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## Regional Peculiarities of the Municipal Reform in the Period of Transition

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**Authors:** Forward, Conclusions, Chapter 1 – I. Starodubrovskaya (team leader); Chapter 2 – I. Starodubrovskaya, M. Slavgorodskaya, T. Letunova; Chapter 3 – I. Starodubrovskaya, M. Slavgorodskaya, N. Mironova, A. Khrustalev; Attachment 1 – A. Khrustalev; Attachment 2 – T. Letunova, M. Slavgorodskaya; Chapter 4 – H. Kitchen.

Translated from the Russian by *Anatoliy Filatov*

Page setting: *Yudichev V.*

Organizational and financial issues related to the governance of municipalities were examined in this work with the aim to analyze regional peculiarities of municipal reform during transition period. Analysis was conducted with the help of budget statistics for the first half of 2006 and regional budgetary legislation, as well as with the help of the data received during research in the pilot regions and municipalities.

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5, Gazetny per., Moscow, 125993 Russia  
Tel. (495) 629-67-36, Fax (495) 203-88-16  
**info@iet.ru, <http://www.iet.ru>**

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## Introduction

The Federal Law 131-FZ was originally expected to take effect on January 1, 2006 almost simultaneously at all regions of Russia. However, the practice of preparation of a new municipal law for implementation has revealed a variety of practical implementation options of the municipal reform. Regional peculiarities have been playing a more significant role since the adoption of the Federal Law 129-FZ, which extended transition to a full-scale introduction of the municipal reform till January 1, 2009 as well as provided the constituent entities of the Russian Federation with a legal framework by delegating to them more authorities concerning the terms and guidelines the reform should follow.

The initial year of implementation of the municipal reform showed that its regional peculiarities are governed by a series of formal and informal institutional factors. The following factors should be regarded as the formal ones:

- 1) peculiarities of the reform of the territorial principles of local self-government, which means how newly established urban/ rural settlements were organized, as well as the status granted to cities;
- 2) peculiarities of delimitation of the issues to be resolved at the local level and delegation of authorities to deal with these issues between the municipal area and the urban/ rural settlement: whether or not the authorities to deal with issues of local significance incidental to urban/ rural settlements were delegated to the level of municipal areas within the framework of regional laws; how actively the practice of delegation of authorities concerning resolution of issues of local significance from urban/ rural settlements to municipal areas and vice versa is engaged;
- 3) organization of fiscal relations in urban/ rural settlements: whether local budgets are drafted at the settlement level or financed by the cost sheet principle?
- 4) organization of the system of intergovernmental fiscal relations in the region: whether fiscal capacity of municipal entities is leveled or the gap between revenues and expenditures is eventually financed?

Which level do (regional or local) rural/ urban settlements receive financial aid from?

- 5) peculiarities of the development of the local self-government administration system: whether it is the regional laws that regulate establishment of a local self-government administration system in newly established municipal entities or such municipal entities may choose principles of establishment such local self-government administration system?

The informal factors, which are as much important as the formal ones, are as follows:

- 1) how strict is regulation of the reform by using informal and administrative methods at the regional level? To what extent regional recommendations and model laws and regulations are found to be actually mandatory in this respect?
- 2) how strictly and uniformly the delegation of authorities from rural/ urban settlements to municipal areas is enforced;
- 3) whether financial aid in the form of donations is virtually of non-special (not earmarked) or special (earmarked) nature?
- 4) at which level, settlement or regional, budget expenditures of rural/ urban settlements are virtually authorized?
- 5) whether or not regional government authorities are making efforts to establish an administrative vertical framework with municipal entities as part of it and regarding such municipal areas and rural/ urban settlements as subordinate within the administrative hierarchy?
- 6) to which extent regional government authorities are participating in the establishment of local self-government bodies in large cities.

It is obvious that the results of different types of interaction between all of the considered factors have an impact on both quality and value of administration of the municipal entities themselves as well as volumes, quality and value of provision of municipal services to the general public. It is of most interest for any analyst to track such interactions and dependencies. However, the initial year of the reform provides insufficient data to be able to make a comprehensive analysis of the reform's effects on provision of municipal services. It is the municipal administration system that seems more applicable for analysis for the time being.

