

Administrative Reform as Part of State Reform

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Introduction

Administrative reform and state reform in government action plans

Following the restoration of the independence of the Republic of Estonia, governance reform was an everyday occurrence. Plans for the development of public administration and improvements in efficiency, including local administration reform, were drawn up as recently as the early 2000s. Following that, public attention turned mainly to the administrative reform, which also ended up in the policy papers of several governments.

State reform (which has also been referred to as governance reform, governing reform etc.) returned more seriously to the agenda again prior to the 2015 parliamentary elections. The main driving force behind this was pressure from civil society. The need to review governance and to make updates to meet modern requirements was a constant talking point, but in 2015, it became a separate chapter in the coalition agreement.

A falling, ageing population, a smaller labour force and reduced sources of income, coupled with increased expectations regarding efficiency in public sector activities and better public services highlighted the critical need to review how the state works. There was talk regarding the objectives about making governance more efficient, to reduce or at least not increase expenditure. At the same time, the goal was to improve the quality of public service providers and the competitiveness of rural areas. In the context of state reform, there was also great emphasis on the importance of strengthening democracy and further developing inclusive politics.

The debate that took place in Estonia was not unusual. Other developed countries with declining and ageing populations deal with the same problems. Keeping the number of public sector employees and public expenditure in check is inescapable there as well.

Additionally, rapid changes in the environment mean that governments need to react quickly. More and more innovative governance models are sought for this purpose. The manner in which states create value for society by their actions and services is redefined.¹

Countries all over the world compete to create an affordable, convenient and trustworthy environment for business and living. The smooth operation of the state and local government becomes increasingly more important in that competition. Both the internal needs of development

¹ See e.g. *Government at a Glance*. OECD, 2017, 2015, 2013.

and the challenges arising from external trend, require Estonia as a whole to act in a more impactful and efficient manner.²

This article analyses the concordance between the objectives of the administrative and state reforms: how the state reform served as the impetus behind the administrative reform and vice versa, i.e. how the local government reform helped with the implementation of the state reform. As it is still too early to evaluate whether the objectives of the administrative reform have been met, we can only assume whether, according to current information, it is even potentially possible to meet these goals. It is possible to assess how the administrative reform has been implemented thus far.

The analysis includes reform plans dating back to the 2015 parliamentary elections, when the current concept of state reform appeared in government policy papers. The sources include official documents, speeches and newspaper articles, academic literature and other studies, correspondence with merger consultants and heads of local authorities, and the government's financial reports.

State and administrative reform goals

The state and administrative reform goals were formulated in the government action plans for 2015–2019 and 2016–2019. Prime Minister Taavi Rõivas also set out his government's (2015–2016) objectives in his speech on governance reform delivered on 14 April 2016 to the *Riigikogu* (Estonian Parliament). At a cabinet meeting on 11 May 2017, Jüri Ratas' government (in office since late 2016) approved the state reform plan in a separate document ('Government of the Republic state reform plan for the period from January 2017 to March 2019').

The legislature approved the administrative reform objectives with the Administrative Reform Act, which was passed in June 2016. In

² Estonian Development Fund, 'Väliskeskkond 2020: olulised trendid ja nende tähendus Ees- tile.' – *Eesti fookuses* 10/2012.

addition, on 14 February 2017, the *Riigikogu* Study Committee to Draw Up the Development Objectives for the State Reform was established. At the time of writing this article, this committee had not concluded its work or provided its own definition of the reforms.

The above sources justify administrative reform and state reform, and allocate functions in essentially the same way. At times, different wording and emphasis is used to convey a similar message. The objectives and actions are sometimes placed in slightly different contexts; the differences are in small details.

For example, some documents refer to a reduction in the number of positions in the public sector in accordance with the decline in the working-age population. In others, it is stated that the proportion of public-sector employees must not increase. In essence, these goals are the same.

The action plan for the government formed after the 2015 *Riigikogu* elections included local government reform as part of the state reform. That was the case both on paper and in political communication. In addition, objectives for slowing down peripheralisation were set for both reforms. Initiatives put forth by Taavi Rõivas' government placed great emphasis on improving the efficiency of the public sector, reducing the state sector and reining in the administrative load.

After the government coalition changed in 2016, the Ratas government's action plan dedicated a separate chapter to local authorities and regional policy distinct from state reform activities. Governance was included in topics related to democracy and civil society. In 2015, there was talk about administrative reform more within the wider context of the state reform.

