



Planning and use of the state funding for payment of guaranteed minimum income allowance



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Audit report

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Focused compliance audit “Is the additional funding requested by the Ministry of Welfare for a targeted grant for the disbursement of the guaranteed minimum income allowance to local and regional governments justified and spent for the purpose of the granting and compliant with laws and regulations?”

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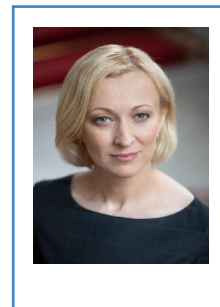
Dear Reader,

The state budget funds available for development expenses are limited, so it is essential that their planning and use be effective and transparent. In the opinion of the State Audit Office of Latvia, these expenses must justify their name and must be used as a means for the development of the country. That is why audits on development expenses have been relevant for the State Audit Office of Latvia for many years.

The welfare domain has many needs. During the development of the state budget for 2023, the Ministry of Welfare drafted 27 applications for sector priority measures for the total funding of 127,567,266 euros and 3 applications for cross-sectoral measures for the total amount of 28,373,746 euros.

Of these, the Cabinet of Ministers supported only eight, including one of the cross-sectoral measures, which also included a state budget target grant for the payment of the guaranteed minimum income (hereinafter - GMI) allowance to local and regional governments in an increased amount from 1 July 2023.

On 5 October 2023, the Constitutional Court of Latvia recognized legal norms on the minimum income threshold and the procedure for its review as inconsistent with the Constitution of Latvia when considering case, No 2022-34-01 by stating that a social assistance system that ensured transparent provision of support was not still been established. The social assistance system must be such that the GMI allowance, together with other measures of the social security system, can meet the basic needs of low-income people to a minimum extent, thereby helping these individuals to escape the poverty trap on their own. Therefore, the legislator must introduce a social assistance system that ensures transparent, effective and targeted support by 1 January 2025, and



the changes must be coordinated with the state budget for the next fiscal year.

The GMI allowance and the housing allowance are the only state-defined social assistance allowances currently that are awarded according to single criteria in all local and regional governments. Local and regional governments oppose reforming these allowances usually, including increasing their amount, by demanding that the government co-finances any changes.

Taking into account the fact that the execution of the judgment of the Constitutional Court of Latvia is not possible without additional funding for the payment of the GMI allowance, it is essential that the existing funding for the payment of this allowance is planned in an appropriate amount and spent in accordance with the laws and regulations.

We thank the Ministry of Welfare and the social services of local and regional governments for their cooperation, which promptly provided the auditors with the necessary information regarding both the planning of the funding required for the payment of the GMI allowance and its actual use.

Special thanks also to *ZZ Dats* Ltd, which maintains the Social Assistance and Social Services Administration Application (SOPA), for the support provided.

Respectfully
Ms Maija Āboliņa
Department Director

Key facts about the audit

Briefly about the audit approach

At a time when it is crucial in the country that each additional euro requested by the ministries for development expenses is justified and is spent according to the purpose of the allocation, the purpose of this focused compliance audit was to assess whether the additional funding requested by the Ministry of Welfare for the years 2023 and 2024 for the targeted grant to local and regional governments for the payment of the GMI benefit from 1 July 2023 was justified and was spent according to the purpose of its allocation and in compliance with laws and regulations.

Both the planning of the additional funding necessary for the payment of the targeted grant and the actual actions of the Ministry of Welfare and social services in awarding the targeted grant and GMI allowance were audited. The audit results have been coordinated with the Ministry of Welfare and local and regional governments included in the audit sample on the allocation of GMI allowance to certain households were audited on a random basis. The opinion of the Ministry of Welfare on the audit in general is available on the website of the State Audit Office of Latvia.

Conclusions

Following the performed audit and assessing the audit matter in accordance with the set audit criteria (See Annex 1), the audit resulted in confidence that the requested additional funding for the targeted grant to local and regional governments for the payment of GMI allowance within priority measure “Support for increasing the minimum income” of the Ministry of Welfare for 2023 and 2024 had no justification.

The audit found significant and comprehensive inconsistencies in the planning of additional funding requested for the payment of the targeted grant.

Namely, the Ministry of Welfare has calculated the additional funding required for the co-financing of the GMI allowance for 2023 at 58% or 1.38 million euros more than it was actually needed.

The funding default is mainly due to the wrongly estimated number of GMI allowance beneficiaries. Although 10% fewer individuals received the GMI allowance already in 2022, compared to 2021, when developing the state budget request for 2023-2025 at the beginning of 2023, the Ministry of Welfare planned a significantly increasing trend of the number of GMI allowance beneficiaries for each subsequent year without taking into account the actual trends.



Significant and comprehensive errors in financing planning were detected.

Moreover, the estimated funding was further increased by the Ministry of Finance's consumer price index forecasts for 2022 and 2023 by a total of 25.8% although the increase in funding was planned to take into account the already planned increase in GMI thresholds.

Also in July 2023, when developing the state budget for 2024-2026, the Ministry of Welfare used the same approach in the calculation of the funding required for the co-financing of GMI allowance expenses by updating it with the GMI thresholds planned for 2024 and the following years and the consumer price index planned for the relevant year. Therefore, only in the first half of 2024, the non-fulfillment of funding is already 56% or 1.70 million euros.

