

**Corrective measures related to an over-indebtedness of a municipality**

**Role of the audit institution**

***Audit Office of the Canton of Valais (Switzerland)***

***EURORAI Seminar - 17th May 2019***

***Warsaw***

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# Main Theme



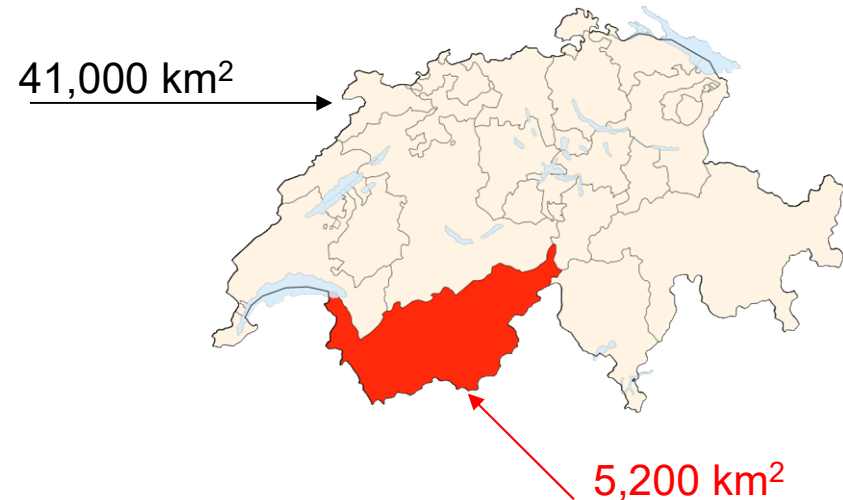
- 1. Introduction**
- 2. Concept to restore the financial health and monitoring by the Audit office**
- 3. Financial criteria for the supervision of municipalities**
- 4. Conclusion**

# Introduction



## Switzerland

- ❑ 26 cantons including the canton of Valais
- ❑ 2,222 municipalities (1990: 3021)
- ❑ Inhabitants: 8.5 millions



## The Canton of Valais

- ❑ 126 municipalities (1990: 163)
- ❑ Inhabitants: 341,000 (1990: 250'000)
- ❑ Municipality of Leukerbad : a tourist municipality, 1413 inhabitants (1990: 1568, maximum in 1996: 1'756)

# Introduction



## ▲ Financial situation of the Municipality of Leukerbad at the end of 1997

- ❑ Debts : CHF 170 Millions
  - Indebtedness per inhabitant : CHF 96,800
  
- ❑ Shareholdings and loans : CHF 98 Millions
  - To companies in financial difficulty (satellite companies)
  - No provisions for risks in the balance sheet of the municipality



# Introduction



## ▲ Measures taken to control the financial situation

- ❑ **Early 1998:** Mandate assigned by the Government (Valais) to the Cantonal Audit Office to analyze the financial situation  
(Audit Reports – experts – decision)
  
- ❑ **October 1998:** The municipality was placed under partial control by the Government (Valais)
  - 3 commissioners based outside of the canton (two jurists, one economist)
    - Their proposal: the waiver of claims to 80% of the amounting
    - This Proposal was rejected by creditors



# Introduction



- ❑ **July 1999:** The municipality was placed under control by the Cantonal Court
  - Mandate assigned to a manager (1<sup>st</sup> manager : 1999-2001 / 2<sup>nd</sup> manager : 2002- February 2004)
  
- ❑ **1999, 2000 and 2001:** 5 complaints for responsibility filled with Swiss Federal Court from 4 creditors and from the municipality against State of Valais
  
- ❑ **July 2003:** The complaints were rejected by the Swiss Federal Court
  
- ❑ **Summer / Fall 2003:** The concept to restore the financial health was designed by the 2<sup>nd</sup> manager



# Introduction



**Permanent monitoring of this Case  
by our institution**



# Main Theme



1. Introduction
2. **Concept to restore the financial health and monitoring by the Audit office**
3. Financial criteria for the supervision of municipalities
4. Conclusion





