

# Activity of the Ministry of Education and Research in the management of state-owned buildings

Audit report No. OSIII-2-6/05/99 of August 10, 2005

## Summary

The State Audit Office (SAO) has audited the activities of the Ministry of Education and Research in the management of state-owned buildings. The goal of the audit was to evaluate the activities of the Ministry as manager of government assets and the implementation of commitments made as a result of the SAO report titled "An overview of the use and preservation of state assets in 2003". We examined the use of buildings under the management of the Ministry. We tried to ascertain whether the principle of cost containment and revenue growth had been observed in leasing and renting activity.

According to the State Assets Register, there were 960 buildings (or parts of buildings) under the management of the Ministry of Education and Research as of 8 June 2005. The audit showed that actually there were 848 buildings (or parts of buildings) under the management of the Ministry and the agencies within its area of administration.

## Main observations

**The Ministry of Education and Research has undertaken to improve the way government property is managed.** The Ministry has accomplished part of the tasks assumed as a result of findings highlighted in the overview of the use and preservation of state assets in 2003 prepared by the SAO. The Ministry has drawn up an overview of the rental contracts within its area of administration and analysed the need for their review or termination. The Ministry intends to put forward a proposal to 23 institutions for the review of nearly 60 contracts all in all. Regardless of the promises made, neither the principles for the use of real property under the management of the Ministry nor an action plan for implementation have been worked out. Records management related to government assets and conclusion of rental and lease contracts have improved substantially since 2004.

**Only half of state-owned buildings (or parts of buildings) within the area of administration of the Ministry are used in the principal activity (exercise of public authority or public services).**

70 percent of non-residential premises and 25 percent of residential premises were occupied by the Ministry and its subordinate agencies. Totally empty were 129 buildings (incl. 111 non-residential premises, 9 hostels, 6 dwelling-houses and 3 summer/holiday houses) and 47 apartments or parts of dwelling-houses. Of all empty buildings, 66 buildings (incl. 53 non-residential premises, 8 hostels, 2 dwelling-houses and 3 summer/holiday houses) and 10 apartments or parts of dwelling-houses were judged to be unusable by the possessors of state property. 10 percent of non-residential premises and 70 percent of residential premises were rented out. It was not possible to determine the exact expenses incurred by the government in the maintenance of empty-standing buildings due to improper accounting for costs. The expense to the government of about 20 buildings or parts of buildings not currently used, as estimated by the possessors, reached EEK 1 million a year.

**Leasing and renting activity is not profitable to the government.** It appeared in the course of the audit that the government, as a rule, did not benefit from leasing and renting of real property. Property users paid only for the utilities consumed and other expenses relating to the use of property. In calculating the rental amount, the possessors of premises had not, in most cases, taken into account the depreciation of buildings. In case of non-residential premises rented to legal persons governed by private law or to natural persons, a kind of charge was made only on 60 percent of cases. The Ministry and its subordinate agencies had a huge number of residential premises at their disposal (282 apartments and shares of houses, 15 dwelling-houses and 31 summer/holiday houses) which were let for no consideration or a very low rental and on an obscure basis. The examined rental contracts revealed that the Ministry and the agencies within its area of administration had rented office spaces at 48 percent and residential spaces at 74 percent more favourably than the average market price. It was found on audit that in half of the cases the Treasury received no rental income in 2004 and the first half of 2005, although premises were rented for consideration. The reasons were, on the one hand, the lack of uniformity in accounting for the cost of maintenance of buildings and the rental income, and on the other hand, poor supervision.

## Major proposals

### To the Minister of Education and Research

- Develop principles for the use and occupancy of real property in the possession of the Ministry and an action plan for the management of state-owned buildings.
- Develop internal accounting rules which would inter alia specify the policy on accounting for the cost of maintenance of buildings and transfer to the state budget of income earned on government assets. The aim is to put an end to the situation where possessors of state property are not sure which costs should be recognized as maintenance costs and which revenue from leasing and renting activities is subject to transfer to the state budget.
- Dispose of buildings (or parts of buildings) not needed for the main activity (exercise of public authority or public services) or to substantially improve leasing and renting activities. Unless the buildings (parts of buildings) unnecessary for the main activity are rented profitably, the government should sell off those assets. The aim is to avoid expenditure derived from empty-standing buildings and any renting activities that cause a loss to the government.
- Consider, in the light of the principle of equal treatment and the sense of justice within the society, the rationale for holding residential premises under the management and control of the Ministry and assess the opportunities for future uses of those residential premises. The aim is to avoid unjustified and unpredictable costs to the government arising from the maintenance and renting of residential premises.
- Identify unusable buildings (or parts of buildings) within the area of administration of the Ministry. Of these, judge to be unsuitable for occupancy, write off and determine the demolition of all buildings (or parts of buildings) not needed. In case of currently unusable but necessary buildings, evaluate the practicability of their preservation and renovation.
- Arrange for regular checks on the receipt of rentals within the area of administration of the Ministry.

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In his response, the **Minister of Culture in the capacity of the Minister of Education and Research** represented the views of the Ministry of Education and Research on the issues highlighted in the audit report. The full text of the official reply is annexed to this report.

For addressing the issues raised in the audit report, the SAO will submit its proposals to the Government of the Republic in the report "An overview of the use and preservation of state assets in 2004".

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