



«Audit of regional municipal debt policy: experience and prospects»



Auditor of the Chamber of
Control and Accounts of
Rostov region—
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Federal Law
№ 41-FZ on April 5, 2013 «**On the
Accounts Chamber of the Russian
Federation**»

Article 5. The tasks of the Accounts Chamber:
- assessment of the effectiveness of budgetary credits from the federal budget, as well as assessment of the legality of the provision of state (municipal) guarantees and sureties ...

Article 13. The functions of the Accounts Chamber:
- audit (control) of the status of the state internal and external debt of the Russian Federation, budgetary credits from the federal budget...

Article 21. External state audit (control) of the status of the state internal and external debt of the Russian Federation, budgetary credits from the federal budget...

Federal Law № 11-FZ on February 7, 2011
«**On general principles of Organization and
Operation of Control and Accounting
Bodies of the Constituent Entities of the
Russian Federation and Municipal
Entities**»

Article 9. The main powers of CAB :
- assessment of the effectiveness of budgetary credits from the budget of the constituent entities of the Russian Federation (local budget), as well as assessment of the legality of the provision of state (municipal) guarantees and sureties ...

Regional Law of the Rostov region № 667-ZS
on September 14, 2011 «**On the Chamber of
Control and Accounts of the Rostov region**»

Article 9. The powers of CCA:
(similar to Federal Law № 6-FZ)



Control over the public (municipal) debt and debt policy

1. Control over the formation of the fiscal deficits and financing sources for the budget deficit
2. Control of public (municipal) borrowings
3. Control of state (municipal) guarantees
4. Control of volume and structure of public (municipal) debt
5. Control of repayment of the public (municipal) debt and debt servicing
6. Control over the management of public (municipal) debt



Limitations of the Budget Code of the Russian Federation in terms of deficit and debt obligations

article 92.1: The amount of the fiscal deficits shall not exceed $\leq 15\%$ of the amount of revenues of the budget of the constituent entities of the Russian Federation and $\leq 10\%$ of the amount of revenues of the budget of the highly subsidized regions, $\leq 10\%$ of the amount of revenues of the local budget and $\leq 5\%$ of the amount of revenues of the highly subsidized local budget without account taken of gratuitous receipts

article 106: The limit amount of borrowings shall not exceed the amount allocated for financing the deficit of the budget and/or repayment of debt: $\leq 100\%$ of the budget of the constituent entities of the Russian Federation and the local budget

