

Allocation and use of funds received from gambling tax for investments under regional programmes

Audit report No. OSIII-2-6/05/97 of 9 August 2005

Summary

Gambling tax accrues to the state budget and 12.7% of it is used for supporting the investments under regional programmes aimed at children, young people, families, the elderly and the disabled.

In 2003, gambling tax accruals amounted to 174.5 million kroons and in 2004 to 203 million kroons. Out of these amounts the investment support allocated to regional programmes totalled 22 and 25.8 million kroons, respectively. As from 1 June 2004 99.5% of the funds meant for the investment support under regional programmes is allocated to the implementation of project and 0.5% is allocated for covering the costs related to servicing the Support Committee established in the Ministry of Internal Affairs.

The State Audit Office audited the legality and purposefulness of application, allocation and supervision of the investment support under the regional programmes, proceeding from the Gambling Tax Act, the relevant regulations of the Government of the Republic as well as from the contract of use of allocations from the state budget made with Enterprise Estonia and the guidelines of the Ministry of Internal Affairs.

Main observations

The system of allocation of investment support to regional programmes out of the gambling tax is insufficiently regulated. During the audit the State Audit Office found that the regulation of the Government of the Republic regulating allocation of the support is too generally formulated and several issues have not been regulated. Neither the Gambling Tax Act nor the regulation regulating allocation of the support defines the meaning of a regional programme. The Ministry of Internal Affairs has tried to attend to the non-regulated issues in the so-called guidelines, which are meant to assist the applicants, but at the same time these guidelines substantially restrict the criteria for allocation of support stipulated in the regulations.

The roles and liability of the parties related to allocation of support are unclear. In a situation where county governments collect the applications, the county governor evaluates them, Enterprise Estonia examines the documents and pays the support and the Committee established in the Ministry of Internal Affairs makes the decision, and the liability of the parties related to processing the applications is dispersed. Although the county governor draws up a list of the applications in the order of importance the Committee of the Ministry does not have to adhere to it upon making the decision. Also Enterprise Estonia, which checks the compliance of the applications listed by the county government in the order of importance, usually recommends that the processing of some applications be terminated. At the same time the applications which have been put on higher ranks in the list of the county government have been given the advantage of submitting additional documents while processing the application in the Ministry of Internal Affairs. The State Audit Office finds that there are too many parties in the process and the examination of the compliance of the applications in several institutions does not ensure efficient use of the resources.

The state owes Enterprise Estonia approximately 4 million kroons. Since until the end of 2002 the investments of the regional programmes were financed through the budget of the Ministry of Economic Affairs and as of the year 2003 through the budget of the Ministry of Internal Affairs, then due to the omissions of the officials the funds allocated and paid as support in the third round of applications of 2002 have still not been transferred to Enterprise Estonia (i.e. the accruals in November and December) in the amount of 3,777,615 kroons.

Enterprise Estonia has made these payments out of its own funds and has repeatedly addressed various Ministers for receiving the money. It has not been determined what the funds prescribed for servicing the Committee of the Ministry of Internal Affairs may be used for. Although as from the middle of 2004 0.5% of the funds is meant for servicing the Committee it has not been specified what exact purpose the funds may be used for: is it directly related to servicing the Committee or can it be used for covering the costs related to processing support application in county governments and Enterprise Estonia?

No shortcomings in the activities of Enterprise Estonia upon processing applications, payment

of support and later supervision were found. The State Audit Office finds that in the future more attention should be paid to checking whether the recipients of support have organised public procurement in the events where it is required in the context of investments made out of gambling tax income.

The Ministry of Internal Affairs does not have a clear overview of the money that has been, so to say, released in Enterprise Estonia. According to Enterprise Estonia, the amount released between 1999-2004 from the funds not used by the applicants and the recoveries of support amounts to 1.1 million kroons, but the Committee had allocated only 623,127 kroons of it as support. Thus, 518,872 kroons of the released funds have not been allocated as support, while according to the Ministry the non-allocated amount is only 8774 kroons.

Main suggestions

To the Minister of Finance

- Initiate amendment of the Gambling Tax Act to stipulate the purpose of allocation of support, specify the definition of a regional programme and an investment financed out of the gambling tax; also, stipulate in the Act that in addition to the procedure for application and allocation of support the terms and conditions of support will be established by a regulation of the Government of the Republic.
- In cooperation with the Ministry of Internal Affairs and Enterprise Estonia work out and add to the regulation which regulates application and allocation of the support the terms and conditions and the procedure for payment of the support.
- In cooperation with the Ministry of Economic Affairs and Communications and the Minister of Regional Affairs find a solution for transferring the 3,777,615 kroons paid by Enterprise Estonia as investment support.

In a reply the Minister of Finance declared that the positions and conclusions given in the draft audit report are relevant and necessary for ensuring purposeful use of the money received from the gambling tax in the future. The Ministry of Finance is preparing a draft Gambling Tax Act Amendment Act which, among other things, makes a proposal to authorise the Government of the Republic to establish the procedure and the terms and conditions for application and allocation of support out of the gambling tax income and after entry into force of the amendments the Ministry will start preparing a regulation of the Government of the Republic, which would regulate payment of the support. In cooperation with the Ministry of Internal Affairs the Ministry of Finance will attempt to solve the issue of the money which was not transferred to Enterprise Estonia in 2003.

The Minister of the Environment in the capacity of the Minister of Regional Affairs replied that the assessments and suggestions in the audit report are relevant. The Minister hopes that the Ministry of Finance will initiate amendment of the regulation on regulating the application and allocation of the support in the autumn of 2005. The Ministry of Internal Affairs is ready to provide the Ministry of Finance with its suggestions and additional materials for legislative drafting.

The Chairman of the Management Board of Enterprise Estonia agreed that the organisation of payment of support could be even more effective if the roles and liability of the parties are specified in greater detail than before.

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