Use of European Union funds in the development of the social infrastructure of municipalities, towns and cities

Have the goals of the projects carried out with the assistance of EU grants been achieved and has this been checked?

Report of the National Audit Office to the *Riigikogu*. Tallinn, 20 January 2012

Summary of audit results

The National Audit Office audited how local authorities or their associations have used the European Union (EU) grants allocated to them for investments on the basis of the KOIT Plan and for investments in the projects for information and counseling centres and open youth centres. The local authorities have received the funds prescribed for the implementation of the KOIT Plan *(Plan for Use of Investment Support Allocated to Local Authorities)* to build and renovate schools, nursery schools, cultural centres etc. All of these were also regarded as parts of the social infrastructure of a local authority alongside youth centres and information and counselling centres.

The audit took a look at how eligible projects were selected, whether the goals set to the projects were achieved and whether the allocator of the grant checked the achievement of goals. The results of the projects and the factors that make them last were also analysed in the course of the audit. The reasonability or measurability of the overall goals set to the support measures were not checked in the course of the audit, as it focussed on specific projects.

20 projects that were finalised with funds from the previous (2004-2006) and the current (2007-2013) funding periods of EU grants were selected for the audit. The activities of the final beneficiary and the implementing agencies, i.e. the Ministry of the Interior and the Ministry of Education and Research, as well as the implementing entities Enterprise Estonia and the Foundation for Lifelong Learning Development Innove were evaluated on the basis of these.

EU grants have been used to make significant investments into objects through which the local authority provides public services. The grants allocated to the projects of the KOIT Plan and to projects of youth, information and counselling centres (hereinafter youth work investment projects) since Estonia's accession to the EU total *ca.* 186 million euros. These funds have been used to renovate old and establish new objects in approximately 180 local authorities.

Estonia has set itself strategic goals in the use of EU grants, the achievement of which should help overcome the problems that have an adverse effect on the state's ability to develop and leave us lagging behind the other European countries. It is therefore important to allocate EU grants to projects that help resolve these problems in the best possible manner. What should convince us of this is the knowledge that the projects that deserved grants were selected on the basis of well-considered decisions and that their advantages when compared to the projects that were not given grants are justified and understandable.

It is also important for the taxpayer that grants are invested with the long-term future in mind, and that the high maintenance costs of the acquired assets are not the only thing to remind people that the grant was used. In local authorities, it means that the money invested in building a cultural centre, sports hall, youth centre etc. also brings about a change in the volume and quality of public services, and the services offered by the agency that received the grant also has consumers in the future. The further maintenance of the assets acquired with the grant should obviously not become an obstacle to the development of the local authority's other areas of activity.

In the course of the audited projects EU funds were used to build and renovate buildings and facilities, which are now used to provide important public services nationwide. These projects have improved people's opportunities to use services and the number of services provided has usually also increased. These are the results the projects were expected to achieve when grants were allocated for them. The local authorities who received the grants and the state agencies that allocated the funds are satisfied, and local people are probably also pleased about the better opportunities. One could ask, what else could we expect from these projects, and it may seem inappropriate to consider their results anything other than good. However, some flaws can be found. Having audited the allocation and use of grants, the National Audit Office believes that there are problems, which must be solved by the next EU financing period of 2014-2020.

The state does not have an accurate overview of the location of the social infrastructure objects of local authorities, which makes it impossible to assess how competition between these objects could affect the results of projects. The majority of the KOIT Plan investments were made into general education schools, but it is still unclear which schools are sustainable in light of the decreasing number of students, and how this should be considered when the investments of schools are supported. Without this, there is no reassurance that support is given to projects whose results will be felt in the society for a long time.

The National Audit Office found that the process for selecting projects for the KOIT Plan as well as youth work investment projects has not been sufficiently transparent. It is therefore unclear what makes the projects that were given grants better than the projects that received no money. The risk that a project is selected on the basis of subjective preference and that the biggest benefits for the public are not considered has largely not been managed in the project evaluation methodology. The reasons why certain projects were selected are unclear.

