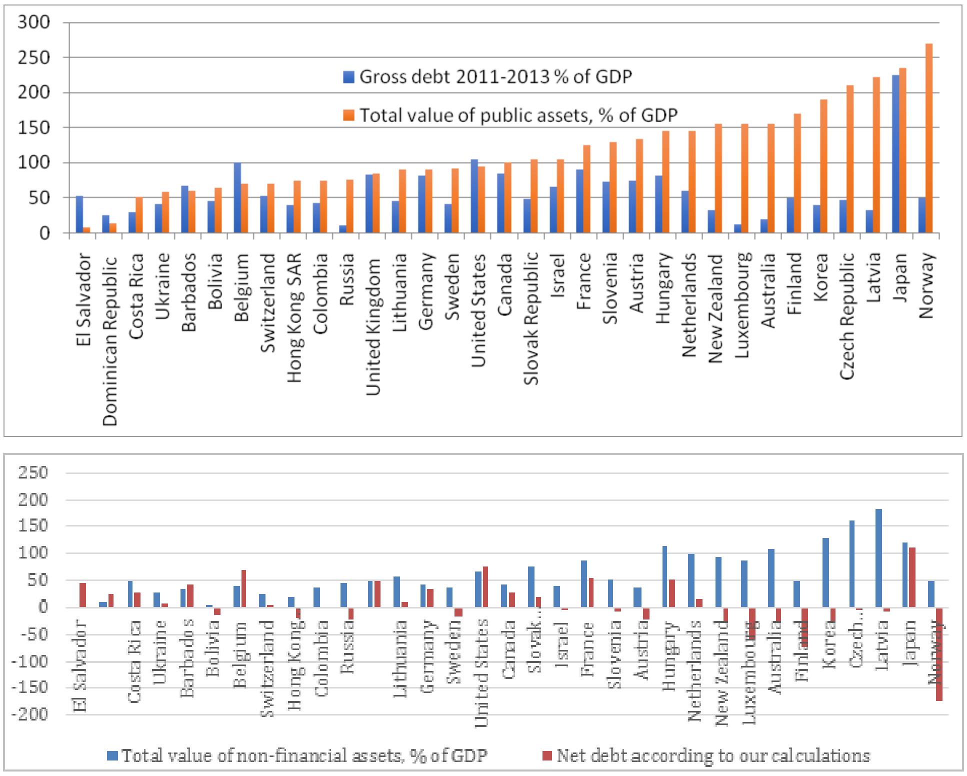
While there are no international comparisons of the size of public commercial assets, some light can be shed on the issue by piecing together work by the IMF and other organisations and using our own assessments for additional countries where no official figures are available.[2] If anything our method tends to underestimate asset value, for example by only partially including local government assets.

The International Monetary Fund (2013, 2018) has attempted to aggregate individual country data on public assets for 27 countries.[3] Cross-country comparisons are still precarious and all estimates tend to err on the low side. Countries report mostly financial assets [in the IMF definition, this also includes stocks in listed state-owned enterprises

(SOEs)] and nonfinancial assets that consist partly of so-called 'produced assets' with some commercial value. These include fixed assets (buildings, machinery and equipment), inventories, intellectual property and valuables like artwork, precious metals and jewellery.

Fewer countries register data on 'non-produced' assets such as natural resources – oil, gas or minerals, contracts and leases. Non-produced assets could potentially be an important source of wealth and revenue for governments, as they are, for example, in Australia (nearly 69% of GDP), Costa Rica (48% of GDP) and Japan (26% of GDP). Most importantly, the extent to which local and regional public assets are included differs between countries and is generally incomplete.

Figure 1 General government assets, non-financial assets and liabilities, as a percentage of GDP (see online version for colours)



Source: Authors' compilation based on International Monetary Fund (2013). See Detter and Fölster (2015, p.51)

Even with these caveats, the results of this exercise are revealing. Despite the likely underestimation of nonfinancial assets, they usually exceed financial assets. Even more remarkable is that the sum of financial and nonfinancial assets in nearly all countries exceeds gross public debt, including the well-known high debt countries like France, Germany, Japan and the UK. For the USA, assets and debts are roughly on par.

