Planning and implementing large reforms inevitably raises the question of whether the reformers are able to see the process as a whole, including all important aspects that need reorganisation.

It is always appropriate to ask whether the reasons why the reform is undertaken – the answer to the question ‘Why are we doing this?’ – are well thought through.

If they are, then there is hope that the reform process, either as a whole or in its logical stages, will succeed. In terms of the logic of the process, reform is very similar to construction, where the desired outcome in every aspect is achieved by doing all the work throughout the different stages of the project with the final objective in mind.
To be sure, social processes and their drivers are much more complex. Otherwise the preparations for administrative reform, which in Estonia lasted almost a generation, would not have taken so long.

We have a wealth of material at our disposal to answer the above questions. The entire planning and implementation process of the administrative reform is well documented.

In addition to the sources referred to in the other articles in this collection, I will try to highlight the aspects that have received less attention but nevertheless seem important to me. Naturally, I will start with the goals of the administrative reform, as the goals we set for any project determine the outcome that we are going to pursue. Stocktaking also requires a comparison of the goals set and the situation that we have now reached.

**What is local government – what are we reforming?**

According to the European Charter of Local Self-Government, local self-government means the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population.

This right is to be exercised by councils or assemblies composed of members freely elected by secret ballot on the basis of direct, equal, universal suffrage.\(^1\) Additionally, the Explanatory Report to the Charter states that the intention of the Charter is that local authorities should have a broad range of responsibilities that can be carried out at the local level.\(^2\)

Acknowledging the importance of the experiences of older democracies, which served as a basis for the Charter and the agreements concluded in the framework of the activities of the Council of Europe, the Local Government Organisation Act of Estonia (Article 2) also provides

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\(^1\) European Charter of Local Self-Government. RT II 1994, 26, 95.

\(^2\) Explanatory Report to the European Charter of Local Self-Government.
a definition of local government, affirming that it is the right, ability and duty of the democratically formed municipal authorities to independently organise and manage local issues.

The definition goes on to say that local government is to be exercised by democratically formed representative and executive bodies and, with regard to local issues, by means of opinion polls or public initiative. Naturally, the activities of local authorities are to be carried out pursuant to law.\(^3\)

In short, when defining the scope of local government, both the Charter and the Local Government Organisation Act highlight the unity of the three important aspects – the right, ability and duty – to ensure that the democratically formed municipal authorities are able to organise and manage local issues independently.

It is added in the Explanatory Report to the Charter that local democracy and local autonomy have meaning only if local authorities enjoy the actual rights, obligations and financial resources to carry out independent management processes. Conversely, local democracy and local autonomy have no substance if local authorities are deprived of the rights, obligations and financial resources to decide on and manage local issues.

The primary purpose of administrative reform is to add more substance to local democracy and local autonomy. However, a reform that focuses on territorial changes, i.e. municipal borders, and whose primary purpose is to define changes to the territorial scope of the authority of a concrete municipality, should be regarded first and foremost as an administrative-territorial reform.

**The goals of the administrative reform**

It is stated in the concept document of the administrative reform that the central government’s action programme (2015–2019) defines a general objective where the goal of the administrative reform is to ensure local authorities who are able to:

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• provide people with better public services,
• ensure increased regional competitiveness, and
• perform independently the functions prescribed to them by law.4

Consequently, we can conclude that in its action programme, the government defined the goal of the local administration reform primarily as a need to achieve better capacity of local authorities, which is a prerequisite for improving living conditions in various regions in Estonia.

In addition to the above, it is stated in the chapter on the goal of the reform in the concept document of the administrative reform that, according to the administrative reform expert committee, the most important results to be achieved are the following:

1. a larger role of local authorities in the organisation of social life – the capacity, decision-making powers and obligation to organise local issues independently and efficiently; greater financial autonomy and proportion of budget funds; enhanced strategic management and capacity to use the prerequisites for local development and the balancing of regional development in the country; the capacity to participate in globalised competition and processes of cooperation;

2. increased competence and capacity of local authorities to guarantee the residents quality public services, their space-time accessibility and economically efficient organisation;

3. stronger local representative and participatory democracy, better possibilities for participating in the exercise of local government;

4. a municipality is a logical territorial whole that considers regional differences and adheres to the settlement system.5

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Referring directly to the above, important aspects of the organisation of the required resources are highlighted in the context of an increased role, i.e. the area of responsibility, of local authorities – greater financial autonomy and proportion of budget funds.