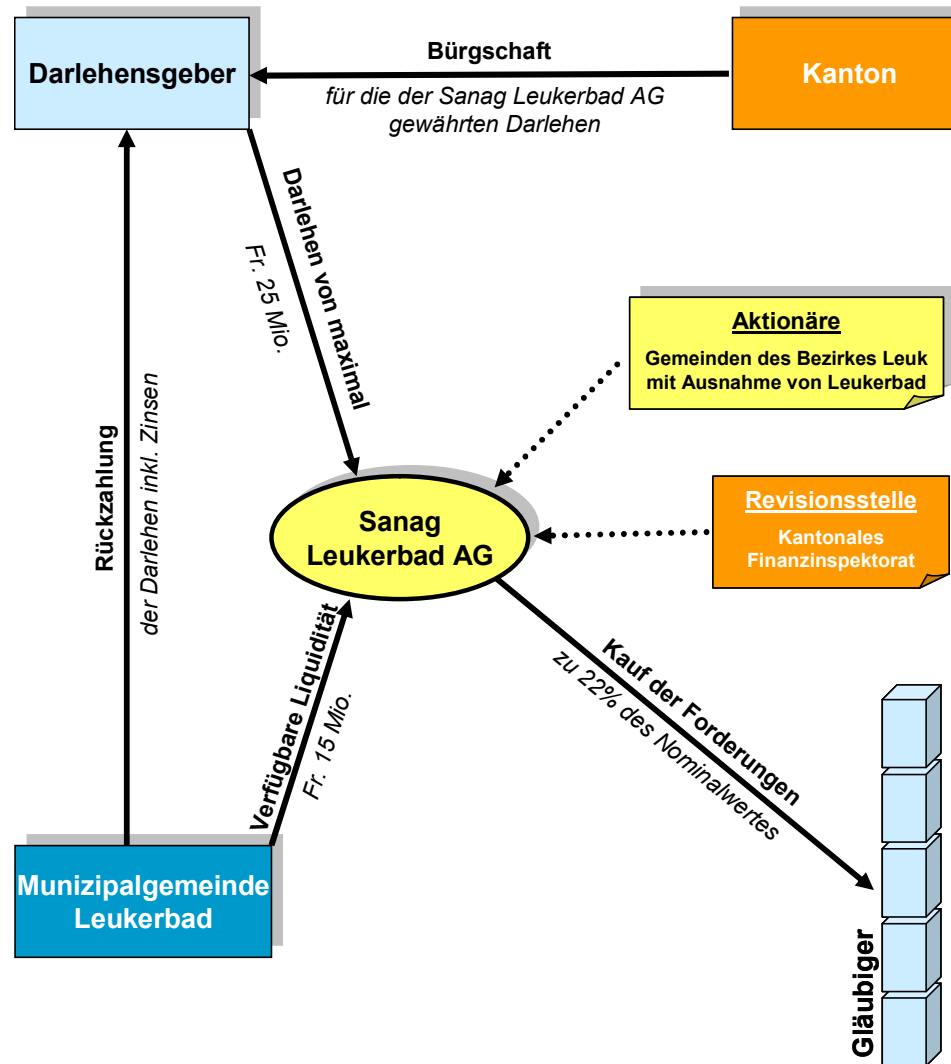
# Concept to restore the financial health and monitoring by the Audit office

## ▲ Concept to restore the financial health

- Sustainability of Debt = 22% (Dividend) = CHF 40 millions
  - Available funds of the municipality = CHF 15 Millions >>Balance to be financed
  
- **Sanag Leukerbad AG**
  - Purchases of Claims
  - A loan of CHF 25 millions covered by guarantee from the State of Valais
  - An annuity of CHF 900,000 to be supported by the municipality



# Concept to restore the financial health and monitoring by the Audit office



# Concept to restore the financial health and monitoring by the Audit office



## ▲ Parliament's decision (3.12.2003)

- ❑ Authorization for a loan of CHF 25 millions covered by guarantee from the State of Valais
  
- ❑ Conditions:
  - The Cantonal Audit Office (IF) must be appointed as auditor for the entity Sanag Leukerbad AG (Sanag)
  - Concept to restore the financial health must include at least 85% of the recognized claims.