Figure 1 show the results for the countries the IMF valued, with some additional countries, such as Sweden, Ukraine, Latvia, Lithuania, Slovenia and Israel, that the authors have assessed. (Local and regional public assets and nonfinancial assets are only partially included.)

On average, across the 27 countries assessed by the IMF, public assets amount to 114% of GDP in 2013. Even when calculating an average weighted by the size of GDP, government assets are still larger than GDP. The additional countries we valued confirm this estimate. A naive extrapolation from these countries to the world as a whole implies that global public assets exceed both total public debt (US$54 trillion in 2015) and total global GDP (US$75 trillion in 2015). We also extrapolated in more sophisticated ways that take account of country differences with similar results.[5]

The values included in official databases for the central government are generally underestimated due to problems with accounting standards and insufficient information on the assets, as discussed above. Local government assets and natural resources are not included or are only partially included. On average, subnational governments hold more than one-half of total nonfinancial assets. For the countries that have included local government values, the share tends to be even higher. This indicates that if all countries had comprehensively included the local levels, the total public assets recorded would be substantially higher.

In sum, we argue that it is safe to assume that the aggregate value of assets held at the central government level worldwide is at least equal to global GDP – US$75 trillion. In fact, it is almost certain that this estimate is well on the low end.

3 The high cost of public management

Whilst there are excellently run state-owned firms, such as Norwegian Statoil, evidence is rife that on average public commercial assets could perform much better. For example, in recent years, studies by Bloom and Van Reenen (2010), using detailed information on management methods, show that state-owned firms lag considerably.

This efficiency gap is confirmed in a wide variety of case studies ranging from Fukuyama's (2014) penetrating exposé of management of state owned forests in the USA to the Lithuanian government's discovery that its own forestry service was 30 times less efficient than even foreign state-owned competitors (Government of Lithuania, 2009). Waste and corruption is evident across the globe from Brazilian state-owned companies such as Petrobras and state-owned Indian banks, to Chinese state-owned firms earning less than half their cost of capital (Lardy, 2014).

In addition, there may be a democratic cost. Politicians can be more interested and able to represent consumers and voters if they are not in a conflict of interest by being directly responsible for the state-owned firms that deliver the services. Privatisation is sometimes a good alternative, but may not be politically feasible and contains its own challenges, such as risks of crony capitalism, outright corruption, or dysfunctional regulation, for example in the case of a privatised natural monopoly. On the other hand, if the state remains an owner, a government has to regulate itself and there are not many good examples of self-regulated businesses.

From a purely economic point of view, every percentage point improvement of return on this vast global portfolio would generate 750 billion dollars (in 2015). The USA alone would be able to lower its total tax receipts of the General Government by almost 4% for every percent in increased yield from its commercial assets. According to our comparisons professional management of worldwide public commercial assets should easily raise annual yield by some three trillion dollars, which is more than the current annual global spending on infrastructure.

Making returns from public asset management transparent does not preclude social aims. For example, in a deregulated postal market the government can still fund mail service to unprofitable remote areas in order to achieve 'universal service'. The cost of such additional social aims should however be made transparent and probably outsourced in competition.

The holy grail of public asset management could be an institutional arrangement that removes governance from governments´ direct responsibilities, but at the same time encourages an active, value-creating ownership function and sound financial returns.

Such active governance of public assets without undue government interference is the aim of a NWF.

4 National wealth funds

Some 15 countries globally have set up a NWF and thus made governance of their real assets more independent. The arguments behind such a move are not dissimilar to those that once gave independence to central banks and government pension funds.

A growing number of countries place their fiscal surplus in Sovereign Wealth Funds. These are usually staffed with financial experts and invest in short or medium term liquid securities. They rarely exert direct control over the business they invest in, but prefer to invest in more liquid securities.

By contrast a NWF more resembles a private equity fund, where long-term value maximisation is achieved with active ownership in the hands of professionals with operational experience.