Apart from the ability to manage the functioning of daily life, the need to have a more strategic view and a stronger role in the balancing of regional development is emphasised.

About the goals, it should be noted that, in addition to the quality of services, their space-time accessibility and the economic efficiency in the organisation of services have also been emphasised. Another important goal is striving for the functioning of stronger representative and participatory democracy.

In the concept document’s chapter on the goals of the reform, it was considered important to state that the administrative reform is aimed at the harmonisation of regional development in Estonia. The intent is to rein in peripheralisation and adjust the provision of public services in order to ensure the sustainability of the provision and organisation of services in the context of ongoing population decline and urbanisation, while recognising the need to cut costs in public administration and increasing the efficiency of local authorities.

Reflections and an external perspective on the need to change the Estonian local government system

The Congress of Local and Regional Authorities of the Council of Europe (CLRAE) is an institution of the Council of Europe that represents local and regional government bodies. The main purpose of CLRAE is to protect and increase the political, administrative and financial autonomy of local and regional government bodies in Europe, by encouraging central governments to develop local democracy and apply the principle of support.

One way to do this is to monitor the application of the European Charter of Local Self-Government and prepare relevant reports on the member states. In these reports, CLRAE provides an assessment on
how the states have fulfilled the principles agreed on in the Charter.\textsuperscript{6} CLRAE has prepared three reports on Estonia – in 2000, 2010 and 2017.\textsuperscript{7}

In the context of the preparations for the administrative reform, it was possible to look at the 2010 report and recommendations of the Congress. As the latest report was prepared by the Congress in March 2017, when decisions regarding the approaches to the process of the administrative reform had been adopted and were being implemented, the recommendations of that report can also be seen in the context of the ongoing reform or as possible input in planning the next stages of the reform.

In the 2010 report, the Congress suggested that the Committee of Ministers make to the Estonian authorities a recommendation consisting of eight points:

- to grant the city of Tallinn special status, on the basis of Congress Recommendation 219 (2007), to take account of the particular situation of the capital compared with other municipalities;
- to clarify the legislation concerning the mandatory tasks and functions of local government;
- to change the domestic legislation urgently to allocate a greater share of financial resources for local authorities in order to make them commensurate with the responsibilities provided for by the Estonian constitution and national law, and allow local authorities to raise revenues from local taxes. This change in the legislation was already urged in Recommendation 81 (2000);
- to take measures to ensure that local authorities receive adequate revenues from shared state taxes, and that these are allocated in a transparent way;

\textsuperscript{6} The Congress of Local and Regional Authorities of the Council of Europe (CLRAE); http://portaal.ell.ee/1173

\textsuperscript{7} CLRAE reports on local democracy in Estonia; http://portaal.ell.ee/1579
• to set up a support fund for local authorities particularly affected by the economic crisis so that they are able to continue delivering certain social services;
• to start wide-ranging consultations with local authorities on the planned financial reform;
• to clarify the procedure of consultation with local authorities and national associations of local authorities in order to make discussion possible prior to the final decision, particularly when a planned reform concerns local authorities or implies financial consequences for them;
• to encourage the Estonian authorities to ratify the Additional Protocol of the European Charter on Local Self-Government on the right to participate in the affairs of a local authority (CETS No 2017) as soon as possible.8

Time has passed since the preparation of the 2010 report, and when we look at the issues raised, we can see that several points in it refer to the need to solve the same issues that were also relevant, indeed of the utmost urgency, at the time of the actual launch of the administrative reform. A subject of intense debate was the question of distinguishing between the functions of the state and local government, and the sources of the funds required for the local authorities to perform their obligations.

It is important to note that the situation when the report was prepared was all the more stressful due to a large decline in budgetary revenue, which resulted from the economic recession and was further exacerbated by a cut in the local authorities’ revenue base during the 2009 economic crisis.

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At the same time, the economic crisis and the cut in the revenue base not only aggravated the local authorities’ budgetary tensions and forced them to narrow the range of services and compromise on their quality; they also made them acknowledge the need to seek out and find solutions.

The problems related to the topics referred to in the report of the Congress were particularly evident in the activities of the smaller municipalities, but not only there. There were issues in the whole system that urgently needed solutions, and when planning the administrative reform, the need to ensure the development capacity of the whole system had to be kept in mind.