From the end of 2016, the focus shifted more to regional policy and local administration topics, while improving the efficacy of governance was no longer prioritised as much. Indeed, a considerable part of the state reform action plan passed in 2017 is dedicated to administrative reform.

All of the above does not mean that one or the other government coalition somehow attributed more or less importance to the administrative

reform, but it does reflect the context in which local government reform was seen. Generally speaking, Jüri Ratas' government, which assumed office at the end of 2016, largely continued the work of its predecessor, Taavi Rõivas' government. However, the main focus shifted from the efficiency of public administration to regional policy goals.

Governmental action plans and other documents or official statements are good sources for analysing the objectives of the reforms, but their structure and exact wording should nevertheless not be overemphasised. It is not impossible that the exact wording and structure are accidental. The interpretation of the writings must take into consideration the actual activities and wider political communication that followed.

Table 1 provides an overview of the objectives of the administrative and state reform, with references to specific source documents. The focus is on the reorganisations in public and local administration. Adjacent activities related to e-government, competitiveness, regional policy, democracy or improving involvement have been excluded.

There have been attempts to separate the objectives from the activities, although all source documents have described these in an intermingled manner. As is appropriate for political strategies, the goals have occasionally been phrased in a rather slogan-like manner, that is, in such broad terms that it is difficult to understand their precise meaning. Ideas with similar content have been grouped together, so that it is possible to get a more comprehensive overview. However, the various goals are closely interconnected. For example, reducing bureaucracy and the administrative load should lead to reductions in expenditure, but should also help to create public services that are more convenient to use.

Both the administrative and state reforms have two large common goals: better public services and increased competitiveness in the different regions. The main content of the administrative reform has been the voluntary or government-initiated merging of local authorities into larger municipalities in order to create local authorities everywhere with sufficient capacity to fulfil their statutory functions.

Comparison of the objectives of the administrative and state reform

ADMINISTRATIVE REFORM	STATE REFORM
<ul style="list-style-type: none"> • better / higher-quality / more available public services^{1,2,5} • local authorities can independently fulfil statutory functions^{1,5} 	<ul style="list-style-type: none"> • higher-quality / more available / user-friendlier public services^{1,2,3,4}
<ul style="list-style-type: none"> • increased competitiveness of different regions, a more even regional development^{1,5} 	<ul style="list-style-type: none"> • increased competitiveness of rural areas^{1,2,4} removing (autonomously operating) state authorities from the capital city^{1,2,3} • public offices available outside of the capital⁴
<ul style="list-style-type: none"> • cost savings⁵ 	<ul style="list-style-type: none"> • improved efficiency and flexibility in the public sector^{2,4} • reducing governance costs (not increasing the proportion of government-sector expenditure in GDP), sustainability^{1,2,3,4,5} • reducing the volume of governance in the public sector^{1,2} • no increase in the proportion of government-sector employees within the working-age population^{1,2,3,4} • decreasing bureaucracy / administrative load^{2,3,4} • reducing duplicating activities^{1,2,3,4} • avoiding overregulation and excess legislation;^{1,2} reducing the volume of legislative drafting^{3,4} • consolidating support services, as well as public services where possible^{1,4} • increased cooperation between constitutional institutions and government authorities^{1,2} • improving strategic planning, management and monitoring of public sector activities^{1,2,4}
<ul style="list-style-type: none"> • increased decision-making power and responsibility for local authorities regarding management and organisation of community life / local life^{3,4,5} • greater financial autonomy for local authorities and more functions^{3,4} 	<ul style="list-style-type: none"> • transparency^{3,4} • increasing the transparency of the state budget^{1,2,4}

Sources: author's classification

¹ Government action plan for 2015–2019 (approved by Government of the Republic Order No 231 of 29 May 2015).

² The prime minister's speech to the Riigikogu on governance reform, held on 14 April 2016.

³ Government action plan for 2016–2019 (approved by Government of the Republic Order No 439 of 28 December 2016).

⁴ Government of the Republic' state reform plan for the period from January 2017 to March 2019' (approved at a cabinet meeting on 11 May 2017).

⁵ Administrative Reform Act (passed on 7 June 2016, in force from 1 January 2017).

Table 1.