A professionally managed NWF with the aim of maximising the value of all assets, with both the economic and financial perspective in its decision-making, requires a ring-fenced corporate vehicle owning all commercial assets at an arms-length distance from short-term political influence. The state maintains controls over what holdings should be sold when sufficiently developed. It would also appoint the auditors, as well as the non-executive directors responsible for the portfolio. Consolidating all commercial assets under a single entity allows the production of an integrated business plan for the assets as a whole and the introduction of transparency of the highest international standard.

For example, Austria's NWF was the Österreichische Industrieholding AG [(ÖIAG) which changed name to ÖBIB[6] in 2015] with a portfolio as large as 25% of the country's stock exchange. It was originally founded in 1946 to nationalise much of Austrian industry to pre-empt takeover by the then Soviet occupation forces. In the 1970s after mounting losses – often due to political interference – it was converted into an independent holding company, with politicians explicitly banished from the board. Today ÖBIB earns healthy returns and has been able to repay the large loans that were accumulated before it became an independent holding company. The ÖBIB has also privatised some of its assets without any of the political conflict that often surrounds privatisations.

The world's leading NWF is probably Temasek in Singapore, which was established as a holding company in 1974 (see also Purves, this volume; and Lansley et al., this volume). Temasek has earned a reputation as an international investment house with a track record that would be impressive even compared to private sector competitors, reporting an average annual return of 17% over the 35 years since inception (see also Cummine, 2016; Clark et al., 2013).

This solid performance has been achieved in spite of remaining questions over its political independence. Ho Ching, the chief executive, is married to the Prime Minister of Singapore. Today one third of its senior managers are international professionals along with several of its non-executive board members. An attempt was even made to replace Ho Ching with the American industrialist Chip Goodyear. Yet this fell through after only six months for reasons that were not made public.

In recent years further countries have created NWFs such as Finland's Solidium in 2008, following the established commercial model understood and recognised by the capital markets and investors worldwide. It is probably too early to evaluate their success.

5 The hidden value of public wealth in cities[7]

Since cities generally do not assess the market value of their commercial assets, a rough calculation illustrates the magnitudes involved, in the USA alone.

Consider a city like Cleveland that does not appear to be particularly wealthy. It reports assets of USD 6 billion in 2014, an amount which albeit larger than its liabilities is still only a fraction of its true value (City of Cleveland, 2014). Cleveland reports its assets at book value, valued at historic costs. This means that if Cleveland bought a plot of land in 1980 for a certain sum, it would still be valued at that sum today. Furthermore, due to a legal quirk, many assets acquired before 1980 are not accounted for at all. Therefore, if reported using the international accounting standards of IFRS, the International Financial Reporting Standards, which require the use of market value for assets, the value of the assets would be a multiple of what the city is currently reporting in its accounts. The market value is based on an assessment of what a commercial asset would be worth if it were sold to another owner.

Cleveland's commercial assets consist largely of municipal firms and of real estate and land. Suppose, conservatively, that the price to book ratio is about five. Then Cleveland's assets would be worth US$30 billion, almost equivalent to 1.3 times GDP for the city and not including the many assets that are unaccounted for. We want to emphasise that we are not claiming that the price to book ratio is five. It might be three or seven. But the point is that the Cleveland administration and political leadership does not know and therefore hardly is in a position to develop its assets shrewdly.

Accounting for the market value is the first step toward quality asset management. Next we want to understand the yield, based on the market value of the portfolio. This is important not only in order to compare it with other alternative investments, but also to understand if the performance has been satisfactory, so that stakeholders can see that their wealth is well cared for.

By design or by default, Cleveland does not report any return on its assets. Assume, again very cautiously, that the city could earn a 3 percent yield on its commercial assets with more professional and politically independent asset governance. A modest yield of 3% would amount to an income of $900 million a year, which is more than Cleveland's current annual net investments. In other words, even with a modest yield, Cleveland could double its investments.

