



Summary
of the Audit on the Infrastructure Development Programme
of the Higher Education (1171)

Objectives and scope of the audit

The State Audit Office of Hungary (SAO) has completed the audit on the infrastructure development programme of the higher education. The audit covered the evaluation of the justification, substantiation, implementation of the developments of education infrastructure, implemented within the cooperation of the public and private sector – PPP schemes –, as well as of the operation of facilities. The performance audit covered the Ministry of National Resources professionally supervising institutions of higher education, the Ministry of National Development monitoring PPP projects since 2010, as well 20 projects of 14 institutions.

The medium-term sectoral objective of the programme was to create the infrastructural conditions of the accession to the European Higher Education Area the earliest possible. The short-term fiscal objective – mainly justifying the implementation of the programme in PPP scheme – was to make the developments be accounted outside public finances.

In the applied financing construction, the necessary educational facilities were constructed or renovated and are continuously operated by private partners, as stipulated by the contract concluded with the institutions of higher education. In the implementation period of the projects, public principals pay rent and service charge to the private partner for the use of the facility, 50% of which was assumed by the ministry carrying out professional supervision.

The contribution to the rent of the educational infrastructure burdened the budget of the ministry responsible for education with HUF 14.9 billion between 2006-2010. The programme of the 20-year implementation period involves a chapter-level commitment of HUF 96.6 billion.

Main findings

1. The government decision taken in 2004 about the launch of projects involving the utilisation of funds and payment commitments for 20 years was not preceded by the elaboration of the higher education strategy, as

well as long- and medium-term development plans. The higher education system was reorganised in line with the Bologna process and the admission system was modified following the launch of the development programme.

2. The volume, composition and territorial distribution of developments were not based on the preliminary, sectoral-level determination and harmonisation of the capacity needs of institutions. For the whole implementation period of the programme, no headcount estimate was made – on the basis of labour-market needs assessment – either at institutional, or at sectoral level. As a result of the demographic changes and the measures determining the training system of higher education, the student number of institutions participating in the programme decreased by 16% in the period between 2006-2010.
3. Due to the lack of the adequate sectoral and institutional level substantiation of the programme, the utilisation of the created capacities is not ensured in the long term, the financing of projects is uncertain, mainly in case of institutions of higher education in the countryside, of a smaller size and with a smaller catchment area.
4. When concluding the grant agreements on the assumption of the 50% of payments, the ministry responsible for education did not enforce the requirement that the acquisition of services in PPP schemes should be more economic than traditional government investment and operation. Comparative economy calculations made by the institutions were formal. Projects were launched by two institutions despite the fact that preliminary calculations verified the advantage of government investment.
5. The legislation concerning PPP schemes is irregular and incomplete, regulations do not stipulate risk division. According to the framework contracts, the risks of construction and operation (availability) were taken by the private partner, while demand risk was borne by the public sector. However, in connection with four projects, the service providers concluded background contracts with the economic enterprises of the institutions of higher education – with the approval of the respective institutional leaders – , transferring the availability risk to the public partner.
6. In the course of public procurement procedures, there was no competition between some of the institutions, which hindered the promotion of state interests in establishing tariffs, as well spreading financing risks. The risks of inflation, foreign exchange rates and interest rate changes have been mainly taken by the public partner, which was unfavourable for the public sector in the past period.

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7. The contracts provide an opportunity for institutions of higher education to purchase the facility at residual value. However, in the contracts there was no agreement on the expected residual value, the principles of accounting and the method of determination thereof.
 8. As a result of the change in exchange rates, the increase of public utility fees and VAT, rents and service fees exceeded on average by 15.1% and 7.5% in 2009 and 2010 the amounts forecasted at the time of the conclusion of the contract, respectively. The sanctions of reducing fees were not entirely imposed by the institutions due to the deficiencies of the monitoring system.
 9. The set-back of revenues related to the decrease in student number, as well as the increase of rents and service fees exceeding the plans caused financing problems at some of the institutions. In 2010, the proportion of PPP commitments exceeded 10% and 20% of the expenditure appropriation in case of three institutions and two colleges, respectively.
 10. The implementation of the development programme was not evaluated comprehensively at sectoral level, compared to the preliminary economy, efficiency and effectiveness objectives, and expected impact.

Recommendations

Based on the findings of the audit, we recommended the Minister of National Resources to take measures for the determination of liabilities due to the deficiencies of the preparation of the educational infrastructure development programme. Furthermore, we recommended them to provide for the evaluation of the utilisation of capacities of state institutions of higher education and to take measures for the medium-and long-term utilisation of the higher education infrastructure.

We recommended the Minister of National Development to ensure that new developments are not launched in PPP schemes without the establishment of a legal framework ensuring complete transparency and accountability. Upon SAO initiative, rental and service contracts were completed with agreements which specified the method of determining the residual value.

We recommended the Minister of National Development and the Minister of National Resources to establish a set of criteria related to the funding of PPP projects in cooperation with each other. In addition, we consider it necessary to take measures to determine liabilities related to the decisions unfavourable for the public sector.