Result of the administration of state-owned buildings

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Summary

The State Audit Office audited the results of the administration of state-owned buildings. It was investigated to which extent and how does the state use its buildings and what is the condition of the buildings. For that purpose, 383 buildings and 30 contracts of lease were investigated. The state owns approximately 6,800 buildings with different purpose. In 2003, approximately 1.6 billion kroons were used for the repairs and maintenance of those buildings. 65% of the buildings are owned by the Ministry of Defence, Ministry of Internal Affairs, Ministry of Education and Research and the Ministry of Environment.

Main observations

37% buildings owned by the state are standing empty. Respectively, 44% of the effective surface area of the buildings is used to gain revenues, 38% to exercise state authority and 18% for public purposes. Both the premises leased and standing empty are consolidated under the heading of gaining revenues. 31% or approximately one million square meters of the effective surface area is standing empty; 13% is being leased. The number of empty buildings reveals poor utilisation of land and premises and inefficient administration of buildings, accompanied by excessive maintenance costs and foregone return on sales.

Buildings are decomposing. As a rule, the preservation of the main structures of buildings and utility networks is not provided for: their normal and safe functioning is not assured. The maintenance of the most important element of the main structure – the roof – is sufficiently assured only in 27% of buildings, in average. The age of utility networks – heating system, water supply system and sewage – exceeds their critical lifetime in 40% cases. The situation refers to the danger of accidents, the elimination of which may be by times more expensive than their replacement. Due to poor maintenance of the buildings, 20% of building complexes have received prescripts due to their non-conformity with the standards.

The buildings are decomposing as the budget of institutions is not sufficient to cover the minimum expenditures inevitable for purposeful maintenance of the buildings. Also, the cost accounting and required reporting, serving as the basis for administration decisions, are missing. Cost accounting is only available in a very primitive, financial accounting form not providing the decision makers with a true and fair overview of expenditures made. The administrators have no opportunity to gain information concerning the expenditures made on a building/complex of buildings.

Most of the Contracts of Lease are damaging the interests of the state. 80% of the contracts of lease have been concluded at a value lower by 40% than the average; therefore, the state is estimated to lose approximately 4 million kroons of income received from leasing of residential premises. Also, several items inseparable of good leasing practice are being ignored. Often, the contracts of lease are not transparent; the calculation of accessory expenses (for example, for water, electricity, etc.) is often unclear. Also, neither the condition of a building at the moment of transfer nor the responsibility for the preservation of the building have been established in the contracts. The practice of regular reviewing of terms and conditions of contracts is rather scarce and the same goes for charging penalty fine for delayed rent payment.

Main recommendations

To the Government of the Republic

To decrease the costs on the maintenance of state-owned buildings and increase the revenues, a strategy for good administration of buildings should be devised, accompanied with setting of specific goals for the administration of buildings:

- To achieve an established level of implementation for the buildings used by power authorities and for public purposes by a specific deadline.

- To be released from a liability for buildings not being indispensable for the state by sales or demolishing; including the establishment of the share and period for decreasing the number of unused buildings.

To the Minister of Finance

- Administration principles stipulated in real estate maintenance standards should be observed as the new version of the State Assets Act is devised. This shall contribute to expedient use of the buildings accompanied with the maintenance and quality of the buildings over their intended lifetime. First of all, this requires the use of building maintenance ledgers and calculation of costs by complexes of buildings and using the information when administration decisions are passed.
- Development of standard formats for the contracts of lease to be concluded, accompanied with the list and description of important aspects and recommend the administrators to use the aforementioned materials. This allows to harmonise the practice for conclusion of contracts of lease and recording of provisions, important to protect the interests of the state, in all the contracts.

Answers given by the Government of the Republic and the Minister of Finance

The Government of the Republic has formed a position that all the ministers must devise actions plans regarding the real estate and buildings administrated by the respective ministry. This is done with the purpose to optimise the utilisation or assets while analysing the expedience of the transfer thereof to Riigi Kinnisvara AS (public limited company State-owned Real Estate). The full text of answers has been attached to the audit report.

The Minister of Finance did not give any essential objections to the recommendations of the State Audit Office. The full text of answers has been attached to the audit report.

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