The analysis of the municipal administration system concerns directly the discussion on the “cost of the reform” which since the adoption of the Federal Law 131-FZ has been continuously under way with regard to whether municipal reform is going to result in a marked decline or increase in efficiency of budget expenditures. The data that was collected during the initial year of the municipal reform makes it possible to answer, at least in part, this question in terms of administrative costs. This aspect that was selected as the key one as part of this analysis, because this issue is very important for the assessment of effects of the municipal reform.

Hence the subject of this survey is to find out how administrative costs at municipal entities depend on regional peculiarities of the municipal reform. In addition, analysis of this relation will take into account both formal and informal factors which have an impact on the peculiarities of the reform in some or other constituent entity of the Russian Federation, above all such as:

- peculiarities of the reform of the territorial principles of local self-government;
- delimitation of issues of local significance and authorities concerning their resolution between municipal areas and rural/ urban settlements, including the degree of liberty to which municipal entities are entitled to enter into such agreements;
- approaches towards establishment of the local self-government administration system, including the degree of strictness to which this issue is regulated at the regional level;
- the amount of efforts made by a constituent entity of the Russian Federation in creating prerequisites for successful implementation of the municipal reform at municipal entities.

The issues of intergovernmental fiscal relations and financing of municipal entities are covered in a lesser degree in this survey, because this set of issues should be analyzed as a major, stand-alone subject of analysis based on the data on budget execution for 2006, which was unavailable at the time of the survey. Nevertheless, this theme was naturally integrated into the analysis in studying the issues of delimitation of authority between municipal areas and rural/ urban settlements as well as reso-

lution of the local-level issue such as budget execution. Since the regions at which the municipal reform was implemented to the fullest extent were of most interest, it is the regions at which local budgets were organized at the settlement level that were first to be covered by the analysis.

This survey focused on newly established municipal entities, above all municipal areas and urban/ rural settlements. It is the settlement-type municipalities, basically rural settlements, that were responsible for the most of growth in the number of municipal entities. It is the administration of rural/ urban settlements where basic difficulties are found, and it is structuring of relationship between municipal areas and rural/ urban settlements that governs the peculiarity of the reform in some or other region.

Two basic types of data sources were used during the survey, namely (1) budget statistics, including consolidated regional and consolidated local budgets of the constituent entities of the Russian Federation<sup>1</sup>, as well as regional budget laws; (2) the data of surveys that were conducted at specific regions and municipal entities (case-studies).

Since the objective was to analyze municipal administrative costs, it is important to begin with determining which, according to the budget classification, costs can be applied to this category of costs. Local self-government bodies maintenance costs are first to be applied to, as well as other costs such as of hardware and other office appliances for these bodies, service motor vehicles, personnel advanced training, preparation of premises for local administrative bodies, etc.

It is specified in the Federal Law 131-FZ that the following offices and entities shall be considered as part of local self-government bodies:

- representative body of municipal entity;
- chief executive of municipal entity;
- local administrative bodies;
- supervisory body of municipal entity;
- other agencies and elected civil servants (executive officials) at local self-government bodies.

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<sup>1</sup> The Ministry of Finance of the Russian Federation, the Federal Treasury, “Budget Execution Reporting of the Constituent Entities of the Russian Federation and Local Budgets”, <http://www.roskazna.ru/reports/mb.html>.



Maintenance costs of such bodies are most adequately reflected in the following sub-items of the “National Issues” item of the budget classification:

- 0102 Operational costs of senior executive officer of the constituent entity of the Russian Federation and local self-government body;
- 0103 Operation of legislative (representative) public authorities and local self-government bodies;
- 0104 Operation of the Government of the Russian Federation, senior executive government authorities of constituent entities of the Russian Federation, local administrative bodies;
- 0106 Support to operation of finance, tax and customs and supervisory bodies.

