

LOCAL GOVERNMENT IN THE NORDIC AND BALTIC COUNTRIES

AN OVERVIEW
REVISED VERSION 2020



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AN OVERVIEW

LIST OF ABBREVIATIONS

AFLRA	Association of Finnish Local and Regional Authorities
AECM	Association of Estonian Cities and Municipalities
ALAL	Association of Local Authorities in Lithuania
CEMR	Council of European Municipalities and Regions
CEEP	European Centre of Employers and Enterprises providing Public Services
CLRA	Congress of Local and Regional Authorities of the Council of Europe
EEA	European Economic Area
EFTA	European Free Trade Area
GDP	Gross Domestic Product
ICT	Information and communication technology
KL	Local Government Denmark (formerly Kommunernes Landsforening)
KS	Norwegian Association of Local and Regional Authorities (formerly Kommunenes sentralforbund)
LALRG	Latvian Association of Local and Regional Governments
NUTS	Nomenclature of territorial units for statistics
PIT	Personal income tax
PPS	Purchasing power standard
R&D	Research and development
SALAR	Swedish Association of Local Authorities and Regions

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INTRODUCTION

THIS PUBLICATION aims to give readers an overview of the key features of local government in eight Nordic and Baltic countries: Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Poland and Sweden. Although Poland is strictly speaking neither a Nordic nor a Baltic country, it is included because the post-1989 system of strong local self-governance has much in common with other countries in the region.

While each country has a distinct history and tradition of local government, a number of common features may be highlighted:

- Local autonomy is protected by primary law, indeed in the Constitution itself in all countries but one.
- Local authorities play a central role in providing welfare and public services, including parts of education and health care.
- Accordingly, local public expenditure as a share of total public expenditure is above the EU average in all these countries.
- While finance is a perennial issue, local government has some assurance of adequate revenue through own or shared taxation, systems for grants and financial equalisation, and in most cases a 'financing principle' that state funding should accompany delegated tasks.
- Associations of local authorities are powerful representatives of local government, with formal or established procedures for consultation on legislation and budgets. In most countries, mergers between associations have resulted in a single organisation led by elected local representatives.
- Local autonomy does not mean freedom from state supervision, but in most countries, local authorities have a general power to act in the interest of their inhabitants, and the state's general powers of supervision are ex post and concern legality, not expediency, of local government decisions.

This edition (revised and expanded since the first edition in 2016) focuses on the continuing trend of territorial reform in the region. Five out of eight countries have seen significant consolidation at the municipal level in recent years, and attempts or at least discussions are under way at municipal and/or regional level in the others. This edition also includes more details on local authority associations, financial equalisation and state supervision, along with a review of the structure and functions of local government, local democracy, finances and EU relations.

For brevity, the terms 'local' or 'local authorities' are often used to refer to all levels of sub-national government – municipalities, counties, regions, etc.

The publication has been prepared by SKL International, a subsidiary of the Swedish Association of Local Authorities and Regions. SKL International manages projects in the areas of local self-government, democracy, decentralisation and local development (see <https://sklinternational.se>). It works directly with politicians and government officials at national and sub-national levels. SKL

International also hosts study visits in Sweden and neighbouring countries with a view to sharing experience of local democracy and decentralised government. We hope this publication will give SKL International's partners a good overview of the key features of these countries and contribute to a better understanding of local governance in the region.



PHOTO PIXABAY

DENMARK

DENMARK HAS A LONG HISTORY of local self-government, dating back to the Middle Ages and with constitutional protection since 1849. Boundary reforms in 1970 and most recently in 2007 have reduced the number of municipalities to 98 and replaced the former 13 county authorities with five regions.

Municipalities provide most welfare services, including primary education, job centres and social assistance benefits (for unemployed people not part of an unemployment insurance scheme). The regions' main responsibility is health care, though

they also perform other specific functions related to regional development and some aspects of social care. While they have directly elected councils, the regions do not (unlike the counties which they replaced) have formal local authority status or tax-raising powers.

The 2007 territorial reform was initiated in 2002 with a government-appointed commission, which set out broad alternatives in early 2004. In spring 2004, following a public hearing, the government proposed a model that would reduce the number of municipalities by nearly two-thirds (from 271)



Local authorities in Denmark have substantial responsibilities in social protection, including care for the elderly and disabled.

PHOTO iStock.com/KatarzynaBialasiewicz



BASIC FACTS

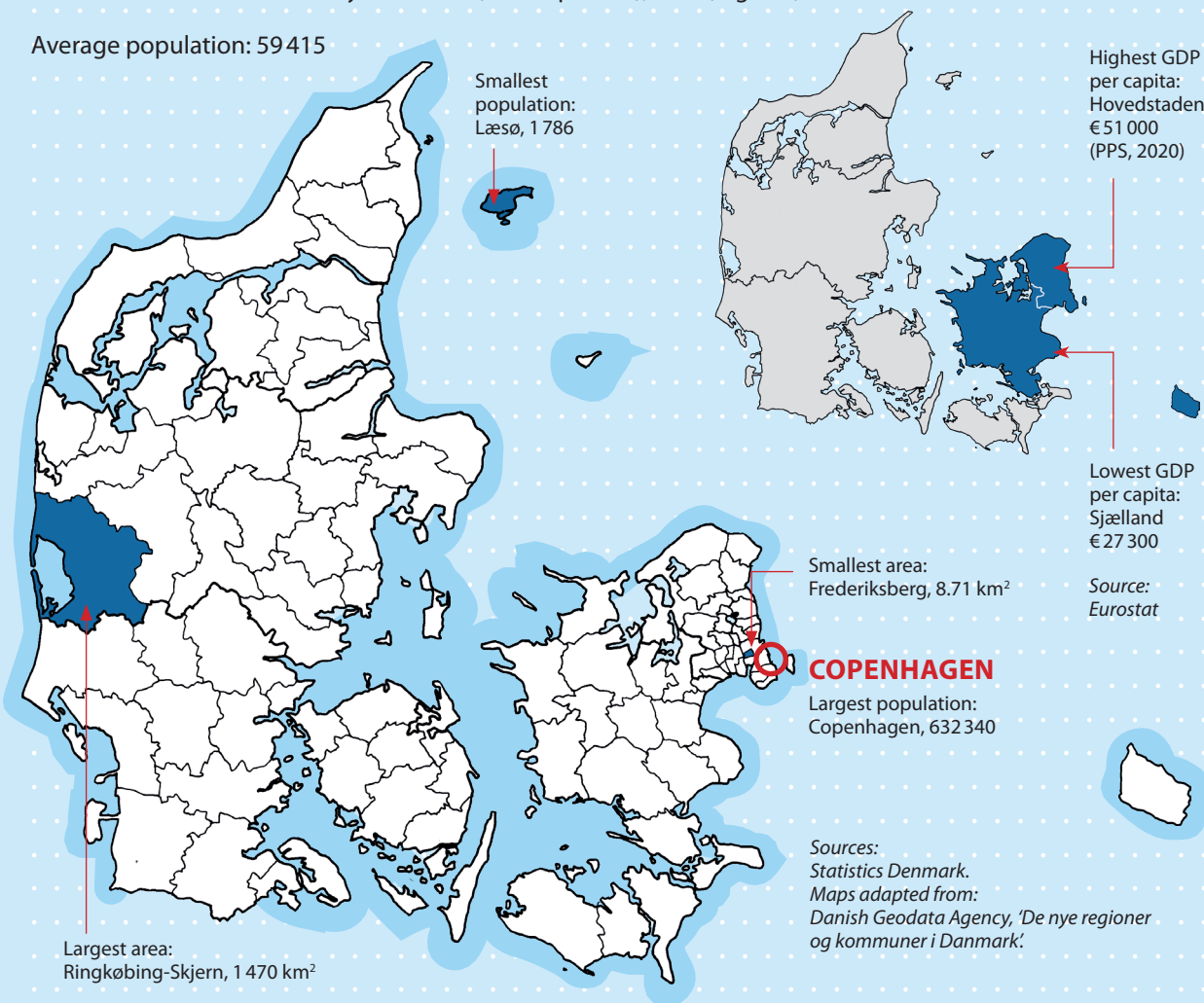
Land area:	42 924 km ²
Population (2020):	5.82 million
Population density:	136 inhabitants/km ²
Government type:	Constitutional monarchy
GDP per capita (PPS):	€ 40 800 (in 2019)

98 MUNICIPALITIES (kommuner)

Share of female councillors: 33% (municipalities), 38% (regions)
Share of female local authority staff: 77% (municipalities), 79% (regions)

Average population: 59 415

5 REGIONS (regioner)



while giving them more powers. The main aim was ‘to maintain and develop a democratically governed public sector with a sound basis for continued development of the Danish welfare society.’ Larger municipalities would be better able to provide high-quality welfare services, while democracy would be strengthened by taking more political decisions locally.

The government reached agreement with one opposition party on the framework for the reform, including a target minimum municipal population of 30,000. Municipalities were then given six months to decide on a new territorial division, with a government negotiator sent in to assist in cases where a sustainable solution had not been reached. Local referendums were held in some areas, and in seven cases (mainly islands), municipalities that did not wish to merge were required instead to enter into cooperation agreements with larger neighbouring municipalities.

The regional reform in 2007 was enacted purely through national legislation. In 2019, the government proposed to abolish regional councils, replacing them with regional health administrations under a new national health authority and transferring other regional responsibilities to the state or to municipalities. However, these proposals were abandoned after the governing party lost the general election later in 2019.

Local government in Denmark is powerful, accounting for almost 33 per cent of GDP and 24 per cent of total employment. Municipalities and regions have a large measure of independence from the government when it comes to fulfilling their mandate, although autonomy in setting local tax rates has been reduced in practice in recent years. The state administration has wide-ranging powers to check and enforce the legality, but not the reasonableness or efficiency, of local government actions.

Local Authority Associations

Local Government Denmark (KL) was established as a result of the 1970 territorial reform, when three different municipal associations decided to merge.

FUNCTIONS

98 municipalities

- Primary education, including special education for adults
- Childcare
- Care for the elderly
- Social services: total regulatory, supply and financing responsibility
- Social psychiatry
- Health care preventive treatment, care and rehabilitation, home care and treatment of alcohol and drug abuse
- Integration of refugees and immigrants
- Environmental protection and waste management, water and preparation of local plans
- Unemployed service
- Assistance to the unemployed
- Economic development
- Culture and sports
- Local business service and local tourism
- Local roads

5 regions

- Health care
- Hospital provision
- Health insurance
- Mental health treatment
- Social services and special education
- Regional development
- Business promotion
- Tourism
- Nature and environment
- Employment
- Culture
- Transport
- Soil pollution

Source: CEMR

With a staff of around 400 people, it represents the interests of municipalities vis-à-vis the government and, as an employer's association, vis-à-vis the trade unions. Danish Regions, established in 2006, similarly represents the five regions with a staff of 160.

Both organisations are politically run, with general assemblies and executive committees composed of elected representatives. The distribution of seats is based on the latest local election results.

All municipalities and regions are members. Danish Regions is financed mainly through member subscriptions, while KL's main revenues are almost equally split between subscriptions and income from consultancy and courses. Both organisations receive a small 'secretariat contribution' from the state.

While there is no formal consultation procedure between the state and local authorities, the Parliament's rules of procedure require it to consult all relevant partners on new laws. This includes KL and Danish Regions as well as individual local authorities. In addition, the associations negotiate the overall financial framework for local authorities with the government each year. The two associations also cooperate on other matters of national importance. A possible merger was discussed in 2014–15 but narrowly rejected by municipal representatives.

Danish local authorities are free to form associations, although the local government law requires state approval for agreements that restrict the powers of participating councils. With territorial reform in 2007, some regional associations closed (e.g. an association of municipalities around Copenhagen), while others flourished (e.g. the Triangle Region, which brings together seven municipalities in southern Jutland as a business region). Local authorities are also active in thematic interest associations, such as Idræts- og Fritidsfaciliteter i Danmark (for sports and leisure facilities) or the Danish Waste Association.

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Local democracy

Both municipal and regional councils are directly elected for a fixed term of four years. The **council** (*kommunalbestyrelse/regionsråd*) elects a **chairperson** for the full term from among its members. The chairperson also serves as head of the administration.

In municipalities, the chairperson has the title **mayor** (*borgmester*), and also chairs the finance committee (through which all business with a financial aspect must pass). The mayor has only limited powers to make decisions on behalf of the council, and all members have the right to bring a matter before the full council. The council may also set up **standing committees** in other areas to manage day-to-day administrative matters and prepare decisions for the full council.



PHOTO pixabay

Denmark has two separate local authority associations for municipalities and regions. Local Government Denmark (KL) represents all municipalities and Danish Regions represents all regions.

Legal framework and supervision

Section 82 of the 1953 Constitutional Act provides that ‘The right of municipalities to manage their own affairs independently, under State supervision, shall be laid down by statute’. The Constitution thus protects municipalities, although it does not guarantee them tax-raising powers or place explicit restrictions on state supervision, nor does it apply to regions (which, unlike the counties before them, are not *kommuner* in the meaning of the Constitution).

The Local Government Act (*Lov om kommunernes styrelse*), last revised in 2019, sets out general rules for the council, committees, the mayor, local budgets and state supervision. Local authority functions as listed above are set out in a range of sectoral legislation. The law on regions (*Lov om regioner*) does list regional responsibilities. The rules on what municipalities may do besides their statutory responsibilities are unwritten and somewhat imprecise (even according to the Ministry). But they include, for example, that actions should benefit local citizens, should not concern matters transferred to other authorities, and should not benefit individuals unless otherwise allowed by law.

Following the 2007 local government reform, devolved state administrations in each of the five regions supervised local authorities. However, in 2017 this responsibility was transferred to the National Social Appeals Board (*Ankestyrelsen*), with offices in Copenhagen and Aalborg. The Board falls under the Ministry of Social Affairs and the Interior, which has the ultimate supervisory responsibility.

Supervision entails monitoring local authorities’ compliance with the law relating to public authorities, except in specific areas where other state authorities have supervisory powers. It concerns legality only, not whether local authorities have acted (or failed to act) reasonably or appropriately. Affected individuals may complain to the Board and may thereafter bring the matter to court or to the Ombudsman.

The Board has a range of sanctions at its disposal, including annulment of decisions, fines against council members and actions for damages. However, these are rarely used. The most common

outcome in the event of a legal breach is an advisory statement, which local authorities generally follow.

In specific areas such as planning, environment and food, health or data protection, other state agencies are responsible for supervision. These also run separate appeals boards to which individuals may complain.

Cases concerning good administrative practice, fairness, municipal personnel and so on may be heard by the Parliamentary Ombudsman. The Ombudsman cannot issue sanctions or amend decisions but may criticise the authority in question and recommend that a new decision be made.

As regards financial supervision, the Local Government Act sets out general requirements on annual budgets and accounts. Accounts must be independently audited by an authorised auditor (often the Local Authority Auditing Service, an intermunicipal body under KL) and transmitted to the National Social Appeals Board. The Act also gives the Ministry powers to make more detailed



PHOTO pixabay

Local government expenditure in Denmark, at 32.8 per cent of GDP or 66.1 per cent of total public expenditure, is the highest in the EU. This is partly because local authorities have major responsibilities in social protection.

rules, for example on the relation between income and expenditure.

In practice, while municipalities enjoy great freedom to manage their financial affairs, budget negotiations between the local authority associations and the government have introduced legal restrictions on investment, borrowing, tax and staff. Access to the capital markets is subject to strict oversight to ensure that local budgets are consistent with national requirements. Borrowing is allowed only in limited areas, such as investments in public utilities, social housing or energy saving measures in buildings.

Finance

Local government expenditure, at 32.8 per cent of GDP or 66.1 per cent of total public expenditure, is the highest in the EU. As the figure below suggests, this is partly because local authorities have major responsibilities in social protection, including various social benefit payments as well as care for the elderly and disabled.

The greater part of municipal revenues comes from taxation, in particular local income tax – at an average of 24.95 per cent of inhabitants' taxable income in 2020. Municipalities are free to determine local taxes in principle, although there are limits in practice. In recent years, as part of the financial agreements reached between KL and the government, government grants have been reduced automatically if overall municipal taxation exceeds an agreed level, while municipalities that reduce taxes have been rewarded with additional grants.

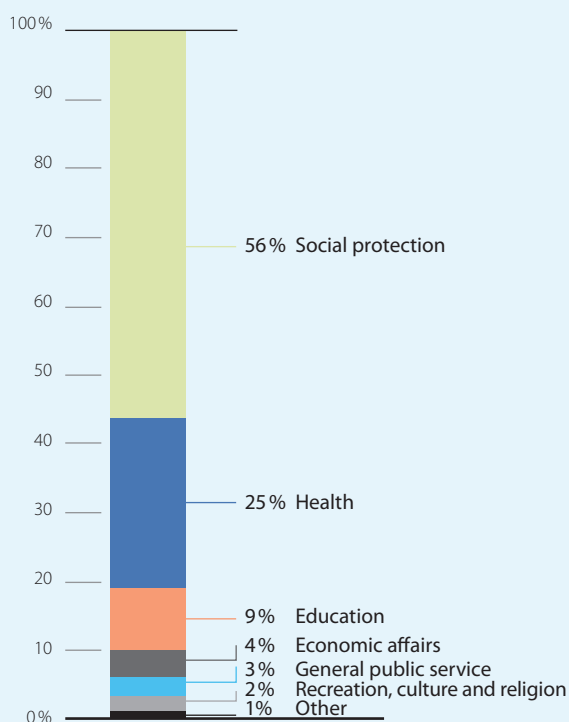
According to figures from the Ministry of Social Affairs and the Interior, taxation accounts for 64 per cent of municipal revenues in 2020. Of this, 86 per cent is income tax; most of the remainder is land and property tax, followed by corporation tax. Block grants including equalisation amounted to 17 per cent of municipal revenues, and earmarked grants and reimbursements 6 per cent. Operating income (including payments for services such as elderly and disabled care and preschool education) was a little under 10 per cent of total revenue. Utilities such as

water supply and waste disposal, which are entirely user-financed, are not included in this figure.

In May 2020 the government, the main opposition and three other parties agreed on a reform of the system for municipal grants and financial equalisation that will apply from 2021. State grants will increase by DKK 6.5 billion in 2021. However, financial equalisation will no longer be state-financed, but based on redistribution between municipalities.

There are two main elements to this redistribution. On the income side, municipalities with a tax base below the national average will receive a contribution worth 75 per cent of the difference,

Local government expenditure in Denmark (2018)



Source: Eurostat

while those above the national average will contribute 75 per cent of the difference. There are additional contributions and receipts for those with the highest and lowest tax bases (over 125 per cent and under 90 per cent of the average).

On the expenditure side, a raft of demographic and social criteria – including population decline, unemployment rates, persons lacking qualifications, public housing stock and many more – determine expenditure needs. Municipalities with needs below the national average contribute 93 per cent of the difference, while those with above-average needs receive a contribution of 93 per cent (or 95 per cent for those with greatest needs). There are also special contributions for peripheral

and island municipalities and for disadvantaged municipalities in the capital region.

Calculations from the Finance Ministry suggest that the net impact of the reform will be a gain to municipalities of DKK 1.7 billion. Within this, 15 municipalities make a net contribution of a little over DKK 1 billion, while the remaining 83 are net recipients.

Regional revenues consist almost exclusively of grants, approximately 83 per cent from the state and 17 per cent from municipalities (in 2019). These are earmarked for health care and regional development tasks. Municipal grants are mostly for health care, and are activity-based, thus giving municipalities an incentive to invest in coherent patient processes,



A recent survey found that 45 per cent of Danish labour law is based on at least one EU directive, including rules on maternity leave, employment contracts, working time and holidays.

PHOTO iStock.com/Miroslav Georgijevic

prevention, etc. As in the new system for municipalities, state grants are based on a range of structural criteria that determine expenditure needs.

EU relations

Of all the countries surveyed here, Denmark has the longest experience of EU membership, having joined in 1973. In 2014, KL updated its analysis of the influence of the EU on municipalities, which showed that almost half of the items on municipal council agendas were affected by EU legislation or other agreements and objectives (see box).

As a rich EU member state without the sparsely populated northern regions of some of its neighbours, Denmark's share of the European Structural and Investment Funds is low, with an allocation of € 246 per capita for the 2014–20 period. Neverthe-

less, municipalities and regions are key players in the regional growth forums that determine priorities for regional and social programmes, as well as in other areas of EU funding such as research and development (Horizon 2020).

Both KL and Danish Regions have Brussels offices and are represented in a number of organisations at EU level, such as the Council of European Municipalities and Regions (CEMR), the European Centre of Employers and Enterprises providing Public Services (CEEP), and the Council of Europe's Congress of Local and Regional Authorities (CLRA). The two associations serve as the secretariat for Denmark's delegation to the Committee of the Regions, which consists of nine members, with two-thirds from municipal councils and one-third from regional councils.

THE IMPACT OF THE EU ON LOCAL AUTHORITIES

To assess the impact of EU membership on municipalities, Local Government Denmark (KL) regularly examines a sample of 40 municipal agendas from 10 municipalities, one large and one small from each of Denmark's five regions. It also reviews a compendium of labour market rules and the collective agreements between KL and labour unions.

EU legislation has a direct impact in areas such as public procurement, environmental impact assessments or drinking water standards. In others, including education, social affairs or climate, EU benchmarking and recommendations influence national action plans, which may in turn have a political impact at municipal level.

The latest assessment in 2020 found that 43 per cent of the surveyed agenda items were influenced by the EU, whether legally and/or politically. Further, 45 per cent of Danish labour law (particularly rules on maternity leave, employment contracts, working time, holidays, etc.) is based on at least one EU directive, and 53 per cent of KL's collective agreements are influenced by EU directives or framework agreements.

ESTONIA

WHILE LOCAL SELF-GOVERNMENT HAS ROOTS dating back to the Russian Empire and before, local authorities in the Republic of Estonia as such emerged following independence in 1918. They were effectively abolished during the communist era from 1940, but rapidly re-established in the run-up to the fall of the Soviet Union. Local elections were held in December 1989 and the 1992 Constitution dedicated a chapter to local government.

From 1989 there were two levels of local self-government – counties and municipalities (both city and rural). In 1994 the county administrations were absorbed into the state, and at the same time,

a process of voluntary amalgamation for municipalities began, with the government offering financial incentives for those choosing to merge. While the total fell from 254 in 1995 to 213 in 2014, a number of extremely small rural municipalities remained, though these usually cooperated with larger neighbours in providing services.

In December 2015, the government launched a comprehensive territorial reform, with a parliamentary bill in 2016 stipulating a minimum municipal population of 5,000 and a recommended size of at least 11,000, with exceptions for islands. The stated purpose was to increase municipalities' capacity to



The number of municipalities decreased from 213 to 79 in the territorial reform entering into force in 2017. However, several small municipalities still remain on account of the exceptions made.