Both the administrative and state reforms seek more even development and at least the availability of public sector services all around Estonia. Every reform plan also emphasises the need to improve the use of local prerequisites for development, in order to ensure more even development throughout Estonia. These objectives have been worded similarly in government action plans compiled in 2015 and 2016.

The initiative for taking public offices out of the capital is also related to increased regional competitiveness as a wider objective in regional politics. There has been more talk about the availability of public offices outside Tallinn during the term of Jüri Ratas' government, but taking autonomously operating state authorities outside of the capital city was also planned in the previous government's action plan.

The main objective for initiating a state reform was to increase the efficiency and flexibility of the public sector. There are direct mentions of reductions in governance costs as well as decreases in governance volumes, bureaucracy, duplicated activities and regulation. Several objectives have been worded as maintaining the current situation: not to increase the proportion of public-sector expenditure compared to GDP or the number of public sector employees within the working-age population. To a greater extent, the entire state sector should be reined in and managed better, and the administrative load should be reduced within the state system as well as for residents and entrepreneurs.

No cost savings have been directly pursued by the administrative reform. The majority of documents make no mention of the need to reduce expenses. Only in Article 1(2) of the Administrative Reform Act is it stated that the '[a]dministrative reform shall also be implemented according to the purposes of state governance reform for the organisation of public administration, which includes ensuring the quality and availability of public services and cost savings.'

Although the merging of municipalities in Estonia and elsewhere has been motivated by the hope that resources can be used more

efficiently through economies of scale,³ more specific reform plans no longer emphasise that particular aspect. However, the prevalent idea in the public discourse is that the objective of the administrative reform is economic savings, and that larger municipalities can use funds more efficiently while maintaining at least the same level of services.⁴

Strengthening the role of local authorities and increasing the decision-making power and responsibility for management of local matters was one of the other key slogans used to justify the importance of an administrative reform. What this actually means is not entirely clear. Meanwhile, the main emphasis regarding this aspect has been on the reviewing of local authorities' functions and funding.

However, the political rhetoric has not always been consistent in explaining whether this means additional functions for the local authorities, and if so, then which functions. In the government action plan approved in 2015, it was carefully worded as follows: local authorities that meet the criteria would be allowed to provide government-funded state functions in addition to municipal functions.

At the time of Taavi Rõivas' government, statements were still written in a rather general manner – those functions of county governments that are essentially municipal would be handed over to the corresponding local authorities if possible. The initial action plan devised by Jüri Ratas' government was more specific. There was no longer talk about just enabling the transfer of state functions, but actual statements that some state functions with their designated funding would be handed over to local authorities.

³ W. F. Fox, T. Gurley, 'Will Consolidation Improve Sub-National Governments?', World Bank Working Paper 3913, 2006.

Y. Reingewertz, 'Do municipal amalgamations work? Evidence from municipalities in Israel' – *Journal of Urban Economics* 72 (2-3), 2012, pp. 240–251.

⁴ See e.g. T. Rõhu, 'Haldusreform ja Tõstamaa – võrrand tundmatutega' – *Tõstamaa Tuuled*, 1.6.2016.

R. Uukkivi, 'Haldusreform, kas poliitiline t****pikendus?' – *Sõnumitooja*, 24.8.2016.

However, a close reading shows that the state reform plan approved in 2017 is somewhat more modest. It promises to hand over functions related to local government and functions enabling local decision-making, together with the necessary and sufficient resources. It remains unclear as to whether this definitely means more functions allocated to local authorities, because it is also possible to reach the conclusion that the current situation already largely corresponds to the set goal.

One of the goals of the state reform is increased transparency. More specifically, there is talk about the transparency of the state budget. Transparency is not addressed in the fundamental principles of the administrative reform.

Although the administrative and state reforms are closely interconnected, and their objectives largely coincide, they are nevertheless different types of reform. The administrative reform is intended to be more of a one-off, large-scale reform. Municipalities merge and there are changes to the functions and the funding system. Positive changes should result from these significant, one-off (at least for the time being) decisions.

The state reform also includes one-time activities, but the main advantage should result from changing the way work is done in the public sector. With regard to the state reform, it is more difficult to say when it will be ready, as it requires constant monitoring of the activity and its adaptation to the goal.