Accordingly, maintenance of local self-government bodies was assessed by consolidating the budget data from these four items. At the same time, the following data on sub-items of the “National Issues” item of the budget classification was not used as being not related to the subject of this analysis:

- 0105 Judicial system;
- 0107 Support to holding of elections and referendums;
- 0108 International relations and international cooperation;
- 0109 International economic and humanitarian aid;
- 0110 Public tangible reserve;
- 0111 Basic research;
- 0112 Public and municipal debt service;
- 0113 Reserve funds;
- 0114 Applied scientific research in the field of national issues;
- 0115 Other national issues.

The fourth, “Support to operation of finance, tax and customs and supervisory bodies”, of the above listed four sub-items remains uncertain. It is not quite clear from the name of this sub-item which costs are reflected at the municipal level. A sample telephone interview of the personnel of municipal administrative bodies at different regions revealed that different lists of costs are reflected in this sub-item: in some cases only supervisory body costs are reflected in this sub-item, while operation of fi-

nance bodies is reflected in sub-item 0104 “Operation of Local administrative bodies”; in other cases both supervisory and finance bodies are reflected; sometimes supervisory body costs are divided between sub-items 0106 and 0104. There is no uniformity, even within a single region. Therefore, we can make the inference that analysis of this sub-item of budget classification will not reveal local budget expenditures on finance and supervisory bodies, because it only can be done by considering the situation at specific municipal entities.

Analysis of budget classification also revealed that budget statistics are insufficient to be able to assess budget expenditures on training, re-training and advanced training of municipal servants as well as information and automation of local budgets execution. Some information about these types of budget expenditures can be obtained by analyzing regional budget laws for 2005 and 2006. However, it is only the consideration of specific regions and municipal entities that can provide more detailed information on the purpose of budget expenditures.

The survey based on the budget statistics on the constituent entities of the Russian Federation revealed the following challenges and restrictions which reduce accuracy of the analysis.

First, most accurate data could be obtained by analyzing municipal budgets in terms of types of municipal entities – urban/ rural settlements, municipal areas and urban districts. However, such data is only available for the year of 2006 on some of the constituent entities of the Russian Federation, not all of them. The data on the Moscow, Saratov, Sakhalin Oblasts (aka Regions) as well as the Koryak and Chukot Autonomous Areas was unavailable. No data for 2006 year on year was available other than data on consolidated municipal budgets thus making the analysis less accurate.

Second, no data other than for H1 2006 year on year was available at the moment of analysis to compare expenditures prevailing prior to and during implementation of the local self-government reform. However, the data on monthly budget is much less reliable against the final data on budget execution for the entire year. The relevant data for 2006 is most unlikely to be available unless and until the end of 2007. Therefore, we

had to put up with poor accuracy of budget data and, accordingly, possible estimation errors in the course of this survey.

Third, additional difficulties in assessment of financial costs of the reform were caused by an amendment to the budget classification under which some of administrative costs, which previously used to be fully recognized in the item “Public governance and local self-administration” of the budget classification, were recognized in the item “National Issues”, while others were entered into industry expenditures items. While this amendment to the budget classification allows full costs on provision of some or other services to be assessed more accurately, it make it much more difficult to analyze the movement of administrative costs. Though the amendment caused no material inaccuracies with regard to the analysis of consolidated local budgets, it had a serious impact on administrative expenditures of regional budgets. The Consultant had to use indirect methods to make a secondary assessment of administrative costs of regional budgets in the course of the survey, however such secondary assessment should be checked for accuracy. Therefore, the analysis of the movement of administrative costs of consolidated local budgets is, under otherwise equal conditions, more accurate than that of the movement of administrative costs of consolidated regional budgets.

This was taken into account in the course of the survey. In this respect, it is the data on consolidated local budgets, which provides better coverage of administrative than regional costs in the item “National Issues”, that was used first of all. In addition, analysis of each of the issue under consideration was accompanied by additional assessment of data reliability with regard to the regions which differed largely from the common trends in amounts and movement of budget expenditures.

The following indicators are used in analyzing budget data.