PHOTO iStock.com/prosiaczeg



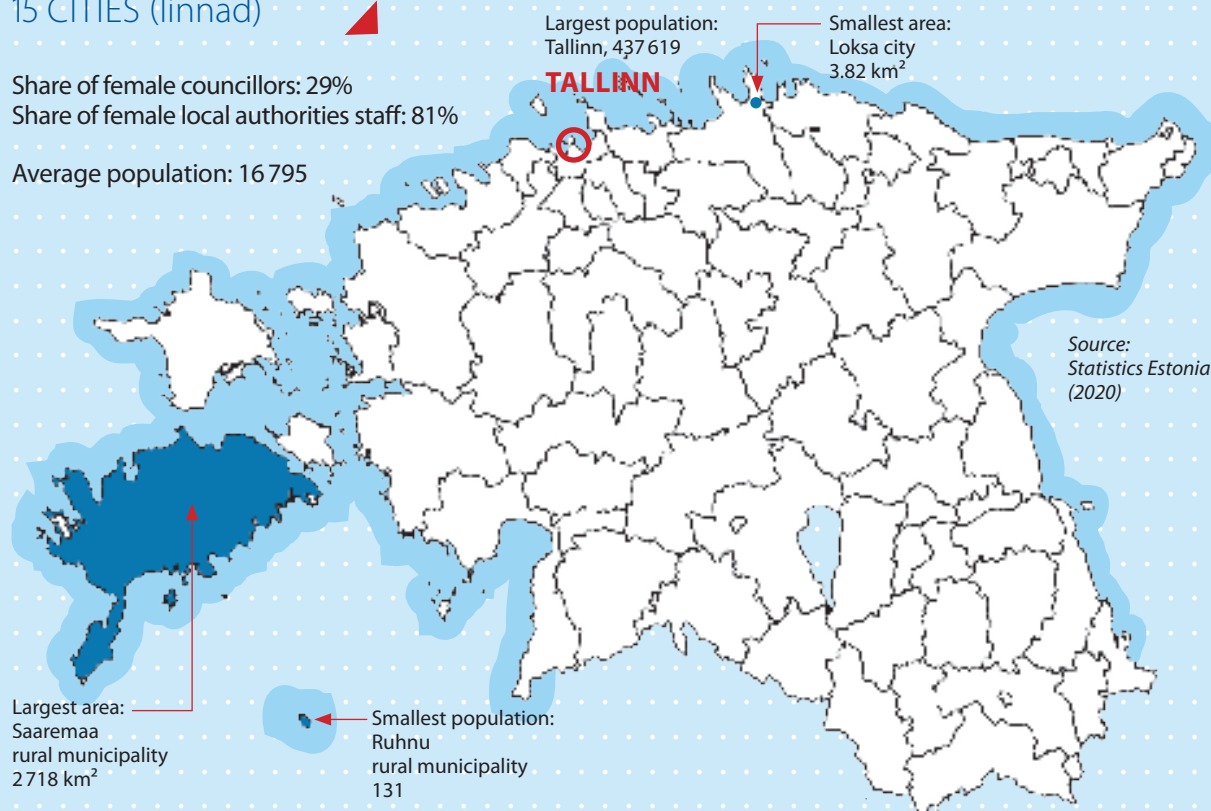
BASIC FACTS

Land area:	43 432 km ²
Population (2020):	1.33 million
Population density:	31 inhabitants/km ²
Government type:	Republic
GDP per capita (PPS):	€ 26 580 (in 2019)

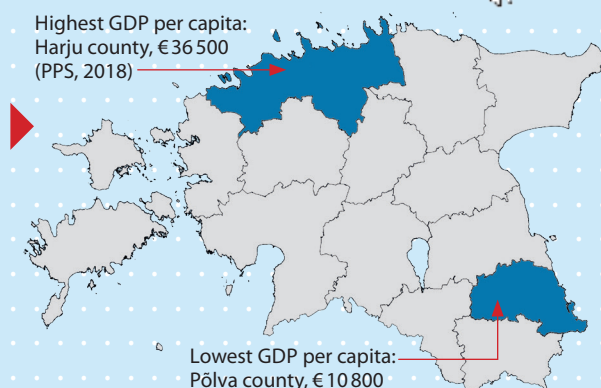
64 RURAL MUNICIPALITIES (vallad) 15 CITIES (linnad)

Share of female councillors: 29%
Share of female local authorities staff: 81%

Average population: 16 795



15 COUNTIES (maakonnad) Not self-governing



Source:
Statistics Estonia,
Eurostat
(figures for 2018).
Maps adapted
from: Rahandus-
ministerium
(Ministry of
Finance).

provide public services, to further the development opportunities of regions, to increase competitiveness and to guarantee more even regional development.

The reform took place in two stages. Until January 2017, municipalities could merge voluntarily and receive a merger grant. Around 80 per cent of small municipalities opted to merge with neighbours during this stage, with over € 64 million in grants paid out. Compensation was also provided for council chairs and mayors whose mandate ended due to mergers.

For municipalities failing to meet the 5,000 minimum population criterion, the government stepped in, carrying out 26 mergers on its own initiative, though also waiving some proposals in view of local concerns. The mergers entered into force after the autumn 2017 local elections. Several small municipalities still remain on account of the exceptions made. However, the total number was reduced from 213 to 79.

Local authorities play a significant role, particularly in the area of education, and they enjoy substantial legal protection. They are, however, heavily dependent on the state for funding, with the bulk of their revenue coming from shared personal income tax (levied at a centrally set flat rate) and grants.

Local Authority Associations

Founded in 1920 and 1921 respectively, the Association of Estonian Cities and the Association of Rural Municipalities of Estonia were re-established in 1990 with the aim of representing the common interests of cities and rural municipalities and promoting cooperation among members. After the recent territorial reform, the associations merged in 2018 to become the Association of Estonian Cities and Municipalities (AECM).

The General Assembly is the highest decision-making body of the AECM. Members are represented here by a number of delegates depending on the municipal population. A 13-member Board of elected representatives directs the work of the association. The Bureau, whose Director is approved

by the Board, manages administrative work, with a staff of 17 people.

At present, 77 out of 79 municipalities are members of the Association. In the budget for 2020, 73 per cent of AECM's revenue comes from membership fees. Most of the rest comes from government grants, including for external and EU cooperation, and for ICT-related activities through which AECM channels state funding to municipalities.

Regarding consultation, there is a formal procedure for annual budget negotiations between the government and AECM. The Association submits proposals to the Ministry of Finance in November, and negotiations take the form of sectoral working groups followed by a general meeting in April, prior to the draft state budget. Among issues covered are the share of taxes to be transferred to municipalities, principles and amounts for the equalisation fund, conditions for covering the cost of delegated tasks and measures to ensure financial discipline.

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Local democracy

Municipal councils (*volikogud*) are directly elected for a term of four years. The council elects its **chairman** (*volikogu esimees*) and may form both standing and ad hoc **committees** according to its own statutes; only an audit committee is required by law.

The council appoints the **mayor** (*linnapea* in cities, *vallavanem* in rural municipalities) and approves the mayor's formation of the local executive board, or **government** (*valitsus*). The mayor is thus an official who serves as head of the municipal administration, although career politicians often occupy this position. If a council member is appointed mayor or a member of the government or to a remunerated position within the administration, his or her authority as council member is suspended.

FUNCTIONS

79 municipalities

- Municipal budget
- Education
- Social welfare
- Health services
- Culture, leisure and sports
- Social housing
- Urban and rural planning
- Tourism
- Public transport
- Water supply, sewage, public lighting and central heating
- Environment
- Waste collection and disposal
- Road and cemetery maintenance
- Local taxes

Source: CEMR

Note: The list does not include the joint functions transferred from county-level state governments in 2017 and performed in most cases by county-level municipal associations.

Legal framework and supervision

The 1992 Constitution gives substantial protection to local self-government. A dedicated Chapter XIV states, among other things, that ‘All local issues are resolved and regulated by local authorities, which operate independently in accordance with the law’, and that responsibilities may only be assigned to them in accordance with the law or with their consent. It also states that local authorities have independent budgets and the right to impose and collect taxes and fees, and that ‘Expenditures related to the responsibilities assigned to local authorities by law are financed by the State Budget.’

The 1993 Local Government Organisation Act (last amended in 2020) sets out the powers and

functions of local authorities, arrangements for councils and governments, and general provisions on matters such as audit and supervision. It grants municipalities the power, for example, to engage in economic activities or inter-municipal cooperation. It also requires them to prepare a development plan and budget strategy and to form an audit committee composed of council members. Separate acts regulate local authority budgets, elections, associations and territorial division.

In 2019 the Ministry of Finance convened an expert committee to review the legislation on local government with the aim of proposing a new draft law in 2020. AECM is involved in these discussions.

The Constitution stipulates that oversight of local authority activities is to be provided by law. The Local Government Organisation Act specifies three bodies responsible for supervision.

First, the Ministry of Justice exercises administrative supervision over local authorities. In the past, this fell to county governors, but the 2017 territorial reform



Estonia is considered a leader in e-governance, providing local services such as the e-School system, which allows parents to check their children's homework, grades and progress over the internet.

brought an end to their role. The Government of the Republic Act specifies that supervision by the Ministry of Justice concerns the legality of municipal acts. In the event of breaches (or omissions), the ministry may make a written proposal to repeal or amend (or issue) the act in question. If the local authority fails to rectify the situation within 30 days, the ministry may then refer the matter to the administrative courts.

Secondly, the Chancellor of Justice supervises compliance of municipal acts with the Constitution and national laws. The Chancellor makes numerous proposals to bring local regulations into line. As a rule, problems are resolved in the course of information exchange with the municipality. However, if a municipality refuses to revise its legislation accordingly, the Chancellor may refer the matter to the Supreme Court (as happened in one case in 2018). The Chancellor is also responsible for ensuring that municipalities (among others) respect fundamental rights and freedoms and the principles of good administrative practice.

Thirdly, the National Audit Office inspects the activities of local governments pursuant to the National Audit Act. It verifies whether funds have been properly (efficiently and effectively) and lawfully used but may not assess the expediency of municipalities' use of funds.

Requirements for municipal budgets and accounts are set out in the Local Government Financial Management Act. This also includes measures to ensure financial discipline, including strict limits on local deficits and debt. It also provides for the AECM to agree with the government on a target for the overall local government deficit and with members on how this should be distributed.

Finance

Local government expenditure is below the EU average in terms of GDP (at 9.8 per cent) but slightly above in terms of public expenditure (25.1 per cent), which reflects the small size of the Estonian public sector as a whole. Education – including both primary and secondary schools – is the largest item. Health care is also a municipal responsibility but is provided since

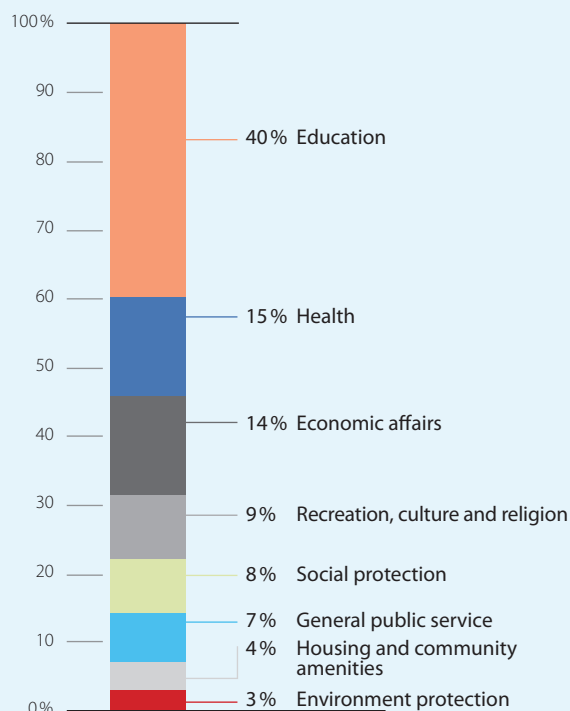
2001 through public limited companies or foundations.

In 2019, 60.8 per cent of local revenue came from taxation, the bulk of this from shared personal income tax. Municipalities have no say over the tax rate, which is set centrally (at a flat rate of 20 per cent), but they receive a proportion of their residents' taxable income (11.93 per cent in 2019). Municipalities do have freedom within limits to set rates for land tax and certain other local taxes.

Government grants accounted for 28.6 per cent of local revenue in 2019. Of these, 72.0 per cent took the form of a block grant and 11.4 per cent were earmarked for operating expenses. The financial equalisation fund accounts for the remaining 16.6 per cent.

The equalisation fund, worth a total of € 102 million in 2019, compensates municipalities whose expected service costs exceed their estimated tax

Local government expenditure in Estonia (2018)



Source: Eurostat

revenue. Costs are estimated using demographic and social criteria such as the population in different age groups and the numbers of students in municipal upper-secondary schools, children with disabilities and adults in care. The fund reimburses 90 per cent of the difference, plus additional contributions, for example for small islands. In 2019 all but four municipalities received some contribution from the fund.

EU relations

Estonia joined the EU in 2004 and is the largest recipient of EU structural funds in per capita terms, with an allocation of €3 363 for the period 2014–20. The funds have had a major impact on local infrastructure such as water treatment and waste management facilities. However, they are managed by the central authorities, with consultation but relatively little involvement of local authority associations, and smaller municipalities find it administratively and financially challenging to prepare project applications.

The forerunners of the AECM opened a Brussels office in 2005. The association serves as the secretariat for Estonia's delegation to the Committee of the Regions, which consists of seven members and seven alternates. The association is also represented in organisations such as CEMR and the Baltic Sea States Sub-Regional Cooperation.



EU structural funds have had a major impact on local infrastructure in Estonia, such as water treatment and waste management facilities.

E-GOVERNMENT

Estonia has been a pioneer in the field of e-governance. Since 2002, citizens have been issued with online ID cards linked to a database containing tax filings, health records, educational qualifications and more. Almost all state administrative services are now provided online, with benefits including greater accessibility, cost savings and faster service.

Municipalities are also expected to use this system, including for e-voting in local elections (since 2005). This has posed challenges for local ICT infrastructure and capabilities, particularly outside the large cities. AECM has played a vital role in channelling operating grants from the Ministry of Finance to support local ICT development, including an ICT competence centre and a strategic development plan (most recently for 2020–23).

Fulfilment of the strategy is expected to widen the use of e-services in municipalities and to narrow the ICT gap between local and central government. Among the concrete initiatives of AECM are:

- VOLIS, a software platform enabling public e-services and the involvement of the local population in municipal decision-making (also available for use elsewhere under a General Public Licence)
- anna-teada.ee, a nationwide website and app which allows people to report maintenance problems and automatically notifies the relevant local or state authority
- a specification of minimum technical requirements for local government ICT infrastructure.

While ICT developments were not part of the official case for territorial reform in Estonia, e-governance naturally serves as one way to maintain accessibility to the local administration despite a three-fold increase in the average size of municipalities.

FINLAND

FINLAND HAS A LONG TRADITION of local government, stretching back to the Middle Ages and through the Swedish and Russian Empire periods. Following independence in 1917, municipal self-government was enshrined in the 1919 Constitution, although functions were limited. With the advent of the welfare state, municipalities took on more responsibility for public services, albeit under the tutelage of ministries. Since the late 1980s, the trend has been towards greater local autonomy, with reformed municipal finances and reduced state regulation.

In recent years the government has promoted territorial reform by requiring small municipalities to organise health and social services jointly, and by providing financial incentives to those willing to merge. As a result, the number of municipalities has declined from 448 in 2001 to 310 as of 1 January 2020, although several very small municipalities remain, especially in the archipelago and in Swedish-speaking areas.

In 2011 the government launched an attempt at comprehensive territorial reform. An expert



Due to territorial reforms the number of municipalities in Finland has decreased in the past 20 years. Yet a number of very small municipalities remain, especially in the Finnish archipelago.

PHOTO Leif Thorin



BASIC FACTS

Land area:	303 892 km ²
Population (2020):	5.53 million
Population density:	18 inhabitants/km ²
Government type:	Republic
GDP per capita (PPS):	€ 35 170 (in 2019)

310 MUNICIPALITIES (kunta / kommuner)

Share of female councillors:
municipalities 39%, regions 47%
Share of female local authority
staff: 77%

Average population: 17 824

Sources:
Statistics Finland, 2019.
Maps adapted from:
Statistics Finland.
© Copyright
Läntmäteriverket
(maps are redrawn).

Smallest
population:
Sottunga
Åland
88

HELSINKI

Largest
population:
Helsinki, 653 835

Smallest area:
Kauniainen
5.89 km²

Largest area:
Inari, 15 056 km²

19 REGIONS (maakunta / regioner)

*Councils not directly elected except
in Åland and Kainuu*

Jointly lowest
GDP
per capita:
Pohjois-Karjala
and Kainuu,
€ 25 100
(two regions)

Highest GDP per capita:
Helsinki-Uusimaa
€ 43 200
(PPS, 2013)

group proposed a new preliminary map of 70–100 municipalities, based on functional criteria such as population, commuting distances and local finances, and with a target minimum population of 20,000. Municipalities would not receive more powers; the main motivation of the reform was to improve their capacity to fulfil existing statutory responsibilities.

While the reform was centrally coordinated, it would not have forced municipalities to merge, although those with fewer than 20,000 inhabitants were to delegate some responsibilities to neighbouring municipalities. In the event, the government abandoned the reform in 2015 in the face of political opposition – both from small municipalities and from political parties that prioritised health reforms. A handful of mergers have taken place since then on a voluntary basis.

At present, Finland has 19 regions with limited self-governing functions in the fields of regional development, planning, and promotion of regional interests. Except in the autonomous province of Åland, the regional councils are composed of municipal representatives, not directly elected. The state also has Regional State Offices and other agencies at this level.



PHOTO iStock.com/svetikid

However, successive governments in recent years have attempted to reform the health care system, in part by transferring responsibility to directly elected county councils. This shift in focus stems partly from the failure of the municipal reform. The latest proposals from June 2020 would establish 21 counties entrusted with health, social and emergency services that are currently provided by municipalities.

Regional councils and state functions at regional level would also follow the new division, to be finalised following consultations. The government aims to hold the first county elections in early 2022, with the new legislation to enter into force in 2023.

Finnish municipalities have a high degree of autonomy in both fiscal and legal terms. They are the chief provider of welfare services, including secondary health care (for now). However, increasing costs due to an ageing population have strained local finances in recent years, leading to higher taxes and borrowing, and a target ceiling for municipal deficits set by the government.

Local Authority Associations

The Association of Finnish Local and Regional Authorities (AFLRA) was formed in 1993 through a merger of the Association of Finnish Cities, the Association of Finnish Municipalities, the Finland Swedish Municipal Association and four other associations. With a staff of around 170 people, it represents municipal interests and provides services to municipalities and joint authorities, including the regional councils and other bodies in health care and education. It also includes KT Local Government Employers, which represents municipalities as employers.

The main decision-making bodies are the 76-member Delegation and the 15-member Board, both composed of elected representatives. The results

Finnish municipalities are still the chief provider of welfare services, including secondary health care and dental services, which are usually assigned to higher levels of government in other countries. This might be changed in ongoing attempts to reform the health care system.

of the municipal elections determine the political make-up of the Board.

All 310 municipalities are members of AFLRA. In the 2020 budget, a little over 80 per cent of revenues are from membership fees, 15 per cent from external financing (including research and development projects and subsidies from the independent Foundation for Municipal Development), and 5 per cent from sales of products and services and rentals. The association has three subsidiary companies engaged in consulting, joint procurement, and media and events.

Regarding consultation, the Local Government Act provides for a negotiation process between central and local government, in which municipalities are represented by AFLRA. This shall consider legislation on local government, central government measures that are far-reaching and important in principle concerning the activities, finances and administration of local government, and the coordination of central and local government finances.

The local government law provides for sub-national municipal associations in the form of *kuntayhtymät / samkommuner* or 'joint municipalities'. Three statutory types include all municipalities: 21 health care districts, 16 special care districts and 18 mainland regional associations. There are many more voluntary associations covering areas such as education, social care, waste and water, transport and property. Municipalities may also form other interest associations and networks, such as Finnish Sustainable Communities or the Network of Finnish Cycling Municipalities.

Contact details:

Kunta Liitto / Kommunförbundet, Toinen linja 14,
00101 Helsinki. Telephone +358 9 7711
Website <https://www.localfinland.fi>

Local democracy

The **municipal council** (*kunnanvaltuusto / kommunfullmäktige*) is directly elected for a four-year term. The council chooses the members of its **board** (*kunnanhallitus / kommunstyrelse*) in proportion

to the different parties' share of council seats. The council's executive consists of the board and an appointed administrative staff.

Traditionally, Finnish municipalities do not have mayors, and in most cases, the council appoints a **municipal manager** (*kunnanjohtaja / kommundirektör*) to head the administration. However, a change in the Local Government Act in 2006 allowed municipal councils instead to choose an elected representative as **mayor** (*pormestari / borgmästare*) to head the administration and chair the executive board. Helsinki, Tampere, Turku (from 2021) and a number of smaller municipalities have opted for this model.

The council may establish **committees** under the municipal board to deal with particular areas of responsibility such as health social and health care services, education, urban planning, the environment, and cultural and leisure services.

Traditionally, Finnish municipalities do not have mayors, and in most cases, the council appoints a municipal manager to head the administration. Helsinki is one of the exceptions.



photo pixabay

INTERMUNICIPAL COOPERATION

Intermunicipal cooperation is a feature of local governance in all of the countries surveyed, but perhaps especially in those where small remote or peripheral municipalities remain. Cooperation may allow municipalities to achieve economies of scale in providing certain services (e.g. waste treatment), or to employ more specialised staff (e.g. in secondary health care) than a limited population and revenue base would allow.

In some cases, formal cooperation agreements have been made an explicit alternative to territorial reform. While Denmark saw a general fall in intermunicipal cooperation with the territorial reform in 2007, smaller municipalities that did not wish to merge were required to cooperate with larger neighbours in parts of employment and social policy, rehabilitation, special education and environment (including e.g. environmental protection, chemicals and water planning).

Local government acts specify a range of options for cooperation, such as joint committees or agencies, delegation of tasks to another municipality and jointly owned companies, associations, etc. They also generally set out rules for management (often of a distinct legal entity), supervision and financial responsibility. In sharing functions and resources, municipalities and their inhabitants must naturally also share democratic control over such arrangements.

