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PUBLIC AUDIT

ACTIVITIES OF THE SE TURTO BANKAS IN THE PROVISION OF SERVICES FOR THE MANAGEMENT AND MAINTENANCE OF STATE REAL PROPERTY

25 April 2025

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SUMMARY

Relevance of the Audit

In 2015, the reform of the centralised management of state real property was launched, with the aim of centralising the management of state real property for administrative purposes, consolidating the management and maintenance of these assets in a single entity, and making efficient use of the money needed to improve the condition of these assets. As part of the reform, the state enterprise Turto bankas has taken over the management of the designated state-owned immovable property for administrative purposes in phases until 2020.

In order to reduce the costs of management and maintenance of centrally managed administrative real property, from 2021 onwards, the objective for the state enterprise Turto bankas is to optimise the volume of assets under management, to manage only as much real property as is necessary for the fulfilment of state functions and to ensure that

clients are provided with administrative real property that is in good condition and is used efficiently[1].

The implementation of the Investment Plan 2025-2034 of the state enterprise Turto bankas aims to reduce the space of centrally managed administrative real property to 475.6 thousand square metres and to increase the ratio of buildings in good condition managed by the State enterprise Turto bankas from 61% to at least 85%, which would result in a reduction of approximately EUR 7.3 million in the annual property maintenance costs.

Audit Objective and Scope

The objective of the audit was to assess whether the State enterprise Turto bankas ensures efficient management and maintenance of the State's real property assets.

Main audit questions:

- ✓ whether the centrally managed state-owned real property is used efficiently;
- ✓ whether adequate maintenance of centrally managed State-owned real property is ensured.

Audited entities:

Ministry of Finance: as it formulates and coordinates state asset management policy;

SE Turto bankas: as it implements the centralised management of state real property and other functions established by legislation.

The audit period is 2021-2023; we also used data for 2024 to assess changes.

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The audit was carried out in accordance with international standards of supreme audit institutions. The audit criteria, procedures performed and methods used are described in more detail in Annex 2 'Audit criteria, procedures performed and methods used' (page 38).

Key Audit Results

Real property would be managed more efficiently if the space and maintenance costs of real property used by public bodies and institutions were reduced more rapidly. Increased income from the commercial leasing or sale of vacant real property would allow to speed up the improvement of the condition of centrally managed real property.

[1] National Progress Plan approved by Government Resolution No 998 of 9 September 2020 and Letter of the Minister of Finance No 1K-235 of 2 July 2021 regarding the State's expectations for the activities of the Turto bankas.

1. Efficiency of the use of centrally managed state-owned real property should be improved

- In order to ensure the efficient management of centrally managed state-owned real property, an assessment of the use of real property must be carried out to allow decisions to be taken on the most efficient use of real property. The decisions of the state enterprise Turto bankas on the classification of assets as assets to be managed or to be sold were taken without specifying the predefined attributes or criteria that were used in the decision-making process, and it is therefore not possible to assess whether the classification of real property assets as assets to be managed or to be sold in the period 2021-2024 is justified (Sub-section 1.1, page 11).

- One of the main measures that the state enterprise Turto bankas is taking to reduce the costs of real property management and maintenance is the optimisation of administrative real property. The space of administrative real property managed by the Bank has decreased by 12.1% in 2024 compared to the 665 000 m^2 fixed for 2021, and the target (10% decrease) has been reached and exceeded (Sub-section 1.1, page 11).

- The space of vacant administrative real property centrally managed by the state enterprise Turto bankas, resulting from the optimisation of the managed real property or the takeover of new real property after the expiry of lending or commercial lease contracts, decreased from 129.43 thousand to 104.71 thousand square meters in the period from 2021 to 2024, and accounts for around 15% of the total administrative real property. These assets are subject to maintenance and holding costs and do not generate income that could be obtained by leasing or selling them (Sub-section 1.1, page 11).

