Use of education allowances in municipalities, towns and cities

Have the audited local governments used the support received from the state for payment of the salaries of school staff for its intended purpose? Are the principles of supporting local governments and the goals of school network streamlining in compliance with each other?

Summary of audit results

What did we audit?

The National Audit Office audited the use of the support received from the state for payment of the salaries of school teachers and school principals in 10 local governments and their 17 schools in 2014. It assessed whether the support had been used as required in the Basic Schools and Upper Secondary Schools Act and the regulations of the Government of the Republic issued on the basis of the Act.

Albu, Ambla, Kullamaa, Paikuse, Suure-Jaani, Tähtvere municipalities, Keila, Sindi, Mustvee and Mõisaküla towns and their general education schools were the auditees.

The National Audit Office also audited the principles of dividing the salary support, especially whether the principles of the salary support and the reform of the school network support the same goals.

Why is this important to taxpayers?

Good school education is a precondition of the society's development and the increase in general well-being. In order to achieve this, it is important to have competent and motivated teachers, who are adequately paid for the efforts, working with children at schools. The salary support of teachers and school principals is the biggest support paid from the state budget to local governments. The amount allocated for this in 2016 is 210 million euros, which comprises 14-15% of local government revenue. The state gives the money to local governments, but in the end it is important that it actually gets to teachers and school principals.

Education support is an education policy instrument used by the state. So is the programme launched by the state for the optimisation of the school network for the purpose of bringing the number of schools and the use of premises in compliance with demographic changes. It is important that these two work in harmony, as otherwise it is a waste of time and taxpayers' money.

What did we find and conclude on the basis of the audit?

There were some small deviations from the rules when the support was used, but the money has largely gone where it was supposed to go, i.e. it has been used or is intended to be used for paying the salaries of teachers and school principals. The overall picture looked good and using the support in the required manner was not a big problem.

However, the National Audit Office found some fundamental problems in the model of the education support itself. The impact created by the support division principles is not the same that the state tries to achieve with the school network programme. These two do not work together and this is not appropriate for efficient governance. Also, the rules of using the support are too inflexible, which is contravention of the overall logic of the functioning of local governments – the option to decide for themselves how they use their revenue in the interests of the community.

Key observations of the National Audit Office about the model of education support:

- **The intended purpose of education support is too strictly limited.** This has helped guarantee the pay rise of teachers, but limiting the use of such a larger part of revenue (14-15%) is fundamentally in contravention of the overall nature of local government. Local government funding must comply with its functions, but also allow for some flexibility regarding the needs of the community. Strict precepts do not fit into this model and they actually show that the state has little trust in local governments. Moreover, excessive restrictions mean that all of the money must be spent in the prescribed manner irrespective of whether operating a school for taxpayers' money in a certain location is reasonable in the long term when demographic processes are considered.

  The pay rise of teachers could be influenced more via the minimum salary of teachers whilst allowing more freedom in the use of the support. This could make local governments more responsible for using the money in a reasonable manner, which in its turn would promote making rational decisions in the area of operating schools. An alternative to operating one's own school, for instance, is to do it in cooperation with the neighbouring local government, in which case it would be important to provide fast and convenient transport for students. Expanding the area of use of the support would allow for it to be used, for instance, to pay for the transport of students, which is not allowed at present.

- **The state want to support strong basic schools close to home, but has not specified what this means.** Supporting basic education close to home is a reasonable goal, but this can be efficiently influenced with money only if everyone understands what it means. Until this is done, the goal remains nothing but an empty declaration and it is impossible to assess how the principles of dividing the support actually contribute to the accessibility of basic education close to home.

- **The effect of the coefficients of education support contradicts the goals of streamlining the school network, and vice versa.** The idea of the coefficients should be the differentiation of education support in such a manner that the education service is well accessible throughout Estonia. Consequently, some local governments receive twice as much support per student at the expense of others. This is not bad in itself, but the state wants the number of schools to decrease and the organisation of schools as a whole to become more cost-effective at the same time. The school network programme has been launched for this purpose. It is obvious that local governments with high support coefficients are the ones that have several schools which could obviously be merged, but this is not favoured by the bigger amount of support per student. It's not up to the National Audit Office to say which of the goals is more important, but the measures used in the same area should not obstruct each other.

Key observations of the National Audit Office about the problems of local governments and their schools:

- **The support given to several schools for the salaries of teachers has partly been used to pay the school principals, which is not permitted according to the rules.** This was the case in seven of the 17 audited schools. The two schools in Albu Municipality had done it more than the others (11% of the teacher support in total).

- **In some schools, the principals had decided to pay remuneration to themselves.** This was the case in the schools of Paikuse and Albu municipalities, and in Mustvee Upper Secondary School. These decisions clearly represent conflicts of interests. Only the mayor of the municipality, town or city, or the person appointed by the latter can make decisions about the remuneration of school principals.

- **Keeping account of the use of the support was inadequate in Keila School, where a lot of the support was not used due to calculation errors.** The salaries of the other employees of the school were initially included among the salaries of teachers as well, which made it look like all of the support had been spent. Approximately 124,000 euros was therefore not used, but a promise was made to pay it out to teachers in 2016.

What do we recommend as a result of the audit?

The state plans to analyse possible changes in the local government financing model in the course of the administrative reform. This should certainly include the education support as well. The National Audit Office is of the opinion that the focus should be on the abolishment of the intended purpose of education support to make it a part of the revenue base of local governments that has no intended purpose. Differentiating the support between local governments should also be more clearly connected to the need to support the basic school close to home. The goal of a higher support rate should be known and justified in terms of education policy in each specific case. The National Audit Office will make the relevant recommendations to the Minister of Education and Research.

The **Minister of Education and Research** did not agree with the recommendations made by the National Audit Office and found that changing the present system in terms of the intended purpose of the education support and the local government-based coefficients would not be justified (see more on pp 20-22).

The National Audit Office made no recommendations to the audited local governments or schools in the report. The shortcomings were not systematic, attention has been given to them and attempts will be made to avoid them in the future. The National Audit Office will send a separate memo to Keila Town Council to request that the council check whether the management of the school has kept its promise and paid out the unused part of the support as salaries to teachers.