Typical fields for cooperation vary among the countries surveyed, depending partly on

the size of municipalities and regional-level tasks (if any). As a general rule, services that require local proximity and/or a high degree of political control, such as early education and elderly care, seem less amenable to cooperation. Services reliant on technical infrastructure, such as transport or waste and water treatment, may be more amenable, although one recent review found surprisingly little conclusive evidence of cost savings.*

In Finland, around three-quarters of *kuntayhtymät* / *samkommuner* deal with health care, which is partly explained by the absence of self-governing regions. In Sweden, the most common fields for intermunicipal associations are emergency services, labour market measures and upper-secondary and adult education. Property, business services, energy and environment (including waste and water) account for the lion's share of intermunicipal companies. In Poland, where municipalities are smaller than average in the countries surveyed here (though still large by EU standards), transferral of tasks is common even in pre-school education and social services. There are also several hundred intermunicipal unions and companies in areas such as water, waste and transport.

** 'Kommunal samverkan,' ch. 13 in Starkare kommuner – med kapacitet att klara välfärdsupdraget, SOU 2020:8. This includes a review of international evidence and an attempt to estimate cost savings for emergency services in Sweden.*

FUNCTIONS

310 municipalities

- Health care (primary, secondary, and dental services)
- Social services (child day care, services for the aged and the disabled)
- Education (pre-school, primary, secondary, vocational training, adult education and libraries)
- Culture and leisure
- Sports
- Territorial planning
- Building and maintenance of technical infrastructure and environment (roads, energy, water and sewage, waste, harbours and public transport)
- Business and employment
- Independent taxation rights and finances

18 regional councils (besides Åland)

- Regional development
- Regional land use planning
- International affairs of the regions
- Promoting region's interest
- Responsibility for the EU's Structural Fund Programmes and their implementation
- Protection and promotion of culture and regional traditions
- Promote mental and economic well-being

Åland autonomous province

- Education
- Culture
- Police
- Health care
- Social affairs
- Employment

Source: CEMR

GENDER EQUALITY QUOTAS

Since 1995, Finland's Act on Equality between Women and Men has included gender equality quotas that apply to municipal boards, committees and intermunicipal cooperation bodies. The proportion of both men and women in such bodies must be at least 40 per cent. However, the provisions do not apply to elected councils. In the 2012 municipal elections, the share of female candidates was 38.8 per cent, and the share of female elected councillors 36.2 per cent.

By 2017 – when Finland celebrated the centenary of women's right to vote and stand in local elections – these shares had increased a little, to 39.9 per cent for candidates and 39.0 per cent for elected councillors. The share of female municipal chairpersons was also 39 per cent, a figure that has risen sharply over recent mandate periods.

More information:

<https://www.localfinland.fi/blog/2018/finland-celebrates-centenary-womens-right-vote-and-stand-municipal-elections>

Legal framework and supervision

Finland's 1999 Constitution provides clear guarantees for local self-government. Section 121 states that 'Finland is divided into municipalities, whose administration shall be based on the self-government of their residents'. It also grants municipalities the right to levy tax.

The 2015 Local Government Act sets out general arrangements for elections, finances, intermunicipal cooperation and so forth. Municipalities shall 'advance the well-being of their residents and the vitality of their respective areas' and 'arrange services for their residents in a way that is financially, socially and environmentally sustainable'. They have a general power to act by virtue of their self-governing status, but most of their functions as listed above are laid down in sectoral legislation. A study by the Finance Ministry in 2013 counted 535 statutory functions, from drawing up a regional plan to sharing the operating costs of polytechnics.

The 2015 Act contains a chapter on relations between the state and municipalities. The Finance

Ministry monitors municipalities' activities and finances and ensures that account is taken of local self-government in preparing legislation affecting municipalities. In case of complaints, the Regional State Administrative Agencies may investigate whether municipalities have acted according to the law. These are central government organs with six regional offices on mainland Finland plus a similar institution, the State Department, on the island of Åland. They work under several different ministries to guide and supervise implementation of national policies in areas such as environmental protection, health and social services.

Methods of supervision vary depending on the policy area, but in general the Agencies cannot overturn or amend decisions, award damages, etc. as a result of a complaint. They may bring the matter to the attention of the municipality and suggest a lawful way of proceeding, remind the municipality of the requirements of good administrative practice, or register an official criticism. In some areas such as education, sectoral laws do give the supervisory authority the power to overturn decisions. Supervision is sometimes exercised together with national agencies, such as the National Supervisory Authority for Welfare and Health.

Ultimately, the administrative courts rule on the legality of municipal actions, whether in proceedings brought by an affected party or, in the case of general municipal functions, by any resident. Reflecting the principle of local autonomy, the courts may generally rule only on the legality (not reasonableness) of municipal decisions, and unlawful decisions may only be overturned, not amended. There are some exceptions where the court may issue a decision or return the matter to the municipality for further consideration, for example where necessary for the legal protection of one party.

Together with Sweden, Finland is one of the few countries where municipalities are free to set the basic income tax rate for their inhabitants.

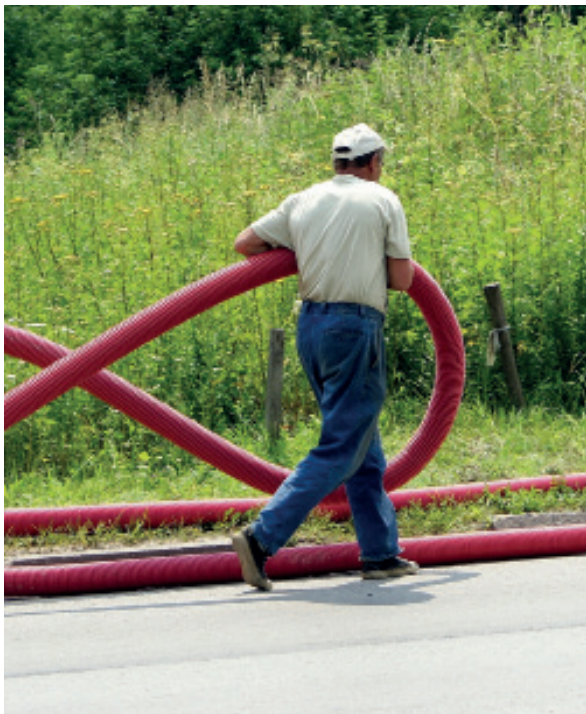


PHOTO pixabay

In addition, anyone may file a complaint with the Parliamentary Ombudsman or the Chancellor of Justice, who have jurisdiction over the exercise of all public power. The Ombudsman may issue a reprimand, make a recommendation or bring a criminal case if an official or authority is found to have contravened the law.

As for finance, the Local Government Act lays down general requirements regarding annual budgets, financial plans covering at least the next three years, and accounting. The formal consultation procedure between the state and municipalities also includes a programme for municipal finances, which is drawn up by the finance ministry together with other ministries in consultation with AFLRA. Attached to the finance ministry is a delegation for municipal finances and management, which monitors local finances and ensures that legislation and decisions affecting municipalities take account of the agreed plan.

The Act also prescribes special measures for municipalities in an especially difficult economic position, the number of which has grown sharply in recent years (to 56 in 2019). They include those who have failed to cover a budget deficit within four years or have seen a sharp increase in the deficit over the last two years, or whose finances are problematic according to several other indicators. An evaluation group with one member from the finance ministry, one from the municipality and an independent chair is then appointed to propose measures aimed at securing service to inhabitants. The finance ministry, the municipality or 20 per cent of eligible local voters may also call for a special enquiry on territorial division, which may propose that the municipality or parts of it should merge with one or more neighbours.

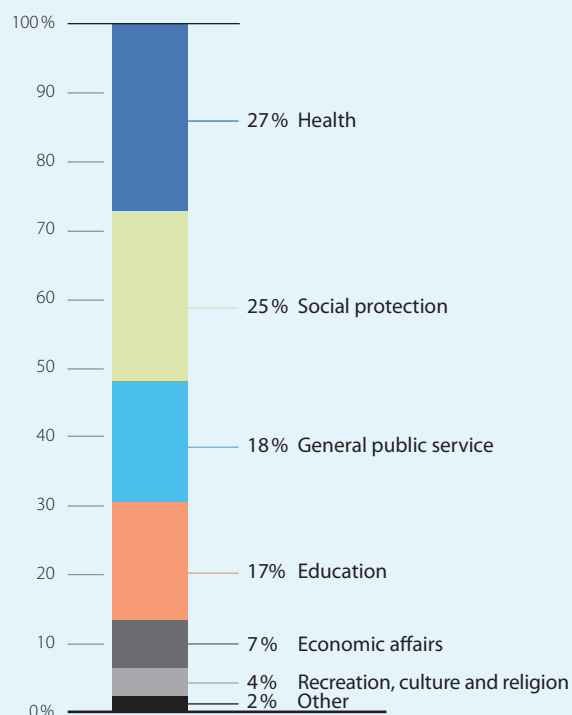
The Local Government Act requires the municipal council to establish an audit committee, of which at least the chair and vice chair must be council members. Among its tasks are to assess whether the council has achieved its operational and financial targets and to address the financial outlook in the event of an uncovered deficit. The council must also appoint an 'audit association' headed by an authorised

auditor. Under the direction of the council and the audit committee, the association's tasks include auditing of the annual accounts to ensure that the municipal administration complies with the law and with council decisions.

Finance

Local government expenditure in Finland accounts for 22.0 per cent of GDP or 41.3 per cent of total public expenditure. Health care, social protection (including care for the elderly and disabled) and education together account for over two-thirds of local budgets.

Local government expenditure in Finland (2018)



Source: Eurostat

According to figures from Statistics Finland, over 57 per cent of municipal revenue in 2019 came from taxes, most of this (84 per cent) from income tax, followed by a share of corporation and property taxes. Together with Sweden, Finland is one of the few countries where municipalities are free to set the basic income tax rate for their inhabitants. In 2020 tax rates ranged from 16.5 to 23.5 per cent, with an (unweighted) average of 20.9 per cent. Operating revenues (including sales, fees and various state grants for specific services) amounted to just under 19 per cent of total revenue, and general government grants to a little under 22 per cent of revenue.

The bulk of central government transfers are determined according to a 2009 law on the 'state share' for basic public services, which encompasses both cost and revenue equalisation. The state share is intended to compensate mainland municipalities (Åland has its own system) for part of their operational costs due to legislation on social care, education and culture. A detailed cost calculation per inhabitant is based on factors such as population in different age groups, frequency of various illnesses, unemployment rates, languages, island status, population density and educational background. In principle, the state then pays (in 2020) 25.49 per cent of these costs, leaving municipalities to finance the rest, although there are further supplements for remote areas, low self-sufficiency in workplaces and the Sami homeland.

Then, on the income side, grants are adjusted for differences in tax revenue. A threshold for average tax revenue per inhabitant is set using the average tax rate, so that individual municipalities' income tax rates do not influence the result. Municipalities with tax income below the threshold then receive 80 per cent of the difference, while those above pay a contribution of 30 to 38 per cent. In 2020, 27 municipalities were net contributors with a total of some € 676 million. The rest were net recipients with a total of € 1.46 billion. (The difference is deducted from the overall state share so that the impact is neutral.) There are several further adjustments, and a separate law on a (smaller) system for transfers in education and culture.

Low economic growth and rising costs due to an ageing population have put increasing strain on municipal finances in recent years, leading to higher local taxes and borrowing even before the covid-19 crisis. Since 2015 the government has set a target ceiling for municipal deficits, which in 2019 was 0.5 per cent of GDP. The Local Government Act also requires municipalities to cover a balance sheet deficit within the next four years. At the same time, the Parliament's Constitutional Law Committee has in recent years reaffirmed the 'financing principle': that when municipalities are assigned tasks, they must also be assured the means to deliver them.

EU relations

In 2014, almost two decades after Finland joined the EU, the Association of Finnish Local and Regional Authorities (AFLRA) carried out a study of how membership has affected municipalities. This found that, of the 535 statutory functions listed by the Ministry of Finance, the EU influences 63 per cent, whether directly (through EU regulations and directives) or indirectly (e.g. through EU strategies or programmes). In a sample of 10 local council agendas, 53 per cent of items were influenced by the EU. A case study of Helsinki council's decision-making bodies returned a figure of 47 per cent.

With GDP per capita well above the EU average, Finland is not a major beneficiary of the European Structural and Investment Funds. Nevertheless, with a total allocation for 2014–20 of € 717 per capita, it receives more than its Nordic neighbours, and municipalities play an important role in programming and implementation, both at national level (through AFLRA) and through the Regional Councils.

AFLRA aims to exert influence in the EU, the Council of Europe and other international organisations with a view to improving conditions for local government in Finland. The association is a member of CEMR and follows the work of other bodies in which its members are active, such as the Assembly of European Regions, the Association of European Border Regions and the Conference of

Peripheral Maritime Regions of Europe. It serves as the secretariat for Finland's delegation to the CLRA and the EU Committee of the Regions. The latter consists of nine members and nine alternates, representing municipalities, towns and regional councils.

The Åland islands nominate one member and alternate. Men and women are equally represented, while political representation reflects the outcome of the local elections.



Since 1995, Finland's Act on Equality between Women and Men has included gender equality quotas that apply to municipal boards, committees and inter-municipal cooperation bodies.

PHOTO iStock.com/PeopleImages

LATVIA

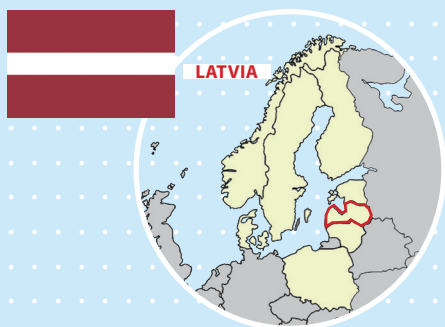
LOCAL SELF-GOVERNMENT in the Republic of Latvia was established with independence in 1918, but effectively suspended from 1934 until the end of the Soviet period in 1991. The reforms of 1992 resulted in a common Act for 586 cities and rural municipalities and 26 second-tier districts, new laws on local elections and local budgets, and a process of voluntary amalgamation for the first tier. A further reform in 2009 consolidated local government into a single tier consisting of 110 *novadi* (municipalities) and 9 *pilsētas* (cities).

In June 2020 Parliament adopted yet another comprehensive reform which means that, after the local elections in July 2021, Latvia will have 42 local authorities: seven city municipalities (*valstspilsētas*) and 35 county municipalities (*novadi*). The Ministry for Environmental Protection and Regional Development had made proposals along these lines back in 2015, noting that many small municipalities remained. In March 2019 Parliament instructed the government to ‘continue’ the 2009 reform and in May the Ministry unveiled a draft bill proposing a new



As in most of the countries surveyed here, the capital city, Riga, is both the largest municipality and the centre of the wealthiest region.

PHOTO pixabay



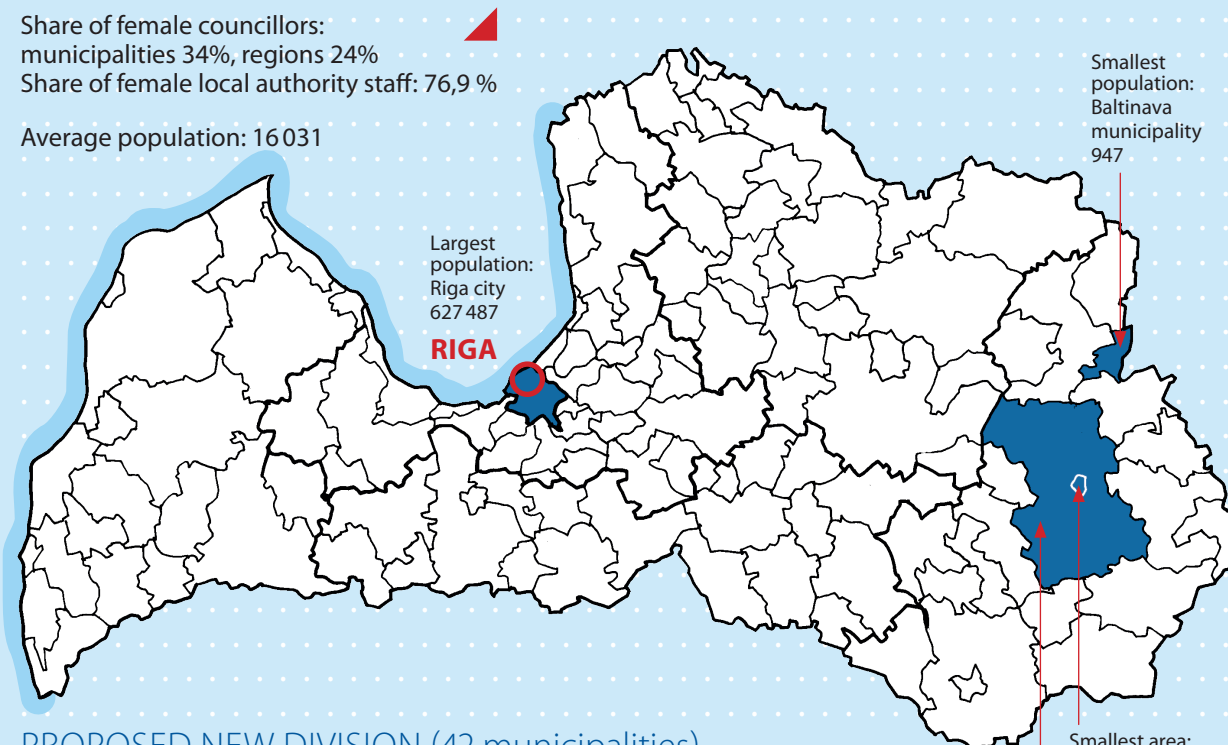
BASIC FACTS

Land area:	62 210 km ²
Population (2020):	1.91 million
Population density:	31 inhabitants/km ²
Government type:	Republic
GDP per capita (PPS):	€ 22 020 (in 2019)

110 MUNICIPALITIES (novadi) and 9 CITIES (pilsētas) – single level

Share of female councillors:
municipalities 34%, regions 24%
Share of female local authority staff: 76,9 %

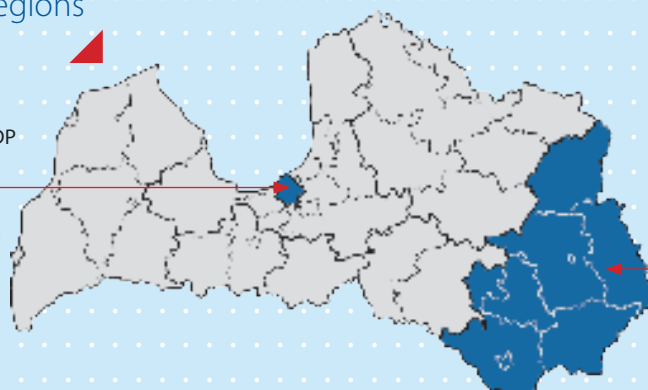
Average population: 16 031



PROPOSED NEW DIVISION (42 municipalities)

Planning regions

Highest GDP
per capita:
Riga
€ 32 300
(PPS, 2017)



Sources: Latvian Central Statistical Bureau.
Maps adapted from: Ministry of Environmental
Protection and Regional Development.

Lowest GDP per capita:
Latgale
€ 10 300

Source: Eurostat

map of 35 municipalities. A revised draft with some changes following local protests was submitted to Parliament in October 2019, where a special Administrative-Territorial Reform Committee then finalised the law. The new councils will start work from 1 July 2021 following municipal elections in June.

The reform aims to create economically viable territories with municipalities able to fulfil their statutory functions and provide quality services to the population at reasonable cost. According to the government, many municipalities were still failing to provide all the social services required and suffered from high administrative costs. Increased capacity to promote economic development and creation of efficient networks for education, health care, social assistance, transport and utility infrastructure are among the desired outcomes.

However, the top-down nature of the reform has met with criticism, not least from the local authority association, which complained formally to the Congress of Local and Regional Authorities (Council of Europe). After a fact-finding mission, the Congress's rapporteurs deplored the lack of timely and appropriate consultation of the municipalities concerned, their residents and the association, and called on the government to defer the reform.

At the regional level, the 2009 reform abolished the 26 districts and created five 'planning regions' under the supervision of the Ministry but with decision-making councils composed of elected municipal representatives (the map above shows six since Riga city is split from the surrounding region for statistical purposes). Their main functions are in spatial planning, public transport and management of investment programmes. The latest reform establishes five administrative regions for the implementation of joint state and local government functions. A separate law due by early 2021 will regulate these.

Municipalities play a significant role in welfare provision, particularly education. However, they are heavily reliant on central government for funding, with over half their revenue coming from a negotiated share of personal income tax. Fur-

thermore, the state has recently demonstrated its extensive supervisory powers with the dismissal of the Mayor of Riga, followed by the dissolution by Parliament of the entire city council.

Local authority associations

Established in 1991, the Latvian Association of Local and Regional Governments (LALRG) represents the interests of all local authorities. Membership is voluntary, and all municipalities except for Daugavpils city are currently members. The bulk of the association's revenue comes from membership fees, followed by EU-funded projects, with a smaller share from government grants. LALRG employs some 30 people at its headquarters in Riga and a small representative office in Brussels.

LALRG is also one of the founders of the Municipal Training Centre, a non-governmental organisation providing training for local government representatives and employees. In 2004 the association set up a company, the Municipal Consultation Centre, to provide a range of services such as financial consultancy and preparation of EU-funded projects.



In Latvia the Law on Local Governments requires that rural municipalities and towns maintain administrative centres for the purpose of providing small-scale local services.

The highest decision-making body is the annual Congress, which is composed of municipal delegates. The Council, consisting of all municipal chairs plus six elected members from Riga city council, meets quarterly and leads the work of the association between congresses. Between councils, LALRG's work is managed by the Board, whose 15 members include the association chair and two deputies, committee chairs and Council members representing all types of municipalities.

The local government law states that an association representing more than half of both cities and municipalities is entitled to represent local government in discussions with the Cabinet. It also requires the Cabinet to coordinate with the association on all issues affecting local authority interests, including draft laws and financial arrangements. This takes the form of annual negotiations between individual ministries and LALRG. The Cabinet must send minutes of these meetings to Parliament along with draft legislation that affects local governments, and must itself examine any differences of opinion. Discussions are high-level – for example, between the Chair of LALRG and the Finance Minister – and can become lively, particularly over financial issues; LALRG has refused to sign the minutes of negotiations with the finance ministry on several occasions over the years.

The right of association is provided for explicitly in the local government law: ‘in order to perform tasks in which all or several local governments have an interest, [local authorities] have the right to co-operate as well as to establish local government associations.’ LALRG acts as an umbrella for several other associations, for example of rural councils, regional development centres, Riga region municipalities, executive directors of municipalities, Latvian regions, coastal municipalities and municipal social care managers. In 2001, the nine cities of republican significance established an Association of Large Cities (*Latvijas Lielo pilsētu asociācija*) with the aim of facilitating cooperation and representing members' interest with central government and other bodies.

