



Summary: What is the role of the State in the field of professional theatre and music?



Latvijas Republikas
Valsts kontrole

Rīga, 2018

Dear reader!

We have completed a regulatory and performance audit on the governance of the state-owned enterprises by the Ministry of Culture. The objective of the audit was to establish whether the approach followed by the Ministry of Culture in governing state-owned enterprises is effective and ensures targeted implementation of the cultural policy.

The state-owned enterprises of the Ministry of Culture are cultural institutions which ensure the most essential part of the cultural offer in the field of professional theatre, circus, music, opera, and ballet.

Culture is the environment that we live in, it covers the values inherited by each country, assists in changing the social environment, national image on a global scale and also contributes to economic growth.

A well-maintained cultural environment and the preservation thereof for future generations require significant State funding, as well as systematic and targeted action of the State. The duties of the State do not stop at the allocation of funding to ensure cultural events. It is the duty of the State ‘to see the whole picture’ — to find out the expectations of the society, to keep up with the current events, to maintain topical information on market participants and the contribution made by each of them in the preservation and development of the field of culture.

How many of the people who enjoy professional art are aware of the fact that part of the received service is funded by taxpayers’ money?

And does the Ministry of Culture know what its state-owned enterprises have accomplished by using the allocated State budget funds?

Do the objectives and tasks defined in the documents of cultural policy that promise a better life quality to everyone by retaining and developing the cultural capital of Latvia and safety of inhabitants are portrayed in the work of the state-owned enterprises of the Ministry of Culture or does this stay only on paper? Does the Ministry of Culture, being the owner of the state-owned enterprises, pursue the good governance principles of its state-owned enterprises that are also binding to Latvia since its accession to the OECD? These are the questions that we sought answers for in the course of the audit.

We would like to express our gratitude for cooperation and receptiveness to our audited entity — the Ministry of Culture, the state-owned enterprises of the Ministry of Culture, as well as non-governmental organisations of the respective sector for cooperation and the opinion provided.

Yours sincerely,

Director of the Department

Ilonda Stepanova



Motivation

The Ministry of Culture has a significant role in organising the national cultural life, because the Ministry of Culture both develops the cultural policy and ensures the implementation thereof at the institutions and state-owned enterprises subordinate thereto where the Ministry is the shareholder.

In the capacity of an entity responsible for planning the cultural policy, the Ministry of Culture has developed the Cultural Policy Guidelines 2014-2020 “Creative Latvia” thereby outlining the State cultural policy objectives and priorities. The cultural sector covers multiple subsectors, including professional theatre and music that affect a large part of the society. Public demand for diversified and high-quality cultural services, including theatre performances of different genres and extended repertoire concert programmes, is increasing every year.

Due to the reason that 14 state-owned enterprises of the Ministry of Culture are the main service providers in the field of professional theatre and music — seven State-founded theatres, five concert organisations, Riga Circus, Latvian National Opera and Ballet — the cultural policy implemented by the Ministry of Culture has a vital role in its state-owned enterprises.

Most of the services in the field of professional theatre and music are funded by the State. The Ministry of Culture grants 23 million euro annually in the form of the State budget funds to ensure the activity of theatres, concert organisations, Riga Circus, Latvian National Opera and Ballet, and year after year the amount of financing is growing. It is to be noted that the State budget grants on average constitute half (55%) of the total financial means at the disposal of the state-owned enterprises of the Ministry of Culture. The remaining part of funds is earned by the state-owned enterprises from ticket sales, attracted by participating in projects, as well as through sponsorship and donations.

As any other economic sector, also the field of culture requires development planning, consistent and clear advancement towards the defined objectives by setting forth specific tasks and results to be achieved in order to ensure sustainable preservation and development of culture as an asset. The provision of cultural services covers creativity, experimenting and innovation. It is a challenge to combine the process of creating cultural values with defining the basket of services that the society gets from the invested State budget funds, as



Culture is to be viewed as an
asset and investment in
sustainable development

well as ensuring effective control over the governance of the State budget funds.

Latvia, being a member state of the OECD, is bound by the Best Practice in the management of the state-owned enterprises defined by the OECD that were introduced in the country in 2012. The audit was conducted for the purpose of assessing whether the Ministry of Culture ensures the governance of its the state-owned enterprises in accordance with the best practice defined by the OECD. The assessment of the governance of the state-owned enterprises by the Ministry of Culture by comparing with the current situation in the best practice principles of good governance of the state-owned enterprises is a precondition to ensure the valuation of the effectiveness of the activity of each capital company of the Ministry of Culture in the future.

Furthermore, in the course of the audit it was assessed whether it is possible to measure national and public benefit from State budget funds invested in the field of professional theatre and music.