The auditors emphasise that **if the approach used so far in funding planning will not be changed, funding for the payment of targeted grants to local and regional governments for the co-financing of GMI allowance expenses for 2025 and 2026 will be allocated for at least 7.8 million euros more than is actually necessary¹.**

When assessing the use of the allocated additional funding during the audit, the auditors conclude that the local and regional governments grant the GMI allowance in general in accordance with laws and regulations². Accordingly, the additional funding allocated to the Ministry of Welfare for the payment of targeted grants to local and regional governments has generally been used in accordance with the purpose of allocation and in compliance with laws and regulations.

However, during random checks in six local and regional governments on the allocation of the GMI allowance to 136 households, inconsistencies were found in 21 household cases, which do not affect the total amount of the targeted grant paid to the local and regional governments significantly. GMI allowance for 17 households has been granted in a larger amount, and the total amount of the unjustified GMI allowance is 6,213.26 euros. In its turn, GMI allowance has been granted to four households in a smaller amount, the total amount of unpaid GMI allowance to households is 474.57 euros.



In general, the funding has been spent in accordance with the laws and regulations.

In almost all cases, the detected inconsistencies are related to amendments to the legal regulation on the assessment of the household's financial situation for the granting of poor or low-income household status or social assistance allowance and were allowed only in the first months after the change of the legal regulation.

Namely, from 1 June 2023, following the amendments to the Law on Social Services and Social Assistance of 8 March 2023, when assessing the financial situation of a household, the household income must also include any received child support, scholarships for individuals studying (except for an unemployed scholarship), refund of overpaid personal income tax, etc., which was previously determined as income that should not be taken into account³. Also, the period of attribution of direct payments to farmers and support for rural development has been changed from 12 months to 3 months and these payments must be taken into account only if they have been received in the last three months⁴.

The audit found that social services of local and regional governments were informed repeatedly about changes in household income assessment both before the changes in the legal framework and after the latter took effect, including the need to adjust the SOPA income

classifier of the application used for social assistance administration, in which changes were also made centrally. However, the audits carried out by the auditors in the local and regional governments included in the audit sample confirm that this information did not reach the employees responsible for granting social assistance in all cases. In most of the cases in which the auditors found irregularities, the decisions on granting the GMI allowance were taken in July 2023, when the outreach activities had already been completed.

It means that in the future if changes are made in the legal framework, the Ministry of Welfare must start informing and training the social services, especially the specialists responsible for granting social assistance, earlier to cover all those involved in the administration of social assistance and to ensure a common understanding of the changes made and their impact on allowance administration. Training is also required on the principles of operation of the SOPA software and its use in daily work.

Recommendations

The audit provides two recommendations that will improve the planning of state budget funds necessary for the co-financing of GMI allowance expenses and the legal use of state and municipal budget funds:

- ✓ Safeguard that the funding planned for the payment of the targeted grant to local and regional governments for the co-financing of GMI allowance expenses is justified and is spent in accordance with the purpose of the allocation, the Ministry of Welfare should evaluate the amount of funding required for this activity for 2025 and the following years and plan it taking into account the actual implementation.

The State Audit Office of Latvia expects that the Ministry of Welfare will change the approach to how it plans to pay out the targeted grant to local and regional governments, the funding necessary for the co-financing of GMI allowance expenses, thus creating an opportunity to finance other urgent needs.

- ✓ The Ministry of Welfare should promote the understanding of local and regional governments about the need to improve internal control procedures in assessing the financial situation of households, thus ensuring that state and municipal budget funds are spent in accordance with laws and regulations.

The State Audit Office of Latvia expects that in the future, if changes are made in the legal framework, the Ministry of Welfare will start informing and training the social services, especially the specialists responsible for granting social assistance, earlier to cover all those involved in the administration of social assistance and to ensure a common understanding of the changes made and their impact on allowance administration. The Ministry of Welfare shall also provide training to municipal social services on the principles of operation of the SOPA software and its use in daily work.

References

- ¹ According to the approach used by the Ministry of Welfare, 33,876 individuals will receive the GMI allowance in 2025 and 37,804 individuals in 2026. When applying a precautionary principle for a funding estimate, the State Audit Office of Latvia assumed that the number of GMI allowance beneficiaries would not change in 2025 and 2026 compared to 2021, and 25,123 individuals received the GMI allowance per year. The increase in funding for the change in the consumer price index of the Ministry of Finance was excluded from the Ministry of Welfare's estimated funding, as it was already included in the estimated increase in the GMI allowance amount.
- ² Law on Social Services and Social Assistance and Cabinet Regulation No 809 "Rules on evaluating the financial situation of a household and receiving social assistance" of 17 December 2020.
- ³ Paragraph 1, Part 1, Section 36 of the Law on Social Services and Social Assistance (as amended from 1 June 2023).
- ⁴ Annex 2 to Cabinet Regulation No 809 "Rules on evaluating the financial situation of a household and receiving social assistance" of 17 December 2020 (in the wording applicable from 1 June 2023).