If Cleveland is representative of the US as a whole, then the total market value of municipal assets in the entire US would be at least 25 trillion dollars (as a point reference, the GDP is 17 trillion dollars). A three percent higher yield would allow extra investments of $750 billion a year. This is more than total annual infrastructure investments by local, state and federal government, which today is about US$450 billion. Cleveland is by no means exceptional.

In a more in-depth analysis of Boston's local public commercial wealth, quite similar results emerge. This analysis culled all publicly owned properties from the 2016 Property Tax Roll from the Boston Assessor's office, which includes 169,200 properties within the City. These properties were then valued using sales prices of properties with similar parameters.

The most visible part of local government portfolio consists of operational assets, including utilities such as water, waste and electricity, as well as transport assets, such as ports, airports and mass transit systems. However, from a value perspective the lion's share of the portfolio usually consists of real estate assets. Their value has often grown over time as urbanisation has made city properties more valuable. From our perspective, even more important is that the value of land and real estate often can be boosted to a multiple by smart, multiuse development. For example, a bus- or train station might be developed into a multistory building that is a station, a shopping centre and a housing development.

In the US more than 90% of total volume of water is delivered by publicly owned systems, while some 15% of the electricity is from more than some two thousand municipally owned electricity providers. On the transportation side, commercial airports are all but one government-owned, accounting for more than 7% of national GDP and support more than 6% of the country's work force (CDM Smith, 2014). Most of the ports in the US are owned by the public sector, handling almost 95% of the nation's imports.

It is easy to see that these operational assets are a back bone of the US economy and their effectiveness is crucial for economic growth. Other types of real estate make up the largest slice of public assets' economic value. In addition, many cities also own thousands of abandoned buildings or sites, or could take over ownership, with little capacity to develop these or even auction them off.

One might argue that public buildings are often specialised and therefore difficult to develop, such as public hospitals. Consider some examples from assets governance of public health care organisations.

The NHS is one of the UK's largest property owners. The majority of the NHS estates is owned by individual NHS trusts and foundation trusts which are required to seek approval from NHS Improvement for major decisions. NHS Property Services, which is wholly owned by the Department of Health, owns and has responsibility for approximately 3,500 buildings. A number of reviews have raised concern about the efficiency of property management and lack of strategy (see Wenzel et al., 2016). Decades of debate have raged between those that want to keep it that way and those who want to privatise or outsource property management to the private sector. The third alternative has mostly been left by the wayside – professional management of NHS property while maintaining public ownership but isolated from short-term political intervention.

The NHS in general, or each individual trust, has no detailed list of its assets or even a basic understanding of the portfolio value and yield, despite being one of the largest property owners in the country with an aggregate portfolio most likely almost ten times that of the British Land portfolio.

Without a professional understanding of the extent of its real estate portfolio, or recognising the market value it consequently lacks incentives to maximise value. Many of the buildings owned by the NHS are not even managed to maximise health care quality (see, for example, Carter, 2016). For example, because of political pressures, opening new hospitals and health facilities is a much easier than closing old, underused and inefficient NHS buildings, despite the fact that transferring services to more modern facilities will usually deliver better health outcomes.

International examples point to the benefit of specialisation by separating the real estate operations from the service providers, while retaining public ownership. For example, in Sweden local health care providers are serviced by a separate real estate company, both owned by the local government. A similar example in the UK is London Continental Railways which has successfully helped to develop the commercial assets around King's Cross, Waterloo and Stratford stations in London, as well as around the former Mayfield Railway Stations in Manchester.

A separate professional holding company at a national or local level would improve the visibility of asset and portfolio data (floor areas, running costs, metrics such as building costs per medical procedure/patient) and would help make the case for closures, proving that a closure can be about good estate management and health outcomes, rather than being incorrectly attributed to 'NHS Cuts' as usually seems to be the case. Over the coming years many new ways of delivering digital health care can be realised which makes it even more important to adapt facilities quickly and efficiently.

