

Use of land and buildings under the management of the Ministry of Agriculture not needed by government agencies

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Summary

The State Audit Office (SAO) has audited the activities of the Ministry of Agriculture in managing the real property within its area of administration, with the focus mainly on the use of assets unnecessary for the main activity.

There are about 250 buildings and structures with different purpose and about 6,600 hectares of state land within the area of administration of the Ministry of Agriculture. Use of state property has been granted by 101 lease contracts.

In the overview of the use and preservation of state assets in 2003, the SAO raised a general issue of inefficiency in public property management: the government had over 2,200 empty-standing buildings; 31 percent of the total usable area (almost a million square metres) was without use, and 80 percent of leases had been concluded at a price below fair market value. With a view to the proposals made by the SAO, the Government of the Republic assigned all ministers the task to work out, for their area of administration, a real property management plan, so as to optimize the use of assets, and at this analyse the expediency of asset transfer to the Public Limited Company Government Real Estate (GRE). The ministers were also obligated to analyse the leases in effect within their administration area and amend or terminate unprofitable contracts.

As a result of the audit, the SAO declares that the activity of the Ministry of Agriculture in organising the management of state-owned buildings and land has not been systematic and to the purpose. The Ministry has played a very modest role in directing asset management activities within its area of administration, incl. granting and monitoring the use of property. The subordinate agencies have been relatively free to decide upon the manner in which the assets at their disposal are managed and what are the conditions for granting the use of public property. The Ministry did not see the need for prescribing any additional requirements for subordinate agencies in order to ensure a more efficient control over the use of government property.

Main observations

Finding future use for excess property is unclear. The Ministry does not have an action plan for real estate management which would cover the entire area of administration. It has not been determined which part of public property currently in use and for what purposes is needed in the future.

Data about the managed property are inaccurate. All state property transactions must be recorded in the state assets register. The Ministry has failed to ensure that the information in the register about government property within the Ministry's administration area is correct – the records of the state assets register and the Ministry's subordinate agencies differed for a number of objects. The Ministry was unaware of some agreements granting the use of state property (e.g. granting the use of structures and land by Jänedä Training and Advisory Centre). The Ministry lacked an overview of sublease agreements made by lessees and the terms of such agreements.

The use of assets has been granted at unfavourable terms to the owner. In previous audits, the SAO has time and again drawn attention to unprofitable leases concluded in the area of administration of the Ministry of Agriculture and the Ministry has always promised to remedy the situation. However, the same shortcomings were identified on current audit.

In most cases, the use of property has been granted at a price significantly below average fair market value, thus violating the requirement of the State Assets Act to obtain revenue from state property transactions at the highest rate possible for the government. Unfavourable contracts have also been concluded by the Ministry: for instance, some lessees (Estonian Chamber of Agriculture and Commerce, Estonian Dairy Association) earn income from subletting of assets rented from the government, which is times bigger than the rental they pay to the government. Jänedä Training and Advisory Centre had granted the use of 168.7 hectares of state land to a private company for no charge at all, although pursuant to the State Assets Act it is prohibited to grant the use of state property to businesses for free.

First steps have been taken to review and amend leases unbeneficial to the government, but at the same time new unprofitable contracts have been made. For example, 557.5 hectares of land was rented to the private limited company Hiiumaa Agro in 2004 for consideration which is times below the possible income of the lessee from the timber on this land.

Major proposals to the Minister of Agriculture

In order to better organize the management of buildings and land within the area of administration and to rearrange the existing lease relationships, the SAO makes the following proposals to the Minister of Agriculture:

- Develop and approve of the guidelines on the organisation of real estate management (land, buildings, structures) that would be common for the entire area of administration and ensure that requirements established in legal acts and government regulations are observed, so as to guarantee that the assets needed by the government are preserved, and improved if necessary, that no use of assets is granted at unfavourable terms and that the Ministry exercises control over the activity of subordinate agencies in granting the use of assets.
- Identify the structures and land within the area of administration of the Ministry which are considered to be unneeded for the main activity and prepare an action plan for their future exploitation or transfer. Under the action plan, it is possible to budget resources for the maintenance and preservation of the real property needed.
- Ensure that the buildings and land within the Ministry's area of administration, as well as the rights and responsibilities associated with them are duly and accurately recorded in the state assets register, and that the existent register entries are promptly reviewed.
- Require that the Public Property Administration Bureau of the Ministry re-examine the terms of leases in a systemic manner, so as to alter unfavourable provisions or terminate unprofitable contracts. If necessary, draw up an action plan for directing the review of contracts.
- Take a viewpoint on the issue of liability of the director of Jäneda Training and Advisory Centre for conducting unlawful transactions involving state assets.

The Minister of Agriculture has concurred with the proposals of the SAO. In her reply she points out that the Ministry has set to eliminating the shortcomings highlighted in the draft audit report. According to the Minister, all leases of public property have been registered in the state assets register by today and the review and revision of contracts is to be continued. The Ministry's Public Property Administration Bureau has started inspection of public property within the area of administration, in the course of which the condition and purpose of assets are determined. The Ministry has planned to dispose, during 2006, of the majority of integral assets encumbered by leases as referred to in the audit report.

The reply of the Minister is annexed to this report.

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