Contact details:

Latvijas Pašvaldību savienība, Mazā Pils iela 1, Rīga, LV-1050. Telephone +371 67226536
Website <https://www.lps.lv>

Contact details:

Latvijas Lielo pilsētu asociācija, Mazā Jauniela 5, Rīga, LV-1050. Telephone +371 67223515
Website <https://www.llpa.lv>

FUNCTIONS

110 municipalities and 9 cities

- Water and heating supply
- Waste management
- Public services and infrastructure
- Public management of forests and water
- Primary and secondary education
- Culture
- Public health
- Social services
- Child welfare
- Social housing
- Licensing for commercial activities
- Public order and civil protection
- Urban development
- Collection of statistical information
- Public transport
- On-going training for teachers

Note: ‘Autonomous competences’ determined by law.

Source: CEMR

Local democracy

The **council** (*dome*) is the decision-making body of each local authority, elected directly for a four-year term.

The council elects a **chairperson** (*priekšsēdētājs*) from among its members, whose powers include

managing the work of the council, representing the local authority in relations with the state or other authorities and in court, signing contracts and issuing binding instructions to local government employees. Chairpersons are often referred to as mayors in international contexts. On the recommendation of the chairperson, the council appoints an **executive director** (*izpilddirektors*), who may or may not be a councillor, to manage the work of local government institutions and undertakings.

The Law on Local Governments requires councils to establish at least two standing committees, one on finance, one on educational, social and cultural affairs. Most have at least three or four, and each councillor must be a member of at least one committee.

Legal framework and supervision

Local government does not receive explicit protection in Latvia's relatively concise constitution, though it is mentioned in the context of citizens' and Parliament's rights (for example to request information from local governments), and the Constitution states that councils shall be elected by Latvian and EU citizens who permanently reside in Latvia. However, the Constitutional Court has referred to the European Charter of Local Self-Government as a directly applicable instrument from which the constitutional principles of local self-government can be interpreted. Local authorities may, for example, rely on the Charter to challenge national legislation that is incompatible with it.

The 1994 Law on Local Governments sets out the powers and functions of local authorities in some detail and permits them to carry out voluntary initiatives in the interests of their residents (provided these are not within the competence of other authorities or prohibited by law). It also sets out general rules on working arrangements, the election of chairpersons and committees, the functions of chairpersons and executive directors, auditing, property, intermunicipal cooperation and so forth. Separate acts govern local elections, the status of councillors, local budgets and financial equalisation.

The Ministry of Environmental Protection and Regional Development presented a draft of a new local government law for public consultation in October 2020. Among the novelties, according to the Minister, will be participatory budgeting and residents' advisory councils to maintain dialogue between parishes and municipal councils. In addition, limits on prior control of regulations issued by municipalities are to be proposed.

The present law charges the Ministry of Environmental Protection and Regional Development with monitoring the activities of local governments. Regulations that are binding on inhabitants must in general be submitted to the Ministry for its opinion (on legality) before being published. The law lists areas in which municipalities may issue such regulations, for example buildings, sanitation, public order and transport. There are some exceptions, notably regulations on the local budget, which need only be sent for information. Unlawful regulations in operation may be suspended by order of the Minister. The council must then decide whether to revoke the act (or parts thereof) in question or apply to the Constitutional Court to revoke the Minister's order.

The Minister may also suspend a municipal chairperson who fails to comply with his or her duties. Again, this is subject to court appeal. In April 2019 the Mayor of Riga was suspended (and later lost an appeal against dismissal) on several counts of irregularity, including claims that funds destined for investments in Riga's municipal transport company had not been properly used.

As regards administrative acts, appeals may be lodged in the administrative courts, or in some cases with state institutions under which municipalities carry out delegated functions. The law also states that when carrying out delegated functions a local government represents the Republic and is subordinate to the Cabinet.

In certain circumstances, Parliament may dismiss an entire council, replacing it with a temporary administration pending new local elections. While rare, this has occurred several times, most recently in February 2020 when Riga city council was dissolved due (among other reasons) to a waste

SUB-MUNICIPAL UNITS

With a clear trend towards larger municipalities in the countries surveyed here, local government reforms often raise the issue of physical distance between citizens and the administrative centre. In some cases, local parishes or elderships such as Latvia's *pagasti* or Lithuania's *seniūnijos* remain, or municipalities may be permitted to maintain them for the purpose of small-scale local services and administration.

Latvia is notable in that the Law on Local Governments actually requires municipalities to do this: 'In order to ensure the accessibility of the services provided by a local government, in municipality rural territories (or *pagasti*) and towns in which the local government administrative centre is not located, the local government council shall establish a rural territory or city administration.'

The 2020 law on administrative-territorial reform specifies that county municipalities may be divided into towns and parishes, and lists in annex the names of all of these. While some municipalities have no sub-divisions, others have 30 or more. This means that some of the smaller existing municipalities will become parishes within new, larger municipalities.

management crisis. A state secretary from the Ministry took over the interim administration.

Around 10–15 per cent of complaints to the Ombudsman relate to local governments. The Ombudsman's findings are not binding, but the office may represent complainants in civil and administrative courts, submit reports to the authorities or apply to bring a case to the Constitutional Court.

Regarding finance, the local government law requires municipalities to set up a finance committee headed by the municipal chair to consider draft budgets, projects with financial implications, management of property, etc. Municipalities may establish an audit commission but must also engage financial auditors to check (among other things) conformity of the use of resources with the local budget, and lawfulness and appropriateness of the activities of heads and officials of local government institutions and companies.

The Ministry of Finance monitors local government finances, in particular borrowing and loan guarantees, based on monthly reports. Since 2009 there have been strict controls on local borrowing, with loans to be approved by a special commission at the ministry, and long-term loans allowed only for investment projects. A law on stabilisation and monitoring of local government finances provides for measures to ensure continuous fulfilment of local government functions in case of extreme financial difficulty. The State Audit Office supervises local government actions as regards financial resources and property. It may also analyse efficiency and effectiveness, for example whether local services are provided at reasonable cost. The Ministry of Environmental Protection and Regional Development may also call for an extraordinary financial audit.



Education is by far the largest item of local government expenditure in Latvia, making up 39 per cent of the budget.

PHOTO iStock.com/Cathy Yeulet

Finance

Local government expenditure is slightly higher than in Latvia's Baltic neighbours, at 10.9 per cent of GDP in 2019, which also happens to be the EU average. The share of local expenditure in total public expenditure, at 28.0 per cent, is above the EU average. As the figure shows, education is by far the largest item in local budgets.

According to figures from the Finance Ministry, tax revenue accounted for 57.7 per cent of local government revenue in 2020. The bulk of this (84.9 per cent) comes from municipalities' share of personal income tax. At present municipalities receive 80 per cent of this revenue, although in the current annual negotiations with LALRG, the government is proposing to reduce this share to 75 per cent. Most of the remaining tax revenue is from local property tax, where municipalities do have some flexibility in setting rates.

Grants account for 36.0 per cent of total revenue. Most of these are earmarked, including (according to Treasury figures for 2019) around 16 per cent for co-financing EU-funded and other international projects. The main source of non-earmarked transfers is the financial equalisation fund; the government's contribution to this in 2019 amounted to a little over 12 per cent of total transfers.

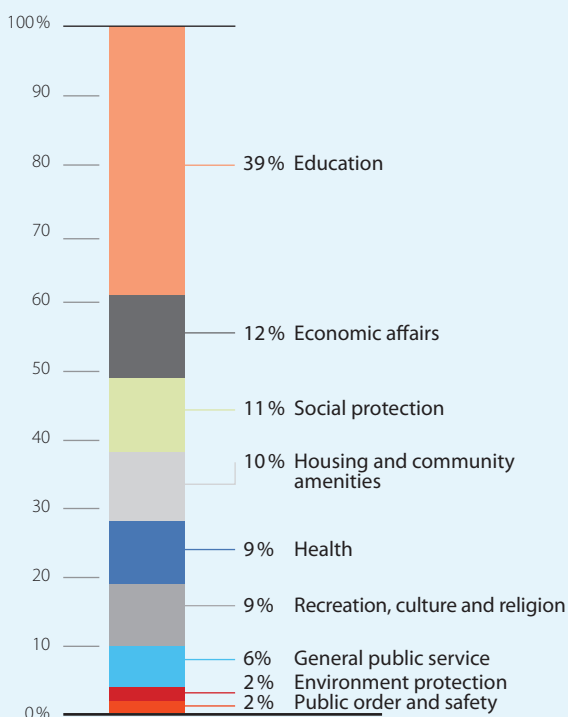
The equalisation fund includes elements of both cost and revenue equalisation, according to a formula set out in a 2015 law. Municipal needs are gauged by population in different age groups (with extra weight for those above working-age, and for pre-school and school-age children) and territory in km². On the revenue side is municipal tax income (expected, from all sources). In essence there are two components: municipalities contribute or receive 60 per cent of the difference between their

needs-adjusted income and the average; and the state contributes an additional per capita amount starting at 0 for the 'richest' municipality and rising as needs-adjusted incomes fall.

The system used to be financed mostly by redistribution between municipalities, but an additional extraordinary contribution from the state means that in 2020 it will provide c. €184 million while the 11 municipalities with highest needs-adjusted income contribute a total of c. €96 million.

As in most other countries surveyed here, the framework for local government is designed to avoid 'unfunded mandates', at least on paper. The local government law says that 'State administrative institutions do not have the right to assign to local governments the performance of such functions and tasks for which financing is not provided.' Nevertheless, local authorities sometimes complain that this principle is not always observed, particularly during challenging economic times. It took nearly a decade for local government revenue to return to its 2008 level after the financial crisis.

Local government expenditure in Latvia (2018)



Source: Eurostat

EU relations

Latvia joined the EU in 2004 and is a major beneficiary of the European Structural and Investment Funds, with an allocation of €2 830 per capita for the 2014–20 period. As noted above, a significant share of transfers to local governments is earmarked for co-financing of EU-funded projects.

However, shortly after Latvia's accession, a representative of LALRG wrote that the positive expectations of local authorities had been only partly met. Reasons included the centralisation of health care, stricter regulation of other local government functions, limited decentralisation at the regional level, difficulties in accessing and co-financing structural funds, and competition for resources with central ministries.

LALRG is active in European groupings such as CEMR, and serves as the secretariat for the Latvian delegation to both the CLRA and the Committee of the Regions. The latter consists of seven members with alternatives, all members of city or municipal councils. Territorial and gender representation is taken into account in selecting members.

TERRITORIAL REFORM

OVER THE PAST TWO DECADES, five out of the eight countries surveyed here – Denmark, Estonia, Finland, Latvia and Norway – have undertaken significant territorial reforms at municipal level. In two of the exceptions, Lithuania and Sweden, earlier reforms had already consolidated the municipal map, and recent discussions have turned to possible reforms at the regional level. In Poland, the government has encouraged municipal mergers, though with little impact so far.

These reforms have without exception been conceived at the level of central government. A typical process runs as follows:

- The government reaches political agreement on launching a reform, and then appoints an official enquiry or expert committee to flesh out the case and propose criteria for new municipal units. Criteria usually include a minimum population threshold (albeit with allowances made for islands and sparsely populated areas). Functional zones for service provision or socio-economic development around an urban centre are another common theme.
- In most cases, financial incentives in the form of higher government grants and additional functions for the new, larger municipalities are proposed.
- Once the broad thrust of the reform is clear, municipalities may be invited to draw up or amend detailed proposals themselves, possibly with the help of regional coordinators or government-appointed negotiators in difficult cases.
- Regional-level public consultations and local referendums on concrete proposals are common features at this stage. In most reforms there has been some scope for flexibility or even exceptions in the face of staunch local opposition.
- Once a draft reform bill is ready, a parliamentary committee often plays an important role in finalising the reform, with further opportunities to take local views into account.

The key difference lies in the degree of compulsion. Those countries that have tried a voluntary approach – Estonia before 2014, Finland since 2001, Latvia after 1992, Sweden in the 1960s, Norway and Poland currently – have generally found this to be a long-drawn-out process with patchy results. The conclusion of comprehensive reforms, as in Denmark (2002–07) and Estonia (2015–2017), seems to rely partly on the government being prepared to impose mergers if municipalities cannot agree among themselves.

Nevertheless, genuine local consultation and a degree of flexibility in adapting reform proposals seems also to be an essential feature. A rapid and centrally driven compulsory reform is liable to run into objections on grounds of local democracy. All countries here are signatories of the European Charter of Local Self-Government, Article 5 of which provides that 'Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute.'

OVERVIEW OF RECENT TERRITORIAL REFORMS IN THE BALTIC AND NORDIC COUNTRIES

	Reform in force	Main developments	Average municipal population
Denmark	2007	271 municipalities merged into 98. 13 counties replaced with 5 regions.	20,100 to 55,600
Estonia	2017	213 municipalities merged into 79. Voluntary mergers from 1995 to 2014 reduced the number from 254 to 213.	6,200 to 16,700
Finland	2001–2020	448 municipalities merged into 310 on a voluntary basis. Comprehensive municipal reform shelved in 2015; current proposals for directly elected county councils.	11,600 to 17,800
Latvia	2009 & 2021	586 municipalities merged into 119, and 26 second-tier districts replaced by 5 planning regions (2009). 119 municipalities merged into 42 (2021).	3,700 to 45,400
Lithuania	n/a	Increased role for regional development councils with option of mergers at this level in future.	46,570
Norway	2014–2020 and ongoing	428 municipalities merged into 356, mostly on a voluntary basis.	11,900 to 15,100
Poland	n/a	Financial incentives for municipal mergers but only a couple implemented in recent years.	15,500
Sweden	n/a	Proposals for regional mergers shelved in 2016.	35,700

Even where the government tries a compulsory reform, local opposition can prove fatal if municipalities do not have sufficient incentives to participate. This may partly explain the abandoned reform in Finland in 2011–15, where substantially larger municipalities were to receive little in the way of new powers.

Top of the list of stated arguments for recent mergers in the region is that larger municipalities will be better able to provide services, in particular welfare services, to their inhabitants. Conversely, small municipalities are said to suffer from high administrative costs, insufficient resources and sub-optimal scale. In some countries, compulsory

delegation of service provision to larger neighbours has been offered as an alternative to mergers. One argument against mergers is that greater distance from citizens may weaken local democracy, though this is often countered with the claim that stronger local governments mean more political decisions at local level and more for citizens to engage with. Developments in ICT and e-government have made distance less of an issue at least for administrative services, improving accessibility to local authorities for people in remote areas.

At regional level, there is also pressure towards amalgamation, at least once consolidation of the municipal tier has been achieved. With larger municipalities able to take on some functions previously assured by counties or similar, attention at the regional level tends to focus on health care and regional development. In these areas there are arguments for larger functional zones, for example around university hospitals or EU-funded regional programmes.

An exception here is Finland, although the current proposals for a slight increase in the number of counties (also intertwined with health care reform) must be seen in the context of the failure to push through comprehensive municipal reform. Smaller countries such as the Baltic states may opt to rely on indirectly elected regional councils comprising municipal representatives (Latvia, Lithuania) or on intermunicipal cooperation at the regional level (Estonia).

While rarely stated as an objective, fiscal consolidation following the 2008 financial crisis (not to mention covid-19) is sometimes cited as a reason for administrative-territorial reform. Here the picture is mixed, and it is difficult to draw conclusions without studying the public sector as a whole. Local government spending as a share of GDP has fallen over the last decade in half of the countries surveyed (including the two that have implemented the most radical reforms, Denmark and Latvia, but it has risen in the others, including in some that have seen rapid GDP growth (e.g. Estonia).

As a share of total public expenditure, local government spending has risen in all countries except

Lithuania. This is perhaps only to be expected to the extent that authorities have assumed additional responsibilities; an increased share does not necessarily mean that resources are adequate. But in the EU as a whole, local government spending has declined as a share of total public spending. Thus, territorial consolidation in the Baltic and Nordic region has gone hand in hand with increased weight for local government in the public sector as a whole, which seems consistent with the model of strong local self-government.

FINANCIAL EQUALISATION AND INCOME TAX SHARING

FINANCIAL EQUALISATION

All of the countries surveyed here operate some form of financial equalisation scheme aimed at evening out disparities in local authorities' capacity to provide welfare and services to inhabitants. Common to all of these is that they address differences in both revenues and costs.

On the revenue side, the key variable is generally some measure of a local authority's tax base or fiscal capacity as compared with the national average. On the cost side, a long list of geographical, demographic and socio-economic parameters – such as physical distance, population density, age structure or the number of inhabitants requiring special care – indicates expenditure needs. Funds are then distributed or redistributed accordingly, in favour of those with lower per capita revenues and/or greater expenditure needs.

Methods vary and the details are often complex, but two broad approaches may be identified. One is to embed equalisation into the general system for distributing grants and shared taxes. Another is to establish a

dedicated equalisation fund. This may be 'horizontal' (redistribution between municipalities) or 'vertical' (financed by the state) or a combination of both. It is open to question whether the choice of method makes much difference in economic terms. That is, the state could achieve the same financial outcome whether by distributing grants according to needs or by requiring municipalities to redistribute among themselves. But the design of the system may affect the political visibility of redistribution.

A recurrent issue is whether and how equalisation systems affect local incentives to raise or lower taxes or to promote growth and employment. On the cost side, rather than actual costs, equalisation is based on objective indicators over which local authorities have little or no control, so that the results do not depend on local efficiency. On the revenue side, the tax base is generally used rather than actual tax revenue, so that income equalisation is independent of local tax rates. (An exception here is Norway, where the use of actual tax revenues in the equalisation formula leads to

local authorities who cut taxes being punished through lower grants; elsewhere, the state is keen if anything to incentivise tax cuts as part of overall fiscal discipline.)

It is hard to deny that income equalisation means that local authorities with a booming (or stagnant) economy will not see the full benefits (or drawbacks) in terms of local revenue. In theory, it may be argued that this reduces local authorities' incentives to promote growth. However, a 2020 report by the Swedish National Audit Office found that empirical evidence for this was lacking, though the question was worthy of further study.* At the same time, adequacy is also an issue: an official enquiry in 2020 found that the equalisation system is struggling to ensure equivalent conditions for service provision outside the major cities, and recommended a broad review.**

* Riksrevisionen, Tillväxthämmande incitament i den kommunala inkomstutjämnningen? (RiR 2020:11).

** Starkare kommuner – med kapacitet att klara välfärdsuppgiften (SOU 2020:8).

SHARING OF REVENUE FROM PERSONAL INCOME TAX

Personal income tax (PIT) is a key source of revenue for local authorities in all the countries surveyed. There is a significant difference between Denmark, Finland and Sweden, where local authorities have at least some discretion in setting local tax rates, and the other countries, where local authorities receive a share of tax paid by their inhabitants, but at a centrally determined rate. Nevertheless, in all cases, PIT-sharing provides local governments with an important source of funds that they may dispose of unconditionally.

The table on the next page gives an overview. Comparisons between tax rates are difficult without going into more detail on tax-free allowances and deductions. But for slightly easier comparison, the final column shows actual shares of PIT revenue (from national statistics), which may be greater or lesser than the tax rates suggest. Even here, account needs to be taken of social security contributions and other (effective) taxes on labour. In Sweden, for example, the threshold for state income tax is high, and deductions are effectively made against the state's share, so the local share of revenue is very high. On the other hand, social security contributions are high (31.42 per cent) and these all go to the state.

All the same, it is striking that in six out of eight countries in the region, over half of PIT revenue goes to the local level.

OVERVIEW OF PERSONAL INCOME TAX SHARING, 2019

	National PIT rates	Local PIT rates	Local share of total PIT revenue
Denmark	State income tax of 12.1 % for income from c. €6,200 plus a further 15 % for incomes above c. €69,000	22.5–27.8% (average 24.93%)	60.8 %
Estonia	20 % flat tax with basic exemption of up to €6,000 for incomes below €25,200		79.4 %
Finland	Progressive state tax from 6% for incomes over €17,600 to 31.25 % for incomes over €76,100	17–23.5 % (average 19.97 %)	66.0 %
Latvia	Progressive rate from 20 % for incomes up to €20,004 to 31.4 % for incomes over €62,800		80.3 %
Lithuania	20% for salaries below €104,278; 32 % above this threshold		47.0 %
Norway ^a	22% national tax plus progressive tax from 1.9 % for incomes above c. €17,000 to 16.2 % for incomes above c. €93,800		51.5 %
Poland ^b	17.75 % for incomes up to c. €19,100; 32 % for income above this threshold, with reduction of up to c. €318 for lower incomes		46.2 %
Sweden	State tax of 20 % on incomes over c. €48,100 and 25 % over c. €67,600	29.18–35.15 % (average 32.19 %, of which 20.7% to municipalities and 11.49 % to regions)	92.3 %

Notes: Tax on income from employment as designated by national authorities, excluding social security contributions, unemployment insurance, etc. Local share of PIT revenue is from national statistics and may differ slightly from the local share defined in legislation (see country chapters). ^a Norwegian municipalities also receive 0.7 percentage points of a 0.85 % wealth tax on net wealth over c. €141,000. ^b Polish local authorities also receive 23 % of corporate tax revenue.

Source: National statistical agencies, tax agencies and/or finance ministries.

LITHUANIA

LOCAL SELF-GOVERNMENT IN LITHUANIA

dates from the Middle Ages, when towns acquired the right to their own magistrates and elected juries. City councils, and later township councils for peasants and county councils for the nobility, continued to operate during the Russian Empire period. Following independence in 1918, democratic local self-government was established with the 1919 Municipalities Act, only to be effectively abolished from 1940 during the Soviet period.

After independence in 1990, democratic elections were reintroduced in a two-tier system of districts, republican towns, district towns, villages and wards, with 581 administrative units in total. This was consolidated in 1994 into a single-tier system of 56 self-governing municipalities (increased to 60 as of 2000). There remain different types of municipalities, including some district municipalities that surround town municipalities of the same name, but all have the same functions. Councils



After Lithuania gained independence in 1990, democratic elections were reintroduced in a two-tier local government system. This was further consolidated into a single tier in 1994.