The following aspects were assessed during the audit:

- ❖ whether the Ministry of Culture provides a clear justification for State participation in its state-owned enterprises and whether the strategic action objectives of the state-owned enterprises are defined in accordance with the best practice principles of the governance of the state-owned enterprises;
- ❖ how the Ministry of Culture, upon delegating State administration tasks to the state-owned enterprises, ensures the implementation of cultural policy and whether there is sufficient monitoring of the fulfilment of the tasks delegated to State administration and the use of State budget funds allocated for the fulfilment of the referred to tasks;
- ❖ how the Ministry of Culture fulfils the role of the State as the owner in its state-owned enterprises;
- ❖ how the governance of the state-owned enterprises conducted by the Ministry of Culture fosters responsible entrepreneurship and whether the Ministry of Culture and its state-owned enterprises ensure information transparency and disclosure.

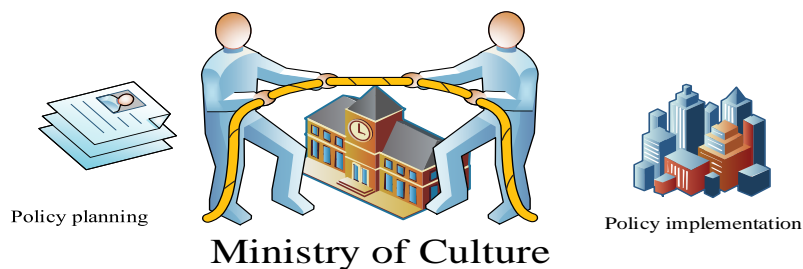
Main Conclusions

The Ministry of Culture operates in the field of professional theatre and music both as an entity which defines the cultural policy and as an entity which introduces the cultural policy. The present audit focused on the assessment of how successful the work conducted by the Ministry of Culture is in terms of fulfilling both of the mentioned roles upon conducting the governance of the state-owned enterprises in the field of theatre and music.

It is to be concluded that much work remains to be done so that the governance of the state-owned enterprises by the Ministry of Culture could be described as effective and at the same time ensuring targeted implementation of the cultural policy in the field of theatre and music. On one side, the Ministry of Culture has included the tasks of each state-owned enterprise in the planning documents that makes them unique and focus on different target audiences, thereby envisaging the role of the state-owned enterprises in implementing the cultural policy. Yet, on the other side, the implementation of the objectives of the cultural policy does not offer sufficient insight into the work of the state-owned enterprises that consequently does not give confidence that the Ministry of Culture ensures successful fulfilment of its roles.



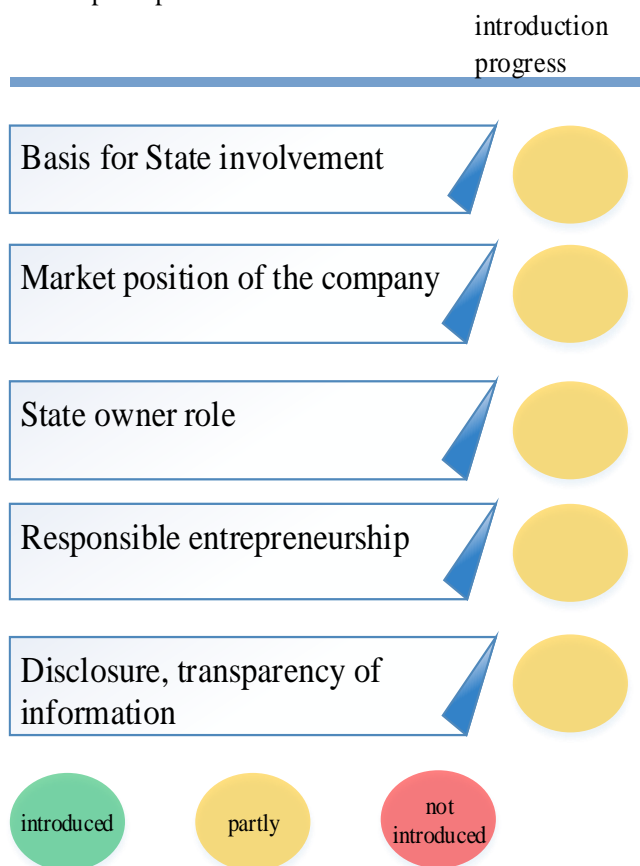
Ministry of Culture is the leading State administration institution in the field of culture



Both the Ministry of Culture and the state-owned enterprises consider that the current legal form — enterprise — is the optimal solution in ensuring flexibility in taking operating decisions. However, at the same time it is to be concluded that the awareness and thoughts about a cultural institution as an enterprise is not entirely comprehended and accepted.

According to the conclusions drawn as the result of the audit, the governance of the state-owned enterprises conducted by the Ministry of Culture is not focused enough on the compliance with the best practice principles of the governance of the state-owned enterprises and certain improvements should be made therein.