In January 2012, Estonia responded to the report by submitting to the Congress the required overview. It stated that there was only one recommendation with regard to which the government had planned no action, and that was the recommendation concerning a special status of the capital city. According to the response, the recommendations relating to the local authorities’ revenue base were being acted upon and had been agreed in the action programme of the government. As regards the rest of the recommendations, the government considered these as having been fulfilled.\(^9\) In fact, however, it has taken years to unfreeze the revenue base.

In the report adopted in March 2017, the Congress suggested that the Committee of Ministers make the Estonian authorities a recommendation consisting of six points:

- clarify the legislation concerning the distribution of mandatory tasks and functions between local government and the state and transfer a maximum of competences together with concomitant finances to the local level. Such measures could complete the government’s approach to strengthening local democracy through merged greater territorial units;

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• combine as far as possible the state functions with the financial means for their implementation and refrain from using the state reform on an agency level as a hidden transfer of responsibilities to local authorities;
• change the domestic legislation in line with the accomplishment of the territorial reform in order to give local authorities more financial autonomy and diversify the financial system of sources of their revenue by improving the local tax system and increasing the local share in state taxes;
• ensure in practice reasonable deadlines and regular consultations with local authorities on matters directly concerning them in the sense of Article 4.6 of the Charter. The practice of consultation should be adapted to the need of local authorities to closely follow deliberations, especially in the field of reform process and local finance matters;
• increase the size of the equalisation fund, review the criteria of its distribution and develop new vertical and horizontal instruments to improve the Estonian fiscal equalisation system and strengthen local fiscal autonomy.
• The Congress invites the Committee of Ministers of the Council of Europe to take into consideration the present recommendation on local democracy in Estonia, as well as the explanatory memorandum, in its activities related to this member state.\textsuperscript{10}

A comparison of the CLRAE 2017 report and 2010 report reveals that the recommendations made in the 2010 report were more directed at alleviating and solving the crisis. The 2017 report refers to municipalities as greater territorial units, but also more to the need to increase the share of local authorities, i.e. the substance of local government, which would support the strengthening of local democracy. In

addition, the recommendations emphasise the need for local authorities’ financial autonomy, i.e. greater budgetary independence, and highlight the topics of the diversification and strengthening of their sources of revenue.

We can see that the goals set out in the concept document of the 2017 administrative reform and the process of the development of the corresponding legal framework are significantly more aligned with the recommendations of the report than earlier reform programmes.

**Recommendations of the Council of the European Union 2012–2017**

In this section, I will look at the materials of the recommendations of the Council of the European Union that were given to Estonia over the years 2012–2017, i.e. in the period when the need for administrative reform became more and more clear.

In my view, the annual materials of the Council undoubtedly reflect, in addition to the observations that had been made by the departments of the European Commission, our own attitude to the need for solving issues related to the administrative organisation. This means that the input for the feedback on the problems and issues that need solutions came from Estonia itself.

It is certainly important to note that the preparation and finalisation of the OECD governance review\(^{11}\) and its discussion in society also took place at the beginning of the period under review. Likewise, the same period is marked by the general assembly of local authorities that took place on 31 March 2012 and the proposals adopted there\(^{12}\) with regard to both the administrative reform as well as the budgeting of the structural


funds of the European Union for the period 2014–2020. In conclusion, both of these materials certainly served as a basis for the development of the concept of the administrative reform and the political decisions for the preparation and launch of the reform.

In all these materials there are questions whose resolution was considered important. After some time has passed, we can ask ourselves what is still ongoing, what has been partially solved and what will have to be done in the next stages.

**Recommendation 2012.** The explanatory memorandum to the European Commission’s country-specific recommendations for Estonia in 2012 (Commission staff working document) states, among other things, that ‘[l]ocal governments appear to be too small to meet the obligations placed on them by law. However, there is no political support in Estonia for an overall reform that would reduce the number of local governments, but which could allow more efficient provision of services.’

The same document emphasises that ‘there is also a longer-term need to pursue the reform of local government to ensure better provision of public services and make optimum use of the relatively fragmented resources’. It adds that ‘assessments conclude that most of the local governments are finding it difficult to deliver to everyone the social, health and education services they need.’

The Council of the European Union did not take the opportunity not to make a direct reference to the lack of political support, which should be an important prerequisite for implementing meaningful changes, including local government reform.