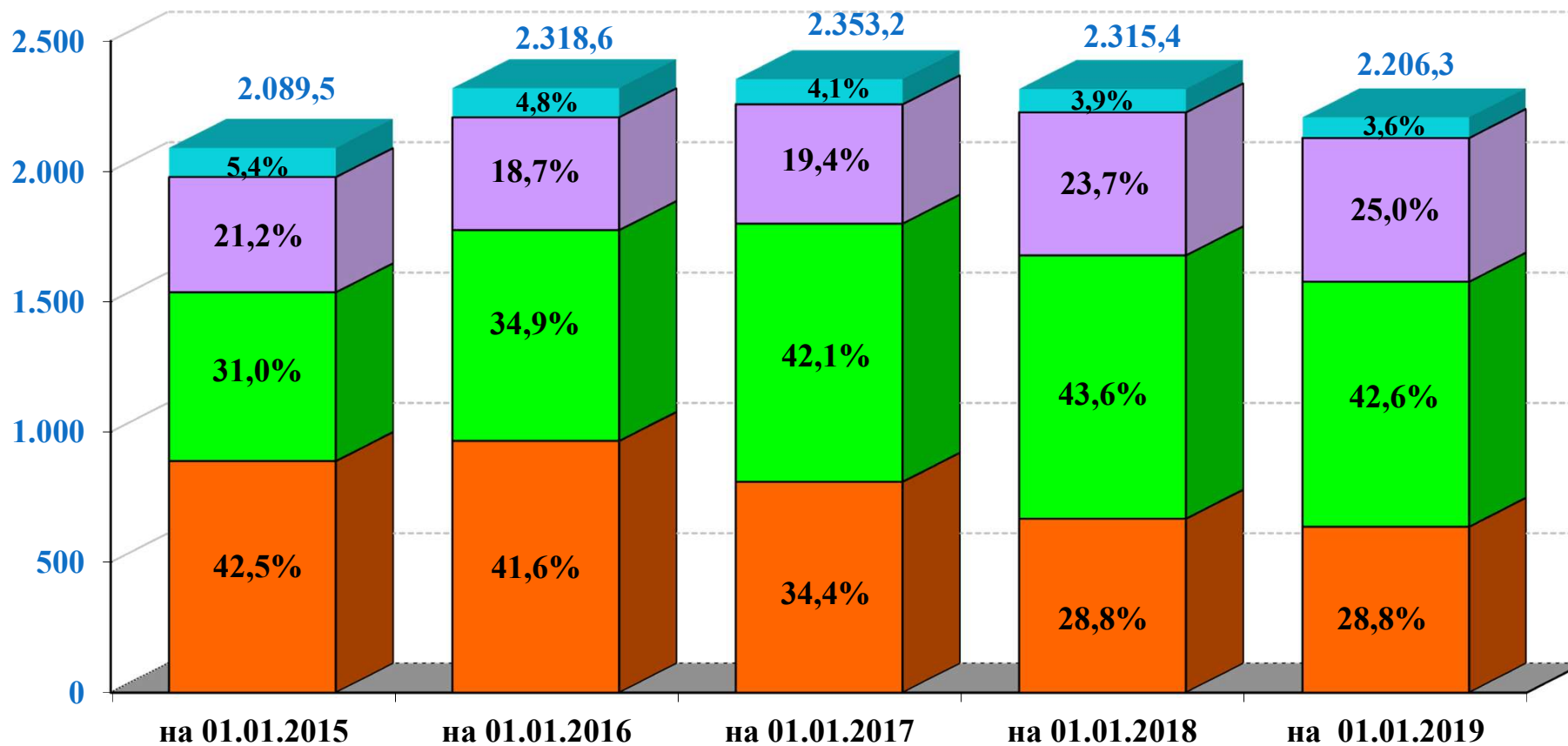
article 107: The limit amount of the debt to total annual amount of revenues of the budget shall not exceed $\leq 100\%$ of the amount of revenues of the budget of the constituent entities of the Russian Federation and the local budget, $\leq 50\%$ of the amount of revenues of the highly subsidized regions and local budget without account taken of gratuitous receipts

article 111: The limit amount of outlays on debt servicing shall not exceed $\leq 15\%$ of the amount of revenues of the budget of the constituent entities of the Russian Federation and the local budget except for the amount of expenditures made on account of subventions



Dynamics of volume and structure of the public debt of the regions of the Russian Federation

billion rubles



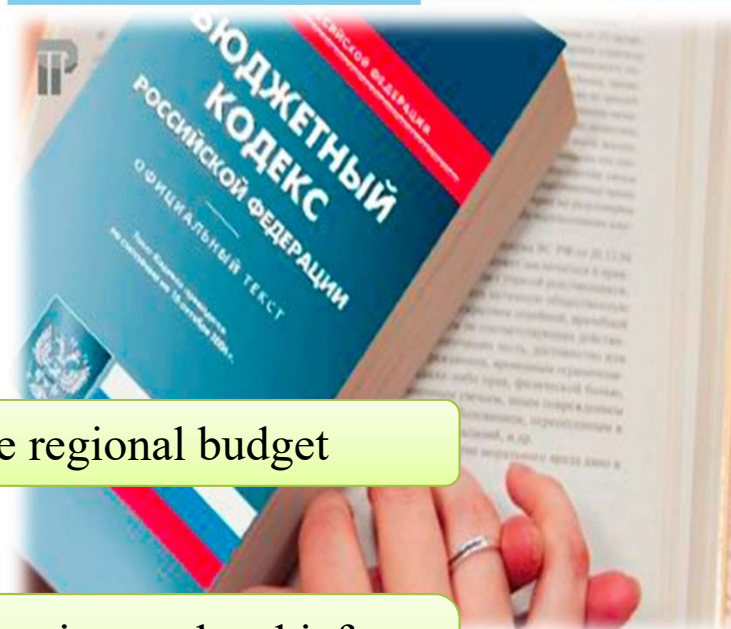
Bank loans

Budgetary credits

Government securities

State guarantees and other obligations

Control activities of the Chamber of Control and Accounts of the Rostov region in terms of debt policy



