



ÁLLAMI
SZÁMVEVŐSZÉK

Summary
**of the Audit on the Financial Situation of the Local
Government of Town Eger with County Status (1132)**

Relevance of auditing the local governments of towns with county status

The actual economic difficulties of Hungary can be attributed mainly to the disorder of public finances in former periods and the high total debt. The year 2010 demonstrated that part of the risks is not connected to the central budget, but to the local level of public finances. Due to the financial management difficulties, the increase in the deficit on a cash basis, as well as the dangers resulting from indebtedness in the local government system, the State Audit Office of Hungary decided to audit the financial situation of local governments. The risk analysis carried out by the State Audit Office of Hungary (SAO) showed that firstly the audit of local governments operating at the middle level – mainly those of counties and towns with county status – is justified.

The audit objective was to evaluate whether the local governments of towns with county status ensured long-term financial balance, whether the recommendations concerning regularity and expediency to improve the financial balance, made in the course of the former audit of the financial management system were utilised. The audit was carried out on the year between 2007-2010 and, if possible, we also tried to cover the period until the last quarter before the on-site audit.

The financial equilibrium of the local government of town Eger with county status

The debt of the local government increased by nearly 2.5 times in the audited period. The total debt increased from HUF 2.6 billion to HUF 6.4 billion between 2007-2010. The current budgetary balance showed a surplus in terms of operating resources between 2007-2010 – despite the fact that as a result of the revenue from duties and the withdrawal of central resources, the assigned personal income tax and state subsidies decreased –, the operational balance was ensured. In the audited period the local government allocated HUF 13.2 billion and HUF 1.5 billion to its completed development tasks and to those in progress, respectively. The balance of the cumulative budget was continuously negative, a

lack of cumulative resources amounting to altogether HUF 8.6 billion evolved between 2007-2010.

The preservation of the budgetary balance could be ensured with the involvement of external resources. The lack of development resources was managed by means of long-term development credits and issuance of bonds for development purposes. With the continuous increase in its loans outstanding, also the interest costs burdening the local government escalated.

The bank liabilities of the local government at the end of 2010 originated from the issuance of bonds for development purposes amounting to HUF 2.0 billion (31.2%), as well as the borrowing of long-term credits for development purposes amounting to HUF 2.9 billion and CHF 6.8 million (68.8%). Consequently, the local government has to effectuate a capital repayment and interest payment of HUF 1.9 billion and CHF 3.5 million in the period between 2011-2013.¹ The local government's arrears to suppliers amounted to HUF 0.3 billion at the end of 2010. The proportion of overdue arrears to suppliers was 29.3%, of which 96.0% was due within 30 days. Due to the guarantees, the contingent liabilities of the local government amount to HUF 1.2 billion. The amount of residue, the financial fixed assets and the resources resulting from the collection of receivables provide a cover for the liabilities. Further bank liabilities due as of 2014 amount to HUF 4.7 billion and CHF 3.5 million, for the repayment of which the sale of tangible immovable assets might provide a cover.

Business associations, – in which the local government has a qualified majority ownership – have to repay bank liabilities of HUF 0.2 billion, EUR 0.6 million and CHF 0.5 million, as well as arrears to suppliers amounting to HUF 0.4 billion from 2011. It poses a risk for the local government if as a result of not settling these liabilities – in case of bankruptcy and liquidation – the court may determine the unlimited and full liability of the local government.

As a result of the active tendering activity, following the year 2010 the local government undertook commitments in the amount of HUF 3.1 billion, which were planned to be funded from bonds, by EU and domestic subsidies, as well as from own resources of HUF 0.2 billion.

The local government did not examine what kind of obligations the replacement of depreciated assets might cause. In the years 2007-2010, the local government accounted for a depreciation of HUF 4.0 billion after the tangible assets, while it spent only a fraction thereof, HUF 1.4 billion (34.5%), on renovation.

¹Taken the extent of the interest of the first quarter of 2011 as a basis.

In order to improve its financial situation, the local government took measures increasing its revenues and reducing its expenditures (lending out real estates and other assets, collecting local tax revenues, increasing the revenues from public utility development, as well as reorganising the institution and its tasks resulting in staff cut-backs, and taking other austerity measures). According to the information given by the local government, the simultaneous impact of these measures improved its financial situation by HUF 1.5 billion.

As a result of the former SAO audit, no recommendations were formulated concerning regularity and expediency aiming at the improvement of financial balance.

In summary, it can be concluded that the local government offset the revenues lost as a result of central measures with its arrangements to reduce expenditures and increase revenues.

The long-term bank liabilities of the local government increased, the financing thereof is ensured in the following three years in the light of the cover available. For the long-term liabilities of the following years the sale of tangible immovable assets may provide a cover; however, this resource is insecure due to the current situation of the property market.

Consequently, financial risks do not jeopardise the financial management of the local government; however, the long-term sustainability of financial balance require measures to be taken.

Recommendations for the Mayor

- To submit an action plan to the General Assembly, which stipulates the elaboration of an operational programme for the sustainability of financial balance of the operation. The action plan should contain the exploration of possibilities increasing revenues, the comprehensive review of the planned investments, the evaluation of the scope and content of voluntary tasks in terms of the financing thereof. We recommended that the Mayor inform the General Assembly about the results of the measures at least yearly.
- To present to the General Assembly every half year – in the framework of an ordinary report – a financing plan covering the whole scope of liabilities in a perspective of at least three years, indicating the resources in a quantified way, the availability of internal and external resources necessary for the developments in progress and those planned by the local

government and from this aspect evaluate the investments of the local government.

Recommendations for the town clerk

- To ensure that in the future the proposals on the commitments generating debt, substantiating the decisions of the General Assembly, contain the resources of repayment, as well as interest rate and foreign exchange risks to be expected at least in the following three years and the possibilities of managing these. To follow the risks of the off-balance-sheet items (guarantee) and inform the General Assembly at least every half year about the trends thereof.
- To follow continuously – with the assistance of those exercising proprietary rights – the influence of the commitments of business associations in majority ownership on the local government’s financial situation.