The Council made five recommendations to Estonia in 2012, one of which addressed the issues related to local government as follows: ‘Enhance fiscal sustainability of municipalities while improving efficiency

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of local governments and ensure effective service provision, notably through stronger incentives for merger or increased cooperation of municipalities. Relevant reform proposals should be put in place within a reasonable timeframe.’

**Recommendation 2013.** It is stated in the factual part of the recommendations prepared by the European Commission for Estonia in 2013 that ‘at local level, the mismatch between fiscal capacity and devolved responsibilities places great pressure on public service provision by local governments.’ It is stated further that ‘provision of the services that local government is legally obliged to furnish is in most sectors ineffective, notably in long-term care, family-support services, health care, education and transport.’ It is added that ‘this is due to the low administrative capacity of local governments and the mismatch between local government revenue and devolved responsibilities. No viable plan for improving the local administration has yet been established.’

The Council of the European Union also gave Estonia five recommendations in 2013, one of which dealt with local government issues. This time it was recommended to better balance local government revenue against devolved responsibilities; improve the efficiency of local governments and ensure quality provision of local public services.

We can see that in the 2013 recommendations, the range of problematic public services has been expanded in addition to the quality problems of the previously mentioned social, health care and education services. The mismatch between the revenue and devolved

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responsibilities of local authorities is highlighted once again. Reference is made to the lack of a viable reform plan.

**Recommendation 2014.** It is stated in the recitals of the 2014 recommendations of the European Commission that ‘widening regional differences combined with negative demographic trends, inefficiencies and lack of cooperation among local governments hamper Estonia’s development potential. This partly reflects the persistent mismatch between fiscal capacity and devolved responsibilities in small municipalities ...’ It is mentioned that ‘a more efficient and accessible delivery of quality public services at local level, based on service areas and minimum service standards, especially in transport, long-term care, early childhood education and social services, is a prerequisite for activation and labour market measures to be effective.’

As in previous years, the Council made five recommendations to Estonia in 2014. Traditionally, one of them addressed local government: ‘Better balance local government revenue against devolved responsibilities. Improve the efficiency of local governments and ensure the provision of quality public services at local level, especially social services complementing activation measures.’

**Recommendation 2015.** The text of the recommendation is in large part similar to the text of the 2014 recommendation, but it emphasises that there is a significant correlation between the level of the provision of additional social services and activation policies of local authorities.

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The recitals of the recommendation emphasise once again that widening regional differences, demographic trends and inefficiencies are decreasing Estonia’s overall development potential.\textsuperscript{19}

**Recommendation 2016.** It is emphasised repeatedly in the recitals of the country-specific recommendations for Estonia in 2016 that ‘in Estonia, access to public services is not guaranteed in all municipalities, and the local provision of quality services in areas such as transport, education, long-term care for the elderly and other social services at local level remains a challenge.’

It is also stated that Estonia is preparing administrative reform, the purpose of which is briefly said to be ‘to offer accessible and quality services and to ensure more efficient and competent governance.’\textsuperscript{20}

The fact that the country-specific recommendations of the Council of the European Union contain only two points, one of which addresses local government issues and the other research and development, is unique. Therefore, I cite both of them, assuming that the two issues that Estonia is faced with are indeed the most important ones from the EU perspective and that solving them would contribute significantly to the country’s increased development capacity:

1. Ensure the provision and accessibility of high-quality public services, especially social services, at local level, inter alia by adopting and implementing the proposed local government reform. Adopt and implement measures to narrow the gender pay gap, including those foreseen in the Welfare Plan.


2. Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.

**Recommendation 2017.** It is stated in the recitals that Estonia has adopted the Administrative Reform Act with a view to creating viable local municipalities that can finance their own activities, plan development and growth, and offer quality services.

At the same time, it is also said that ‘some key steps to complete the local government reform have not yet been taken’ and that ‘the revision of the financing scheme for municipalities is still pending.’ The recommendation then goes on to state that ‘further legislative acts on the responsibilities and division of tasks between municipalities and central government are still in preparation.’ Finally, it is added that ‘adopting these proposals is critical to ensuring the provision of quality public services in areas such as education, youth work, health promotion and transport.’

Based on the materials related to the country-specific recommendations of the Council of the European Union for 2012–2017 as an external perspective on the one hand and an internal perspective that reflects the central-local relations in Estonian and the need for reorganisations on the other hand, the following conclusions can be made.