- As part of the optimisation of the volume of administrative real property by the state enterprise Turto bankas, it is foreseen to increase the sales of this property, which has been declared redundant, and to use the resulting proceeds for the renovation of the remaining real property. The target set for the sale of centrally managed real property in 2024 has been met and exceeded (22.9 thousand square metres planned, 34.7 thousand square metres sold). The sale of this real property generated revenues of EUR 19.53 million in 2024 (Sub-section 1.1, page 11).

- One of the measures taken by the state enterprise Turto bankas to increase income from alternative real property employment is commercial leasing. Following the sale of real property previously used for commercial leasing, the income from these leases in 2023 (compared to 2021) decreased from EUR 2,174 million to EUR 1,792 million. While the state enterprise Turto bankas plans to increase the share of income from alternative ways of employing real property, there are still no envisaged measures on how and to what extent vacant real property will be employed, which may result in a failure to achieve the objectives related to commercial leasing and efficient property management (Sub-section 1.1, p. 11).

- In order to efficiently manage administrative real property, the provision of real property by the state enterprise Turto bankas to state institutions and bodies must comply with the normative values of the established efficiency indicators for the use of administrative real property. The state enterprise Turto bankas uses only part (2 out of 7) of the indicators approved by the Order of the Minister of Finance (office space and total space per 1 employee) for the assessment. According to these indicators, in 2024, 44% of administrative properties did not meet the standards for total floor space per employee and 63% did not meet the standards for office space per employee. Also, the data needed to calculate these indicators are not always available in the State Property Information System, which does not ensure that the efficiency of the use of real property is assessed to the full extent and that measures to improve the efficiency of the use of real property are envisaged on the basis of the results of the assessment (Sub-section 1.2, page 17).

- In order to properly plan investments in the renovation of state real property, it is essential to have data on the energy consumption and energy efficiency class of these assets. Only 16 (3%) of the institutions or bodies that reported data in the State Asset Tracking Information System provided data in kWh in 2023, while the remaining 520 (97%) provided data in euro. The total maintenance costs in euro reported by managers and users of state-owned real property in this information system do not reflect the energy consumption of a given real property and therefore do not allow for a proper assessment of the energy efficiency of all the state-owned real property (Sub-section 1.2, page 17).

2. Maintenance of centrally managed state-owned real property should be strengthened

- The 2024-2027 Operational Strategy of the state enterprise Turto bankas foresees that in 2030 at least 70% of the managed administrative real property will have an energy performance class C or higher. In 2024, 56% of the buildings were in a lower energy class. Due to the limited financial possibilities to renovate and upgrade the energy class, the 2030 target will not be met. According to the Bank's estimates, in 2030, buildings of energy class C and above will represent just under 60% of the total administrative real property under its management (Sub-section 2.1, page 21).
- As part of the EU and national energy efficiency targets, the state-owned company Turto bankas aims to reduce the energy consumption of the real property it manages. Energy consumption in the Bank's centrally managed administrative real property decreased between 2023 and 2024 (10.7 kWh/m^2 in 2023 and 10.05 kWh/m^2 in 2024). The state enterprise Turto bankas does not analyse which specific measures lead to an increase in energy efficiency. An analysis would allow for the selection of the measures that have the greatest impact on improving this efficiency (Sub-section 2.1, p. 21).
- In order to make efficient use of the money spent on the renovation of centrally managed real property, the asset manager must identify, on the basis of the results of the condition assessment, the assets where renovation work should be carried out first and would have the greatest effect. During the audit period, the state enterprise Turto bankas did not have in place a system for prioritising investment projects for the renovation of administrative real property. As the selection was not documented, the Bank could not justify the criteria used to select the ongoing investment projects for the renovation of these assets (Sub-section 2.2, page 26).
- In order to achieve the objectives. set for the state enterprise Turto bankas in terms of optimising the real property portfolio and improving the condition of the real property assets under its management, it is necessary to ensure that real property renovation projects are implemented on time and to the extent envisaged. Due to unforeseen works arising during the implementation of renovation projects, delays