Expert examination of draft regional laws on the regional budget



Audit of the Ministry of Finance of the Rostov region as the chief manager of budget funds



External audits of the annual statements on the execution of the regional budget and local budgets in cases established by the legislation



Verification of the budgets of the municipal entities – recipients of inter-budgetary transfers from the regional budget



Expert and analytical activity and audit of the effectiveness of debt policy



2015 year - expert and analytical activity “**Assessment of the effectiveness of the use of financial assistance** provided to the Rostov region from the federal budget, including an assessment of the impact of such assistance on the volume and structure of the public debt of the Rostov region”
(at the request of the Accounts Chamber of the Russian Federation)



2016 year - thematic audit “**Audit of the effectiveness of debt policy** pursued by the Rostov region and municipal entities, and the effectiveness of the budgetary credits, the legality of guarantees”



Methodical, information resource and objects of audit the effectiveness of debt policy

Methods, recommendations and results of audits of the **Accounts Chamber of the Russian Federation**, information and materials on the websites of the **Ministry of Finance of the Russian Federation and the Ministry of Finance of the Rostov region**, rating Agency **RIA "Rating"**, etc.

Reports, information and documents received at the request of the Chamber of Control and Accounts of the Rostov region from the **Ministry of Finance of the Rostov region and all 463 municipal entities of the region**

As part of the audit, the following were checked: **the Ministry of Finance of the Rostov Region and 25 municipal entities**

The results of comprehensive inspections of **419 municipal entities** conducted by the Chamber of Control and Accounts of the Rostov region for 3 years are summarized



Integral criteria for audit of the effectiveness of debt policy

Criterion 1 “Implementation of the provisions of the budget legislation”

- 4 indicators define compliance with the norms and restrictions when making decisions on borrowing volumes, estimating the cost of servicing public debt and its repayment volumes, providing guarantees, budgetary credits, refinancing debt obligations, etc.

Criterion 2 «The level of the debt burden and solvency»


- 8 indicators comprehensively assess the debt burden on the regional and local budget, the level of security and solvency


Criterion 3 "Quality management of the debt structure“

- 14 indicators determine the structure of public debt, the correlation of risks and the cost of borrowing, maintaining the volume and structure of obligations excluding their non-performance



The criterion “Implementation of the provisions of the federal and regional legislation, including the norms of the Budget Code of the Russian Federation (articles 92.1, 106)”

 - the amount of the fiscal deficit to total annual amount of revenues of the budget shall not exceed $\leq 15\%$ of the amount of revenues of the budget of the constituent entities of the Russian Federation and $\leq 10\%$ of the amount of revenues of the budget of the highly subsidized regions, $\leq 10\%$ of the amount of revenues of the local budget and $\leq 5\%$ of the amount of revenues of the highly subsidized local budget without account taken of gratuitous receipts

 - the limit amount of borrowings in the current fiscal year to the amount allocated in the current fiscal year to finance the budget deficit and (or) debt repayment shall not exceed the amount allocated for financing the deficit of the budget and/or repayment of debt: $\leq 100\%$ of the budget of the constituent entities of the Russian Federation and the local budget



The criterion “Implementation of the provisions of the federal and regional legislation, including the norms of the Budget Code of the Russian Federation (articles 107, 111 and 112) ”



- the limit amount of the debt to total annual amount of revenues of the budget shall not exceed $\leq 100\%$ of the amount of revenues of the budget of the constituent entities of the Russian Federation and the local budget, $\leq 50\%$ of the amount of revenues of the highly subsidized regions and local budget without account taken of gratuitous receipts and (or) tax revenues according to additional standards



- the limit amount of outlays on debt servicing shall not exceed $\leq 15\%$ of the amount of revenues of the budget of the constituent entities of the Russian Federation and the local budget except for the amount of expenditures made on account of subventions



Criterion «The level of the debt burden and solvency of the municipal entities»

- share of tax and non-tax revenues in total budget revenues;
- ratio of municipal debt to tax and non-tax budget revenues;

- level of borrowing of the municipal entities and dynamics of municipal debt;
- debt burden level (volume of debt obligations) per capita;

- dynamics of municipal debt servicing expenses, as well as the ratio of debt servicing expenses to budget expenses (excluding subventions);

- solvency of the municipal entities – the ratio of annual tax and non-tax revenues to budget expenditures (excluding subventions);