1. Growth by region in the aggregate is calculated as a growth in the sum of indicators for all the regions under consideration. In this case, both alteration of indicators by each region and a share of a given region in the aggregate are taken into account. This parameter is most useful for assessment of aggregate alteration of indicators for the entire set of regions under consideration. However, it should be taken

into account that it more vulnerable to errors in the data on specific regions which could be quite sensible in the aggregate.

$$\text{Growth } A \text{ by region in the aggregate} = \frac{\sum_{i=1}^N A_{2006}^i - \sum_{i=1}^N A_{2005}^i}{\sum_{i=1}^N A_{2005}^i},$$

where  $A$  is the analyzed indicator (for example, budget expenditures),  $A_{2005}^i$  and  $A_{2006}^i$  is the value of this indicator for  $i$ -region in 2005 and 2006 respectively,  $N$  is the number of regions under consideration<sup>2</sup>.

2. Growth by region on average is calculated as an average growth of indicators for all the regions under consideration. In this case, the “cost of error” in the data on specific regions is reduced, but this indicator is not useful for assessment of total alteration in indicators with regard to the total population of regions.

$$\text{Growth } A \text{ by region on average} = \frac{\sum_{i=1}^N \frac{A_{2006}^i - A_{2005}^i}{A_{2005}^i}}{N},$$

which applies the symbols similar to the above formula (Growth  $A$  by region in the aggregate).

3. The average share of respective sub-items of budget expenditures in the “total expenditures ” of budgets shows a financial load on the budget deriving from some or other purpose of expenditures.

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<sup>2</sup> Growth in the aggregate is useful only for the indicators with economically significant sum of values at all regions, in particular it can be applied to expenditures, but it should not be applied to shares of targeted expenditures in total expenditures.

Average share of expenditures in the “total expenditures” item

$$= \frac{\sum_{i=1}^N \frac{X_i}{Y_i} * 100\%}{N},$$

where  $X_i$  is budget expenditures of local or consolidated regional budgets in this item at  $i$  region,  $Y_i$  is the volume of “total expenditures” of local or consolidated regional budgets respectively in  $i$  region,  $N$  is the number of regions under consideration.

Since growth in expenditures may, among other factors, be caused by a general price rise, expenditures in different periods should be compared in real values. Changes in real values of budget expenditures were analyzed by using the data for H1 2006 which was brought to the compliance in order to be comparable with the data on expenditures during H1 2005. The consumer price index in the Russian Federation nationwide (in June 2006 year on year)<sup>3</sup> was used as deflator.

Another purpose of the analysis was to study a specific situation concerning implementation of the municipal reform in a series of regions and municipal entities.

The regions for the assessment of municipal reform costs were selected based on a series of factors as follows:

- 1) The degree of completeness of the municipal reform in a given region. This factor can be accentual in assessment of costs of financing of settlement administrations, while expenditures for other purposes can be assessed by using a wider population of regions;
- 2) Availability of full and reliable data, including both the data obtained during visits to the regions and municipal areas and rural/ urban settlements;
- 3) geographical variety of the regions. The survey covered the regions of the North-Western, the Central, the Volga and the Urals Federal Districts.

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<sup>3</sup> The Federal Service for Public Statistics. Prices and Tariffs. Consumer price index. <http://www.gks.ru/wps/portal>.

Taking into account the foregoing factors and limitations, the following targets were selected for the survey<sup>4</sup>:

- Vologda Oblast: information on the Oblast as a whole, detailed analysis of the situation in two municipal areas;
- Tver Oblast: information on the Oblast as a whole, detailed analysis of the situation in a municipal area;
- The Chuvash Republic: information on the Republic as a whole, detailed analysis of the situation in two municipal areas;
- Orenburg Oblast: information on the Oblast as a whole;