The estimated achievement of objectives

This article looks at the 2017 administrative reform as involving two components. First, an administrative-territorial reform, which consisted in the voluntary and government-initiated mergers of local government entities into larger municipalities. This was based on the Administrative Reform Act. Second, two pieces of legislation were passed on 14 June 2017 as part of the reform, regulating the functions and organisation of local authorities: the Act Amending the Local Government Organisation

Act and Other Acts Related to the Implementation of the Administrative Reform, and the Act Amending the Government of the Republic Act and Other Acts Relating to the Abolishment of County Governments. Both of these entered into force on 1 January 2018.

One of the most fundamental changes in the Acts passed in summer 2017 was the creation of a legal basis for establishing joint authorities and agencies for municipalities and the transfer of functions to them. These changes may turn out to be significant and result in fundamental updates in the work of Estonian municipalities, if this opportunity is used in practice. The Government of the Republic has promised to implement supporting measures (counselling, guidance material etc.).⁵ Establishing joint authorities and agencies is a tool that could help to achieve the key objectives of the administrative and state reforms alike: collaboration, improved services and at the same time cost savings.

It is also significant that many functions that had previously been the responsibility of county governments have been jointly given to local authorities.

It is likely that the biggest changes will occur in the organisation of public transport. Municipalities will also join forces for culture, health promotion and safety. Transferring the planning of a county's development activities to local authorities (including the drafting of the county's development strategy) carries important symbolic significance. However, the actual content as well as the effect of this step will only become evident in practice at a later time.

For example, county governments also transferred the following to local authorities: functions related to underage offenders, holding elections, and arranging foster care. The local authorities in county centres will also be involved with population registry functions.

⁵ Explanatory memorandum to the 2018 draft state budget.

These steps have at least created a better foundation for local authorities to manage the fulfilment of the functions stipulated by law. Larger municipalities and cooperation models could provide an opportunity to use resources more efficiently and to provide a better service for local residents. However, as the increase in the functions of local authorities was minimal compared to the situation before the reform, there were no considerable legal changes in the local decision-making rights with regard to the management of community life starting with the amendments that entered into force in 2018.

Some changes were made to the 2018 state budget regarding the funding of local authorities. These changes are aligned with the objectives of the administrative reform. The aim is to create opportunities for providing better and more accessible services and to increase the local authorities' financial autonomy. An agreement was made regarding the incremental growth in the share of income tax paid to local authorities, and the restoration of the revenue base with regard to the equalisation fund. Although a large part of the funds allocated to local authorities from the state budget are still earmarked and tied to specific conditions, the goal is to integrate the funds with the local authorities' revenue base, which is not distributed for specific purposes but instead through tax revenue and the equalisation fund. This increases the flexibility and responsibility of local authorities for the provision of public services. Lifting specific conditions from allocated funds is also indirectly connected to the state reform's objective of avoiding over-regulation.⁶

A hinterland coefficient was added to the equalisation fund that takes into consideration the impact of the location of school-age residents on expenditure requirements. The hinterland coefficient could help reach the objective of increased regional competitiveness. The functions and funding of local authorities will also be reviewed between 2018 and

⁶ The 2018 draft state budget and explanatory memorandum.

2020. Alongside changes to the funding principles, local authorities will receive an estimated total of 65 million euros between 2017 and 2019 as one-off merger grants.⁷

The extent of local decision-making rights is also reflected in the investment capacity of local authorities. Previous mergers of Estonian municipalities have, in general, increased their investment capacity.⁸ However, in an analysis of mergers that occurred in the 1990s, it was discovered that the volume of investments made by rural municipalities decreased considerably. Income per capita also decreased, as the proportion of government support decreased and the state did not fulfil its promises regarding the compensation of merger costs.⁹ In other words, the future progress and outcome of the administrative reform will greatly depend on decisions related to the state budget.

The state budget is approved for a year at a time. Any agreements extending to the future are not definitively binding. Based on legitimate expectations, local authorities can ultimately only rely on the payment of merger grants in the long-term.

Changing the accounting principles of the equalisation fund is related to the objectives of the administrative and state reforms: to enable a more even regional development. Regional competitiveness is addressed also in the plan to take state authorities out of the capital city, approved as a part of the state reform. Improving the availability of public offices outside of Tallinn has been a key state reform topic of the Ratas government; it has also been discussed the most and is somewhat distinguishable from the previous government's focal point.

⁷ Ibid.

Official record of the 2018 state budget negotiations between the government committee and a delegation of the cooperation assembly of the associations of local authorities.