OECD principles



The Ministry of Culture, upon assessing the basis of State involvement in the state-owned enterprises, as the main conditions mentioned the inability of the theatre and music services market to meet public expectations and higher quality standards. However, it was concluded in the audit that the Ministry of Culture does not collect complete information on the representatives of professional theatre and music in the private and non-governmental sectors and data in various sources differ. Thus, the Ministry has not identified the contribution of private and non-governmental sectors and their position in the common professional theatre and music services market and also has not conducted the competition assessment in the sector. It should be highlighted that in the opinion of the State Audit Office, negative impact on competition is left by the situation that for part of the state-owned enterprises real estate has been transferred for use without compensation. .

The requirement to deliver a higher standard of the service provided is crucial from the point of view of the society, yet in the course of the audit the Ministry of Culture was unable to provide explanations to the following: (1) what is the preferred quality level of the activity to



Ministry of Culture has not conducted thorough assessment of the field of professional theatre and music

be ensured by the state-owned enterprises; (2) how it is possible to determine whether it has been ensured; (3) how it has been assessed that the representatives of private and non-governmental sectors are unable to ensure that. In addition, upon assessing the conditions for allocating funds, one may see the allocation and assessment of the use thereof are based only upon quantitative indicators (e.g., the number of shows). The number of nominations for the “Spēlmaņu nakts” Awards is taken into account only to calculate the amount of the State budget funds intended for theatres, but this criterion does not have a significant role in the amount of funding, for example, in 2017 it constituted 95 thousand euro or only 1% of the total funds envisaged for theatres.

In the opinion of the State Audit Office, in order to ensure the fulfilment of public interests, the Ministry of Culture should conduct the next assessment in respect of the preservation of State involvement in its state-owned enterprises on the basis of the principles defined by the OECD by assessing the market of professional theatre and music, thereby providing a clear opinion on the intentions of the State by becoming involved in these state-owned enterprises. It is worth mentioning that the assessment of the market of professional theatre and music would be also useful in defining the cultural policy and the analysis of the objectives achieved.

The Ministry of Culture must determine the strategic objectives for the operation of State-founded theatres and concert organisations, namely, the following question must be answered: “What is the intention of the State by becoming involved in the respective enterprise?” Although the unique nature of each enterprise is highlighted in the strategies of the field of theatre and music, still the strategic objectives determined to the state-owned enterprises do not reflect this vision of the Ministry. For instance, for theatres with the main target audience of the inhabitants of Latgale Region and minorities this has not been specified in the strategic objectives thereof. The content of the objectives only refers to the need of ensuring the creation of cultural values, spread, preservation and promotion thereof in the field of theatre.

The amount of State budget funds allocated to the state-owned enterprises by the Ministry of Culture over a period from 2014 until 2017 reached 92.4 million euro. Although the Ministry of Culture applies different approaches in calculating State funding, for theatres it is mainly based upon a historical financial reference amount that from 2014 until 2017 amount to 26 million euro. Meanwhile actual costs are taken into account in respect of concert organisations.

It is to be accented that the amount of grants allocated to the Latvian National Opera and Ballet and Riga Circus was not based upon calculations at all, thus, a total of 31.5 million euro (34%) was allocated only based upon historical data.



Not only the strategic objectives of the state-owned enterprises, but also the tasks delegated thereto are too general and vague



National and public benefit from State budget funds allocated to State-founded theatres and concert organisations is non-traceable

The Ministry of Culture cannot ascertain about the use of the State budget funds allocated to the State theatres and concert organisations in compliance with the intended objectives and performance indicators to be reached, because these criteria are set for the overall activity of theatres and concert organisations. Moreover, performance indicators usually are exceeded even by up to 800% that actually indicates to a formal approach in determining the relevant indicators. The average ticket price level is the only performance indicator that remains unachieved on a regular basis.

At the same time the Ministry of Culture requests the state-owned enterprises to submit massive reports once a quarter that can be used neither to control the use of the allocated State funds nor to assess the overall financial situation in the state-owned enterprises.

Taking into account the fact that one of the objectives of the cultural policy is to ensure the availability of high-quality and diverse cultural services to every inhabitant, the approach selected by the Ministry of Culture with regard to determining the permitted quantity of free tickets to be distributed for charity and representation purposes remains unclear, because for charity the state-owned enterprises on average may distribute 1% of free tickets, while for representation — even up to 6% of free tickets of the total number of tickets available. (By assessing the actual results in 2016 in the audit, it was discovered that the state-owned enterprises on average for charity have distributed 1%, whereas for representation — 4% of free tickets of the total number of tickets available.)

In the opinion of the State Audit Office, in order to ensure a possibility to ascertain about national and public benefit from the spent State budget funds, the Ministry of Culture, in the capacity of the implementer of the cultural policy, should reconsider the tasks delegated to and performance indicators to be achieved by the state-owned enterprises by linking them to the defined cultural policy and the available State budget funds, as well as should reassess the principles for allocating funding to the state-owned enterprises.