- assessment of the quality (accuracy) of planning tax and non-tax revenues, forecasting municipal debt and changes in budget revenues;

- level of debt obligations – the ratio of the volume of attracted to the amount of debt repaid during the fiscal year



Criterion “Quality management of the municipal debt structure”

- ratio of bank and budget loans;
 - guarantee ratio;
 - securities ratio;

- short-term and long-term borrowing ratio;

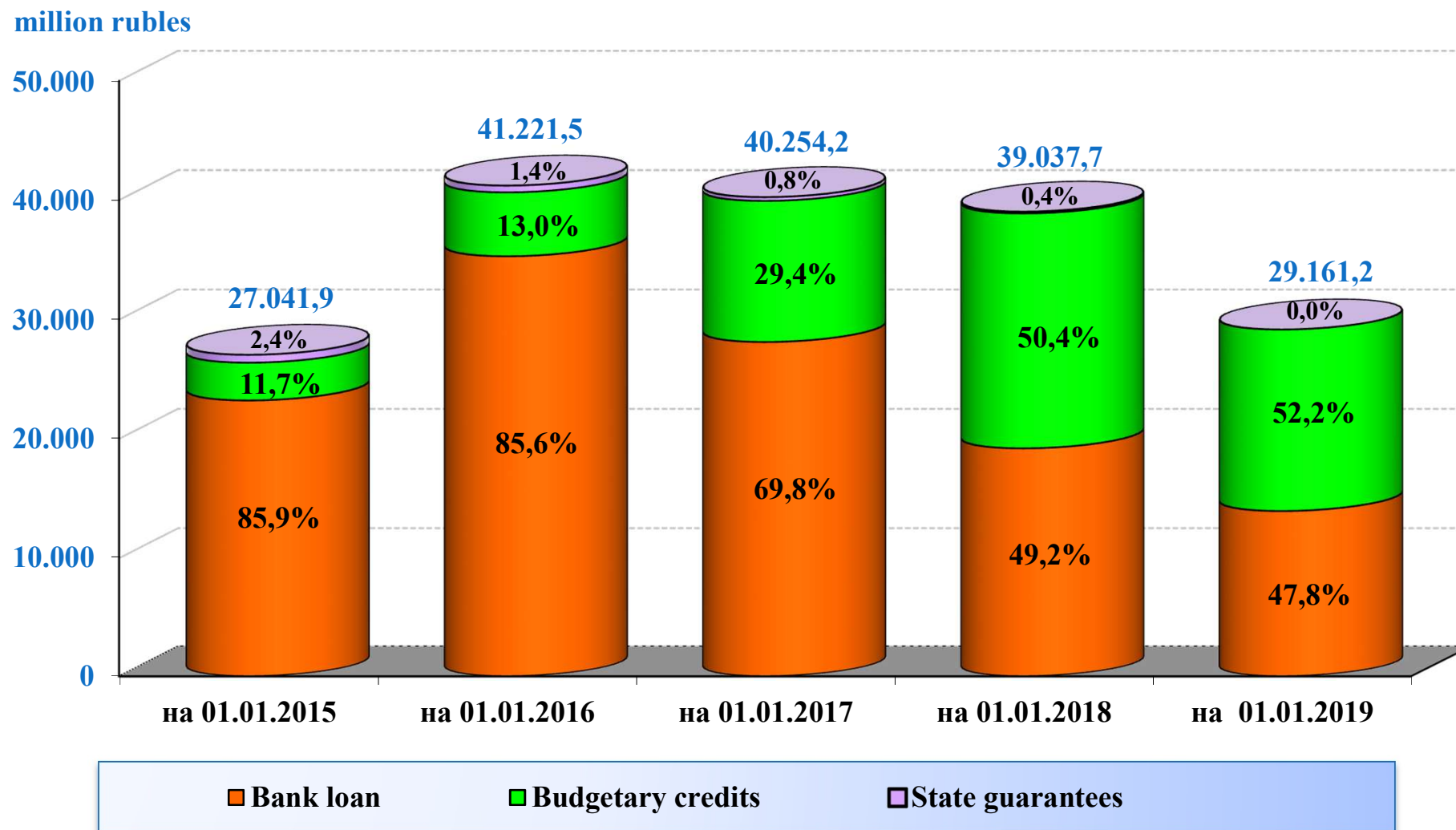
- the percentage of loans for investment purposes is at the expense of budgetary credits;
- the percentage of investment expenses from budgetary credits and from loans of credit institutions;