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- Mr. Sergei N. Tarasov, Deputy Head of the Organization and Supervision Department under the Office of the President of the Chuvash Republic,
- Mr. Valeriy V. Sidorenko, Head of the Department for Methodology and Analysis of Intergovernmental Fiscal Relations and Budgeting under the Department of Finance of the Tver Oblast,
- Mr. Victor A. Schepachev, Deputy Mayor, the city of Orenburg, Secretary of the Association (Council) of Municipal Entities of the Orenburg Oblast,
- Mr. Igor A. Konkin, Executive Director, Association of Cities, Settlements, Village of Soviets of the Kaluga Oblast,
- Aleksandr N. Mitin, Head of Chrnochesk Rural Settlement, Orenburg Oblast, President of the Association for Rural Settlements of the Russian Federation, and Mr. Yuri A. Gurman, Vice-President of the Association for Rural Settlements of the Russian Federation,
- Mrs. Natalia A. Kuzhetsova, Chief of Finance Department, the Griazovets Municipal Area of the Vologda Oblast,
- Mrs. Tatiana V. Domashina, Chief of Finance Department, the Sokol Municipal Area of the Vologda Oblast,
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- Mr. Gennadiy I. Tsikolenko, Deputy Head of Administration, the Plastov Region of the Chelyabinsk Oblast,
- Mrs. Albina E. Egorova, First Deputy Head of the Cheboksary Region – Head of the Department for Economy, Property and Land Relations,
- Mrs. Neonilla I. Nikiforova, Chief of Finance Department, the Cheboksary Region,
- Mrs. Klavdia N. Fedorova, Chief of Organizational Department, Maryinsk-Posad Region, the Chuvash Republic,
- Mrs. Vera G. Gorlova, Deputy Head of the Finance Department, the Konakovo Municipal Area of the Tver Oblast.

- Chelyabinsk Oblast: detailed analysis of the situation in two municipal areas and some rural/ urban settlements of other regions;
- Kaluga Oblast: detailed analysis of the situation in a municipal area.

Information on socio-economic situation in the regions and municipal areas under consideration is set out in *Appendix 1*.

Information on these entities differs in the degree of details and completeness, which is due to the fact that in some cases it was based on the replies sent by regional and municipal administrative authorities to the Consultant's information inquiry, while in others the information was based on the data obtained from the interviews conducted in the course of study visits to the regions.

# Chapter 1. Municipal Reform Costs

Discussions on the “cost” of the local self-government reform in the Russian Federation were and have been conducted both in the course of consideration of the reform’s concept and upon the adoption of a new law on local self-government. It is beyond any judgment that some of the departments believe that budget expenditures should not increase as the total volume of powers of public authorities and local self-government bodies remains unchanged. Additional expenditures related to the implementation of the reform can be broken down into the blocks as follows.

*First, administrative activity has the effect of economies on scale*<sup>5</sup>. The surveys of operation of settlement-type municipal entities prior to the inception of municipal reform, which were conducted as part of the SEPRA project in various regions, led to the inference on the existence of a clearly marked inverse dependence between the population of the municipal entity and the number of employees per 1000 citizens. It should be noted that this dependence is of non-linear nature. Insufficient scale of activity at municipal entities with the population less than 4–5 thousand is responsible for the heaviest losses. However, the inverse dependence is also existing at much larger settlements (up to 30 thousand)<sup>6</sup>.

It is specified in the Federal Law “On General Principles of Local Self-Government in the Russian Federation” No.131-FZ dated 06.10.2003 (hereinafter referred to as ‘the Federal Law 131-FZ’) that rural settlement population should normally total more than 1000 persons, and even more than 3000 persons on the areas with highly dense population. However, the same law provides for establishment of rural settlements with much less population, which is also enforced by the legal requirement to ensure a walking distance down to the administrative center and back within the working day for all the people living on the territory of the settlement, whereby the Federal Law 131-FZ creates a potentiality

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<sup>5</sup> Economies on scale means reduction of specific expenditures per unit of performance of an activity with growth in the scale of this activity.

<sup>6</sup> See: Local Self-Government Reform Issues: Structural and Financial Aspects. – M.: IET, 2006. – PP. 240–241.



for additional budget expenditures to cover losses sustained from insufficient scale of administration resulted from the reform of territorial structure of local self-government bodies.

