Distribution of investments in the Ministry of Culture

Are the investments made by the state in culture and sports expedient and sustainable?
Report of the National Audit Office to the Riigikogu
Tallinn, 15 December 2010

Summary of audit results

The National Audit Office audited the activities of the Ministry of Culture in the distribution and planning of investments and inspection of their use. The purpose of the audit was to assess whether or not the state plans, distributes and inspects the use of investments made in culture and sports in a manner that is transparent, sustainable, economical and expedient.

The Ministry of Culture allocated more than 2 billion kroons for investments in sports and culture facilities, which was used to support state institutions, foundations founded by the state, institutions in public law as well as local authorities and other residents. The completion of hundreds of facilities depends on the investment decisions made by the state.

The National Audit Office is of the opinion that distribution of investments in the Ministry of Culture is not transparent or sustainable. No attention is paid to the assessment of the expediency of investments. The processing procedure and the bases of decision-making are insufficient. Construction of new buildings or extension of existing ones must take place on account of the expenditure of the rest of the area of government, because the financial liabilities associated with the investments and the increase in operating expenses are bigger than the increase and forecasts of future growth in the budget of the area of government of the Ministry of Culture.

Main observations

■ The guidelines for monitoring the preparation and execution of the investment plan approved by the Minister of Culture are vague and do not explain in detail how investments are distributed. Although the guidelines are vague, the National Audit Office also ascertained that even the agreed procedure is not adhered to.

■ Only some of the priority investments declared in the development plans of the Minister of Culture are made. This means that in addition to the declared priorities, the Ministry of Culture has another, narrower selected of facilities – the ones it actually has money for. It is difficult for bystanders to understand what the Ministry of Culture actually considers to be important.

■ The areas of culture where the number of state agencies is limited are less informed of the opportunities to obtain grants and the Ministry of Culture is incapable of assessing or planning the investment needs of these areas adequately.

■ The control system of the Ministry of Culture is unable to prevent or ascertain inexpedient use of investment support. Both preliminary evaluation and follow-up inspection are insufficient.

■ The State Concert Institute *Eesti Kontsert* continues entering into unlawful obligations, which was pointed out by the National Audit Office in its earlier audits in 2006 and 2010.

■ An analysis of the changes in the operation expenses of 10 of the biggest facilities covered by the audit indicated that investments made in the establishment or extension of institutions or buildings lead to a significant increase in operating expenses. The operating expenses of institutions decrease as a result of investments made to improve the existing premises of institutions.

■ The operation expenses and loan obligations added by investments have eaten up most of the budget increase of the Ministry of Culture in the last four years. Another 103 million kroons in operating expenses may be added to the state budget by 2014 as a result of the planned or ongoing investments, but the Ministry of Finance has not forecast an increase in operating expenses for the same period in the state budget strategy.

Main recommendations to the Minister of Culture and the Minister of Finance

■ The Minister of Culture must update all investment distribution guidelines in such a manner that they contain the following: the requirement to inform about application opportunities; the decision-making criteria; the principles on which the decision-making committee is formed; and documentation requirements; and all these should comply with the requirements arising from the Administrative Procedure Act.

■ The Minister of Culture should disclose the actual principles observed in the allocation of investment support.

■ The Minister of Culture should make the investment principles comply with the main bases of the cultural policy of Estonia approved by the Riigikogu on 16 September 1998, or initiate an amendment of the main bases of cultural policy.

■ The Minister of Culture should monitor that all persons who wish to apply for money can do so on equal bases and that all applicants receive a proper response to their applications.

■ The Minister of Culture should develop principles for assessment of the economic expedience of projects and consider these criteria when making decisions on the distribution of investment support.

■ The Minister of Culture should inspect the use of investment support more efficiently and consider starting on-site inspections of the use of such support. In light of later inspections, the option of asking for more detailed information in applications should be considered.

■ The Minister of Culture should plan the establishment of new institutions and extension of existing one only when sufficient budget increase or options of such an increase are guaranteed.

The Minister of Culture admits in her response that there are some shortcomings in the formal side of activities, but still finds that the impact of the omissions highlighted by the National Audit Office on the progress, cost or exploitation of cultural and sports objects has not been significant. The Ministry of Culture claims that the need for additional financing is not covered on account of other institutions, but possibilities are found in the process of budget preparation within the scope of existing funds (e.g. on account of completed activities), or additional funds are found in cooperation with the Ministry of Finance.

The National Audit Office points out that formal omissions do not allow it to assess the content of decisions. The financing obligations of the investments made by the Ministry of Culture and additional operating expenses have increased considerably more than the entire budget, which means it is impossible that requirements are not covered on account of other areas.

The Minister of Finance agrees with the recommendations made by the National Audit Office and is prepared to assist in finding solutions to the problems.

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