PHOTO iStock.com/Birute Vijeikienė



BASIC FACTS

Land area:	62 650 km ²
Population (2020):	2.79 million
Population density:	45 inhabitants/km ²
Government type:	Republic
GDP per capita (PPS):	€ 26 100 (in 2019)

60 MUNICIPALITIES (savivaldybės) ▼

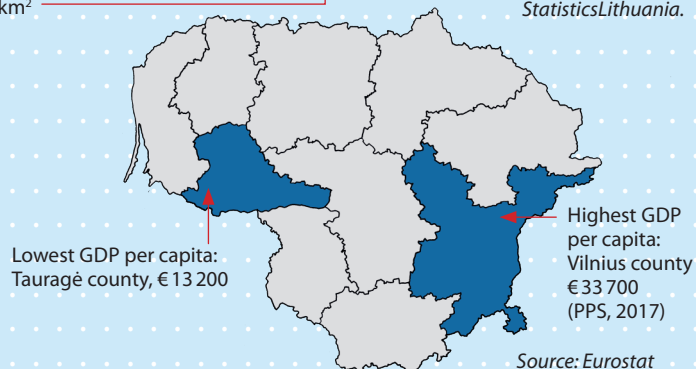
Share of female councillors: 30%

Share of female local authority staff: 51%

Average population: 46 570



10 COUNTIES (apskritis) ► Not self-governing





Debate over territorial reform in Lithuania in recent years has mainly concerned the regional level. The country's ten counties are administrative units, but not self-governing.

may retain sub-municipal wards as a branch of the municipal administration to deal with small-scale local matters.

Lithuania's ten counties are administrative units, but not self-governing. The state administrations headed by county governors were dissolved in 2010 and their functions transferred to municipalities and central government. However, there remain Regional Development Councils at county level, whose role has expanded in recent years (see box).

Debate over territorial reform in recent years has mainly concerned the regional level. The new law also empowers the government to 'form regions from several counties or municipalities with common borders'. A 2017 White Paper from the National Regional Development Council (attached to the Ministry of the Interior but also including representatives of regional councils and municipalities) left open the possibility of boundary reform, though only if the objectives of a revised regional policy were not achieved. One option would be larger regions aligned with new NUTS 2 regions for EU statistical and funding purposes. In 2016 Lithuania split into two NUTS 2 regions (one for Vilnius, one for the rest of the country, in part to

allow the latter to continue to benefit from higher levels of EU support).

Municipalities play an important role particularly in education, health and social services, although in financial terms they are heavily dependent on government grants and a centrally determined share of income tax revenue. Local government spending as a share of GDP is the lowest of all the countries surveyed here, although as a share of total public spending it is still above the EU average.

Local authority associations

The Association of Local Authorities in Lithuania (ALAL) was formed in 1995 from a merger of four local authority associations established after independence. It is a non-profit, non-governmental organisation that aims to represent the common interests of its members.

Lithuania is notable among the countries surveyed here in that ALAL is mentioned by name in the Law on Local Self-Government (art 53): 'The Association of Local Authorities in Lithuania shall represent common interests of municipalities in the

Government, other state institutions and international organisations.' Functions include consultation (including by parliamentary committees) on draft legislation affecting municipal activities, an annual discussion of indicators for budgetary revenue, and a bilateral commission for the coordination of interests and positions of the government and the association.

The highest decision-making body is the Congress, which consists of municipal delegates elected in proportion to each party's seats on local councils. Between congresses, the Council – which includes the President and Vice-Presidents and all (other) mayors of member municipalities – leads ALAL's work. The 21-member Executive Board includes the President and Vice-Presidents, mayors of the largest municipalities and representative mayors of other municipalities.

All municipalities are members of ALAL which, according to its statutes, is financed by membership fees and appropriations from state and municipal budgets, as well as donations etc. The association employs around 20 people at its headquarters in Vilnius and a small representative office in Brussels. In 2001, ALAL established the Training and Consulting Centre of the Association of Lithuanian Municipalities, a public institution which provides services to municipalities.

The law on local self-government explicitly recognises municipalities' right to enter joint activity agreements or joint ventures. The size of municipalities and the existence of regional development councils mean relatively limited scope for intermunicipal cooperation, although there are examples in transport. The Lithuanian Association of Municipal Utilities represents the interests of municipal utility companies, while municipalities may form interest associations for other purposes, such as promotion of the St James pilgrim route in Lithuania.

Contact details:

Lietuvos savivaldybių asociacija, T. Vrublevskio g. 6,
LT-01143 Vilnius. Telephone +370 85 261 6063
Website <http://www.lsa.lt>

REGIONAL DEVELOPMENT COUNCILS

In half of the countries surveyed here, regional councils are directly elected. In Finland, Latvia and Lithuania, they are indirectly elected – that is, composed of elected municipal representatives – while in Estonia regional associations of municipalities perform a similar role.

In Lithuania, a new Law on Regional Development, which entered into force in September 2020, gives Regional Development Councils legal personality for the first time as well as autonomous competences and financial support from the state. The Councils are to be formed (by March 2021) by at least three-quarters of the municipalities in each county, who are the formal members. Social partners, community groups and non-governmental organisations will form an advisory body.

The Councils' main function is to prepare a regional development plan, with a guaranteed minimum of Lithuania's EU structural funds (almost 30 per cent according to the municipal association) available for its implementation. They will also promote cooperation among municipalities to improve the efficiency of public services.

FUNCTIONS

60 municipalities

- Municipal budget, local charges
- Pre-school, primary and basic education
- Civil protection
- Culture
- Environment
- Sanitation
- Housing
- Transport, local roads
- Labour market measures and promotion of entrepreneurship
- Primary health care
- Public services and municipal property management
- Spatial planning
- Local development, participation in drafting regional development programmes
- Sports
- Tourism
- Social care
- Information society

Source: CEMR

Local democracy

Municipal councils are directly elected for a four-year term. The **council** (*taryba*) is the main decision-making body. Until 2015, councillors elected a **mayor** (*meras*) from among their own number to serve as the head of the municipality. Since 2015, mayors have been directly elected, though they remain members of the council and retain similar powers. Duties include setting the agenda of council meetings and representing the municipality in

court, in the regional development council and with other institutions.

The council must appoint a **committee** for control (internal audit), and each councillor must be a member of at least one other committee. Councils must also appoint at least two **commissions**, one for administration, one for ethics. These are chaired by councillors, but their members may include civil servants and community representatives (the latter at least one-third of the membership in the case of ethics) as well as councillors.

The **director of the municipal administration** (*administracijos direktorius*) is appointed by the council on the recommendation of the mayor. He or she is personally responsible for implementing laws and decisions of the national government, as well as of the municipal council, in the municipal territory.

Legal framework and supervision

Lithuania's 1992 constitution devotes a chapter to local authorities, guaranteeing 'the right to self-government ... implemented through ... municipal councils.' It also gives municipalities the right to establish local levies and to apply to court if their rights are violated. On the other hand, it requires municipalities to execute delegated responsibilities, places them under the supervision of government representatives and gives parliament the power to introduce temporary direct rule in certain circumstances. The Constitution also gives citizens and organisations the right to appeal in court against municipal acts or actions which violate their rights.

The 1994 Law on Local Self-Government sets out municipal functions in some detail. These may be independent or delegated, the former under the council's responsibility, the latter executed on behalf of central government by the municipal administration. Other laws extend the list of functions, and municipalities may also assume functions not assigned to state institutions. The Law requires municipalities to draw up spatial, strategic and financial plans and to provide public and administrative services to residents, among other duties. It also sets out detailed rules for councils, committees,

mayors, the municipal executive and municipal property. Numerous other laws govern aspects such as local elections, budgets, territorial organisation and administrative supervision.

According to the Law on Administrative Supervision, state officials appointed by the government in each of Lithuania's ten counties supervise municipalities' compliance with the constitution, the law and government decisions. In the event of breaches, they may issue a reasoned opinion to the head of the local authority, and if this is not followed, bring the matter to court. They may also examine draft legal acts submitted to the council, and attend council meetings to inform councillors, where appropriate, that the drafts in question do not comply with legislation or government decisions.

In particular areas, other state bodies also play a supervisory role. In social care, a Social Services Monitoring Department under the Ministry of Social Security and Labour is responsible for monitoring compliance with norms, care standards, licensing conditions, etc. Or to take another example, the State Data Protection Inspectorate enforces compliance in this area (as shown recently with a fine for Vilnius City municipality).

The Local Government Act also provides that residents may complain to the Parliamentary Ombudsmen in case of abuse or bureaucracy of municipal officials. While the ombudsmen's recommendations are not binding, they may bring matters to the attention of the relevant state authorities. The Act further provides that residents, organisations, etc. may appeal against municipal decisions or actions that violate their rights under the Administrative Procedures Act.

As regards audit, the Local Government Act requires municipalities to establish a Municipal Control and Audit Service as a legal entity with at least two civil servant positions. The Service reports to the council and supervises the use of municipal and state property and the execution of the municipal budget. Supervision concerns legality, efficiency, economy and effectiveness. The National Audit Office may conduct external reviews of audits. The Local Government Act also requires municipalities to establish an internal audit service, staffed by civil servants and responsible to the Director of Administration.



As with other countries in the region, Lithuanian municipalities play an important role particularly in education, health and social services.

PHOTO Shutterstock.com/Alexander Rath

Finance

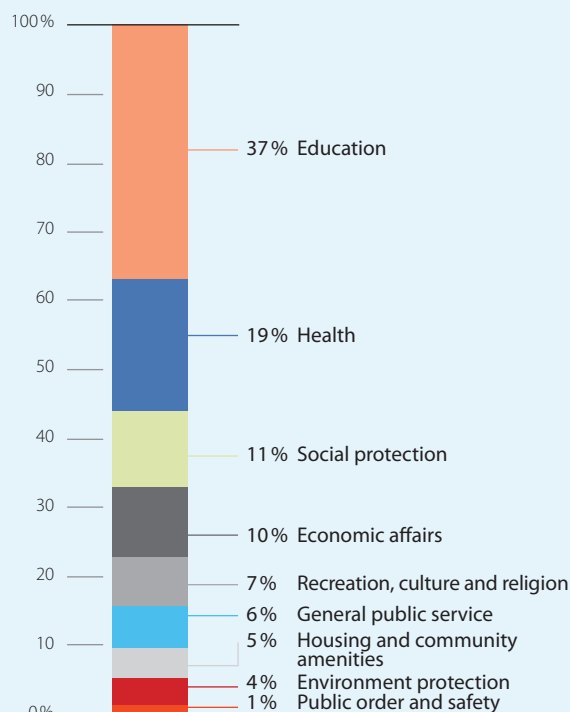
Local government expenditure in Lithuania, at 8.6 per cent of GDP in 2019, is the lowest in the countries surveyed here. Nevertheless, as a share of public expenditure (24.6 per cent), it is still above the EU average. Education and training, primary health care and social services together account for around two-thirds of local budgets.

According to figures from Statistics Lithuania, 52.1 per cent of municipal revenues in 2019 came from taxes. Shared personal income tax accounted for 92 per cent of this. Property taxes and a range of other local taxes and fees, over which municipalities do have some discretion, make up the remainder. Transfers, including block grants and specific grants for delegated functions, accounted for 39.1 per cent of local revenue.

Financial equalisation is embedded in the method for calculating shared tax revenue and government grants, as set out in a Law on the Methodology for Determining Municipal Budget Revenues. In essence, the richest municipalities (four in 2019) relinquish part of their share of personal income tax revenues, and this amount (a total of €307 million in 2019) is used for both revenue and cost equalisation. On the revenue side, municipalities with tax revenues below the average receive 90 per cent of the difference (a total of €123 million). On the cost side, the remaining funds (€184 million) are distributed among all municipalities according to a list of parameters that determine expenditure needs. These include length of roads, surface area, size of built-up areas, population in different age groups (pre-school, school-age, retired), size of schools and territories with the status of a resort.

Recent discussions between ALAL and the government have focused on alleviating some of the financial constraints faced by municipalities. As a result, the Prime Minister established a working group in 2020 to look at relaxing restrictions on municipal borrowing for investment projects, and the methodology for determining municipal budget revenues has been amended so that the state will bear 70 per cent (instead of 50 per cent as before) of the burden of any reduction in tax revenue due to state decisions.

Local government expenditure in Lithuania (2018)



Source: Eurostat

EU relations

Lithuania joined the EU in 2004 and is a major beneficiary of the European Structural and Investment Funds, with an allocation of €2 910 per capita for the 2014–20 period. Although some of these funds are channelled through the regional development councils, most are allocated at the national level, and the competition is tough, especially for smaller municipalities that may lack specialist staff and co-financing.

In the second half of 2013, the Lithuanian Presidency of the EU published a brochure jointly with the Committee of the Regions, in which Lithuania's President (a former EU Commissioner) wrote 'It is self-government that directly implements more than three quarters of the *acquis communautaire* – making it the key player in achieving common European goals.' Energy efficiency, one of the flagship initiatives of the EU-2020 programme, is given as an example of an area where local authorities are instrumental in achieving common EU objectives for growth and jobs.

ALAL opened its Brussels office in 2007. It serves as the secretariat for Lithuania's delegation to the Committee of the Regions, which consists of nine members and nine alternates, all of them members of municipal councils. Regional development councils draft a shortlist, taking into account political, territorial and gender balance, and ALAL selects a final list for approval by the government. ALAL is also a member of CEMR and coordinates Lithuania's delegation to the CLRA.



Energy efficiency has been highlighted as one area where Lithuanian local authorities are instrumental in achieving common EU objectives for growth and jobs.

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NORWAY

THE ROOTS OF MODERN local self-government in Norway can be traced to an 1837 law that required each parish, rural as well as urban, to form a municipality with elected representatives. With Norway still in union with Sweden, local authorities developed a high degree of autonomy that enabled them to build infrastructure and expand welfare services. Compulsory income tax was introduced in 1882 and quickly supplanted property tax as the

main source of local revenue, with municipalities free to determine rates.

Territorial reforms in the 1960s reduced the number of municipalities from over 700 to around 450, and gradual consolidation continued on a voluntary basis. In 2014 the government launched a new municipal reform which by the start of 2020 had led to 119 municipalities merging into 47, reducing the total to from 428 to 356. Parliament's



The government intends to continue the territorial reform in Norway. Of the current 356 municipalities, 21 still have a population of 1,000 or less.

PHOTO pixabay



BASIC FACTS

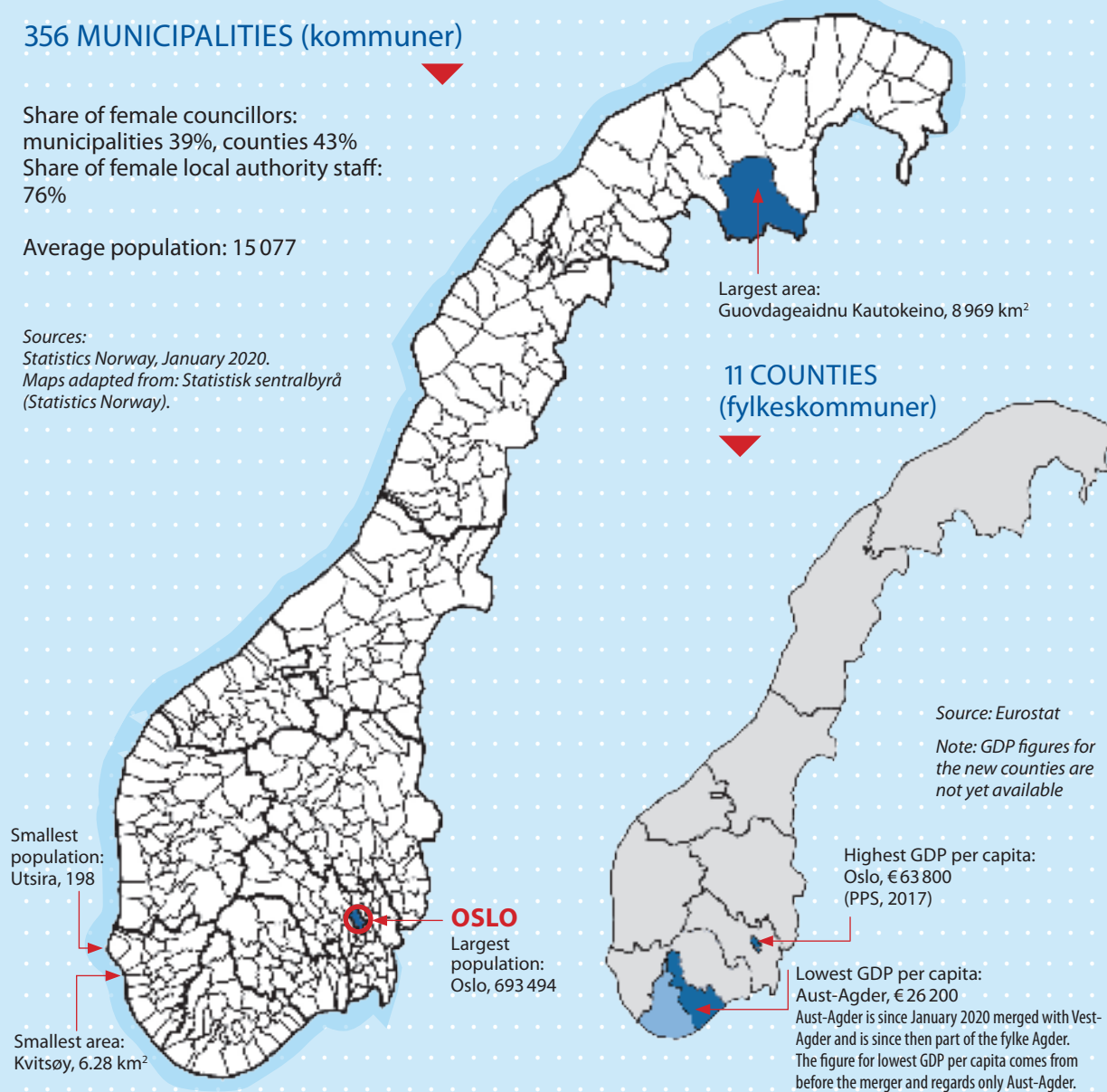
Land area:	304 226 km ²
Population (2020):	5.37 million
Population density:	18 inhabitants/km ²
Government type:	Constitutional monarchy
GDP per capita (PPS):	€ 45 720 (in 2019)

356 MUNICIPALITIES (kommuner)

Share of female councillors:
municipalities 39%, counties 43%
Share of female local authority staff:
76%

Average population: 15 077

Sources:
Statistics Norway, January 2020.
Maps adapted from: Statistisk sentralbyrå
(Statistics Norway).



wish has been to avoid forced mergers, but municipalities are encouraged to comply through financial incentives and new functions for larger, more robust units.

The process began in 2014 with an expert inquiry, which recommended that municipalities should have at least 15–20,000 inhabitants to be able to fulfil their tasks, that the municipal structure should reflect functional areas for societal development, and that detailed state management should give way to greater local political participation. In 2015 the government proposed new responsibilities for larger municipalities mostly within the fields of welfare and local development. In 2016, county governors gave their opinion on feasible mergers within their territory.

From 2015 to early 2017, intermunicipal negotiations and local referendums were held, and in June 2017 Parliament adopted the new territorial division and responsibilities. A few mergers took place in 2017–18, but most entered into force in January 2020 following the 2019 local elections. In most cases, mergers were voluntary, but 13 small municipalities were forced to merge in situations where they had rejected a proposal but neighbours had approved it. In 2018, Parliament adopted economic incentives for those opting to merge, including one-off payments totalling NOK 1.6 billion (c. €145 million) even before mergers took effect, and revisions to the government grant system that will compensate merged entities over the next 15 years for any losses in basic grants or small municipality supplements.

The stated goals of the reform included high-quality and equitable services for inhabitants, comprehensive and coordinated community development, sustainable and financially solid municipalities, and strengthened local democracy. The government intends to continue the reform. Of the current 356 municipalities, 21 still have a population of 1,000 or less.

At the regional level, Norway's county councils have been directly elected since 1975, though their role is smaller than that of municipalities, especially since 2002 when hospital care was shifted to central government. In parallel with the municipal reform,

Parliament approved several county mergers in June 2017, reducing the number of counties from 19 to 11 as of January 2020. County councils naturally took part in the discussions leading up to this, although not all are satisfied with the outcome. Some have complained that new promised functions, e.g. in child protection and culture, have not materialised. In June 2020, merged former counties Troms and Finnmark asked the government for a 'divorce'.

In financial terms local authorities are less autonomous today than they were in the 19th century, being no longer able in practice to set income tax rates. Nevertheless, shared and own tax revenue plus a large block grant gives them a high degree of freedom to manage their resources. Recent amendments have enshrined the principle of local self-government in the constitution and local government law, reflecting local authorities' powerful role in welfare provision and as employers of around 20 per cent of the working-age population.

FUNCTIONS

356 municipalities

- Child welfare
- Primary and secondary education
- Health care
- Social services
- Culture and leisure
- Technical infrastructure
- Local planning

11 counties

- Secondary education
- Regional development
- Transport and environment
- Trade and industrial policy
- Culture
- Dental health

Source: CEMR



As a percentage of GDP, local government expenditure in Norway is lower than in the other Nordic countries partly because central government is responsible for hospitals.

PHOTO Freepik.com

Local Authority Associations

The Norwegian Association of Local Authorities (KS) was formed in 1972 through a merger of the Union of Norwegian Cities and the Norwegian Association of Rural Municipalities. KS represents all municipalities and counties as well as some 500 public enterprises as both an interest and employer organisation.

KS employs around 260 people at its headquarters in Oslo, regional offices throughout Norway and a representative office in Brussels. All municipalities and county councils are members. In the latest budget, 75 per cent of revenues are from membership fees and 25 per cent from other sources, including sales of digital solutions and legal assistance to members. KS also owns several companies that provide services to members and others, including consultancy, publishing, a weekly newspaper, training and property leasing.

The highest decision-making body is the National Council, which meets every four years after local elections. This consists of around 240 delegates from municipal and county councils and companies. Delegates are elected at county meetings, which also choose County Boards. The National Board, comprising Executive Board members, representatives of all County Boards and

18 municipal representatives, meets at least 10 times a year. The 15-member Executive Board of elected representatives with one representative of municipal companies leads the day-to-day work of KS.

KS and the government have a formalised consultation scheme for dialogue and cooperation. This includes high-level meetings, bilateral cooperation agreements and KS involvement in cost estimations. The main meetings include one in the spring before the Ministry of Local Government, the Finance Ministry and KS agree on next year's budgetary framework for municipalities; another with all relevant ministries before the revised national budget and annual local government bill; and another series of meetings in the autumn with relevant ministries. A 30-page guide sets out procedures for these meetings and for involvement of KS in cost estimations, legislative enquiries, etc.

The law on local government explicitly provides for various forms of intermunicipal cooperation. A 2013 report from KS counted around 850 instances of formal cooperation, including creation of a separate committee to undertake common tasks, delegation of tasks to another local authority, joint municipalities and intermunicipal companies. Municipalities may also form interest groups such as the Association of Outlying Municipalities

(100 members) or the Municipal Information Security Association (with 300 municipal, county and intermunicipal members along with industry representatives).

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Website <https://www.ks.no>

Local democracy

Direct elections to municipal and county councils in Norway are held every four years, midway through the national parliamentary term.

