

Relocation of the Haapsalu Vocational Education Centre from Taebla to Uuemõisa

Audit report No. OSIII-2-6/05/96 of 9 August 2005

Summary

The Haapsalu Vocational Education Centre (formerly known as the Taebla Vocational Secondary School) is a vocational education institution of the state, which will begin operating in Uuemõisa (formerly it was located in Taebla) on 1 September 2005.

The purpose of the audit was to identify if the need for relocation of the Haapsalu Vocational Education Centre was thoroughly analysed, if different options of transfer were considered, on what basis it was decided in favour of Uuemõisa, if the registered immovables purchased in Uuemõisa were purchased at a reasonable price, if the volume of the investments is sufficiently reasoned and if the lease contract is beneficial and reasonable for the school.

Main observations

- According to the auditors, the transfer of the school was reasoned, because it had to be done due to the unfavourable location of the school, the poor technical condition of the buildings, the backwardness of the material study base and the reduction of the number of students caused by the poor reputation of the school. Over the recent years the school has been unable to fulfil the state-commissioned education requirements. In some years only a half of the student places have been filled.
- The role of the Ministry of Education and Research upon working out alternative solutions for relocation of the Vocational Education Centre was passive. The initiative for the transfer of the school to a new location and the size of the school came from Lääne County. All possible options, for instance, construction of new school buildings, was not considered. Also, it is not quite unambiguous as for what reasons the Ministry changed its initial opinion regarding the number of the student places. The Ministry did not have a concrete plan pertaining to the relocation actions and in parts the decisions have not been documented.
- The Ministry of Education and Research favoured the offer of AS Imanta Hariduskeskus. However, after a discussion in the Ministry of Finance the Ministry of Education and Research held negotiations with Riigi Kinnisvara AS, whereas no negotiations were continued with AS Imanta Hariduskeskus, which had made a considerably less expensive offer. According to its offer, AS Imanta Hariduskeskus would have provided lease services for an annual fee, which was 1.8 million kroons lower than the initial offer of Uuemõisa Ärikeskus and Riigi Kinnisvara AS and 2.1 million kroons lower than the lease contract made with Riigi Kinnisvara AS.
- Upon purchase of the registered movables located at Ehitajate tee 3 and 7 in Uuemõisa for 12 million kroons, Riigi Kinnisvara AS proceeded from their market value, which had been established by a real estate agency. Riigi Kinnisvara AS purchased a conceptual design along with the registered immovables. The registered immovable at Tehnika põik 6 was purchased at a negotiated price and during the audit no documented reasons for development of the price were given.
- Riigi Kinnisvara AS has followed the Public Procurement Act upon organisation of public procurement for renovation and furnishing of the Haapsalu Vocational Education Centre.
- In 2006 the burden of financing the Haapsalu Vocational Education Centre out of the state budget will increase by 2.4 times in comparison with 2004. The Ministry of Education and Research must find money at the account of the funds allocated in the state budget for covering the expenses of vocational education institutions. During the audit the Ministry was not certain whether it would be possible to receive any additional funds from the state budget for financing the Vocational Education Centre.
- Although the Ministry of Education and Research knew about the relocation of the Vocational Education Centre in 2004, the market value of the registered immovable released in Taebla and the issues of transfer thereof were attended to in 2005. The sale of the released immovable through Riigi Kinnisvara AS or a transfer of this registered immovable to the company has not been considered. If the released buildings are not transferred by the right time, it may cause additional costs for the school in the form of security and maintenance costs.

Suggestions

To the Minister of Education and Research

- Upon making any further considerable changes in the school network and in financing educational institutions:
 - prepare an action plan, which sets out specific actions and their deadlines;
 - document all activities preceding the decision-making and the decisions made.
- Solve the issue of financing the Haapsalu Vocational Education Centre in 2006 and in the following years, considering the steeply rising costs under the lease contract.
- Consider selling the registered immovable released in Taebla through Riigi Kinnisvara AS or a transfer thereof to the company.

To the Minister of Finance

- Take a position regarding interpretation of the definition of a state authority set out in subsection 31 (1) of the State Budget Act and initiate amendment of the State Budget Act for the purpose of clarifying the term 'state authority' so that the restrictions on entry into contracts over the following years will be applicable only to the specific state authority for which the contracts are made.

The Minister of Culture acting in the capacity of the **Minister of Education and Research** stated in his reply to the draft audit report that he agrees with the conclusions and suggestions of the draft. According to the reply, the analysis of the alternatives for relocation of the Haapsalu Vocational Education Centre was not thorough enough – the participants confined to the conclusions drawn on the basis of estimates and discussions, the decision-making activities were not sufficiently documented and there was no general action plan. The Minister explained that the fact that after the discussion held in the Ministry of Finance no negotiations were continued with AS Imanta Hariduskeskus can be attributed to the Ministry of Finance's strong request that Riigi Kinnisvara AS be made the operator and that refusing the request could have jeopardised implementation of the entire project. Upon planning similar projects in the future the Minister promised to take the conclusions and suggestions of the State Audit Office into account.

In his reply the **Minister of Finance** said that the restriction set out in subsection 31 (1) of the State Budget Act should be treated with respect to state authorities of the same category based on the total amount of the operational expenses allocated to them in the annual state budget. At the same time the Minister of Finance promised to consider the need for modification of the Art. 31 in the event of drafting the draft State Budget Act Amendment Act.

The **Director of the Haapsalu Vocational Education Centre**, who took office in March this year, noted that the entire process of reorganisation of the Vocational Education Centre should be treated as an important step upon achievement of the objectives set out in the Vocational Education Development Plan and that the school is ready to start working with 400 students as of autumn 2005.

The **Chairman of the Management Board of Riigi Kinnisvara AS** affirmed that he has examined the draft audit report and finds that in principle the situation has been reflected correctly. He noted, however, that upon assessment of tenders the residual value of the building upon expiry of the building lease should have been taken into account, but this was not asked upon submission of the initial lease tenders. He found that if the residual values had been similar the risks arising from the tender of AS Imanta Hariduskeskus would have been unreasonable and economically inexpedient for the company.

Jüri Kõrge
Chief Auditor
Audit Department III