⁸ Raideberg OÜ, 'Põlva linna ja valla ühinemise teostatavus- ja tasuvusanalüüs', 2012.

G. Sootla, K. Kattai and A. Viks, 'Kohalike omavalitsuste 2005. a ühinemiste ja selle tagajärgede analüüs'. School of Governance, Law and Society, Tallinn University, 2008.

⁹ Geomedia OÜ, 'Omavalitsuste ühinemise mõju valla haldussuutlikkusele [kuue aastatel 1996–1999 ühinenud omavalitsuse näitel]', 2001.

Taking state authorities out of Tallinn is a measure clearly rooted in regional politics, which at the same time counteracts the idea of the state reform making the public sector function more efficiently and to reducing the volume of governance. If organisational decisions are made by the government rather than by the heads of state authorities, the latter will no longer have access to important decision-making tools. Furthermore, heads of state authorities can no longer be held responsible for the organisation's expenses and operations, because all decisions would be made elsewhere, without their input. It will also become more difficult to reduce the number of state-employed workers, as the regional location of the employee or job must be taken into account, instead of considering what would be an efficient decision from the organisation's perspective and for the state as a whole. One-time removal costs must also be added. Due to the reorganisation of work, the quality and accessibility of a public service could be subject to temporary interruptions.

However, it is expected that the administrative-territorial reform as well as the reorganisation of county governments' activities should meet the central objective of the state reform – to improve the efficiency of the public sector. The impact of the merger of municipalities on their efficiency has been extensively researched in the literature of the field, focusing on the practical experiences in other countries. In most cases, the idea behind local government reforms globally is an attempt to take advantage of economies of scale in order to obtain better public services without increasing expenditure.¹⁰ It is estimated that the cost of providing a service per resident is reduced, but the income per resident might not decrease¹¹. Of course, the latter depends on the funding system.

¹⁰ W. F. Fox, T. Gurley, 'Will Consolidation Improve Sub-National Governments?', World Bank Working Paper 3913, 2006.

¹¹ Y. Reingewertz, 'Do municipal amalgamations work? Evidence from municipalities in Israel' – *Journal of Urban Economics* 72 (2–3), 2012, pp. 240–251.

When analysing foreign experiences, researchers have generally reached the conclusion that the scale effect is applicable when municipalities merge.¹² However, many authors think that the impact is related to the size of the merged municipalities. Up to a certain size, there is a scale effect, but the new municipality needs to be sufficiently large. If a municipality becomes too large, a negative effect appears.¹³ There are also studies that have not shown any link between the comparative expenditure and size of municipalities.¹⁴ The scale effect seems to work well particularly in densely populated larger municipalities, and less so in scarcely populated peripheries.¹⁵

The results of studies comparing voluntary and government-initiated mergers are also debatable. Some draw the conclusion that mergers by the government reduce administrative costs, while voluntary mergers have no effect on expenditure.¹⁶ Others think that voluntary mergers specifically have been more successful.¹⁷

In addition to possible reductions in expenditure, the following are highlighted as the positive impact of mergers: increased strategic, administrative and technical capacity, as well as smaller regulation

¹² Ibid.

¹³ See e.g. N. Hanes, 'Amalgamation Impacts on Local Public Expenditures in Sweden' – *Local Government Studies* 41(1), 2015, pp. 63-77.

A. Sole-Olle, N. Bosch, 'On the Relationship between Authority Size and the Costs of Providing Local Services: Lessons for the Design of Intergovernmental Transfers in Spain' – *Public Finance Review* 33 (3), 2005, pp. 343-384.

¹⁴ W. Derksen, 'Municipal amalgamation and the doubtful relation between size and performance' – *Local Government Studies* 14, 1988, pp. 31-47.

¹⁵ C. Aulich, M. Gibbs, A. Gooding, P. McKinlay, S. Pillora, G. Sansom, *Consolidation in Local Government: A Fresh Look. Volume 1: Report*. Australian Centre of Excellence for Local Government, 2011.

¹⁶ S. Blesse, T. Baskaran, 'Do municipal mergers reduce costs? Evidence from a German federal state' – *Regional Science and Urban Economics* 59, 2016, pp. 54-74.