The Local Government Act provides for two modes of organisation. In the 'traditional' system, the **council** (*kommunestyre* in municipalities, *fylkesting* in counties) is the supreme decision-making body, and elects an **executive committee** (*formannskap*, *fylkesutvalg*). This consists of at least five councillors with party representation in proportion to the local election results, whose duties include preparing a four-year economic plan and budget. The council also elects its **chairman** (*ordfører*) and may create and grant decision-making powers to committees. But the municipality or county is obliged to hire a **chief executive** (*kommunedirektør*) to head the administration, who must ensure proper preparation and execution of council business and may be empowered to take decisions on matters not involving questions of principle.

Alternatively, a two-thirds majority of the council may decide to introduce the 'parliamentary system', whereby the political majority elects a **government** or **executive board** (*kommuneråd*, *fylkesråd*) which serves as the highest administrative body, replacing the chief executive. Those elected to the government must relinquish any other municipal or county office during their term. The council may empower the government to make decisions in all matters unless otherwise provided by law. Several cities and counties have adopted this model, which gives the government considerably more executive

power than the executive committee in the traditional model. On the other hand, the government may be required to resign by a vote of the full council. The council may also decide by simple majority to revert to the traditional system.

Norwegian municipalities no longer have mayors by name, but the title is used in international contexts for the highest administrative position, i.e. the chief executive or head of the executive board.

Legal framework and supervision

For over two centuries there was no mention of local government in Norway's 1814 constitution, but a revision in 2016 now formally grants inhabitants 'the right to govern local affairs through local democratically elected bodies' (Art 49). Further, a new Local Government Act in 2018 enshrined the principle of local self-government for the first time. This covers relations between the national and local levels, including subsidiarity, free use of local revenues, and a limitation on interference in local self-government beyond what is necessary to achieve national goals.

The Act sets out rules for council organs and administrations (both municipal and county), intermunicipal cooperation, financial plans and budgets, auditing, supervision and local authority undertakings. Separate laws detail the functions of local authorities in various sectors and address local elections, local government boundaries and freedom of information. There is no clause governing municipalities' general competence, but they can and do go beyond their explicit functions if this is in the local interest and the activity in question is not assigned to another authority.

Under the Local Government Act, county governors are responsible for supervising the legality of local authorities' fulfilment of their duties according to the law, but only where the law provides for such supervision. Governors also coordinate supervision by other state authorities where provided for in sectoral laws (e.g. labour inspection, food standards, data protection). Supervision in these areas may in practice go beyond legality. Governors can order

local authorities to rectify any breaches, though they must take into account the impact on other local activities before doing so. Both parties must enter into a dialogue before such an order (or other measure with material consequences) is made.

The 2018 Act allows local authorities for the first time to appeal against supervisory decisions according to the procedure in the Public Administration Act. The appellate instance is the administrative agency immediately superior to the one that made the decision. Judicial review is also possible, at least once the opportunity to appeal has been exercised.

The Public Administration Act also allows those party to or with a legal interest in local authority decisions to appeal against these. The appellate instance is the Ministry in case of decisions made by the council, or the council in case of decisions made by local administrative agencies. The Parliamentary Ombudsman may also receive complaints concerning local authorities once administrative remedies have been exhausted. While the Ombudsman has no power to alter decisions, its opinions on municipal and county matters are generally followed.



At 29 percent of the budget, social services such as elderly care and child welfare make up the greatest share of local government expenditure in Norway.

PHOTO iStock.com/Pamela Moore

Besides supervision, the Law also provides for the Ministry to verify the legality of council decisions at the request of three or more council members or (if there are particular reasons) on the Ministry's own initiative. This concerns only legal aspects (content, empowerment and process). But if the Ministry finds errors that invalidate the decision, it must annul the decision.

As regards finances, the Local Government Law requires all local authorities to elect a **control committee** for day-to-day monitoring of financial management and to ensure satisfactory auditing of the financial accounts. The committee consists of at least five members, including at least one councillor but excluding the council chair and others with decision-making powers. The leader may not be from the same party or group as the council chair. Councils must also assure professional auditing of the financial accounts and aspects of performance (e.g. productivity, achievement of goals), whether by appointing an auditor or through intermunicipal cooperation or some other auditing agreement.

The Local Government Law sets out requirements for financial plans and annual budgets, annual accounts and reports, and financial management. Budgets must be balanced, and operational expenditures must be covered by current revenues. A deficit must normally be covered the year after it arises. Loans are allowed for capital investment and some other purposes but must be paid off annually (at the rate of depreciation of assets used in the accounts or faster).

The government has additional powers in the case of local authorities in economic imbalance (e.g. a planned deficit in the operational budget or a cumulative deficit in the balance sheet of more than 3 per cent of operational revenues). The Ministry must then check the legality of decisions on the annual budget or loan agreements, and the council must establish an action plan to bring its finances into balance. Local authorities cannot go bankrupt, but if they are unable to honour payments the Ministry may step in and appoint a supervisory board (with two municipal and three ministry representatives) to draft a new financial plan and budget.

Finance

Local government expenditure in Norway accounted for 17.7 per cent of GDP or 34.2 per cent of total public expenditure in 2019 – somewhat lower than in the other Nordic countries. Central government is responsible for universities and hospitals, but education and health still make up a substantial share of local budgets. The largest item is social services (including care for the elderly and disabled, and child welfare).

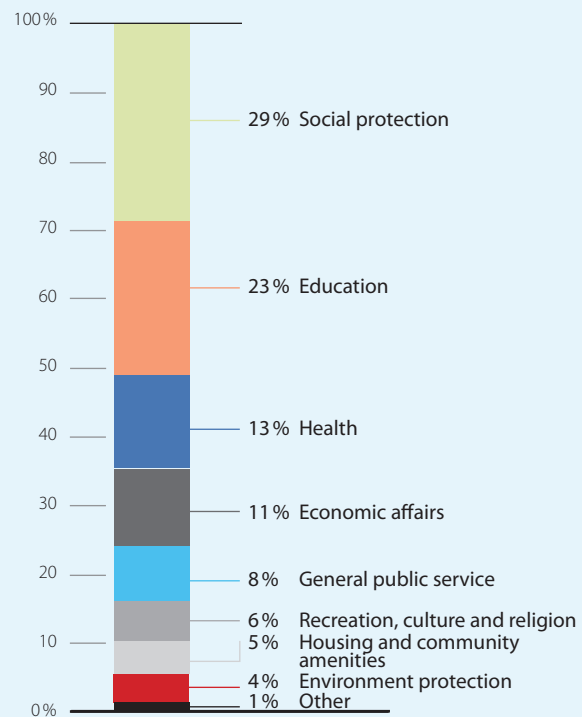
According to figures from the Ministry of Local Government and Modernisation, municipal revenues consist mainly of tax receipts (40 per cent), general government grants (34 per cent), earmarked grants (5 per cent), user fees and charges (14 per cent) and reimbursement of VAT (5 per cent).

Income tax is the main source of tax revenue. In 2020, the national rate was 22 per cent, with percentage point shares of 11.10 for municipalities and 2.45 for counties. A wealth tax of 0.7 per cent (for amounts over NOK 1.5 million) also accrues to municipalities. These maximum rates are set annually by Parliament. Local authorities can in principle choose a lower rate, but this hardly ever happens because the government then reduces grants by the corresponding amount (as happened recently when one municipality decided in 2019 to reduce the wealth tax to 0.2 per cent). The reason is that financial equalisation (see below) depends on actual tax revenues, and it would be seen as unfair for one local authority to be compensated by others simply because it had cut taxes.

Municipalities may also levy local taxes on property and natural resources. Before 2007, property tax was restricted mostly to urban areas, and thus not available to all municipalities. Since then, coverage has grown, with 319 out of 356 municipalities choosing to levy property tax in 2020, which accounted for nearly 8 per cent of municipal tax revenue. Municipalities do have some flexibility to set the property tax rate within bounds of 0.1 and 0.5 per cent in 2020.

Financial equalisation is built into the system for government grants, as specified each year in a 300-page 'green booklet'. This includes both cost

Local government expenditure in Norway (2018)



Source: Eurostat

and revenue equalisation, with the aim of ensuring that local authorities can provide equal service to their inhabitants. In essence, all local authorities receive a basic per capita amount plus supplements (e.g. for regional development) and various adjustments. This is then multiplied by an index based on 24 parameters such as population in different age groups, travel distance, persons with particular health or social conditions, etc. For municipalities, the net impact for 2020 is a redistribution of NOK 7.5 billion (c. € 680 million) between 68 contributing municipalities and 288 recipients.

On the income side, tax revenue (excluding some items, notably property tax for municipalities) is equalised, with counties receiving or contributing 87.5 per cent of the difference between their per capita revenue and the national average. Municipalities receive or contribute 60 per cent of the difference, while those with initial revenue below 90 per cent of the national average receive a further 35 per cent of that gap. This last element is funded by an additional contribution from all municipalities, so that all contributions and receipts sum to zero. In 2019, the net impact was a redistribution of NOK 9.8 billion (c. € 890 million) between 74 contributing municipalities and 349 recipients.

EU relations

Norway voted against joining the EU in a 1994 referendum but remains a member of the European Economic Area (EEA), which entails similar rights and obligations as far as the EU single market is concerned (see box).

KS opened a Brussels office in 1993 and is active in organisations such as CEMR and CEEP. As a non-member state, Norway does not have seats on the Committee of the Regions, but KS and elected representatives participate in the European Free Trade Area (EFTA) consultative committee (for trade unions and employers) and the EFTA-EEA Forum of Elected Representatives of Local and Regional Authorities.

NORWAY AND THE EUROPEAN UNION

One might expect local authorities in Norway to be less affected by the EU than their counterparts in the other countries surveyed here. However, in return for equal access to the single market, Norway must implement the rules decided by EU countries in areas such as competition policy, environment and social policy as well as free movement. Norway also contributes financially to reducing disparities within the European Economic Area (EEA) and in order to participate in some EU-funded programmes.

Municipalities in Norway thus face many of the same EU-related challenges and opportunities. They are active in a range of fields such as cross-border cooperation, renewable energy, the European Capital of Culture and youth exchange. As elsewhere, this is easier for municipalities with greater organisational resources. They are also required to implement or abide by EU rules in areas that local authorities often find challenging, such as state aids, public procurement, labour law and environmental standards.

A 2008 study for the Norwegian Association of Local and Regional Authorities looked at a sample of 15 municipal council and five county council agendas and found that 73 per cent of the items on these were influenced by the EEA agreement – a similar (indeed higher) figure to that obtained using similar methods in the other Nordic countries.

POLAND

COMPARED WITH MOST OF THE OTHER

countries surveyed here, Poland can hardly be said to enjoy a strong tradition of local government, having been partitioned between three different states and systems from the late 18th century until the First World War. While the foundations for municipal self-government were laid in the 1921 Constitution, the system was effectively abolished from 1950. During the communist period, 'people's councils' lacking independent powers and budgets served effectively as organs of the state.

This makes the post-1989 transformation all the more remarkable: within a decade, Poland established a system that had much in common with the Nordic countries, with powerful local authorities accounting for almost a third of public expenditure and playing a central role in delivering welfare services. Elected municipal councils were restored in 1990, followed in 1999 by counties and larger provinces or voivodeships. Since 2002, mayors of municipalities – the most significant level in terms of functions and resources – have been directly elected.



Since 1989 Poland has undergone a remarkable transformation in its local self-governance, establishing a system with powerful local authorities that play a central role in providing welfare services.

PHOTO pixabay



BASIC FACTS

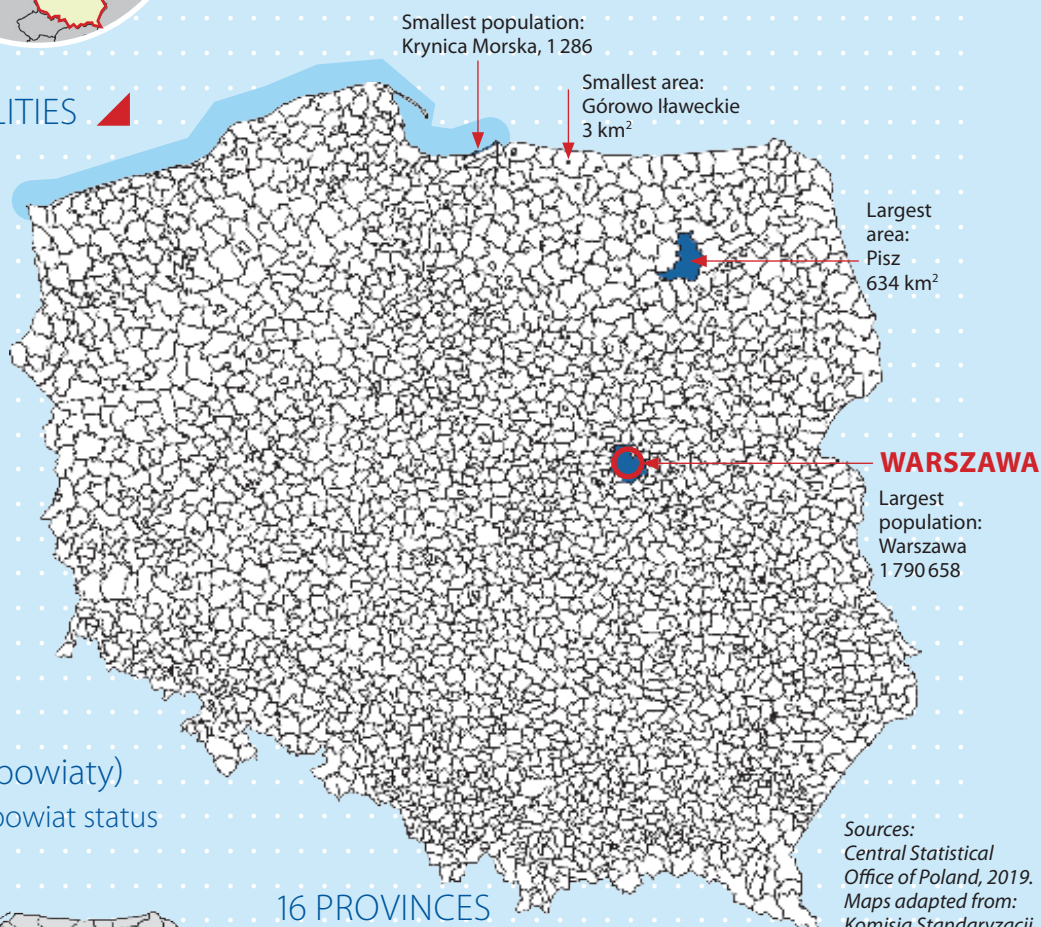
Land area:	306 194 km ²
Population (2020):	37.96 million
Population density:	124 inhabitants/km ²
Government type:	Republic
GDP per capita (PPS):	€ 23 150 (in 2019)

2477 MUNICIPALITIES (gminy)

Share of female councillors: 31% (municipalities)
24% (counties)
29% (provinces)

Share of female local authority staff: 72%
(Source: Association of Cities based on 2012 data)

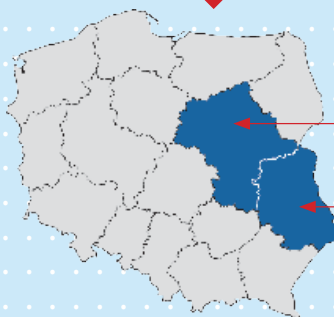
Average population: 15 496



380 COUNTIES (powiaty) incl. 66 cities with powiat status



16 PROVINCES (województwa)



Sources:
Central Statistical Office of Poland, 2019.
Maps adapted from: Komisja Standaryzacji Nazw Geograficznych poza Granicami Rzeczypospolitej Polskiej. © Copyright by Główny Geodeta Kraju, Warszawa 2020 (maps are redrawn).

Source: Eurostat

However, in recent years observers such as the CLRA have noted alarming trends that are undermining local autonomy through recentralisation of responsibilities, state interference with local functions, by-passing of mechanisms for consultation of local authorities, excessive use of supervisory powers, insufficient financial resources and declining trust in legal protection for local self-government.

Today there are 2 477 municipalities (including rural, urban and urban-rural) and 380 counties with larger-scale responsibilities such as secondary education and county hospitals. Included in both these numbers are 66 cities with county status, in which the municipal administration also performs county functions. Sixteen provinces with an average population of 2.37 million are responsible for regional development, including management of over 40 per cent of EU structural funds.

The territorial division has not changed much in recent years, although amendments in 2015 to the law on municipal government and related acts aimed to facilitate mergers, in part through financial incentives. The law gives the Council of Ministers the power to create, join, divide and abolish municipalities and to change their boundaries, name and status. This may be at the request of the council(s) concerned or of a local referendum on the initiative of residents, or on the government's initiative. The law requires prior consultation with councils and residents.

If a merger is to go ahead, a plenipotentiary is appointed (from the staff of the province or the municipalities concerned) to prepare the organisational and legal transition and to draft a budget. This person then assumes the tasks and powers of the municipality until a new council is elected. During the first term, the number of councillors is increased (e.g. 21 instead of 15 for a municipality with up to 20,000 inhabitants, so that more elected representatives have the chance to retain their positions). Further, the merged municipality's share of personal income tax revenue is increased by at least 5 percentage points (more for those with below-average per capita tax revenue) over the next five years.

A handful of changes in boundaries and status are carried out each year through ordinances of the Council of Ministers, although the number of municipalities has fallen by only two since the above amendments came into force. The most recent change was the abolition in 2019 of a heavily indebted municipality, Ostrowice, which was split up and merged with its neighbours.



Of the countries included here, Poland is the largest beneficiary of EU structural and investment funds in absolute terms. Local authorities benefit from regional and national operational programmes, using funds (for example) to improve transport in wider urban areas.

PHOTO Shutterstock.com/struvictory

Local government associations

Six local government associations represent provinces, counties and the different types of municipalities in Poland:

- the Union of the Provinces of the Republic of Poland (established 2002)
- the Association of Polish Counties (established 1999)
- the Association of Polish Cities (re-established 1990)
- the Union of Polish Metropolises (established 1990)
- the Union of Polish Towns (established 1991)
- the Union of Rural Communes of the Republic of Poland (re-established 1993).

POLAND'S JOINT COMMISSION OF GOVERNMENT AND LOCAL SELF-GOVERNMENT

Established by a decree of the Prime Minister in 1993 and by statute in 2005, the Joint Commission of Government and Local Self-Government is perhaps the most developed formal mechanism of consultation between central and local government of all the countries surveyed here. From the government side, the Commission currently includes the Minister of Interior and Administration and 11 Secretaries and Undersecretaries of State from Finance and various line ministries. From the local side, there are two members from each of the six associations.

Meetings are held as needed, but the law states that the gap between them should not exceed two months. Among the aims of the Commission are to:

- develop a common stance on economic and social priorities related to public utilities, local government and regional development
- review and assess the legal and financial conditions for local government work
- evaluate the functioning of local governments in the EU integration process
- analyse and give opinions on draft legal proposals, government programmes, etc. related to local government issues, including with regard to expected financial results.

Recent experience shows, however, that formal procedures do not necessarily guarantee meaningful consultation on all matters. The associations have complained that, although the Joint Commission continues to discuss a wide range of issues, it has been by-passed on several important pieces of legislation, such as the Law on protection of the environment or a Regulation on remuneration of elected local representatives.

These are voluntary membership organisations funded in the main by membership fees. Coverage varies somewhat with the size of the local units concerned: all provinces are members of their association, while 303 out of 380 counties and 640 out of 1533 rural communes are members of theirs. The typical structure includes a general assembly of elected representatives, an executive board and an audit committee. The Association of Polish Counties and the Association of Polish Cities, which are both members of CEMR, each employ a staff of around 30 people.

The associations' main missions include serving as a forum for members, representing members' interests, engaging in international cooperation and providing services to members such as training, consulting and legal advice. At the national level, they play a key role in the Joint Commission of Government and Local Self-Government (see box).

Local authorities' right of association is guaranteed in both the Constitution and the law on local government. Besides the six associations of national scope, there are several hundred associations with

regional and sectoral scope, such as the Association of Municipalities and Poviats of Małopolska, the Association of Mining Communities in Poland or the ‘Energie Cités’ network of municipalities. Cooperation to provide services is also common, in the form of intermunicipal unions and companies as well as agreements to transfer tasks.

Contact details:

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- Związek Powiatów Polskich (Association of Polish Counties), Pałac Kultury i Nauki, 00-901 Warszawa Telephone +48 22 656 63 34 Website <https://www.zpp.pl>
- Związek Miast Polskich (Association of Polish Cities), ul. Robocza 42, 61-517 Poznań. Telephone +48 61 633 50 50. Website <https://www.miasta.pl>
- Unia Metropolii Polskich (Union of Polish Metropolises), Plac Defilad 1, 00-901 Warszawa Telephone +48 22 656 76 16 Website <https://www.metropolie.pl>
- Unia Miasteczek Polskich (Union of Polish Towns), Urząd Miasta Podkowa Leśna, ul. Akacjowa 39/41, 05-807 Podkowa Leśna Telephone +48 22 759 21 22 Website <http://ump.home.pl>
- Związek Gmin Wiejskich Rzeczypospolitej Polskiej (Union of Rural Communes), ul. Kantaka 4, 61-812 Poznań. Telephone +48 61 851 74 18 Website <http://www.zgwrp.pl>

Local democracy

Municipal **councils** (*rada gminy* or *rada miasta* in towns), **county councils** (*rada powiatu*) and **provincial assemblies** (*sejmik województwa*) are directly elected every five years. The electoral system depends on the size of authority – a majority system in small municipalities, proportional lists in municipalities with over 20,000 inhabitants, counties and provinces.

The key difference between the three levels is that, in the case of municipalities, the executive –

FUNCTIONS

2 477 municipalities

- Public transport
- Social services
- Housing
- Environment
- Culture
- Pre-school and primary education

380 counties (incl. 66 urban municipalities with county status)

- Road building and maintenance
- Secondary education
- Civil protection
- Environment
- Employment
- Health

16 provinces

- Economic development
- Higher education
- Environment
- Employment
- Social policy
- Regional road management

Source: CEMR

the **mayor** (*wójt* in rural areas, *burmistrz* in most towns, *prezydent* in the largest cities) – is also elected directly and cannot sit on the municipal council. In counties and provinces, the council appoints and may dismiss its **executive board** (*zarząd*) headed by a *starosta* (counties) or *marszałek* (provinces).

As the head of the municipal administration and with the responsibility to implement council decisions, the municipal mayor has wide-ranging executive powers. Moreover, the council cannot dismiss the mayor before the end of the five-year term; a local referendum is required to do this.

Nonetheless, the council remains the highest decision-making body, with the authority (for example) to amend the mayor's draft budget. A two-term limit for mayors was introduced in 2018.

