



Summary
of the Audit on the System of Development Grants Provided
to Local Governments (1108)

Objectives and scope of the audit

The State Audit Office of Hungary (SAO) audited the system of development grants provided for local governments in alignment with its annual audit plan. The audit objective was to evaluate, whether the national grants provided for development purposes had effectively and efficiently contributed to the achievement of the development and regional development goals set by the National Assembly, as well as to that of local objectives.

Upon the emergence of EU funds, the grant scheme for national developments underwent a change. Besides the complementary nature of national funds, the National Development Concept and the National Regional Development Concept adopted by the National Assembly in 2005 formulated the need for harmonisation of national and EU budgetary resources, the measurability of development results and the elimination of overlaps in funding. In the audited period of 2006-2010 purely national development grants were available in the amount of HUF 388 billion to subsidise the development tasks of local governments. By 2010 the scope and amount of subsidies was constricted.

The audit was carried out on the premises of ministries involved in the management of the system of national development grants provided for local governments, two regional development councils, three multi-purpose micro-regional associations and twenty-nine local governments.

Main findings

The requirement of coordination – that is, the alignment of funds – formulated by the National Assembly was not met in the case of national development grants utilised by local governments. Simultaneously, local governments could apply for grants from several schemes, under different criteria. There were overlaps between funding objectives.

The supported objectives covered practically the whole scope of local government tasks. Nine-tenths of the subsidies supported the provision of compulsory local government tasks. The available grants and the objectives supported changed continuously, thus they were not calculable for the local governments who could

not plan with them in the long run. The appropriations were established taking into account the base appropriation and budgetary limits, as well as in the course of the debate on budget acts. The requests of local governments surpassed the available possibilities each year (one and a half to ten times).

Development funds were utilised mainly via tendering, whose publicity was appropriate. The specific subsidies provided from chapter-managed appropriations, as well as those granted on the basis of government decisions aiming at the division of funds remaining at the end of the respective years proved to be exceptions to the above.

Those in charge of the management of the appropriations did not specify the results expected from the subsidies and the indicators suitable for measuring and assessing the achievement of objectives.

In the system of national development grants provided for local governments there was no single monitoring system in place. The effectiveness of the utilisation of subsidies was evaluated partially and individually.

The government decree regulating the establishment of a territorial monitoring system – stipulated to be set up by the Act on Regional Development and Land Use Planning from 2000 and specified in the Regional Development Concept in 2005 – entered into force only in April 2010. The information system ensuring the harmonisation of the different funding schemes and the follow-up of the programmes implemented by means of these funds is still missing, though.

On the whole, the local governments had the plans, programmes and concepts requested by legal regulations at their disposal. These documents were elaborated in consideration of the National Development Concept, the National Regional Development Concept and the National Environmental Protection Programme. However, only 37.9% of the local governments prepared their local concepts for sports development, 72.7% of which respected the objectives set in the National Sport Strategy.

When implementing developments, local governments preferred those possibilities where they could apply for subsidies. Out of the development objectives, they favoured tenders with a higher grant rate. The expected expenditures of the operation of facilities implemented by means of development were not assessed by 71.9% of the local governments. SAO warned local governments to avoid that with special attention.

Approximately one fourth of the local governments' cumulative expenditures were effectuated by means of development grants provided purely for national

purposes. HUF 460 own and other resources could be mobilised per every one thousand HUF of subsidy. Own resources for the development indicated in the applications were available. Development grants provided by ex-post financing caused liquidity problems at 31.3% of the local governments, which could be surmounted by interim credits. Additional expenditure resulting from these credits increased the investment-related costs by 0.5% on average. The developments realised with national assistance proved effective.

There was an improvement in the resourcing and infrastructure of local governments and institutions. Professional and IT developments contributed to the utilisation of more up-to-date technical equipment in education.

However, the overall grant scheme was not efficient as the tasks to be completed in order to achieve the objectives set in the National Development Concept and the National Regional Development Concept, as well as the uniform methods to solve, measure and assess them were not specified. The system of funding was multi-channel, disintegrated, divided and hard to comprehend. The harmonisation of the funding objectives did not take place.

Recommendations

SAO recommends the Government to take measures in order to ensure the resource coordination of national grants provided for development purposes available for the local governments. The Government is also recommended to have an indicator system of the national grants provided for development purposes elaborated and to take measures to have an information system developed covering these grants as well as to follow up and harmonise the subsidies. SAO recommends the Minister of National Development to provide such development grants that also include the indicator ensuring the measurability of the objective to be achieved.