If the entire NHS portfolio was transparent and professionally managed through one or several separate holding companies, the value it creates would help to fund health care. One can draw a parallel to retail chains such as Tesco that earn more on their real estate management than on sales in their shops (for example, The Telegraph, 2017).

Most NHS properties are situated in residential areas and therefore could presumably be redeveloped in ways that yields more housing as well as better health care.

If such a professional holding company for the real estate would be able to generate a return of three percent yield it would mean almost £2bn in additional funding for the NHS as a whole. This may seem marginal for a budget of £116bn in 2016, but could prove decisive and together with the operational efficiency gains end up being much larger since health care specialisation and new health care technology require functional, yet flexible facilities. With an arm-length distance between the two management organisations, it would stand a good chance to raise health care quality, as well as release land for housing and offices and actually earn a higher return on some of its real estate.

In recent years investing in NHS facilities in cooperation with the private sector through so called Private Finance Initiatives or PFIs has gained a poor reputation, perhaps rightly so. This makes it even more important for an independent and professional public real estate holding company to develop its own professional competence. That may also be a prerequisite for any future cooperation with private sector partners.

Compare this with the Swedish experience, in the form of Locum, the dedicated real estate manager for the health care sector in Stockholm. Locum AB is one of the largest real estate managers in Stockholm, managing a portfolio of 2.1 million square meters with a potential market value of at least SEK23 billion ($3 billion) (Locum AB, 2015). It is wholly owned by Landstingshuset i Stockholm AB (LIS), which could be described as a county wide Urban Wealth Fund (UWF) of the Stockholm County Council. Locum AB was established in 1992 in response to the reorganisation of the Swedish healthcare sector. The aim was to consolidate the management of all real estate assets within the regional government in the Stockholm County and introduce market rents with the purpose of increasing operational efficiency. This may also have succeeded in the respect that health care facilities in Stockholm tend to relinquish floor space that they can do without.

Unfortunately, political insulation is almost non-existent at Locum, mainly due to the fact that the actual ownership of the real estate remains with the local government via Landstingsfastigheter AB (LFS), another corporate vehicle owned directly by the County Council. The fragmented governance structure has hampered real estate development and underlines the potential gains of moving to an independent and professional Urban Wealth Fund.

6 An urban wealth fund

A rare breed of local government has a long tradition of asset management. For example, the historic centre of London and the location of much of the U.K.'s financial sector, called the City of London Corporation, claim to be the world's oldest continuously elected local government body, with both businesses and residents entitled to vote in elections. The corporation is just one of 32 boroughs that make up the greater metropolis of London, but it has professionalism in managing its assets and finances rarely, if ever, seen in any other Western city or metropolis. Its professional approach mirrors that of the much larger and well-known successes of modern city-states in Asia, such as Hong Kong and Singapore.

Most other cities, however, need to find ways to make asset management more transparent and professional. The best way for a local government to manage commercial assets may be instead to put them into a commercial holding company, an Urban Wealth Fund and allow it to act professionally as if it were a publicly owned private equity fund. The fund would be governed at arm's length from short-term political influence in a transparent, accountable manner using the relevant private-sector accounting and management practices recommended by the IFRS.[8]

Creating such a fund is a four-step process:

1 Compile a list of assets and conduct a rough market valuation of the portfolio of assets that will allow the production of an informal review of the portfolio and the attraction of public support for professionalising the management of the portfolio.

2 Incorporate the fund, transfer all assets and appoint a professional board and auditors, so that the government can fully delegate the management of the portfolio.

3. Set up a proper balance sheet that will form the basis of the first audited annual report, the starting point for the new board and management – a self-evident first step for any private-sector owner.

4 Produce a comprehensive business plan for the portfolio as a whole and for each underlying segment, such as real estate and government corporations, to understand how to put each asset to its most productive use, making clear the opportunity cost of using the asset in a sub-optimal way.

If we wish to find an example of good practice in this context, one is provided by the MTR Corporation (Mass Transit Railway Corporation) in Hong Kong (see also Purves, this volume). The MTRC, established in 1975, runs the subway and rail system in Hong Kong. It was listed on the local stock market in 2000. The government remains the majority shareholder.