The council also elects a chairman with responsibility for organising and conducting council meetings. It may also create permanent and temporary **committees** to perform specific tasks, and must create an audit committee consisting of councillors but excluding the chair and vice-chairs. The **audit committee** supervises the activities of the mayor and administration and gives its opinion on the execution of the budget.

Legal framework and supervision

Local self-government is enshrined in Poland's 1997 Constitution, which mentions the principle of subsidiarity in its preamble and states in Chapter I that 'the territorial system of the Republic ... shall ensure the decentralisation of public power.' Moreover, '[t]he substantial part of public duties which local government is empowered to discharge by statute shall be done in its own name and under its own responsibility.'

Chapter VII is dedicated to local government and states (among other things) that local authorities shall be assured adequate public funds for the performance of their duties, and that the self-governing nature of local government shall be protected by the courts. It names the municipality (*gmina*) as the basic unit of local government, which performs all tasks of local government not reserved to other levels. The Constitution also gives Parliament the authority, on the Prime Minister's initiative, to dissolve a local authority in the event of flagrant violations of the Constitution or statute.

Separate acts (the Municipal Government Act, the County Government Act and the Voivodeships Act) govern each tier, setting out the functions listed above as well as rules for organisation, supervision, budgets and so forth. The Municipal Government Act further establishes that municipalities' scope of activity includes all public matters of local importance not reserved by statute for other entities.

Supervision of local authorities concerns compliance with the law and is carried out by the voivodes, or provincial governors, who are regional representatives of central government appointed by the Prime Minister. Local authorities must transmit decisions within seven days (two days for certain regulations) to the voivode. Within 30 days, voivodes may rule on their own authority that a decision is invalid and may also suspend its execution in the meantime. After 30 days, the voivode must apply to the administrative court. Local authorities may also appeal to the administrative court against these decisions. Voivodes also work with line ministries to supervise local authorities in areas such as social care, education and environmental inspection, though other state authorities are responsible in specific areas such as data protection.

In case of repeated violations of the Constitution or statutes, Parliament at the Prime Minister's request may dissolve a local council, or the voivode may apply to the Prime Minister to dismiss the head of the local authority. In both cases the Prime Minister then appoints a person to perform the functions of the local authority or its head until new elections take place. In case of extended lack of efficacy in the performance of public functions without prospect of improvement, the Prime Minister may suspend a local authority and place it in receivership for up to two years. A government commissioner takes over in the interim. These decisions may also be appealed against in the administrative courts.

Anyone whose legal interest or right has been violated by an act or omission of a local authority in matters of public administration may appeal to an administrative court. There are also 49 Self-Government Boards of Appeal (at the level of the old voivodeships), which are administrative bodies under the supervision of the Prime Minister. These serve as a second instance for individual complaints against administrative decisions in areas such as social assistance, traffic, housing, local taxes, etc., where the complaint has been examined in the first instance by the local authority executive. The public prosecutor or the ombudsman may also refer complaints to these Boards.

Regional Audit Chambers in each voivodeship are responsible for supervision on financial matters. This concerns auditing not only of accounts and legal compliance, but also of ‘purposefulness, reliability and economy’ in financial management. Local authorities must forward budget resolutions and other financial decisions for the chambers to check. In case of irregularities which the local authority fails to rectify, the chamber has the power to declare a budget invalid and amend it accordingly. The chambers must also undertake a comprehensive audit of each local authority at least once every four years. They also monitor local budget execution, including compliance with restrictions on deficits and debt specified in the Public Finance Act.

Finance

Local government expenditure, at 14.2 per cent of GDP or 33.8 per cent of total public expenditure in 2019, lies above the EU average, and somewhere between the Baltic and Nordic countries. As in the other countries surveyed, education, health and social protection account for over half of local budgets. The significance of economic affairs (16 per cent of total expenditure, including local support for agriculture, industry, R&D and so forth), is explained partly by EU funding available to local authorities.

Ministry of Finance figures for 2019 indicate that close to half of local government revenue (48.7 per cent) consisted of own revenues, with targeted grants (including from EU structural funds) accounting for a further 29.1 per cent and general subsidies 22.2 per cent.

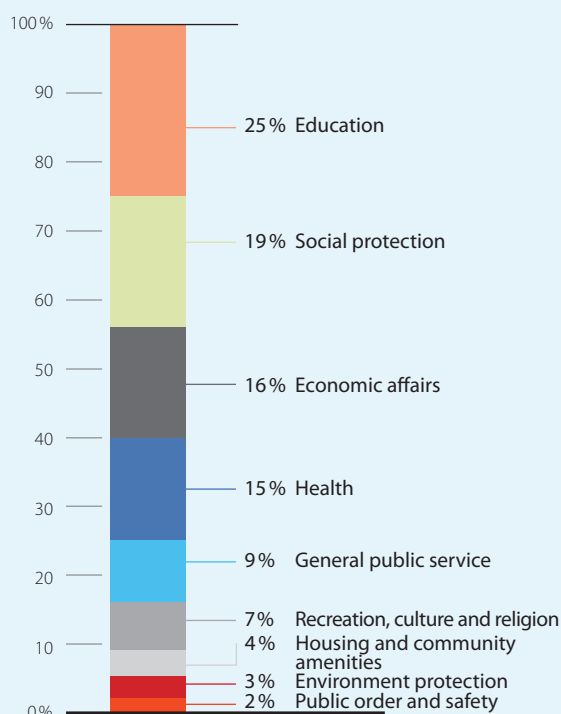
The main source of own revenue is local authorities' share of income tax. They receive almost half of personal income tax receipts (38.08 per cent to municipalities, 10.25 per cent to counties and 1.6 per cent to provinces in 2019), and almost 23 per cent of corporate income tax (6.71 per cent to municipalities, 1.4 per cent to counties and 14.75 per cent to provinces). Municipalities also receive income from local property tax (17.2 per cent of own revenue) and a range of minor taxes and fees whose

rates and bases they do have some flexibility over (within national ceilings).

Earmarked grants include compensation for performing delegated functions and specific municipal responsibilities, particularly in the area of social assistance. Over three-quarters of the general subsidy consists of a grant intended for education. While not earmarked, this is calculated on the basis of parameters such as the number of students and teachers. As the figure above suggests, local governments spend more than this amount on education.

The remainder of the general subsidy consists mostly of equalisation grants, with two main components: ‘compensatory’ (vertical equalisation

Local government expenditure in Poland (2018)



Source: Eurostat

funded by the state) and 'balancing' (horizontal equalisation funded by local units with higher tax income). The compensatory component has two parts: a basic part, which goes to local units with tax revenue per capita below the national average (below 92 per cent of the average in the case of municipalities); and a supplementary part which goes (with some exclusions for those with high tax revenue) to municipalities with below-average population density, to counties with unemployment above 110 per cent of the national average, and to provinces with 3 million inhabitants or fewer. In total the compensatory component was worth PLN 11.9 billion (c. € 2.6 billion) in 2019 and benefited 2,114 municipalities, 287 counties, 29 cities with county status and 14 provinces.

The balancing component is funded by municipalities and counties with tax revenue per capita over 150 and 110 per cent (respectively) of the national average. Their contribution is distributed among other units depending on several factors: for municipalities, expenditure on housing allowances and receipts from agriculture and forestry taxes; for counties, expenditure on foster families, absence of a state-funded labour office, length of roads per capita and declining tax revenues. In total the balancing component was worth PLN 1.8 billion (c. € 400 million) in 2019 and benefited 1,475 municipalities, 312 counties and all 66 cities with county status.

In 2015–21 there is also a regional component for provinces, funded by those with tax income per capita over 125 per cent of the average, and accruing to those with lower tax revenue and/or relatively high unemployment in different age groups. This was worth PLN 0.5 billion (c. € 100 million) in 2019, shared out between 14 provinces.

As well as assuring local authorities adequate public funds for their assigned responsibilities, the Constitution (article 167) further stipulates that 'Alterations to the scope of duties and authorities of units of local government shall be made in conjunction with appropriate alterations to their share of public revenues' – thus providing the highest-level expression of the financing principle seen in several other countries. However, as elsewhere, local

authorities frequently complain that the state imposes higher standards or additional tasks without a commensurate increase in resources.

EU relations

Poland joined the EU in 2004 and is the largest beneficiary of EU structural and investment funds in absolute terms, with a per capita allocation of € 2 343 for the 2014–20 period. These funds are now the main source for local and regional development projects. Provincial governments are the managing authorities for most of the 16 regional programmes, worth € 28 billion (41.5 per cent of the total). There are new ways for municipalities to become involved in these, for example 'integrated territorial investments' to improve transport in wider urban areas. Municipalities also benefit from the national operational programmes, for example through upgrades to waste and water infrastructure in rural areas.

Assessments of the impact of EU accession on local authorities often focus on aspects of EU legislation that are challenging for local authorities. However, accession may also contribute to reducing the administrative burden in some areas. In its assessment of the first four years of membership, Poland's inter-ministerial Committee for European Integration explained how the EU 'Better Regulation' initiative had led, among other things, to surveys of central and local administrations to establish the number of permits, licences, registrations, etc. required to engage in economic activities, and to targets for simplifying such procedures.

Poland's delegation to the EU Committee of the Regions consists of 21 members and 20 alternates, proposed by the local authority associations: ten from the provinces, three from the counties, and eight from municipalities (two from the largest cities, three from other cities, one from towns and two from rural municipalities). The Information Office of the Wielkopolska Region in Brussels provides coordination. The Association of Polish Cities and the Association of Polish Counties are members of CEMR but do not have offices in Brussels.

SWEDEN

WHILE LOCAL AUTONOMY in Sweden dates back to the Middle Ages, it was the local government reforms of 1862 that laid the ground for the modern system. These made every city and rural parish a municipality with responsibility for secular affairs, including the right to levy taxes. Boundary reforms in the 1950s and 1970s amalgamated towns and small rural municipalities, resulting in today's division of 290 municipalities and 21 regions.

Municipalities provide the majority of local services, including pre-university public education. Regions are responsible for health care and trans-

port. Between 2011 and 2019, the former counties were officially renamed as regions, and took over additional responsibilities for regional development from the County Administrative Boards (regional agencies of central government).

Territorial reform at regional level has been proposed several times in recent years, most recently by a government-appointed committee, whose interim report in 2016 favoured a division into six larger regions. The key premises for this were that regions should be equally strong, have the capacity to build structures for regional development and be able to



The Swedish Association of Local Authorities and Regions (SALAR) represents municipalities and regions as both an employers' association and a local government interest organisation. SALAR's election congress is held once every four years following local elections in Sweden and elects a new Chair and Board.

PHOTO SALAR/Rickard L. Eriksson



BASIC FACTS

Land area:	407 340 km ²
Population (2020):	10.3 million
Population density:	25 inhabitants/km ²
Government type:	Constitutional monarchy
GDP per capita (PPS):	€ 38 200 (in 2019)

290 MUNICIPALITIES (kommuner)

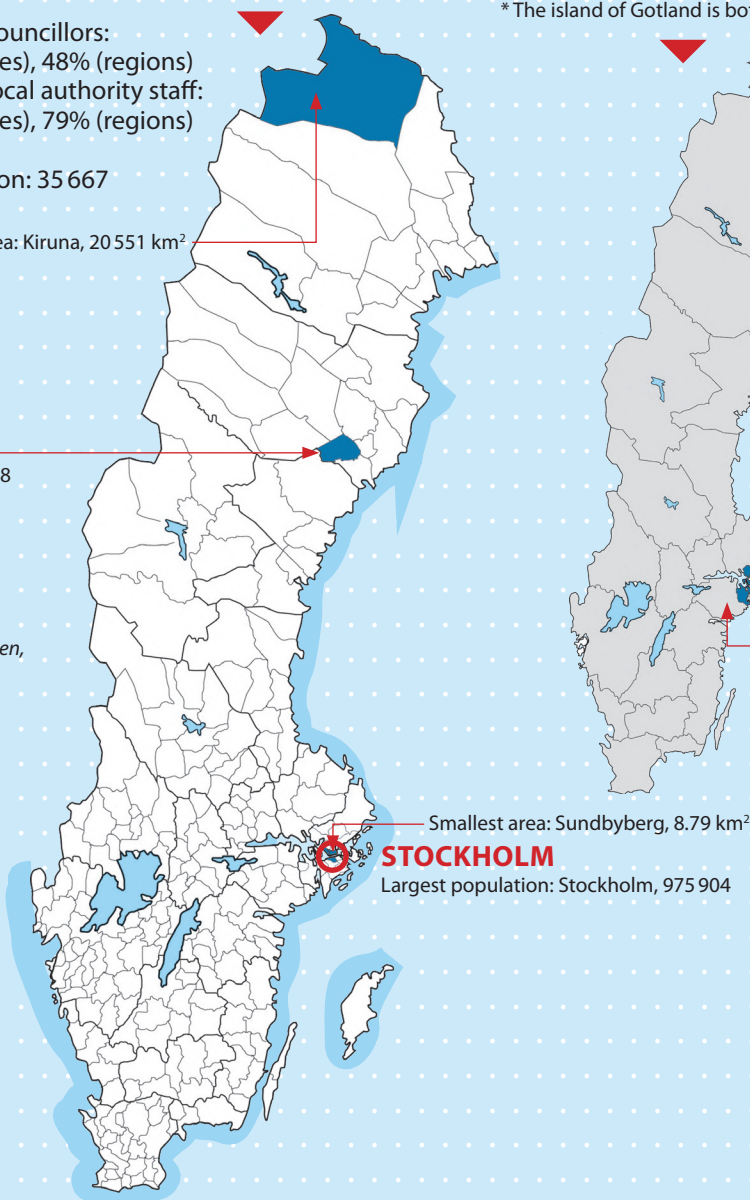
Share of female councillors:
43% (municipalities), 48% (regions)
Share of female local authority staff:
78% (municipalities), 79% (regions)

Average population: 35 667

Largest area: Kiruna, 20 551 km²

Smallest
population:
Bjurholm, 2 398

Source:
Statistics Sweden,
population
31 March 2020



21 COUNTIES (regioner)*

* The island of Gotland is both a municipality and a region



HIGHEST GDP
per capita:
Stockholm, € 50 000
(PPS, 2017)

Lowest GDP
per capita:
Sörmland, € 27 000
(PPS, 2017)

Sources: Eurostat.
Maps adapted
from: Swedish
Association of
Local Authorities
and Regions.

take full responsibility for the health care system, while taking existing cooperation patterns (e.g. the existing six health care regions) as a starting point. As a first step, the committee proposed merging twelve of the existing regions into three new ones. However, the government was unable to obtain a parliamentary majority for this, and the proposals were dropped in late 2016.

In 2020, an official enquiry proposed measures to encourage voluntary municipal mergers. The committee, composed of parliamentary and municipal representatives, noted that demographic change and urbanisation is making it increasingly difficult for small municipalities to provide a full range of services. According to the proposal, a state grant would be available to municipalities opting for more strategic intermunicipal cooperation or a merger, and the state would also assume the debts of those choosing to merge.

Local government in Sweden is powerful, playing a dominant role in welfare and service provision. It accounts for around 25 per cent of GDP and employs over 1 million people, almost half of these in health and social care, and one-third in education and training. Nearly four-fifths of employees in both municipalities and regions are women. Local authorities have a large measure of freedom to organise their activities as they see fit, although they are subject to detailed state regulation and oversight in many of their areas of responsibility.

Associations of local authorities

Established through a merger in 2007 of the formerly separate associations for municipalities and counties, the Swedish Association of Local and Regional Authorities (SALAR) represents municipalities and regions as both an employers' association and a local government interest organisation.

SALAR is the largest association in the countries surveyed here, employing some 440 people at its headquarters in Stockholm. Part of its role is to negotiate collective labour agreements on behalf of municipalities and regions, which makes SALAR Sweden's largest employers' organisation.

It is also a politically run organisation, the highest decision-making body being the 451-member congress elected by local councils. Party representatives are chosen from regional constituencies using the same proportional system as for local elections. An executive board coordinates the work of several delegations and committees consisting of local politicians.

All municipalities and regions are members of SALAR. Revenues comprise mostly membership fees and externally financed projects (e.g. government-financed projects in health and social care), followed by paid-for services such as conferences, courses, legal advice and consultancy. SALAR is established as a non-profit association. It also owns shares in several subsidiary companies. For example, SKL Kommentus provides centralised procurement and related consultancy services, SKL International works to promote local and regional democracy in international development projects, and Inera AB provides digital services in health care. Other companies deal with patient security, property, pensions and insurance, and emergency calls.

There is no formalised consultation procedure between local and central government, although advocacy and policy development vis-à-vis the state is a central part of SALAR's mission. The executive board of SALAR meets regularly with the Finance Ministry, and the government must request information and opinions from local authorities (and others) concerned by legislative changes.

The local government law allows local authorities to form associations, joint committees, companies, foundations, etc. for the performance of common tasks. A recent official enquiry found that in 2016 there were 175 such associations, 159 joint committees and around 350 jointly owned municipal companies. In addition, there are municipal interest associations at regional level and sectoral associations such as Public Housing Sweden, which brings together municipal-owned housing companies, or the Swedish Waste Management Association, in which the majority of members are municipalities or municipal associations and companies.

Contact details:

Sveriges Kommuner och Regioner, Hornsgatan 20,
118 82 Stockholm. Telephone +46 8 452 70 00
Website <https://skr.se>

Local democracy

Both municipal and regional assemblies are directly elected for a four-year term on the same day as elections to the national parliament. The **assembly** (*fullmäktige*) is the highest decision-making body and decides on matters of major importance, including budgets and taxation.

The **executive committee** (*kommunstyrelsen*, *regionstyrelsen*) is composed of elected members appointed in proportion to each party's share of seats in the assembly. It directs and coordinates the administration, supervises the work of other committees and local government corporations or associations, and prepares and implements assembly decisions. The assembly may also entrust **specialised committees** with administrative and executive powers.

Swedish municipalities do not have mayors as such, though the term is often used in international contexts to refer either to the chair of the executive committee or to the chair of the municipal assembly.



PHOTO SALAR/Thomas Henrikson

The assembly is the highest decision-making body in Swedish municipalities, counties and regions, and decides on matters of major importance, including budgets and taxation.

FUNCTIONS

290 municipalities

Mandatory

- Social services
- Childcare and pre-school
- Primary and secondary education
- Care for the elderly
- Support for the physically and intellectually disabled
- Primary healthcare
- Environmental protection
- Urban planning
- Refuse collection and waste disposal
- Rescue and emergency services
- Water supply and sewerage
- Road maintenance

Optional

- Culture
- Housing
- Energy
- Employment
- Industrial and commercial services

21 regions

Mandatory

- Healthcare
- Dental care
- Public transport (via a regional public transport authority)

Optional

- Regional development
- Culture
- Tourism

Source: CEMR

STATE SUPERVISION

State supervision of local authorities is more complex than it might at first seem. While local government laws generally make a state agency or county governors responsible for administrative supervision of municipalities, this is only half the story at best. On the one hand, relationships with these supervisory bodies may be more cooperative than confrontational, relying on guidance and persuasion behind the scenes rather than formal control and sanctions. On the other hand, in fields such as social care, education or health, sector-specific legislation often gives other national agencies additional regulatory and supervisory powers.

Then there are separate arrangements for financial supervision, usually involving the finance ministry or state audit authorities. On top of this comes judicial review. In most countries, an administrative procedures act allows those affected by local authority decisions to lodge an appeal in court. In some cases, any municipal resident has the right to appeal against a municipal decision. Ombudsmen or similar institutions provide a further avenue for redress.

Thus, local authorities may find themselves on a tight leash. Even in a country like Sweden, where the central–local relationship is generally cooperative, there are instances of serious formal sanctions. In 2019, for example, the Schools Inspectorate imposed state measures for improvement in an under-performing municipal school outside Stockholm. The Health and Social Care Inspectorate has fined many municipalities for delays in providing special accommodation for elderly and disabled people.

Nevertheless, sanctions are the exception rather than the rule, and there are many other mechanisms that aim to promote compliance and prevent problems from arising. For example:

- The above-mentioned inspectorates conduct regular inspections of schools and care facilities, and follow up with the responsible authorities afterwards, working with them to rectify any deficiencies before the issue of sanctions arises.
- Inspectorates and other supervisory authorities provide a range of training, advice and guidance to local authorities and others, aiming to spread best practice, share successful examples, highlight areas for development, etc.
- SALAR also plays an important role in benchmarking, in particular through its 'Open Comparisons' and 'Municipal Quality in Brief' series, which allow local authorities to compare their performance in a wide range of activities.
- Development of services and best practice is often achieved through agreements between SALAR and the government. To take a recent example, in June 2020 the government agreed to finance expanded covid-19 testing and tracing in the regions, while the regions through SALAR agreed to build their own capacity and to increase coordination with the Public Health Agency.

Thus, there is much more to the relationship between the state and local authorities than formal supervision and sanctions.

Legal framework and supervision

Local self-government is enshrined in the Instrument of Government, one of the four basic laws that make up the Swedish constitution. This (as revised in 2010) stipulates that decision-making power is exercised by elected assemblies, that local authorities are responsible for local and regional matters of public interest and that they may levy tax for the management of their affairs. Any restriction in local self-government should be proportional, that is, not exceeding what is necessary given the aim of the restriction.

The 2017 Local Government Act sets out the general powers of local authorities and organisational rules on assemblies, committees, budgets and so forth. Local authorities may attend to any matters of general concern connected with their geographical area or inhabitants that are not the exclusive preserve of the state or other local authorities. They may also engage in business activities (if not-for-profit and essentially concerned with providing communal amenities or services) and may transfer the management of some local government concerns to municipal enterprises or associations of local authorities.

A range of other acts and regulations such as the Social Services Act, the Planning and Building Act, the Education Act and the Health and Medical Services Act set out the specific functions listed above along with detailed regulations that local authorities must follow in exercising their responsibilities.

Control and supervision of local authorities takes various forms. The Local Government Act allows any resident or property owner to test the legality of council decisions (with some exceptions in specific legislation) by appealing to the county administrative court. The court may annul the decision if, for example, the council has exceeded its powers or if the decision contravenes the law.

In addition, the Administrative Procedures Act may allow those affected by council decisions to appeal, thus providing protection against arbitrariness or abuse of power. In this case, the court may examine both the legality and suitability of a decision, and may substitute its own decision for the contested one.

Further, the Parliamentary Ombudsman, the Chancellor of Justice, the Equality Ombudsman and a number of other authorities may investigate (on own initiative or following complaints) local authority treatment of particular cases or issues. They do not have the power to amend decisions or issue sanctions, but may publicly criticise local authorities, and in some cases take them to court (e.g. for significant breaches of the Discrimination Act).