## Concept to restore the financial health and monitoring by the Audit office

### ▲ Annual control performed in the municipality

- ❑ Payment of the minimum annuity
- ❑ Distribution of the annuity between Sanag and creditors who do not participate to the concept to restore the financial health
- ❑ Monitoring of the compliance with the maximum investment limit

### ▲ Annual control performed in Sanag entity

- ❑ Company Auditor
- ❑ Interest payments
- ❑ Repayment of the loans covered by guarantee from the State of Valais



# Concept to restore the financial health and monitoring by the Audit office



## ▲ Annual control performed in Sanag entity

- ❑ Participation in the General Assembly
- ❑ Detailed audit report and distribution in compliance with the cantonal law related to management , administrative and financial control
- ❑ Findings included in the annual activity report distributed to the Parliament
- ❑ In the 2016 annual activity report published in May 2017, the following message was included : the need to maintain the contract to restore the financial health will be analyzed during the year





## Concept to restore the financial health and monitoring by the Audit office

### ▲ Report of the 27.11.2017 of the Cantonal Audit Office distributed to the Government (Valais)

- ❑ The financial situation of the municipality has improved significantly
- ❑ The remaining debts (CHF 9.6 million at the end of 2017) can be taken over by the municipality
- ❑ The Indebtedness is sustainable by the municipality, the guarantee by the State of Valais to cover the loans can be removed
- ❑ According to experts, there is no legal obstacle to terminating the contract to restore the financial health
- ❑ The contract to restore the financial health should be ended





## Concept to restore the financial health and monitoring by the Audit office

- ▲ **The following conditions to be fixed were proposed in the report of the Cantonal Audit Office of 27.11.2017 distributed to the Government**
  - ❑ Net indebtedness is to be limited for 5 years to CHF 5,000 per inhabitant (end of 2017: CHF 2,200.00)
  - ❑ The method to calculate the net indebtedness was defined
- ▲ **The Government decides on 6.12.2017 to terminate the contract to restore the financial health on 01.01.2018**
- ▲ **A new agreement of 19.01.2018 is defined for a period of 5 years**
  - ❑ Limitation of net indebtedness
  - ❑ The Cantonal Audit Office controls compliance with conditions defined



# Concept to restore the financial health and monitoring by the Audit office



- ▲ **End 2018:** The remaining of Sanag's debts is taken over by the municipality
- ▲ **21.02.2019:** The general assembly of Sanag decides:
  - The waiver of claims related to the municipality
  - Dissolution of Sanag entity
- ▲ **11.04.2019:** Publication of the liquidation of Sanag entity in the Swiss Commercial Register Gazette





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# Financial criteria for the supervision of municipalities



## New Municipalities financial management Law of the 5<sup>th</sup> February 2004

### ▲ Fundamental principles

- ✓ Depreciation rate of 10 % for administrative assets
- ✓ The operating accounts must be balanced unless the municipality has positive own capital
- ✓ The balance sheet does not have a shortfall, in case of shortfall : a financial plan is required
- ✓ Audit of accounts by an external auditor

Audit firm and auditor in charge are subject to the approval of the Confederation according to the Swiss audit legislation of the 16<sup>th</sup> December 2005