The National Audit Office also finds that the achievement of the goals set to projects is not adequately checked. A project often has several goals, but it is not ascertained whether or not all of them were achieved, because this calls for detailed research (e.g. the satisfaction of residents, change in quality of life). Without this, we will not know whether all of the goals were achieved.

Six of the audited local authorities had measured the achievement of goals in some manner. As there were twenty auditees, then this figure is certainly not adequate and it suggests that many auditees have never even intended to ascertain whether the goals set to projects are actually achieved. The implementing entities have focussed on the eligibility of expenditure and the construction works on the site when checking the use of grants. The impact of the project on public services or on the solution of substantive problems is often not checked.

The National Audit Office studied the performance indicators of projects and found that the persons who benefit from grants in similar projects or in the various stages of one and the same project are very differently determined, which means that the conclusions made on the basis of these data when selecting projects for support and in the subsequently written reports may be incorrect. The National Audit Office wanted to rely on the data kept in the national register of structural support when it studied the performance indicators, but found that the information contained in the register is incomplete and often highly inaccurate. The register did contain most of the data, but important information such as goals, their performance, achievement levels of performance indicators, inspections, was often missing. Correct register data and performance indicators are also important when reports are submitted to the European Commission. The National Audit Office believes that adherence to the requirements for keeping the register should be more efficiently inspected and the existence of incomplete data in the register should not be tolerated.

As for the results of the projects, the National Audit Office can confirm that the assets acquired for the grants were used for the intended purposes at the time of the audit. New public services have usually been introduced as a result of the project and, with one exception, they were all still available at the time of the audit. The results of the majority of the projects have persisted although several years have passed since their completion, which is certainly very positive. Having analysed the factors that influence the sustainability of the achieved results, the National Audit Office did not find anything that would cast serious doubt on the persistence of the results. The audited local authorities are in a similar situation with the remaining local authorities in terms of the changes in the number of residents (i.e. beneficiaries) as well as the most important financial indicators. For example, there were relatively few (25%) local authorities among the auditees where the decrease in the number of residents in recent years has been bigger than the average in the county. Also, the share of local authorities who have received less tax income per resident than the average in the county among the auditees was also relatively modest (35%). The first of these indicators has a positive impact on the probability of the number of beneficiaries remaining the same and the second one illustrates the ability to finance activities.

However, the share of local authorities who have erred against the debt limit permitted by law is somewhat higher among the audited local authorities (20% vs. 7% among those who have not received grants). Although borrowing is understandable because of the obligation to co-fund EU projects, it must be kept in mind that a larger debt burden also binds a larger part of the local authority’s future revenue. This may force local governments to look for ways to save money and have a negative impact on the provision of services. The implementation of the project studies during the audit resulted in two of the audited local authorities exceeding the debt limit.

Although the management expenses of the buildings constructed or renovated with the grants have not led to a disproportionate increase in the total expenditure of local authorities and managing the acquired assets should not be difficult for them in the present conditions, this is only true if the principal revenue of the local authority does not decrease significantly in the future and if expenditure in other areas does not undergo a significant increase at the same time.

Responses of the auditees

As a result of the audit, the National Audit Office gave eight recommendations to the Regional Minister, the Minister of Education and Research, the Minister of Finance, and the management boards of Foundation Innove and Enterprise Estonia. The National Audit Office advises to specify the methodology used to select the projects that are given grants; to establish more detailed requirements to phrasing the goals of projects and to the data submitted about the results and beneficiaries of the projects. The correctness and completeness of the data submitted to the register of structural support should be more efficiently checked, and more attention should be given to the competition between the social infrastructure objects of local authorities and the sustainability of general education schools when projects are selected.

The auditees promised to consider the recommendations made by the National Audit Office in their activities during the next period of the EU structural funds. Järvakandi Municipality Government, Pärsti Municipality Government and Enterprise Estonia made remarks on some of the conclusions included in the report. These remarks are available in full alongside the audit report on the National Audit Office’s website www.riigikontroll.ee.

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