In specific areas of local responsibility, the state supervises local authorities directly through agencies such as the National Board of Health and Welfare and the National Agency for Education. These work actively with local authorities in pursuit of national goals, providing guidance, support, follow-up and evaluation. Depending on the area in question, various sanctions – such as public criticism, fines or, in serious cases, a temporary operating ban – are available if local authorities fail to meet their responsibilities.

Local authorities are also subject to administrative supervision by the County Administrative Boards (*länsstyrelser*). These are state authorities at regional level, headed by a County Governor who (along with the head of the administration) is appointed by the government. These give advice, monitor local authorities' compliance with the law in certain areas such as environmental protection, animal welfare and alcohol licensing, and may handle complaints from individuals regarding municipalities' exercise of their powers under the Planning and Building Act.

As a rule, the relationship between local authorities and the Boards is one of cooperation and guidance. However, the Boards may point out deficiencies or direct criticism or serious criticism at municipalities. Sanctions depend on the area of legislation in question. For example, under the Environmental Code, supervisory authorities may issue injunctions and prohibitions and make these subject to a fine. They must also report infringements to the police or public prosecution authorities and may impose environmental sanction charges for failure to comply with the rules. This is subject to appeal in the environmental courts.

As regards financial supervision, the Local Government Act sets out some general provisions on finances and auditing. Local authorities must, for example, exercise sound financial management, pass an annual budget and comply with the law on local government accounting. But they are largely free to manage their financial affairs as they see fit, and responsibility for auditing lies with the authority itself.

One aspect of the Swedish system of strong local self-government is that local assemblies appoint auditors from among their own number, i.e. elected representatives. Acting independently and assisted by technical experts, the auditors inspect not only whether the accounts are true and fair and whether internal checks are adequate, but also whether activities have been carried out in an appropriate and financially satisfactory way.

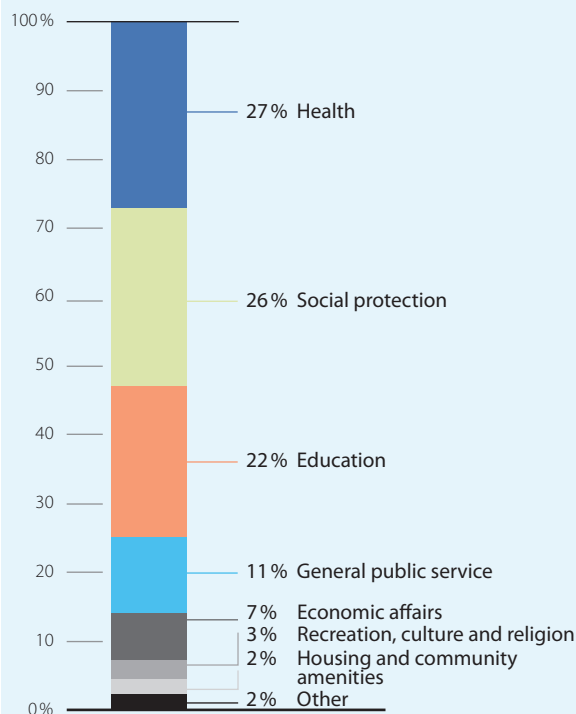
Finance

Local government expenditure in Sweden is the second-highest in the EU (after Denmark), at 25.1 per cent of GDP or 50.9 per cent of total public expenditure in 2019. As the figure shows, health, social protection (including care for elderly and disabled people) and education account for the bulk of expenditure.

According to figures from SALAR, 68 per cent of revenues for municipalities and regions combined come from taxes, in particular the personal income tax which they are entitled to levy. In 2020, this ranges from 29.18 to 35.15 per cent with an average of 32.28 per cent of inhabitants' incomes, of which roughly two-thirds goes to municipalities and one-third to regions).

Fees and charges make up only 5 per cent of local revenue, although here it is important to note that local services such as water provision, waste collection, housing and public transport are largely provided by companies, whether municipal-owned or private, so that neither expenditure nor user charges appear in the figures here. General government grants accounted for around 12 per cent of local revenue, and targeted grants (including subsidies for pharmaceuticals) around 9 per cent in 2019.

Local government expenditure in Sweden (2018)



Source: Eurostat

The state runs a financial equalisation system to compensate for disparities between local authorities. This aims to ensure equivalent conditions for (mandatory) service provision, regardless of differences in fiscal capacity and cost conditions (demographic, geographic and socioeconomic) over which local authorities have no influence.

There are two main components to the system. Income equalisation is financed 95 per cent by the state and 5 per cent (in 2020) by the 13 municipalities and 1 region with the greatest fiscal capacity. All other municipalities and regions receive contributions. Cost equalisation entails pure redistribution



Almost half of Sweden's local government employees work in health and social care, and a third in education and training. Nearly 80 per cent of employees in both municipalities and regions are women.

PHOTO SALAR/Rickard L. Eriksson

between local authorities, based on factors such as the age structure of the population (and thus the relative number of children and elderly people requiring care). There is also a smaller state-financed component for local authorities with small populations and/or labour market problems. In total, the system redistributes around SEK 86 billion (c. € 8.4 billion) annually (2020).

A 'financing principle' approved by Parliament in 1993 provides that changes to laws and regulations that directly affect local authority activities (for example, new or expanded obligations) must be accompanied by a change in funding from the state, thus avoiding the need for local authorities to raise taxes or reduce spending elsewhere. While SALAR continuously strives to uphold this principle in its work with the national authorities, the government (as in other countries) is not always keen to comply. In 2018, for example, the Swedish National Audit Office found that the financing principle had not been followed in connection with several national educational reforms, including requirements such as pre-schooling for 3-year-olds and increased teaching time for mathematics.

EU relations

Even before Sweden joined the EU in 1995, local authorities were aware of how membership would affect their day-to-day business. SALAR produced an impact analysis of accession several years before the event, and the most recent estimates suggest that on average around half (a little less for municipalities, a little more for regions) of the items on a typical council agenda are influenced directly or indirectly by the EU. This includes compliance with EU legislation in areas such as environmental protection, working time or public procurement as well as non-binding political or cultural influence, including through EU-funded programmes.

As one of the richer EU member states, Sweden's share of the European Structural and Investment Funds is relatively low, with an allocation of € 407 per capita for the period 2014–20. Nevertheless, local elected representatives play a leading role in the partnerships that plan and monitor the use of these funds. Municipalities are involved in programmes for regional development, social policy and employment, territorial cooperation (with counterparts in other member states), rural development and fisheries.

Swedish local authorities and SALAR are active in a number of platforms and organisations at EU level, including the Association of European Regions, Eurocities, CEEP, CEMR and CLRA. SALAR also serves as the secretariat for Sweden's delegation to the Committee of the Regions, which consists of 12 members and 12 alternates.

REFERENCES AND SOURCES

The introductions for each country and the sections on local democracy and legal framework draw partly on Moreno, *Ángel-Manuel* (ed.), *Local government in the Member States of the European Union: a comparative legal perspective* (Madrid: Instituto Nacional de Administración Pública, 2012) and on the Congress of Local and Regional Authorities regular monitoring reports for each country. Recent updates are from national sources (usually local government associations, finance ministries or the ministry responsible for local government).

Maps are adapted and redrawn from official sources and for the most recent territorial organisation available.

DENMARK: contains data from the Danish Geodata Agency, map 'De nye regioner og kommuner i Danmark'.

ESTONIA: Rahandusministerium (Ministry of Finance).

FINLAND: Statistics Finland.

© Copyright Lantmateriverket (maps are redrawn).

LATVIA: Ministry of Environmental Protection and Regional Development.

LITHUANIA: Statistics Lithuania.

NORWAY: Statistisk sentralbyrå (Statistics Norway).

POLAND: Komisja Standaryzacji Nazw Geograficznych poza Granicami Rzeczypospolitej Polskiej. © Copyright by Główny Geodeta Kraju, Warszawa 2020 (maps are redrawn).

SWEDEN: Swedish Association of Local Authorities and Regions.

Basic facts on national area, population and GDP per capita are from Eurostat. Data on municipal population and area are from national statistical agencies. Data on GDP per capita at county/ regional level are from Eurostat where the division corresponds to NUTS regions. For Estonia, county GDP per capita as a percentage of the Estonian average from Statistics Estonia is applied to Eurostat's figure for GDP in PPS for the country as a whole.

Figures on the share of women councillors are for 2019 and from

the European Institute for Gender Equality except for Poland (Statistics Poland). Figures on the share of female local authority staff, where available, are from local authority associations or national statistical agencies.

Local government functions are based on CEMR (2016), *Local and Regional Governments in Europe – Structures and Competences*, Brussels, Council of European Municipalities and Regions, which is in turn based on responses from member associations.

Figures on local government expenditure are from Eurostat, using the Classification of Functions of Local Government. Defence is excluded since local expenditure in this category is negligible for the countries surveyed here. The other categories are given in the following table.

Classification of Functions of Local Government

General public services	Executive and legislative organs, financial and fiscal affairs, external affairs foreign economic aid, basic research, R&D related to general public services, public debt services, transfers of a general character between different levels of government
Public order and safety	Police, fire-protection services, law courts, prisons, R&D related to public order and safety
Economic affairs	General economic, labour and commercial affairs, agriculture, forestry, fishing and hunting, fuel and energy, mining, manufacturing and construction, transport, communication, other industries, related R&D
Environmental protection	Waste and water waste management, pollution abatement, protection of biodiversity and landscape, related R&D
Housing and community amenities	Housing development, community development, water supply, street lighting, R&D related
Health	Medical products, appliances and equipment, outpatient, hospital and public health service, R&D related to health
Recreation, culture and religion	Recreational and sporting, cultural services, broadcasting and publishing services, religious and other community services, R&D
Education	Pre-primary, primary, secondary and tertiary education, post-secondary non-tertiary education, education non-definable by level, subsidiary services to education, R&D
Social protection	Sickness and disability, old age, survivors, family and children, unemployment, housing, R&D, social exclusion, nec.

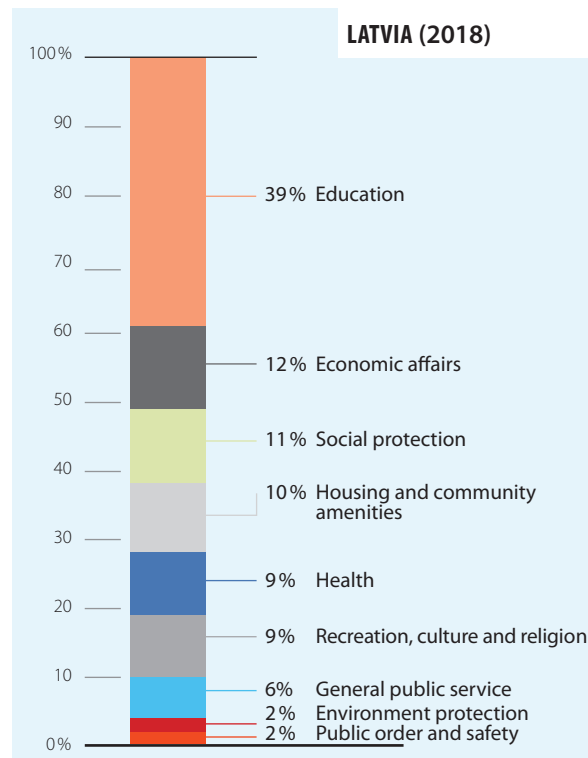
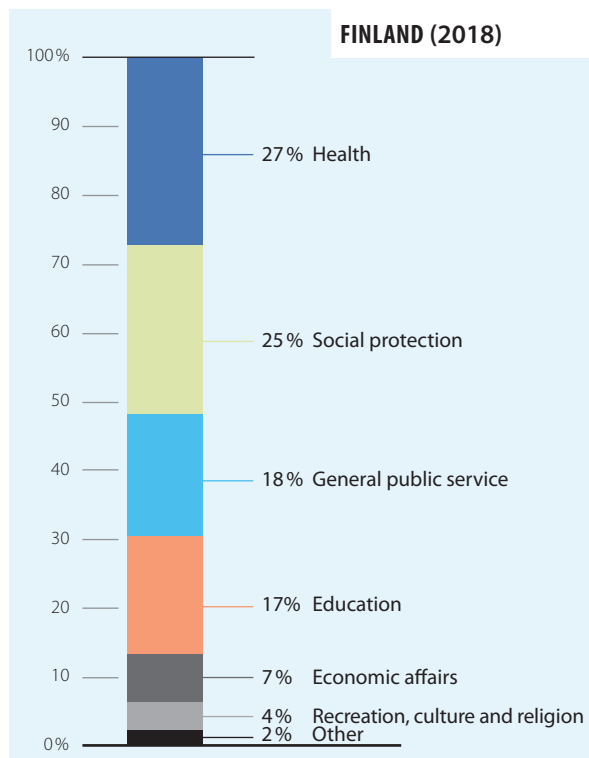
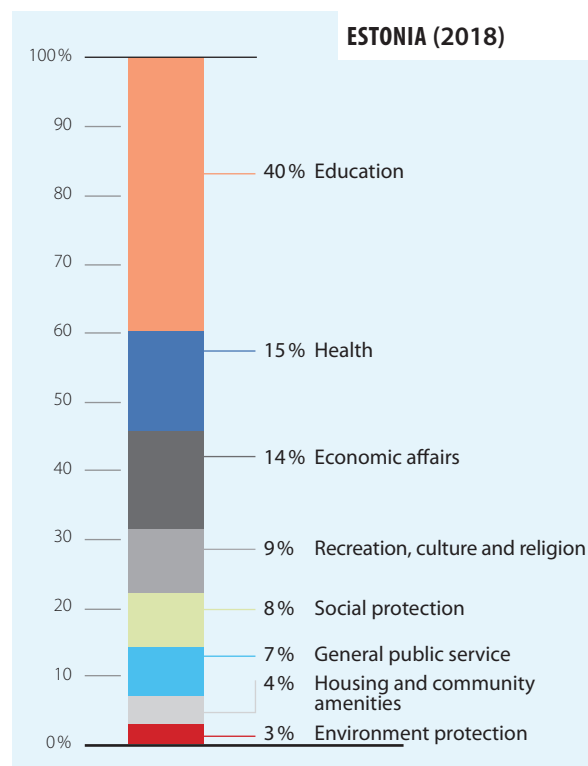
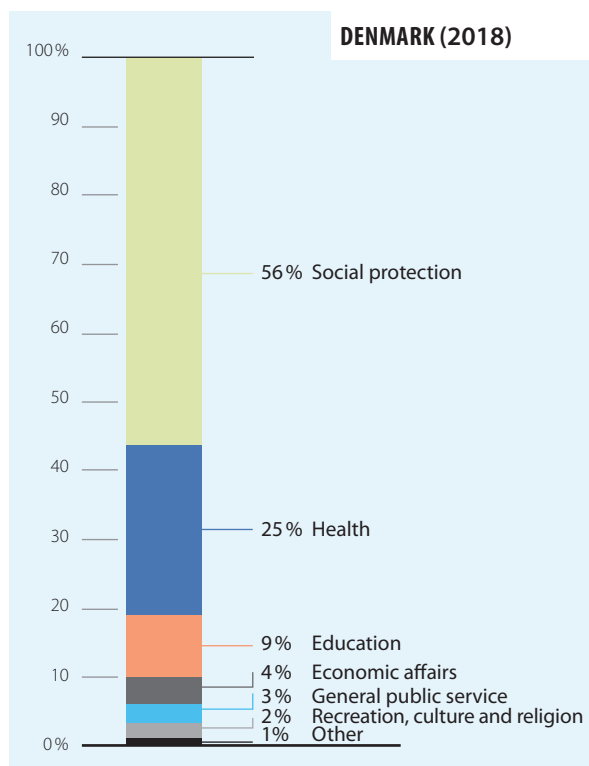
Source: Eurostat

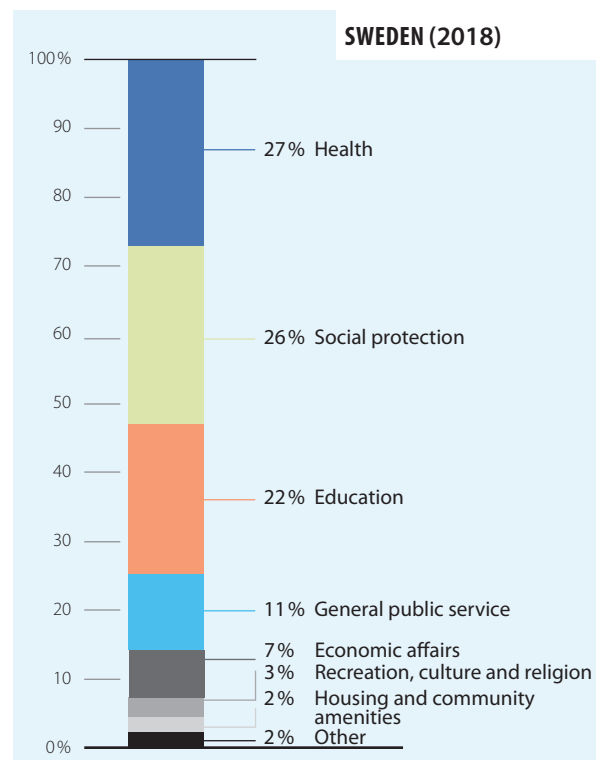
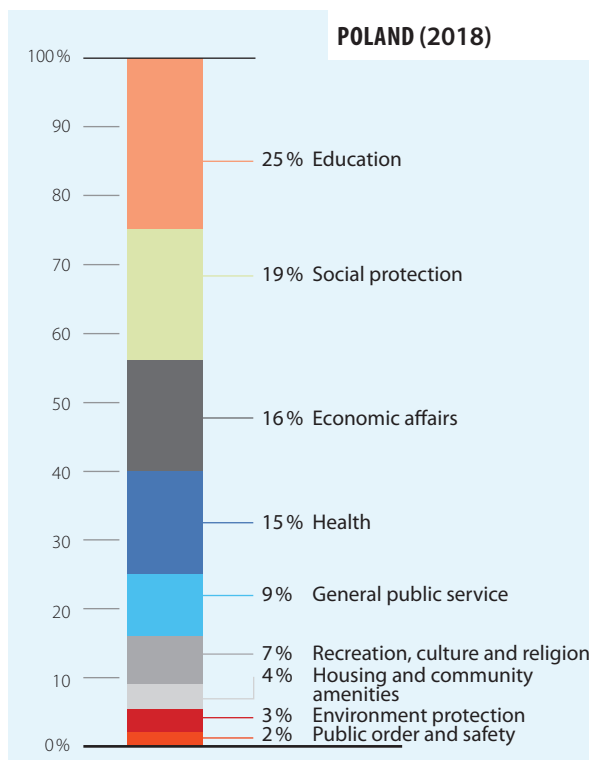
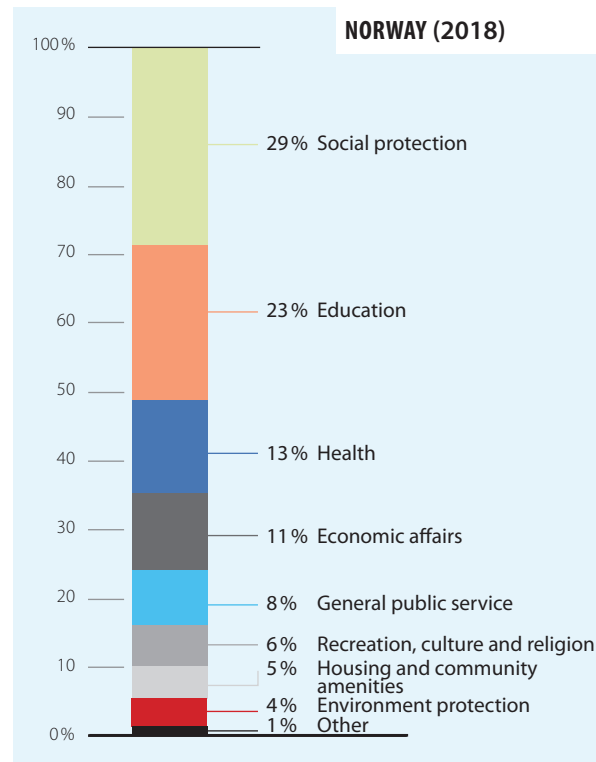
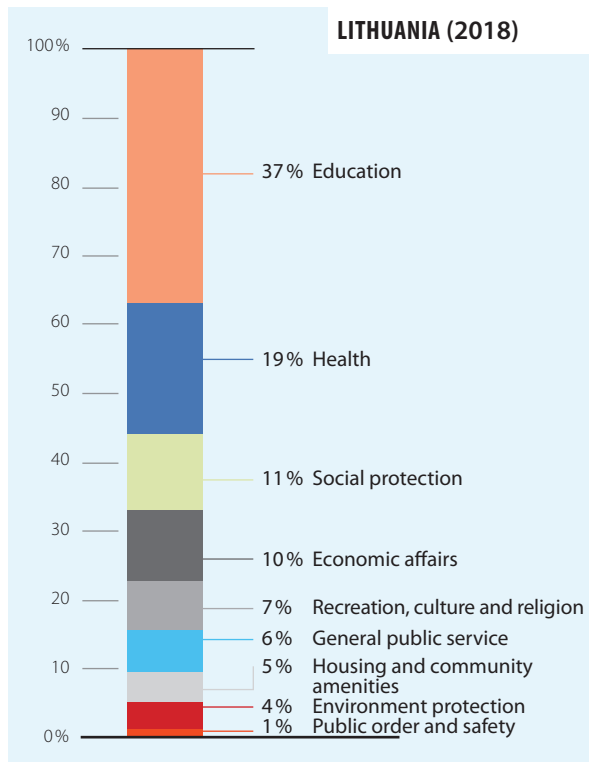
Local government revenue figures are from national sources, since comparable sources from national accounts lack detail and treat shared tax revenue as transfers unless local authorities decide tax rates and bases. Caution should be

exercised in comparing revenue figures between countries, since definitions (for example, of specific versus general grants) and coverage (for example, whether borrowing is included) vary. European Structural and Investment Fund allocations are from

the European Commission. CEMR, 'Planning of EU structural funds: Is Local Government treated as a real partner?' is another useful source on local government involvement in the process in selected countries.

CONSOLIDATED FIGURES ON LOCAL GOVERNMENT EXPENDITURE





Source: Eurostat

OWN NOTES



This booklet gives an overview of the key features of local government in eight Nordic and Baltic countries: Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Poland and Sweden. The booklet was prepared by SKL International, a subsidiary of the Swedish Association of Local Authorities and Regions. This is a revised version, 2020. SKL International manages projects in the areas of local self-government, democracy, decentralisation and local development. For more information, visit www.sklinternational.se.



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