*Second, potential budget expenditures arise from the errors that can be found in legally established delimitation of authority between public authorities and local self-government bodies, as well as municipal areas and rural/ urban settlements.* They may be related to both delegation to settlements the authority to deal with issues of local significance having the effect of economies on scale and delegation to municipal areas the authority to deal with issues of local significance of an opposite quality, i.e. growth in revenues with extension of scales of activity. In absence of additional budget funds such errors are most likely to entail reduction in volume and quality of provided services as the amount of budget expenditures remains the same. The issue is very complicated due to the fact that optimal delimitation of authority with municipal areas may differ largely for settlements at different levels from the point of view of population density, transport access, etc. For example, the Stavropol Territory, which has been implementing the municipal reform since 2005, has not come up with any idea whatsoever on the level at which public utility services should be provided. Some chief executives of settlements are ready to delegate relevant issues of local significance to the regions<sup>7</sup>, while others insist that they should be retained at the settlement level, because it is impossible to deal with arising issues at the regional level (“In case of a technical emergency in winter, there is no way one can easily phone up the region, as far as 35 km, for a maintenance crew!...”) <sup>8</sup>.

*Third, additional budget expenditures arise from unavailability of prerequisites for implementation of the municipal reform.* This issue, in turn, can be broken down into two parts.

On the one hand, by the moment when the Federal Law 131-FZ took effect, changes which were required for full and successful introduction

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<sup>7</sup> Records of the seminar-meeting “On the Progress of Implementation of the Provisions of the Federal Law No. 131-FZ “On General Principles of Local Self-Government in the Russian Federation” dated October 6, 2003 in 2005 in the Stavropol Territory” dated April 20–23, 2005, p. 59.

<sup>8</sup> Ibidem, p. 79.

of the municipal reform were incomplete: land register was poorly elaborated, boundary surveying faced severe problems, municipal property was not registered on a regular basis, etc. Accordingly, considerable amounts of budget funds are needed to complete the aforesaid.

On the other hand, prerequisites for implementation of the municipal reform as such should be created: to train personnel of the relevant qualification, to provide newly established municipal entities with different types of hardware and equipment, etc.

Finally, *fourth, the reforming process itself has its value*. And there are two factors that should be taken into account in this respect.

On the one hand, this is budget expenditures on technical upgrade related to the implementation of the municipal reform. For example, according to the data on the Stavropol Territory, passing the title to state unitary enterprises and state budget-funded entities from one to another level of power required changes to be made in constituent documents, license update, which required additional budget expenditures. They totaled up to RUR 5 thousand per each legal entity<sup>9</sup>, according to the data reported by the administrative authorities of the Stavropol Territory. New premises for meetings of the representative body at some of the municipal entities at the Vologda Oblast were required due to a considerable growth in the number of members of the representative body. It is obvious that considerable budget expenditures will be required in the long-term period for the purpose of description and approval of boundaries of municipal entities in accordance with the requirements of the urban development and under the land law.

On the other hand, any kind of changes entail certain costs due to arising confusion, uncertainty in the future, different lines of the reform ill-matched in space and in time. Like in a series of other cases, potential additional budget expenditures are virtually represented by temporary reduction in the volume and quality of provided services.

It is only some of the purposes of the reform concerning additional budget expenditures at regional and municipal levels related to the foregoing first and third purposes under consideration as part of this work.

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<sup>9</sup> Ibidem, p. 146.

However, it should be taken into account that they are only a part of financial costs incidental to practical implementation of the Federal Law 131-FZ.

With regard to specific purposes and volumes of additional budget expenditures arising from the implementation of the municipal reform, they were affected by a series of factors governed by both the pre-reform situation in some or other region as well as approaches to implementation of the reform selected by the administrative bodies of the constituent entities of the Russian Federation. Most of these factors were one way or another considered in the previous surveys as part of the SEBRA project, while this work is intended to integrate and summarize the results obtained from these surveys.