The Ministry of Culture lacks a medium-term vision about the planned activity of the state-owned enterprises. In accordance with the provisions laid down in laws and regulations, the state-owned enterprises had to develop medium-term action strategies by 30 March 2016. By the beginning of 2018 the Ministry of Culture as the shareholder had approved such strategies to only three out of 14 state-owned enterprises. Therefore there is no tool at the disposal of the Ministry of Culture that would ensure effective implementation of the process of governance over the state-owned enterprises in accordance with the cultural policy and would ensure the assessment of the activity of the management of the state-owned enterprises. For a long period of time no solution has been found to matters related to real estate transferred for use by the state-owned enterprises of the Ministry of Culture for free, long-term preservation thereof is not



Assessment of the state-owned enterprises conducted by the Ministry of Culture is superficial and does not justify the conclusions drawn as the result of assessment

ensured neither by the Ministry of Culture nor by the state-owned enterprises.

The governance of the state-owned enterprises by the Ministry of Culture is not implemented in a transparent manner, because the assessment of indicators characterising the work of the state-owned enterprises conducted by the Ministry of Culture and used in decision making is superficial and does not justify the conclusions drawn as the result of assessment. For instance, upon assessing the activity of the state-owned enterprises, the evaluation “very good” was received by the state-owned enterprises that have not fulfilled the financial objectives of their activity. In 2016, the Ministry of Culture took the decision to increase the equity capital at nine state-owned enterprises. Such decision was substantiated by the necessity to avoid a situation of the enterprise concluding the year with a loss, though the data of 2015 suggested that only two state-owned enterprises faced losses. Regardless of increasing the equity capital, one enterprise concluded 2016 with a loss that was by 177% more than in 2015.

Both the Ministry of Culture and the state-owned enterprises lack understanding about the principles of corporate social responsibility and on their websites they do not ensure publishing of complete information in accordance with the best practice of governance of the state-owned enterprises. Consequently, the society and involved parties do not have access to information that would explain what values, standards and confidence levels are represented and created by the state-owned enterprises, as well as there is no complete and up-to-date information on the operational performance of the state-owned enterprises and other significant events in the state-owned enterprises.

In the opinion of the State Audit Office, the Ministry of Culture would have to improve the internal control procedures in order to ensure that decisions by shareholders are based upon well-grounded, complete, transparent and traceable information, as well as that the main action planning documents would be developed and approved in due time.

Main Recommendations

- ❖ In order to fulfil public interests in accordance with the best practice while performing commercial activity in the field of professional theatre and music, the Ministry of Culture must ensure the following upon repeatedly assessing the preservation of State involvement in the state-owned enterprises of the Ministry of Culture which, according to the Law on Governance of Capital Shares of a Public Person and State-Owned Enterprises, must be done once every five years:
 - comprehensive assessment of the field of professional theatre and music by specifying public interests not covered by the services market, by assessing which tools for minimising market deficiencies are to be used, as well as by assessing the conditions of fair competition in the field of professional theatre and music;
 - review of the general strategic objectives of the state-owned enterprises to ensure that the general strategic objective of an enterprise would comply with the specific nature of its activity and would clearly indicate to the intention of the State by becoming involved in the respective enterprise.
- ❖ In order to ensure adequate control over the implementation of the State administration tasks delegated to the state-owned enterprises and in order to ensure a possibility to ascertain about national and public benefit from the spent State budget funds allocated to the state-owned enterprises for completion of State administration tasks delegated thereto, the Ministry of Culture:
 - must review the set of State administration tasks delegated to the state-owned enterprises and indicators to be achieved by including therein an objective to be reached by the state-owned enterprises, tasks to be completed which are adjusted to the specific nature of the activity of the enterprise and related to the priorities of the cultural policy and the available State budget funds;
 - must ensure assessment of the completion of each State administration delegated task.
- ❖ In order to ensure clear, transparent and equal procedures for the calculation of grants to the state-owned enterprises of the Ministry of Culture, the Ministry of Culture must elaborate the procedures for the calculation of State budget grants to State limited liability company “Latvian National Opera and Ballet” and State limited liability company “Riga Circus” and must assess the possibility to improve the procedures for calculating grants to State-founded theatres and concert organisations.
- ❖ The Ministry of Culture must develop new or update current internal procedures by which actions to be completed by each official or structural unit and deadlines to be complied with in fulfilling

processes related to capital share management would be defined precisely. The internal procedures must cover the process of timely development and approval of medium-term action strategies, as well as control mechanisms for timely publishing of up-to-date information on the websites in accordance with the requirements specified in the Law on Governance of Capital Shares of a Public Person and State-Owned Enterprises.