- the percentage of guarantees of economic and investment nature;

- rate on attracted bank loans and budgetary credits;
 - average rate on debt portfolio



Dynamics of volume and structure of the public debt of the Rostov region

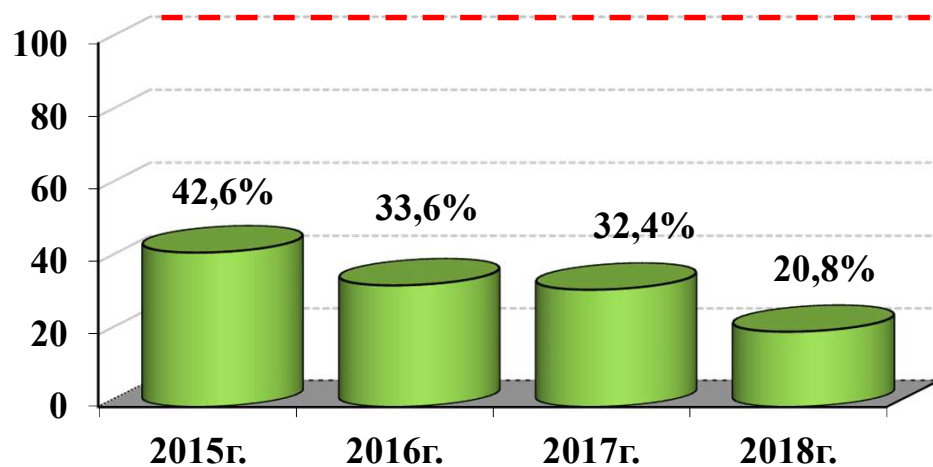




Compliance of the Rostov region with budgetary restrictions

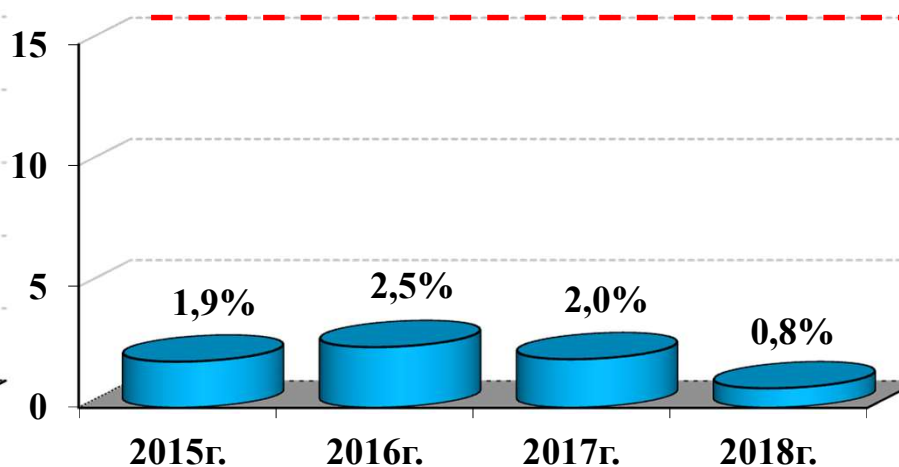
■ Level of the debt burden

does not exceed the limit of
100% tax and non-tax revenues



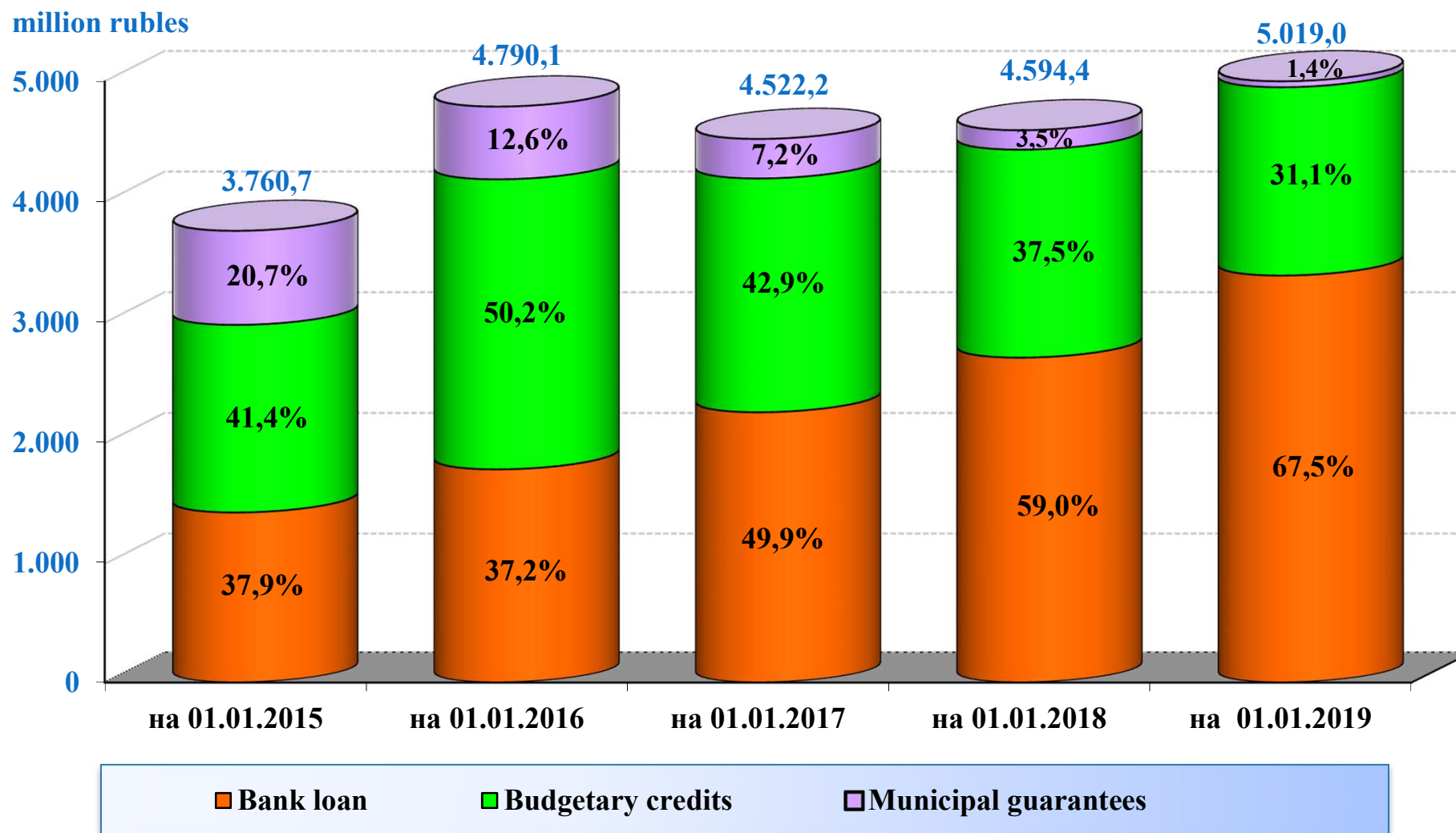
■ Public debt service

does not exceed the limit of
15% of total expenditure without subventions





Dynamics of volume and structure of the municipal debt of the Rostov region





The main reasons for the growth municipal debt

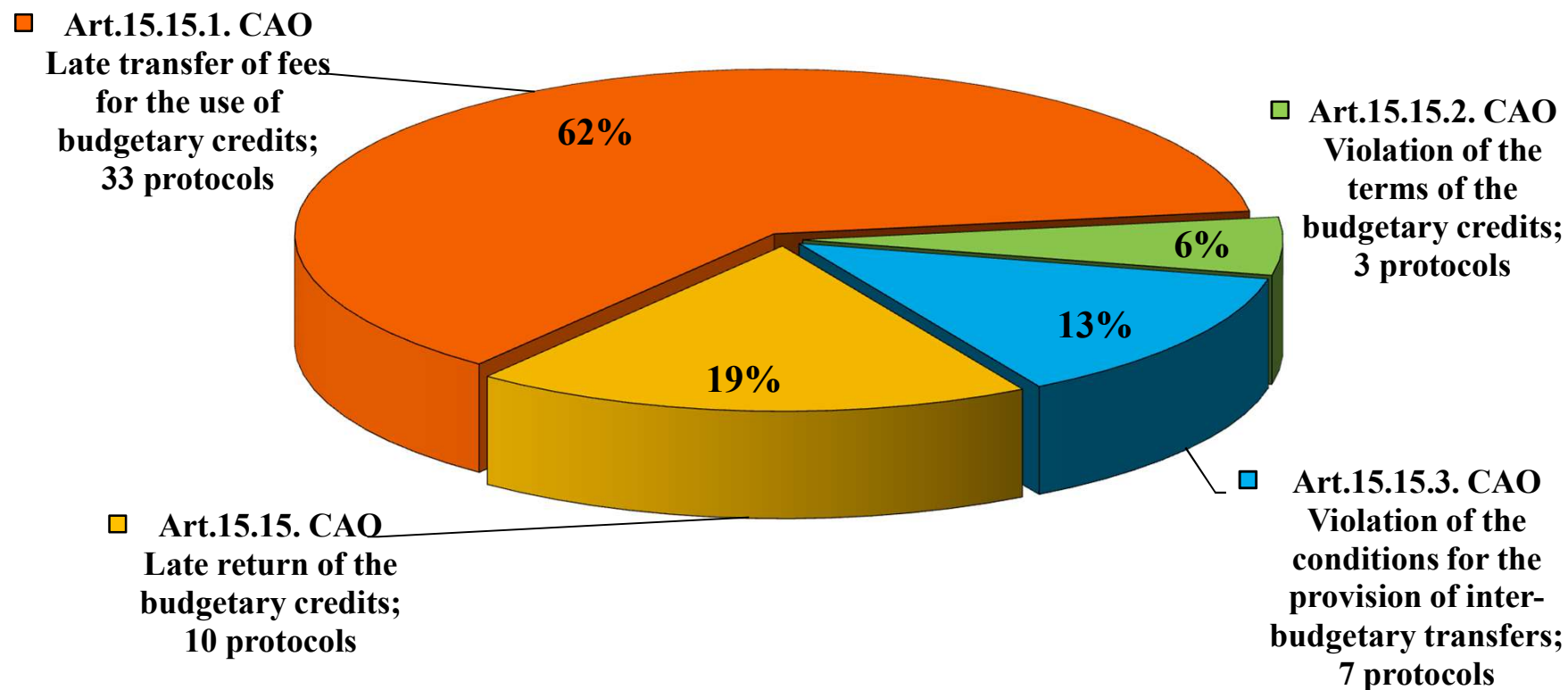
Objective

- insecurity in full expenditure obligations total revenue sources
- increase in budget expenditures due to the need to fulfill socially significant expenditure obligations

Subjective

- inability to choose priority
- low level of revenue mobilization in the budget