¹⁷ N. Hanes, M. Wikström, 'Amalgamation Impacts on Local Growth: Are Voluntary Municipal Amalgamations More Efficient than Compulsory Amalgamations?' – *Canadian Journal of Regional Science* 33 (1), 2010, pp. 57-70.

expenses of the central government.¹⁸ In summary, experiences with administrative-territorial reforms abroad have varied in different countries and at different times. The success of the merger depends on the timing of the economic cycle, the political situation and the administrative implementation of the reform.

However, almost every study emphasises that mergers do not guarantee automatic cost efficiency. Any positive impact could be ruined by inadequate implementation.¹⁹ Therefore, based on the academic literature, it can be concluded that the administrative-territorial reform has created the prerequisites in Estonia for more efficient governance, but the actual result will depend on the actual implementation.

Estonia's own previous experience also shows that it is possible for the proportion of administrative costs in the budgets of merged municipalities to decrease compared to before. In the analyses done so far, increased cost efficiency has been highlighted as the most apparent positive post-merger tendency. It has also been found that as a long-term result of earlier mergers, the number of local government jobs decreased (mainly the number of part-time positions), employees became more specialised and the work quality of the administrative apparatus improved.

¹⁸ B. Dollery, J. Byrnes and L. Crase, 'Is Bigger Better? Local Government Amalgamation and the South Australian Rising to the Challenge Inquiry' – *Economic Analysis & Policy* 37 (1), 2007, pp. 1–14.

W. F. Fox, T. Gurley, 'Will Consolidation Improve Sub-National Governments?', World Bank Working Paper 3913, 2006.

¹⁹ C. Aulich, M. Gibbs, A. Gooding, P. McKinlay, S. Pillora, G. Sansom, *Consolidation in Local Government: A Fresh Look. Volume 1: Report*. Australian Centre of Excellence for Local Government, 2011.

The quality of the services provided by municipalities became harmonised. With regard to well-standardised services and particularly due to larger service providers (e.g. education and libraries), the scale effect worked, helping to keep unit costs down.²⁰

Merger contracts do not provide much hope for cost cutting; instead, many of them focus more on maintaining the status quo. But previous experience has also shown that if the initial plan is simply to enmesh structures and maintain subdivisions, later practice nevertheless seeks to achieve efficiency.²¹

It seems that the administrative-territorial changes made in Estonia so far did not help reduce bureaucracy or increase flexibility regarding the fulfilment of objectives. Popular opinion is that the merger of municipalities reduced the connection between municipal officials and target groups, officials became distanced from local problems, there was less time for interaction with people and there was increased bureaucracy.²²

The municipal mergers that have occurred so far have also been a salient warning of increased peripheralisation and have not helped in achieving a more even development of regions. In larger municipalities, the problems and needs of the periphery remain relatively overshadowed by the centre. The issues in the centre are amplified, as it is important for the majority of the residents. Increased peripheralisation has been noted mainly in areas where the local community has not been organised or where there are no local initiators.²³

²⁰ Raideberg OÜ, 'Põlva linna ja valla ühinemise teostatavus- ja tasuvusanalüüs', 2012.
G. Sootla, K. Kattai, A. Viks, 'Kohalike omavalitsuste 2005. a ühinemiste ja selle tagajärgede analüüs'. School of Governance, Law and Society, Tallinn University, 2008.
Geomeedia OÜ, 'Omavalitsuste ühinemise mõju valla haldussuutlikkusele (kuue aastatel 1996–1999 ühinenud omavalitsuse näitel)', 2001.

²¹ Ibid.

²² Ibid.

²³ Raideberg OÜ, 'Põlva linna ja valla ühinemise teostatavus- ja tasuvusanalüüs', 2012.
G. Sootla, K. Kattai, A. Viks, 'Kohalike omavalitsuste 2005. a ühinemiste ja selle tagajärgede analüüs'. School of Governance, Law and Society, Tallinn University, 2008.
Geomeedia OÜ, 'Omavalitsuste ühinemise mõju valla haldussuutlikkusele (kuue aastatel 1996–1999 ühinenud omavalitsuse näitel)', 2001.

The actual impact of all of the described changes will become evident in later practice, but the opportunity to move towards several objectives has been established. Earlier experiences from the merger of municipalities might not repeat themselves, but they do offer lessons to avoid.

It is likely, however, that the decisions made during the administrative reform thus far do not match expectations. The changes adhere to what has been set out in official documents, but earlier political rhetoric seemingly gave reason to expect greater changes in the role of local authorities in the management and organisation of local life as well as in their financial autonomy.