MTRC has funded and managed vast infrastructure investments and is also a major property developer that helped to significantly increase the delivery of new residential homes in Hong Kong. Many of its stations are incorporated into large housing estates or shopping complexes. Residential and commercial projects have risen above existing stations and along new line extensions.

The property business generates almost 60 percent of the total operating profit for the domestic business in Hong Kong, including property development and rentals and property management. Associated commercial services for the captive audience in and around the stations is also a vital business for MTRC, including the leasing of retail space, advertising space, automated teller facilities and personal telecommunication services.

The MTRC pays a substantial dividend to the city, providing an income for the government that has been deployed to repay existing debt and develop other assets. How can MTRC deliver this when other cities are struggling with both developing residential housing and making their metro system operate efficiently at a breakeven point?

The MTRC business model is called Rail plus Property (R+P). When the government wants MTRC to build a new metro line, it sells MTRC land with ‘development rights’ at stations or depots along the route at market value zoned at current use (McKinsey and Company, 2016). MTRC develops the metro line and the adjacent property, as would any private sector developer. The profit more than covers the cost of the build-out of the metro line, without the need for subsidies (see also Purves, this volume). So far it has successfully developed the property over about half of the system’s 87 stations, amounting to 13 million square meters of floor area. New projects being planned or developed will add another 3.5 million square meters.

In 2006 MTRC also took over the neighbouring Kowloon-Canton Railway Corporation, which up until then had been using a different business model. It has managed this expansion efficiently while maintaining a profit.

Other city governments around the world may not have such a comprehensive real estate portfolio to use for development, but they could still learn from MTRC and Hong Kong as to how a commercial perspective on land and real estate can be used for the benefit of the city and its people. And it is not that the transportation business is performing poorly and requires the subsidy from the real estate business. On the contrary, the transportation system’s fare box recovery ratio, which measures the efficiency of a railway’s pricing, the percentage of operational costs covered by fares, was 187% for MTRC – the world’s highest. In comparison, Singapore’s stands at around 12%, while the London Tube and the New York subway come in at 90% and 51% respectively (The Straits Times, 2015).

Hong Kong trains carry more people, suffer fewer delays and arrive more frequently than most other Mass Transit Operators in the world. Purchasing Power Parity for fares shows it is marginally more expensive than Singapore, in line with those of New York, but almost three times cheaper than London (Land Transport Authority of Singapore, 2011). More than one-third of revenues, or over HK$6 billion, is spent on maintenance, renewals and service improvements on the rail network. Half of that amount is devoted to daily cleaning and inspection works; the other half to capital expenditure such as routine material replacement.

MTRC is now exporting its operational excellence by rapidly investing in railways in different parts in the world. So far it has obtained contracts to operate London Overground and TfL Rail, the first phase of the future Crossrail (Elizabeth Line) service. In Sweden, the Stockholm Metro and MTR Express (a subsidiary of the MTR corporation), operates an intercity railway between Stockholm and Gothenburg in Sweden, as well as Stockholm Commuter Rails System (Stockholm's Pendeltåg). In China, it operates the Beijing Metro Line 4 and Line 14, Hangzhou Metro Line 1 and Shenzhen Metro Longhua Line (Line 4), while in Australia it operates the trains and systems for the Sydney Metro Northwest project.

Hong Kong and the MTRC set an example to city leaders elsewhere to encourage commercial and residential development near transit hubs, which is something almost every city can achieve. Also, the efficient extraction of commercial revenues from the captive audience in and around stations is worth copying. Not the least for cities that have banned commercial activities all together, such as Washington DC. There, the metro is deemed a heritage site. And the DC Metro has multiple public owners and with it severe governance problems which has led to lack of progress on solving issues of operating efficiency, funding and maintenance (for a good description see The Washington Post, 2016).