Apart from other important issues in the economic, fiscal and social area, problems related to the local level of governance continue to be in focus. The capacity of local authorities and the capability, level, effectiveness, efficiency and quality of the organisation of areas of life and of the provision of public services at the local level are of great importance for the development capacity of Estonia as a whole.

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In the country-specific recommendations, consistent references are made to the insufficient size of municipalities, as well as to the need to create a better balance between local-level responsibilities and the resources required for their fulfilment.

Slow progress in finding solutions means that the problems widen and are exacerbated. The maturing of solutions, preparations for and implementation of the reform have required achieving broad political support, and the absence of this has meant that solutions have been delayed. Carrying out all steps of the reform, both the current and the next ones, requires the existence and continuation of political will. Adopting the necessary legislation to solve the substantive issues of the reform is of critical importance.

**Next steps: remaining issues**

When trying to answer the question of what remained unsolved in the course of the administrative reform and what important issues still need to be addressed, we could certainly draw up a fairly detailed list of the items on the waiting list for solutions.

However, let us first conclude that one stage of the administrative reform process is over and possibilities for the next steps are still open. The newly elected municipal councils and governments of new larger municipalities are discussing the organisation of local life and prospects for strategic development in new municipalities that are considerably larger than the previous ones. Among other things, this means increased responsibility, and it is likely that local authorities can perceive this clearly.

The amendments to the Income Tax Act, the 2018–2021 state budget strategy and the 2018 state budget reflect important and long-awaited political decisions on the restoration of the revenue base of local authorities and some newly devolved responsibilities.

Some new tasks were also added to local authorities’ set of obligations due to the termination of the operation of county governments.
Among these, the most important qualitatively are the issues where finding a workable solution requires cooperation: regional public transport, planning the development of a county, and tasks related to public health and culture.

Despite what has been said above, finding solutions for the issues related to the substance of the administrative reform, the responsibilities, revenue base and financial autonomy of local authorities, i.e. actualising the overall objective of the reform to increase the share of local authorities, is still in its early stages.

In order to increase local authorities’ financial autonomy, it is being discussed, among other things, that the targeted subsidies allocated from the support fund for local tasks could be changed into general subsidies, which could be allocated, for example, to equalise the share of income tax and revenues, as in the Nordic countries. The volume of these funds in the 2017 state budget was approximately 380 million euros.

Increasing the share of local authorities in the public sector is also the subject of discussions and analyses in connection with the possible assignment to local authorities of certain tasks currently performed by the state in the social and educational area.

It is a well-known fact that it is practically impossible for local authorities to establish meaningful local taxes (1.5 per cent of their revenue base). Therefore, it is understandable that local authorities are interested in expanding the list of local taxes, including changing the land tax into a local tax and carrying out a periodic valuation of lands for the purposes of taxation (the last periodic valuation was carried out in 2001).

The share of municipalities in the Estonian government sector is 24.2 per cent, while in Finland it is 40 per cent and in Sweden 48 per cent. Although these levels cannot be compared directly, the divergence reflects a fundamental difference in the approach.

The share of local authorities is a fundamental question of social organisation, i.e. how strong civil society is. It is a question of whether
we prefer social life to be decided and organised centrally by offices of the central government of our country, or instead by local communities in localities. This is a practical question of the application of the principle of subsidiarity, whose interpretation in the Estonian context is worth in-depth analysis.

To sum up, I will once again touch on the goals of the administrative reform and their meaning. When setting the goals of a reform, we consider the principles that will guide our actions, define the object to be reformed more clearly than in everyday discussions, and weigh the choice of the fundamental approach to be taken in the process. Therefore, when planning follow-up actions to the reform, the general principles based on the European Charter of Local Self-Government that are included, among other things, in the action plan of associations of local authorities are still relevant:

- strengthening civil society, increasing the share, decision-making powers and responsibilities of local authorities in the management and organisation of social life as opposed to the centralisation of resources and decision-making powers;
- improving the accessibility and quality of public services provided by local authorities. The financial resources of local authorities must match the tasks performed by them;
- increasing local authorities’ financial autonomy, including the extension of the right to establish local taxes, allocating part of state business taxes to local budgets, and changing the personal income tax and land tax into real local taxes as an alternative to the lack of rights and responsibilities of local communities in the development of budgetary revenues.\textsuperscript{22}