- failure to take cost optimization measures

53 administrative protocols on violations in the sphere of debt policy (for 2014-2018)



The main typical violations in the field of debt policy detected in municipal entities



Violations of the terms of repayment of budgetary credits and late transfer of fees for the use of credits



Violation of the conditions and procedure for granting budgetary credits



Violations in the establishment of the upper limit and the limit of the debt, as well as exceeding the limit of the volume of municipal debt



Violations in the approval of municipal borrowing programs and the procedure for borrowing, as well as the excess of the established volume of borrowings



Violation of the order of accounting and registration of municipal debt obligations, as well as the order of municipal debt books

Measures taken in the field of debt



The new procedure and terms of signing of Agreements on provision of subsidies for alignment of budgetary security of municipal entities

The system of obligations of the municipal entities and measures of responsibility for their non-compliance

The list of restrictions for municipal entities applying for preferential budget loans from the regional budget has been expanded

Introduced the new mechanism for restraining the growth of municipal debt - a ban on the provision of municipal guarantees



Prospects and recommendations for control and accounting bodies in the implementation of external financial control in the field of debt policy



1. Expand the practice of audit of the effectiveness of debt policy



2. Pay special attention to preventing the risks of debt instability and insolvency



3. Monitor compliance with the requirements of the legislation and agreements on the provision and use of borrowed funds



4. Constant monitoring of the compliance of the parameters of public and municipal debt and expenses on its service to a safe level and the established restrictions



**THANK YOU FOR YOUR
ATTENTION !**



Chairman of the Chamber of
Control and Accounts of
Rostov region—
Valery Khripun