in procurement or inadequate design work, the total cost of all 16 renovation projects implemented by the state enterprise Turto bankas between 2021 and 2023 has increased (from EUR 29.11 million to EUR 64.93 million), and the implementation of 9 of them was delayed. The state enterprise Turto bankas has planned and applied risk management measures for the implementation of real property renovation projects, but they are not sufficient to ensure that these projects are implemented on time and/or on budget. Project delays and cost increases have a negative impact on the achievement of strategic objectives and tenant satisfaction with the Bank's performance (Sub-section 2.2, page 26).

- The state enterprise Turto bankas must ensure that state institutions and bodies are provided with the real property needed to fulfil their functions. As the enterprise did not have the necessary premises or did not meet the needs of the institutions or bodies requesting them, an average of 37.7% of requests for the provision or relocation of premises were not granted in 2021-2023. On the other hand, it is not ensured that the Bank's real property, which is provided to public institutions or bodies, is used in the most efficient way. Public institutions or bodies are not motivated to use their assets efficiently, occupying only the space needed to fulfil their functions (Sub-section 2.3, page 30).
- In order to ensure the efficient use of centrally managed administrative real property, it is important to ensure that the services related to the management and maintenance of this property are delivered in a timely manner and that the quality of the services meets the expectations of the tenants. Customer satisfaction with the services provided by the state enterprise Turto bankas increased from 47% to 67% in 2024 (compared to 2021), but due to the limited resources/availability of external service providers, an average of 8.5% of outage reports were responded to outside the time limits in the period from 2021-2024. This may have a negative impact on customer satisfaction with the services provided to them (Sub-section 2.3, page 30).

Changes during the Audit

On 17 March 2025, the Director General of the Turto bankas approved a description of the procedure for the preparation and approval of the Real Property Management Plan of the state enterprise Turto bankas[2] , which is used to take decisions on the designation of real property held by the state enterprise in trust as real property to be managed or to be sold and on the need for investment.

Recommendations

To the Ministry of Finance

1. In order to assess the efficiency of the use of the administrative real property managed by the SE Turto bankas, not only in terms of space per employee, but also in terms of the cost of maintenance, review the indicators of the efficiency of the use

[2] Order No P1-70 of 17 March 2025.

of this property, approved by the Order of the Minister of Finance, and, if necessary, establish new ones for the Turto bankas to use when assessing the efficiency of the use of this property (Key audit result 1).

2. In order to ensure that the administrative real property managed by the SE Turto bankas is used efficiently and meets the asset utilisation efficiency indicators, provide measures to encourage centralised tenants to reduce the size of the real property used for the fulfilment of their functions (Key audit result 2).

To the state enterprise Turto bankas

3. To make efficient use of the space of the unused real property managed by the state enterprise Turto bankas for the fulfilment of the functions of state institutions, and to generate additional income, provide for measures to determine how and to what extent vacant real property will be employed (Key audit result 1).

4. To ensure that the most effective renovation projects of the real property to be managed by the SE Turto bankas are implemented first, regulate the selection of these properties for renovation works (Key audit result 2).

5. To ensure that the duration and cost of real property renovation projects remain within the tolerance limits, assess the effectiveness of existing risk management measures and, if necessary, provide for new measures (Key audit result 2).

6. To ensure that the disruption recovery services are provided in a timely manner, review the service delivery process and provide additional risk management measures to ensure that the service providers provide the services within the set deadlines (Key audit result 2).

7. The measures and timeframes for implementing the recommendations, the expected impact of the audit and the indicators for measuring change are set out in the report in the section 'Plan for the implementation of the recommendations' (p. 34). Up-to-date information on the status of implementation of the recommendations, results and developments is published in open data on the National Audit Office website https://www.valstybeskontrole.lt/LT/AtviriDuomenys.