Overview of local governments' real estate and its management

How many buildings do local governments have and what kind of problems do they face in their management?

Summary of overview results

The purpose of the overview was to ascertain how many buildings do local governments own, how many of them are disused and what is the perspective of currently neglected property. The overview will be of help to the local governments that are preparing to merge in the course of the administrative reform and to the state in planning post-reform activities.

During the preparation of the overview, the National Audit Office considered the following:

What did we investigate?

- collected data from all 213 local governments about the buildings owned by the local governments and their undertakings as well as the purpose, condition, maintenance expenses, outlook and need for investment of these buildings;
- interviewed all the local governments in three regions with diminishing population (Hiiu County, Põlva County, southern part of Valga County) to learn about the challenges they have faced in finding a function for buildings that are partly or fully disused due to the decreasing population;
- interviewed five local governments (Lüganuse, Saarde, Suure-Jaani, Türi, Väike-Maarja) that were formed during the merger of municipalities or towns from 2005-2015 to find out how the use of buildings had been optimised after the merger.

Why is this important to taxpayers?

Owning property comes with the obligation to maintain it. Since buildings must be suitable and safe for exploitation, the expenses must be incurred irrespective of how intensely they are used. The primary function of property is to support the provision of public services and, similar to other supporting functions, everything related to property must also be organised as efficiently as possible.

According to balance records, buildings and investment properties comprised 11% of the state's fixed assets in 2015, and as much as 42% of the fixed assets of local governments. However, the share of the expenses for managing properties, buildings and premises comprised 4.8% of the total labour and management expenses of the state and as much as 8.9% of the same expenses of local governments. The share of buildings among the fixed assets of local governments is proportionally almost four times larger than in the case of the state, and the amount spent on their maintenance is proportionally *ca* twice as big as the amount spent by the state.

Some figures about the property of local governments revealed by the survey of local governments:

What did we find and conclude on the basis of the audit?

- local governments and their undertakings had **5386** buildings recognised among their fixed assets in their possession as at the end of 2015;
- their closed net area totalled **5.6 million square metres** (for comparison: state agencies possessed 2.2 million m^2 of buildings at the same time);

- considering the average expense per square metre, the management expenses of their buildings were approximately **90 million euros** in 2015;

- according to local governments, half of the buildings are in a good or excellent condition, but a little over a tenth in a bad or very bad one;

- schools comprise a third of the area of local governments' buildings, their maintenance requires the most money (ca 29 million euros per year) and their investment needs are also the biggest according to the estimates of local governments;

- local governments estimate that they will need 81% of their buildings completely and 8% of them partly also in five years' time, their reconstruction would require 838 million euros in total. For comparison: according to the Ministry of Finance, local governments and their undertakings invested 1.15 billion euros in fixed assets from 2011-2015 (the money invested in buildings cannot be highlighted separately - in addition this amount also includes investments in roads, communications and street lighting, etc.);

- local governments would like to demolish 18% of buildings and the cost of their demolition according to their estimates would be ca 3.5 million euros.

The main problems identified during the preparation of the overview are as follows:

- The local governments engaged in administrative reform negotiations do not want to decide which buildings they actually need for the provision of services in the merging local government and which buildings should be realised. Instead, they prefer not to discuss the issues related to the shrinkage of services, as it may cause opposition in the community. However, all of the local governments that have merged so far claimed that some buildings will no longer be used after the merger or a new use will have to be found for them.

- When local governments plan their infrastructure investments, they consider the buildings, for which investment support is possible. The long term necessity of these objects is not certain.

- Disposing of disused buildings outside cities is complicated for local governments due to the special purpose of these buildings. Buildings that can be redesigned as residential or industrial building have been more successfully disposed of. Usually, there is no interest in disused buildings and even if a building is successfully sold, it is often disused years later. Many buildings of local governments are architectural monuments, which means that finding a use for them is difficult because of their specific room layout and high renovation expenses, but which cannot be demolished.

- Buildings that used to belong to the state and are disused at present cause concern to local governments. In addition to cities, such buildings can also be found in other regions. It is difficult to find further use for these disused buildings (e.g. former children homes, special care homes, vocational educational institutions). Local governments have often agreed, at the insistence of the state, to take over such buildings without any sale potential to avoid their deterioration, even though finding a use for them is very difficult. In the cases where the state has decided to find a new owner for a building itself via Riigi Kinnisvara AS, the local community is generally not involved in the sales negotiations.

The National Audit Office has the following recommendations

- in the course of the administrative reform, local governments should figure out which buildings they will actually need in the future, which unnecessary buildings can be sold and which should be demolished;

- some of the merger support received in the course of the administrative reform should be used for demolishing unnecessary buildings;
- in the future, more investments should be planned from local funds, as this allows local authorities more flexibility in considering their needs. The state should definitely keep the application of this principle in mind as it reviews the financing of local governments in the course of administrative reform. The support granted by the state should be an addition to the local government's own investment funds, primarily for renovating sustainable buildings, based on calculations of measurable values (e.g. sustainable educational buildings);
- the state, Riigi Kinnisvara AS and local governments must ascertain how many vacant office premises belonging to the public sector there are in country centres and where they are located, how many of them are needed, and look for optimal solutions of taking them in use;
- as there is a big shortage of nursing care homes in local governments, the children's home or special care home buildings disused by the state in the area should be used for this purpose as much as possible;
- the state must require Riigi Kinnisvara AS to cooperate fully with local governments in the development of the terms and conditions (of sale) concerning the further use of the buildings transferred to them.