The implementation of the administrative reform according to the objectives of the state reform

As the administrative reform has been seen as part of a state reform, there should be a determination of whether it was carried out in the spirit of state reform – efficiently, economically, flexibly, with a small administrative load and avoiding overregulation.

Any reform involving changes to administrative structure is costly. A large reform is very expensive. It is still early to evaluate what the full administrative reform-related costs are. The merger grants and compensations paid to former heads of local authorities have been the largest in the history of Estonia. Large merger grants and social guarantees were undoubtedly an important motivation for those in charge of implementing the reform. The majority of mergers occurred during the voluntary stage at least partially because of these motivating factors. The financial compensation definitely proved to be one of the success factors behind the successful implementation of a national administrative reform this time around.

It is likely that many unpredictable expenses will be added to the direct expenses related to mergers – for example, activities related to changing the name and status of a municipality. The National Audit Office has noted that at least during the transition period, there will be additional expenses arising from the organisation of services and

benefits, while several parallel systems have to be administered simultaneously. The longer this period of service harmonisation lasts, the higher the risk of costs related to legal disputes. More fees will probably also need to be paid when changing service providers' contracts. That, in turn, will incur a risk of interruption to essential services. Postponing planned tenders could translate to an inefficient use of funds.²⁴

Not all expenses paid by the merger grant can be considered expenditure in the wider perspective either – for example, if the funds are used for making necessary investments outlined in the development plan or set out in the merger agreement. When evaluating specific investments, it must be established whether something is a one-off investment that will bring long-term income, or whether it is an expense, where the future costs will exceed any future income.

In all, the preparation period for such an extensive reform was extremely short (less than two years). Due to this kind of time pressure, it is probably impossible to talk about an excessive administrative load or overregulation related to the reform process.

There is no conclusive information about the hindrances that such efficiency achieved over time can bring about at a later date. The National Audit Office has issued warnings about some risks. In a rush, changes are not considered carefully. Some information will be lost during the transfer of databases and archives. There is no time to harmonise accounting principles, which will lead to transaction failures and imprecise financial data. An insufficient overview of assets and liabilities can result in assets being lost, and involvement in disadvantageous transactions.²⁵

It has been emphasised in academic literature that particularly during the transition period of the reform, local authorities are most

²⁴ National Audit Office letter No 2-1.9/17/50095/3 'Riigikontrolli tähelepanekud haldusreformi läbiviimise riskide kohta' of 30 June 2017.

²⁵ Ibid.

prone to making unreasonable and wasteful decisions. Local authorities are counting on spending funds in one municipality while the costs are incurred in another, future municipality.²⁶ It has been previously noted in Estonia as well that immediately before a merger, several local authorities made investments that were not based on the interests of the region as a whole.²⁷

A major part of the merger grants is spent as investments, with the generous merger grants providing considerable opportunities for it. Often, decisions are made in such a way that each merging municipality would receive something. However, that is not reasonable from the perspective of the new local authority as a whole, and it does not take into consideration what would be beneficial in the long term.²⁸

In the context of the administrative reform, there has been a great deal of talk about the compensation, bonuses and redundancy payments paid to the heads of local authorities.²⁹ Merger contracts often stipulate social guarantees for officials that are even larger than permitted by law.³⁰ There is news of unprecedentedly large payments coming from new, larger municipalities.³¹ There have been warnings in the literature that salaries are inflated during the period before a reform to guarantee better income at the new municipality or to obtain larger redundancy payments at a later time.

²⁶ J. Blom-Hansen, 'Municipal Amalgamations and Common Pool Problems: The Danish Local Government Reform in 2007' – *Scandinavian Political Studies* 33 (1), 2010, pp. 51–73.

²⁷ Geomedia OÜ, 'Omavalitsuste ühinemise mõju valla haldussuutlikkusele (kuue aastatel 1996–1999 ühinenud omavalitsuse näitel)', 2001.

²⁸ National Audit Office letter No 2-1.9/17/50095/3 'Riigikontrolli tähelepanekud haldusreformi läbiviimise riskide kohta', 30.6.2017

²⁹ See e.g. 'Ametis edasi või ametist ilma – haldusreform täidab vallavanemate kukrut' – Estonian Public Broadcasting, 8.11.2017.

