

Activity of the Ministry of Defence in the management of state-owned buildings

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Summary

Last year the State Audit Office (SAO) raised an issue of inefficiency in the use of state-owned buildings (37 % of buildings were without use), which resulted in the Government of the Republic assigning, with its decision, all ministers the task to develop an action plan for their area of administration in respect of the immovable property and buildings under their management, so as to optimize the use of property and assess the expediency of asset transfer to the Public Limited Company Government Real Estate (GRE). The audit focused on the activity of the Ministry of Defence in the management of buildings and the disposal of unneeded property within its area of administration.

In 1995-1996, altogether 84 military encampments, consisting of up to 60 structures, of the armed forces of the Russian Federation were transferred to the management of the Ministry of Defence; however, the exact number of structures in those encampments was unknown both at transfer and today. All in all, about 4,000 structures of the Russian Army were placed under the management of the Ministry, most of which were either unnecessary or unsuitable for the Estonian Defence Forces or in a neglected state and unusable already at transfer. By 2004, the majority of those objects had been sold, disposed of at no charge or written off by the Ministry. In May 2005, there were over 800 buildings and 200 structures still left according to data of the state assets register.

Main observations and conclusions

In 2004, the Ministry managed to substantially reduce the number of structures unnecessary for the performance of its main activity, by disposing of more than 30 percent of buildings and 10 percent of structures during the year. It was decided, in principle, to discontinue the practice of giving any residential facilities of the employer to public servants. During the time of audit, the Ministry only started to work on the envisaged plan of action for the real property under its management.

In the past ten years, the SAO has repeatedly drawn the attention of the Ministry of Defence to the issues pertaining to buildings and structures. To date, two key issues are still unsolved:

- There is no exact overview of the condition, use and future purpose of the buildings and structures within the area of administration. Data about the structures in the administration area are mostly available in the Ministry, but there is no certainty about their completeness or correctness. The Ministry was unable to produce summary data about real property not needed in the area of administration.
- There is no detailed plan of development for the Estonian Defence Forces, under which it would be possible to identify the need for buildings and develop a plan for the development of real estate under the Ministry's management.

Since the Ministry lacks a development plan for the defence forces, there are no clear-cut criteria for the evaluation of financial feasibility of investment decisions. The lack of the development plan may result in a situation where the needed but postponed investments prove to be considerably bigger in the future. The lack of a plan of action has led to a situation where no investments have been made in the preservation of state-owned property without current use and therefore the property is falling into ruin.

The SAO is of the opinion that today when over a year has passed since Estonia's accession to NATO and the strategy for "The structure and development of the Estonian Defence Forces 2010" has been adopted, the required prerequisites for preparing elaborate development plans for the Estonian Defence Forces and addressing the issues described above are firmly in place.

The existing registers do not provide a comprehensive overview of the Ministry's assets. The data maintained in the state assets register were not systematized across the agencies within the area of administration; there were no records in the register of asset transfer related to the reorganisation of the defence forces. Lots of buildings are on the books at cost which does not reflect their fair value. The Ministry had and still has assets which are not included in the state assets register; at the same time the register had data of structures not recorded in the Ministry (during the 2004 physical inventory, 99 such

structures were entered on the books). Other registers do not provide an overview of the buildings and structures of the Ministry of Defence either, because one third of buildings are recorded in the construction register and only 200 apartments in the land register. Also the cost of structures varies across different registers. Furthermore, government agencies are under no legal obligation to enter their data into the land register and the construction register.

The leases of immovable property located at 103 Kopli and 2 Suur-Sõjamäe have been concluded on terms unfavourable to the government. The terms of the lease contract for 103 Kopli have been amended several times, mainly in the interests of the lessee.

For management of real estate, the system for the maintenance of facilities was initially introduced in 2003, based on the Estonian standard "Activities to guarantee the maintenance of facilities". This undertaking has stopped by now.

Proposals

To the Minister of Defence

- Expedite the preparation of detailed development plans for the Estonian Defence Forces; on these bases, draw up a real estate development plan meeting the administrative needs of the Ministry and start its implementation. Set a specific deadline for the completion of the development plan.
- On the basis of the real estate development plan, identify the buildings and structures currently in use or needed in the future and dispose of unneeded buildings, by deciding
 - which of them can be transferred (i.e. passed to the GRE) or rented out profitably; in respect of disposable structures consider the necessity of entering the land under the buildings in the land register, with a view to earning biggest possible proceeds from the sale in the future;
 - which unnecessary buildings must be judged to be unfit, written off and demolished.
- Create a real estate database that would meet the requirements of the day and allow for regular updates. Review and correct data in the state assets register and the construction register.
- Establish a specific work programme for the real estate bureau of the Ministry in line with the plan of real estate development yet under preparation and monitor its implementation on a regular basis.
- Continue developing the system of real estate maintenance.
- Ascertain if the government has suffered loss from the conclusion of leases for 103 Kopli and 2 Suur-Sõjamäe and who are the persons to assume legal liability.
- Find opportunities for the termination of leases of immovable property located at 103 Kopli and 2 Suur-Sõjamäe or make them more beneficial for the government.

The Minister of Defence concurred with the proposals of the SAO and presented an overview of taken and proposed measures for tackling the issues highlighted in the report. The full text of the official reply is annexed to this report.

In order to solve the identified problems, the SAO has also submitted its proposals to the Government of the Republic in its report "Overview of the use and preservation of state assets in 2004".

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