

**Summary of the compiled audit report *Appropriation of current grants in local municipalities***

After completing a horizontal audit in 22 smaller municipalities in Slovenia the Court of Audit (hereafter: the Court) has published a compiled report on a systemic overview of current grants disbursed from municipal budgets, which in total represent 40% of municipal expenditure. The audit focused on five types of current grants that are materially most important and are paid from municipal budgets to the providers of public services and NGOs. These are grants for school transport, pre-school childcare, institutional care for the elderly and some activities of the non-profit public sector entities (i.e. schools, public health centres, kindergartens) NGOs. The report summarizes the findings and irregularities from the individual audit reports and presents recommendations on specific issues and, most importantly, articulates systemic problems of financing of municipalities with substantiated arguments.

There are 16 recommendations to 6 ministries in the compiled report. Special attention is given to the

analysis of the trends of current grants in the past seven years and to the comparison of the data on

the municipalities which have led the Court to a vital realisation that the differences in total expenditure of

municipalities on the five types of current grants are very significant. Considering, that the five current grants together represent 1/3 of all municipal disbursements and that they are generated by statutory provisions, the issue of such discrepancies among municipalities prompted the Court to look deeper into the system of financing of municipalities. To address this issue the Court further tackled the concepts of 'proportionate consumption' and 'average grant'.

Current grants are a group of disbursements which have in the 8–year period 2007-2014 represented more than 1/3 of all expenditure of municipalities. For the first two grants, for pre-school childcare and institutional care for the elderly, which in 2012 added up to 14,3% of all expenditure and 35,5 % of all current grants, the obligation of their payment is statutory and based on the written orders issued to the beneficiaries by the social services. The types of current grants audited, all intended for the financing of the statutory tasks of the municipalities, amounted in 2012 to 28,1% of all expenditure and 69,7% of all current grants paid out by all the municipalities in the Republic of Slovenia. When a few other grants paid for the financing of the performance of statutory tasks of municipalities are added (e.g. fire brigade, assistance at home) it can be concluded that most of the current grants of the municipalities are paid out to finance the statutory tasks. For most of the grants the municipalities have no influence on the amounts paid, since the prices of the services they finance are calculated using prescribed methodology over which the municipalities have no say, which makes them solely the financiers of the services. They do have a limited influence only over some of the current grants like those for school transport and subsidies for non-profit public sector entities. Based on the above data for the eight-year period it does not come as a surprise that the final picture clearly shows how the cumulative amount of the grants is not sensitive to the yearly variations in revenue and expenditure of the municipalities.

Data on individual types of current grants over the 8-year period show higher than average rise of current grants for the institutional care of the elderly, which have almost doubled (94%) and the current grants for pre-school childcare, which have risen by half, thus significantly influencing the cumulative rise of all current grants (58,8% influence) as well as expenditure of the municipalities (20,2% influence).

The Court analysed the differences between prices of pre-school child care programs in 2012 and established that the difference between the lowest and highest price for the nursery was 211 euros and for older children 224 euros per month. Similarly, using some statistical data it has been calculated that the ratio between the lowest and highest price of institutional care of the elderly was 1:2. The ratio between the lowest and highest price of school transport for primary school children per kilometre in the audited municipalities rose to a high 1 : 49.

Also when the annual amount of current grants was calculated per beneficiary, the differences in the 22 municipalities included in this audit were significant. The ratio for subsidies for the pre-school care was 1 : 1,9, for institutional care of the elderly 1 : 1,8 and for school transport 1 : 6,9 .

The differences are similar between the municipalities when analysed by the type of grant per resident. The ratio between the lowest and highest amount of current grants per resident for the school transfers was 1 : 6,8, for institutional care of the elderly 1 : 1,8 and for pre-school childcare 1 : 2,3 .

The findings on the current grants should be looked at also in the light of the system of financing of municipalities for the performance of statutory tasks. Their financing is based on the so called ˝proportionate consumption˝, a concept, which assumes that the calculated sum needed to finance a proportionate consumption is a sum needed for the municipality to carry out all its statutory tasks. There are two elements crucial for the calculations of this sum―the ˝average grant˝ and ˝corrective multiplier˝.

The average grant is calculated from the average of current expenditure and current grants in a number of budgetary sub-programs for the four-year period prior to the year for which the price is being calculated. Significant discrepancies have been detected in the audit as to the sum of current grants per resident or per beneficiary in the ratios from 1 : 1,8 to 1 : 9,2 . These differences can, at least in two materially most relevant types of grants (pre-school child care and institutional cares of the elderly) be attributed to factors other than the municipalities, such as centrally determined prices of pre-school care and institutional care, including income of the beneficiaries. In practical terms this means that the average expenditure of a municipality for performance of these tasks can significantly differ from their actual expenditure.

The second element, corrective multiplier, brings into equation also the number of residents under the age of 15 years and those older than 65, enabling the age structure of the residents to influence the final calculation of the financing needed to pay for the performance of all statutory task of the municipality in question. However, the data from the audit cast some doubt over the adequacy of such simple equation being used, especially in cases (municipalities) where the same number of beneficiaries of the same service lead to a significantly different total expenditure in current grants

The challenges of the concept of proportionate consumption also touch upon two other very important questions – the sustainability of the system of financing of municipalities and its fairness.

Expressing concern over the concept of proportionate consumption for not detecting large discrepancies in the current grants between municipalities should not lead to a conclusion that only the system of financing of municipalities should be changed. Big differences in the prices of pre-school child care programs and prices of institutional care for the elderly put the payers of those services, the individuals and the municipalities, in very inequable position thereby directly bringing to the fore the state regulated system of price setting/price calculation of those services.

Special concern should be raised as to the adequacy of the method for calculation of proportionate consumption in relation to the current grants for subsidizing of the pre-school child care and institutional care of the elderly. Not only because of their increase in the last years and the large proportion of expenditure they represent in the total expenditure of the municipalities. More so because they are very likely to continue with the upward trend also on account of the Europe 2020 strategic goal to have 90% inclusion of children from the age of four in pre-school education and the aging of population with the share of those aged 65 rising and most notably, those of 80 years and more.

Such potential growth could, with no changes being made to the system of financing, cause very disproportionate pressure on the expenditure of municipalities in the future.

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