³⁰ National Audit Office letter No 2-1.9/17/50095/3 'Riigikontrolli tähelepanekud haldusreformi läbiviimise riskide kohta', 30.6.2017

³¹ 'Volikogu juht teenib nelja saarlase kuupalga' – *Postimees*, 7.11.2017.

Based on the accounting information³² published by the time of writing this analysis, there does not seem to have been an unprecedented general increase in salaries in 2016 or 2017. A considerable increase in the proportion of irregular payments is clearly distinguishable only in 2017.

During a period 10 months in 2017, there was a 27 per cent increase in irregular payments compared to the previous year. In 2016 and 2015, the increase compared to the previous period was 10 per cent and 9 per cent, correspondingly. A random preliminary analysis also indicates that salary statistics for merged municipalities are not significantly different from the national average.³³ A more precise analysis is definitely required, once all the information for 2017 has been received.

The examples of lavish decisions and unprecedentedly large payments and compensations might not have a significant effect in the large scale, but they do impact the reputation of the reform in the public eye.³⁴ This kind of behaviour gives the public the impression that there are increased costs related to the administrative reform. The wallets of existing municipalities are emptied in time for the mergers.³⁵ People begin to lose trust in the local authority as well as the state in general. Disappointment in decisions made by public authorities endangers the success of reforms.

Conclusion

There is a more thorough analysis in other sections of this collection of articles on why the administrative(-territorial) reform was successful

³² By the time of publication of this analysis, local authorities' accounting information from 10 months in 2017 had been published, and this information can be compared to information covering the same period in previous years.

³³ State financial records information system, Ministry of Finance.

³⁴ See e.g. 'Seda oligi arvata: pärast haldusreformi omavalitsuste kulud suurenevad' – *Lõuna-eestlane*, 20.11.2017.

³⁵ See e.g. 'Endise Väätsa valla kontol ei jagu raha arvete tasumiseks' – *BNS*, 4.12.2017.

this time. One of the reasons was certainly the existence of greater impetus, in the form of a state reform. The administrative reform has been referred to as one of the engines of the governance reform.³⁶ Or perhaps the state reform was like a booster rocket that helped get the administrative reform done. By the 2015 *Riigikogu* elections, it was clear that changes in governance were inevitable.³⁷ As it is always easier to reform other organisations instead of one's own, the reason behind the central government's greater eagerness to start with local authorities in particular is understandable.

The recorded objectives of the administrative reform largely coincide with the objectives of the state reform. Different documents are sometimes simply worded slightly differently. The two governments that have been in power during the administrative and state reform so far have emphasised different objectives. The initial rhetoric of efficiency was later increasingly replaced with increased autonomy for local authorities as well as issues in regional politics.

It is still too early to assess if and how the administrative reform will help with meeting the objectives of the state reform. Neither is this an evaluation of any specific merger; instead, the focus is on the fundamental principles of the administrative reform and the relevant legislative decisions. In theory, the reform should set the groundwork for growing efficiency, increased local decision-making power and more harmonised services across Estonia. The administrative reform could also help to reduce employee numbers, in accordance with the objectives of the state reform.

However, previous merger experience in Estonia does not guarantee that an administrative reform could reduce bureaucracy or stop peripheralisation. Decisions related to the administrative reform

³⁶ The prime minister's speech to the *Riigikogu* on governance reform, given on 14 April 2016.

³⁷ See also the Estonian Cooperation Assembly's good governance programme, <https://www.kogu.ee/riigipidamise-kava/>.

regarding the functions and funding of local authorities meet the set objectives. However, it seems that all of the changes made so far do not meet the public's very high expectations for the reform.

In all, the result of the reform depends on its implementation, further steps made by the central government and actions of the local authorities. The way in which good ideas are implemented is important. Any positive impact could be ruined by incompetent implementation. If the only result is a change of boundaries and names, if there is no actual increased efficiency or improved public service, a great deal of time, money and effort will have been wasted. Disappointment in local and state governments is a threat to the success of any reform and undermines democratic governance.

However, it is good that we will no longer have to have endless discussions about the implementation of the administrative reform. Concluding all of the unfinished processes and business also supports the state reform's attempts. Until now, an unfinished administrative reform has been something of a good justification and even a pretext for why something cannot be done. At least for the time being, local authorities can work in peace. But no reform is made to last forever, and further municipal changes will still be necessary in the future.