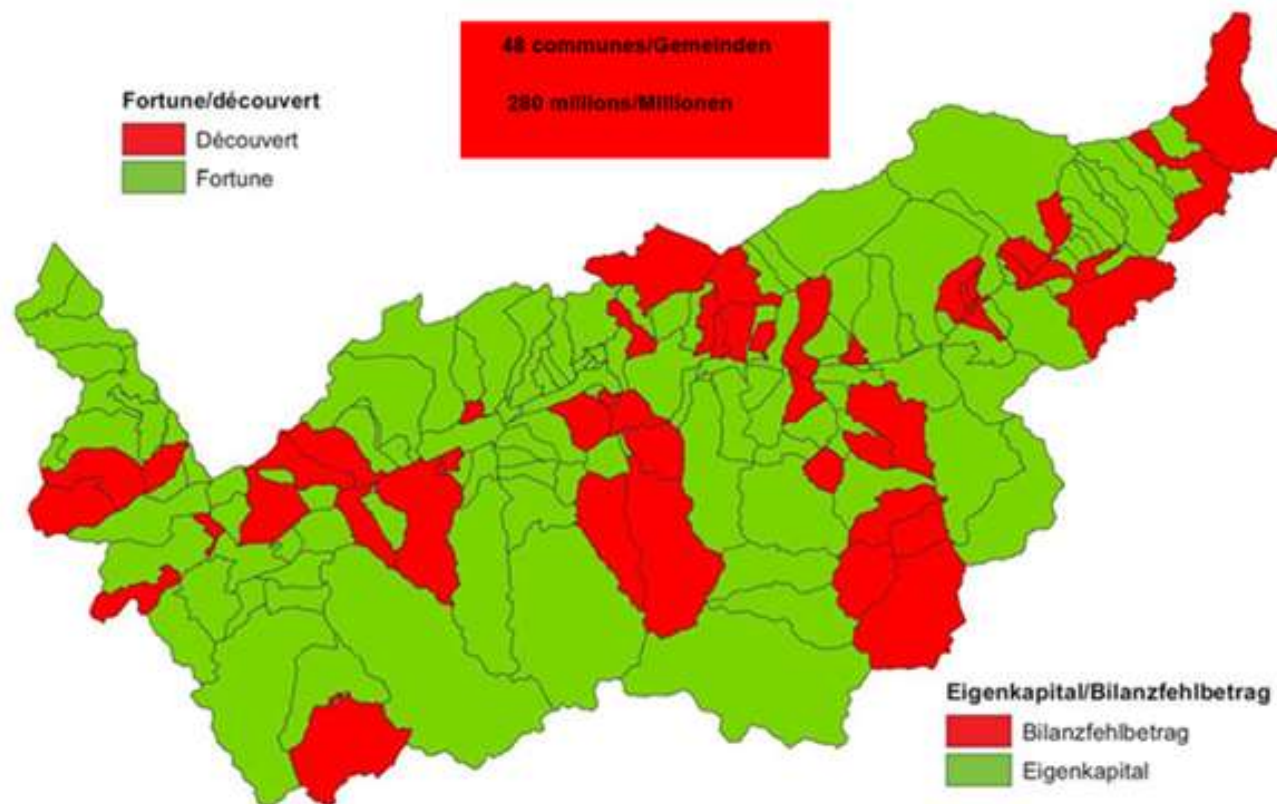


# Financial criteria for the supervision of municipalities



Cartes : Fortune et découvert 2003

Karten: Eigenkapital/Bilanzfehibetrag 2003

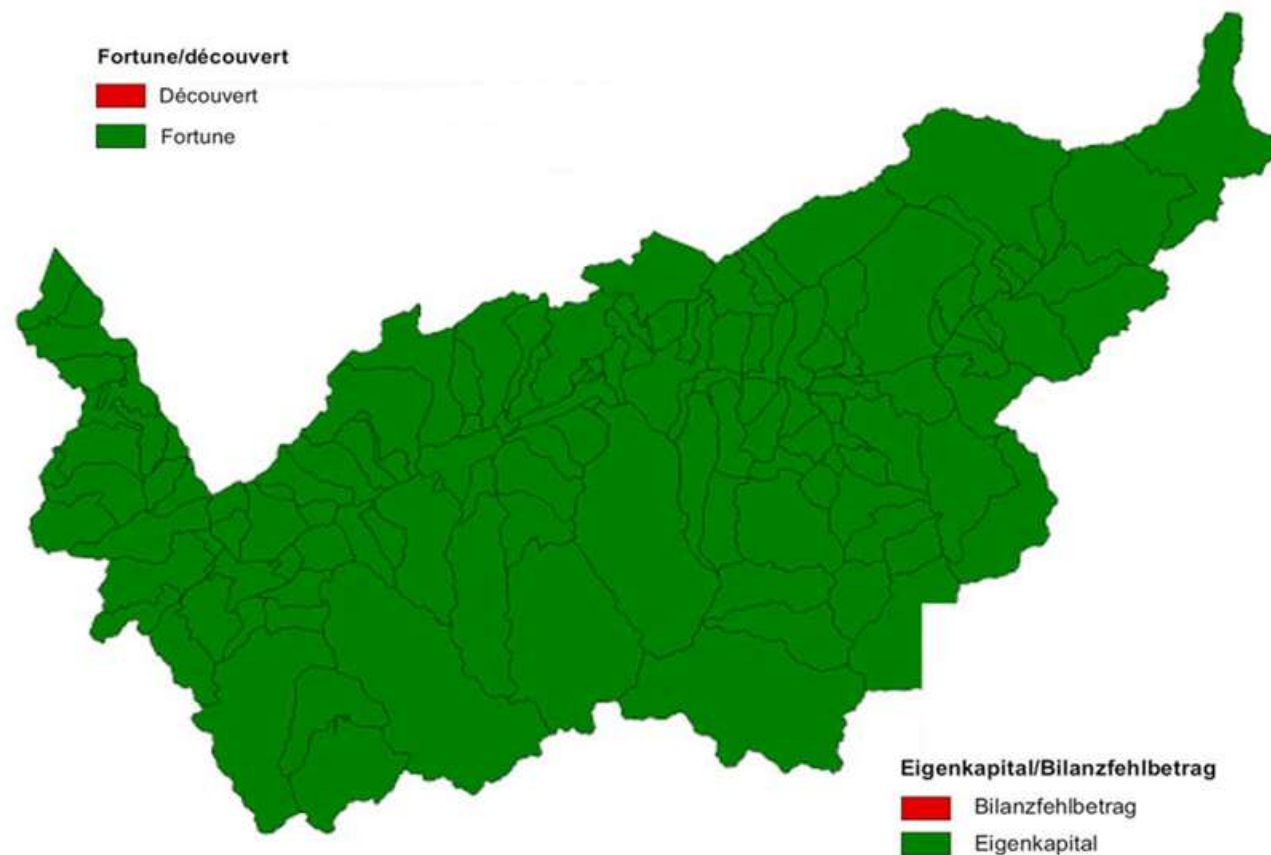


# Financial criteria for the supervision of municipalities



Cartes : Fortune et découvert 2018

Karten : Eigenkapital/Bilanzfehlbetrag 2018



# Financial criteria for the supervision of municipalities



## ▲ **5 financial indicators** (to be included in the published accounts)

- ✓ Self-financing level
- ✓ Self-financing capacity
- ✓ Ordinary depreciation rate
- ✓ Indebtedness per inhabitant
- ✓ Gross debt ratio