Another interesting – and, in governance terms, more mixed - example to consider is Copenhagen's By og Havn I/S ('City and Port') is a local government holding company and Urban Wealth Fund established in 2007 as a general partnership ('Interessentskab – I/S'), with a five percent participation from the national government with the purpose of developing two specific districts. It is the result of a number of mergers of several development companies and real estate assets owned by the local and national government. Currently, the company owns and manages a number of water front districts in the Copenhagen harbour area as well as the land locked Örestad-district of some 310 hectares between the city centre and Copenhagen Kastrup airport.

The development of these districts has allowed the company so far to contribute more than half of the city's annual supply of new residential housing stock and office space and will ultimately provide thousands of residential dwellings and work spaces.

With the financial surplus from its operations, the company has been able to help fund part of the extension of the local metro system. It has contributed also to other infrastructure investments through an annual dividend paid to the city, as well as through direct investments in various projects.

From a governance perspective, the government has given the company a clear objective with value maximisation and transparency, adhering to international accounting standards. However, the government has not intended to make the company politically independent. This is manifested by its legal form as a partnership, making its owners fully liable for all of its obligations and through its politically dominated board nomination procedures. The owners' unwillingness to give the company a sustainable capital structure by setting it up with a negative equity since 2008 further restricts political independence. The founding act of the company stipulates that the company is to fund itself through government loans and a government guarantee regulated by a tripartite agreement between the central bank, the Ministry of Finance and the Ministry of

Transport. All in all, this legal structure does not give the Copenhagen City and Port the political independence that a true Urban Wealth Fund would have.

7 Conclusions: the way ahead

A review of some twenty National and Urban Wealth Funds is provided in Detter and Fölster (2015, 2017). Overall the experience so far suggest that governance of public assets can definitely be made more transparent and benefit from accounting standards that better reveal the value of the assets and their development potential. In addition, the greater independence from day to day politics that a wealth fund provides may allow more far sighted and professional investments, yielding higher returns.

Undoubtedly making governance of public assets more independent from politics will also face political opposition, both from those who profit from mismanagement and from those who fear that democratic control of common assets might erode. But several stable democracies have introduced funds. And possibly such investment vehicles can also end up making democracy less susceptible to clientelism and corruption.

References

Bloom, N. and Van Reenen, J. (2010) 'Why do management practices differ across firms and countries?', *Journal of Economic Perspectives*, Vol. 24 No. 1, pp.203–224.

Carter of Coles, L. (2016) *Operational Productivity and Performance in English NHS Acute Hospitals: Unwarranted Variations, Department of Health*, London [online] http://www.gov.uk/government/publications/productivity-in-nhs-hospitals (Accessed 6 October 2016).

CDM Smith (2014) *Economic Impact of Commercial Aviation in 2014*, Cincinatti, Ohio.

City of Cleveland (2014) *Comprehensive Financial Report 2014* [online] http://www.clevelandtn.gov/DocumentCenter/View/684 (accessed 22 November 2018).

Clark, G.L., Dixon, A.D. and Monk, A.H.B. (2013) *Sovereign Wealth Funds: Legitimacy, Governance and Global Power*, Princeton University Press, Princeton and Oxford.

Cummine, A. (2016) *Citizens' Wealth: Why (and How) Sovereign Funds Should be Managed by the People for the People*, Yale University Press, New Haven.

Detter, D. and Fölster, S. (2017) *The Public Wealth of Cities: How to Unlock Hidden Assets to Boost Growth and Prosperity*, Brookings, Washington, DC.

Detter, D. and Fölster, S. (2015) *The Public Wealth of Nations: How Management of Public Assets Can Boost or Bust Economic Growth*, Palgrave Macmillan, London.

Government of Lithuania (2009) *Annual Review: Lithuanian State-Owned Commercial Assets 2009* [online] http://www.euroinvestor.dk/pdf/cse/11176061_17359.pdf (accessed 18 November 2018).

Hamilton, K. and Hepburn, C. (Eds.) (2017) *National Wealth: What is Missing, Why it Matters*, Oxford University Press, Oxford.

International Monetary Fund (2013) *Another Look at Governments' Balance Sheets: The Role of Nonfinancial Assets*, IMF, Washington.