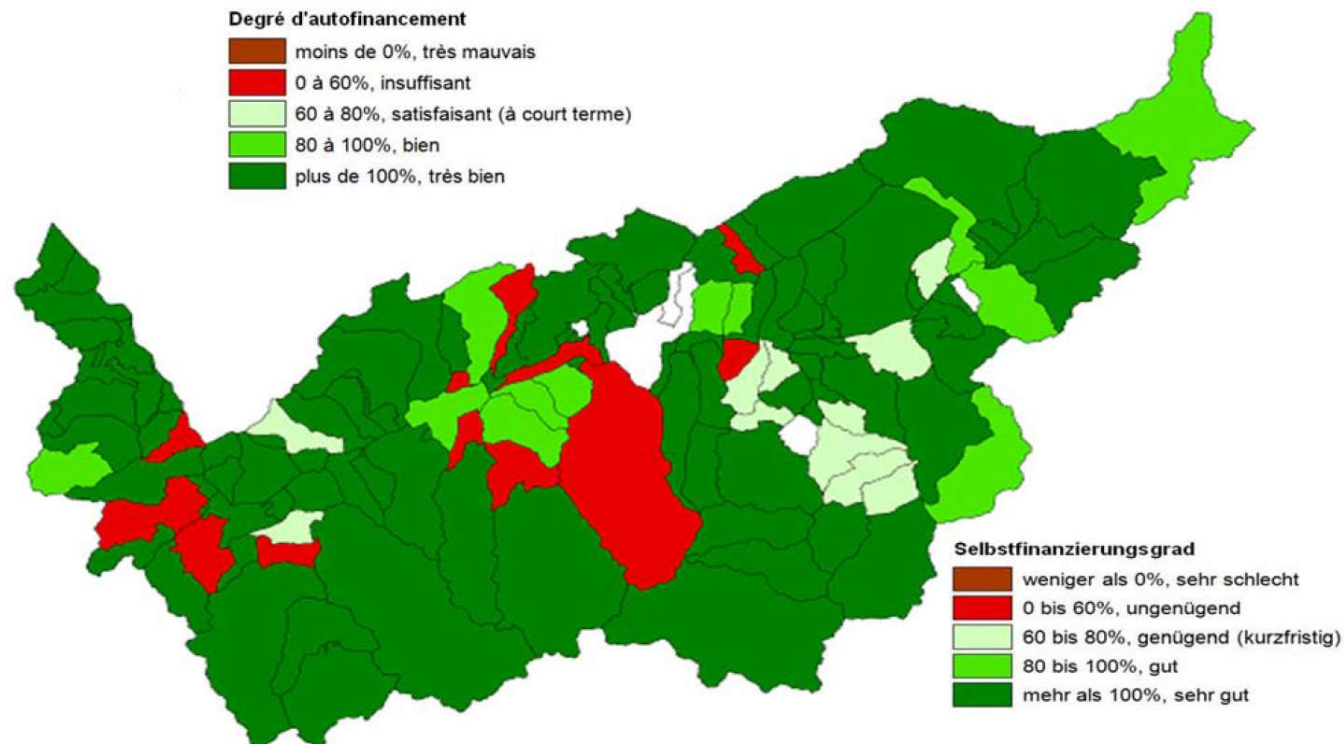


# Financial criteria for the supervision of municipalities



Carte : degré d'autofinancement 2017

Karte: Selbstfinanzierungsgrad 2017

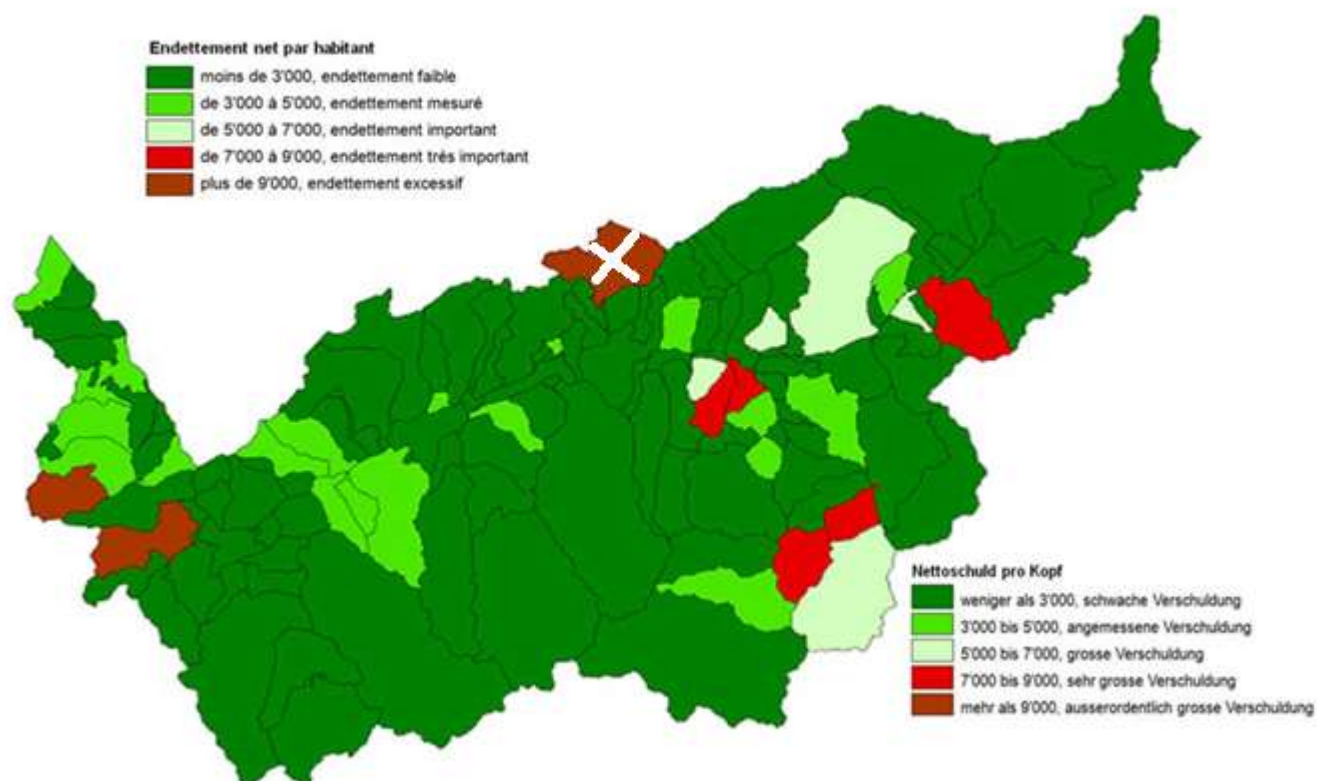


# Financial criteria for the supervision of municipalities



Carte : endettement net par habitant 2017

Karte: Nettoschuld pro Kopf 2017

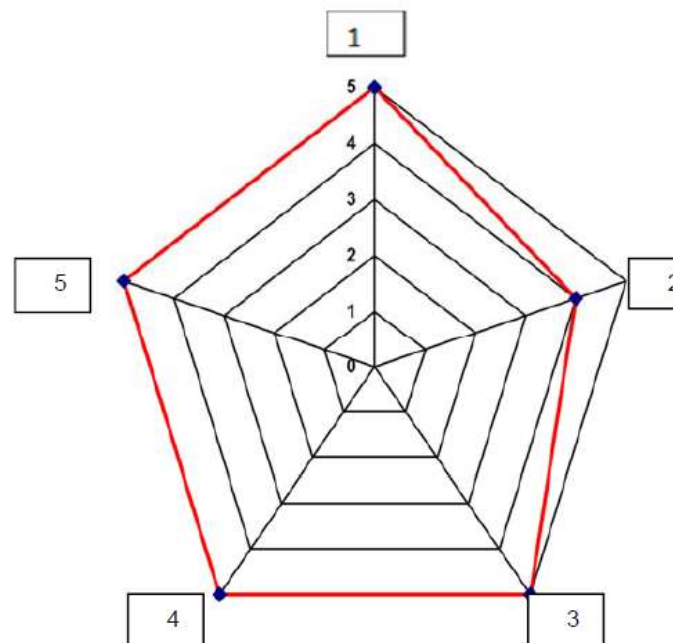


# Financial criteria for the supervision of municipalities



Graphique des indicateurs : Moyenne des deux années 2016-2017

Grafik zu den Kennzahlen: Durchschnittswerte der zwei Jahre 2016-2017



Degré d'autofinancement	1	Selbstfinanzierungsgrad
Capacité d'autofinancement	2	Selbstfinanzierungskapazität
Taux des amortissements ordinaires	3	Ordentlicher Abschreibungssatz
Endettement net par habitant	4	Nettoschuld pro Kopf
Taux du volume de la dette brute	5	Bruttoschuldenvolumenquote





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## Conclusion



- ▲ **The Concept to restore the financial health applied to the municipality of Leukerbad has proven its worth**
- ▲ **20 years later, the municipality of Leukerbad has regained its financial autonomy**
- ▲ **The measures taken in the context of the new Municipalities financial management Law of the 5th February 2004 led to a significant improvement in municipal finances**





***Thanks for your attention***