International Monetary Fund (2018) *Fiscal Monitor – Managing Public Wealth*, IMF, Washington.

Fukuyama, F. (2014) 'America in decay: the sources of political dysfunction', *Foreign Affairs*, Vol. 93, No. 5, pp.5–26.

Land Transport Authority of Singapore (2011) *Comparison of Public Transport Operations* [online] http://app.lta.gov.sg/ltaacademy/doc/J12%20Nov-p68Stats_Key%20Transport%20Statistics%20of%20World%20Cities.pdf (accessed 2 March 2018).

Lardy, N.R. (2014) *Markets over Mao: The Rise of Private Business in China*, Peterson Institute for International Economics, Washington, DC.

Locum AB (2015) *Annual Report 2015* [online] http://www.locum.se/Global/4.Om%20Locum/6.%20Ekonomi/%C3%85rsredovisningar/Locum_A%CC%8Ar2015_A4_web_rev_160415.pdf (accessed 20 October 2015).

McKinsey an d Company (2016) *The 'Rail Plus Property' Model: Hong Kong's Successful Self-Financing Formula*, McKinsey Capital Projects and Infrastructure [online] http://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/the-rail-plus-property-model (accessed 26 November 2018).

National Audit Office (NAO, 2014) *Report of the Comptroller and Auditor General: Whole of Government Accounts 2013–14*, London [online] https://www.nao.org.uk/wp-content/uploads/2015/03/Whole-government-account-2013-14.pdf (accessed 26 November 2018).

Oxford Review of Economic Policy (2014) 'Special issue on national wealth accounting', *Oxford Review of Economic Policy*, Vol. 30, No. 1, pp.1–187.

The Straits Times (2015) Dubbed *'the Best in Class': 6 Things about Hong Kong's MTR Rail System*, 29 October 2015.

The Telegraph (2017) *Tesco: Europe's Biggest Property Company*, 22 April 2017 [online] http://www.telegraph.co.uk/finance/migrationtemp/2807681/Tesco-Europes-biggest-property-company.html (accessed 26 November 2018).

The Washington Post (2016) *A Complete Guide to the Major Problems Facing Metrorail*, 24 April 2016 [online] https://www.washingtonpost.com/graphics/local/metro-history-failures/ (accessed 14 March 2016).

Wenzel, L., Gilburt, H. and Murray, R. (2016) *NHS Estates: Review of the Evidence*, The Kings Fund, commissioned by the Department of Health [online] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/604916/NHS_estates_evidence_review.pdf (accessed 26 November 2018).

Notes

1 But notable improvements are being made in some countries. See for example the World Bank accounting initiatives and the pioneering work done by the Wealth Project at Oxford University which has sought to help states property account for their capital (for example, special issue of Oxford Review of Economic Policy, 2014 on National Wealth Accounting). See also Hamilton and Hepburn (2017).

2 The methodology is explained further shown in our book The Public Wealth of Nations (Detter and Fölster, 2015).

3 An update is promised in the Fiscal Monitor for the fall of 2018.

4 One of these countries is Ukraine. Another country is Sweden. Our estimate for Sweden follows an calculation done by PwC of real estate value based on taxation values. The value of SOEs owned by the central government is taken from the Swedish governments annual report for 2013, valued at SEK 500 billion. In addition, PwC arrived at real estate and utilities' net value of US$20 billion. All in all, nonfinancial assets for Sweden are valued at US$230 billion.

5 We estimated regressions that explain the size of financial and nonfinancial public assets as a function of GDP, the population size, a measure of democracy, a measure of natural resource endowments and gross debt. The coefficient estimates of these regressions are then used to calculate a predicted value of public assets for each country. This way of extrapolating to

world public assets takes better account of structural differences between the countries for which we have public asset figures and those for which we do not.

6 http://www.oebib.gv.at.

7 The following section is partially based on Detter and Fölster (2017).

8 The International Financial Reporting Standard [online] http://www.ifrs.org.