First. Different regions introduced different models of territorial pattern of local self-government prior to the inception of the municipal reform. It is the regional model that used to be prevailing in the overwhelming majority of the regions, while municipal entities only existed at the level of administrative areas and at some cities. At the same time, some other models of territorial organization were employed as well: the settlement model and the two-tier model were employed in 11 and 19 regions respectively. However, it should be taken into account that some of the settlements had no municipal entity features, i.e. they had no municipal property, local budget, etc. Even though the existence of such features was stated, they failed to be seen in practice. Therefore, the data on increase in the number of municipal entities in the Russian Federation should be regarded critically. While formally the number of municipal entities almost doubled, the research conducted as part of the SEBRA project, showed that the number of potential<sup>10</sup> participants of intergovernmental fiscal relations increased by 5.7 times.

Nevertheless, it is obvious that the initial conditions for the municipal reform at the regions in which settlements were already established differed largely from the regions in which the regional model was employed. By the inception of the reform the issues of boundaries and ad-

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<sup>10</sup> The case in point is potential participants of intergovernmental fiscal relations, because a considerable share of newly established municipal entities are still financed by the estimate-based principle due to postponed effective dates of the municipal reform.

ministrative personnel complement of such settlements had almost been resolved in the regions with some variations by region. Nevertheless, it is safe to say that potential municipal reform costs at these regions should be less than at the regions which employed the regional model of local self-government.

Second. With the regional model of local self-government the situation differed largely by region as well. In the absence of municipal authorities at the settlement level these regions had the so-called sub-municipal entities: village councils, volosts, rural districts, etc. Administrators of such entities were appointed by the regional administrative bodies, had their personnel, specific authorities, special cost estimate. Accordingly, it is not true to say that settlement-type municipalities were established “from scratch” with the regional model of local self-government. However, these sub-municipal entities were operating under the circumstances which differed largely between the regions in status, volume of authorities, etc. The research conducted as part of the SEBRA project allowed three models of administration at the level of municipal areas to be highlighted: centralized model, decentralized model and interim model. The decentralized model had the following features:

- Status and functions of rural/settlement administrative authority are stipulated in municipal by-laws and regulations, as well as public authorities also may be passed to this level;
- Though appointment of the chief executive of a rural and settlement administrative authority is normally made at the regional level, the population may also participate;
- rural and settlement administrative authorities have their own settlement accounts;
- some of the municipal assets are recognized in the books of rural and settlement administrative authorities;
- rural/settlement administrative authorities may in some or other form choose how to dispose of a share of municipal budget funds (they are authorized to take decisions on budget expenditures, enter into and supervise execution of agreements with contractors, etc.).

- Oblast and/or municipal administrative authorities provide organizational and financial support to the initiatives of settlements and village councils<sup>11</sup>.

Hence it is obvious that the status of sub-municipal entities in such regions was getting closer to the status of municipal entities (especially taking into account that formally existing settlement-type municipal entities in most cases had no municipal property and were financed on the estimate-based principle). In some cases they conducted experiments on accretion of authorities of sub-municipal entities. For instance, an experiment, which provided for delegation of quasi-municipal status to volosts<sup>12</sup>, was carried out in Gatchina Region, Leningrad Oblast, in 2001. It can be assumed that potential reform costs could be less in the regions in which the decentralized model was employed than in those in which more centralized approaches were applied.

Third. Prerequisites for the municipal reform depended largely on the number of administrative personnel, irrespective of whether the administrative authorities of settlements were subject to appointment or election. A series of factors should be taken into account here. For example, in most cases regional centers were governed by Regional administrative bodies, because no special administrations were established there. Therefore, they did have to be established almost from scratch during the reform.

The rural territories employing the regional model differed largely in the number of municipal servants: from 2–3 to 7–10 persons per single rural administrative authority, according to the data available. The same was true with regard to administrative authorities of the settlements in the form of municipal entities. For example, the Novosibirsk Oblast the number of municipal servants in settlement administrative authorities totaled from 4 to 15 persons, 6 to 7 persons on average. In the Stavropol Territory, the number of local administrative bodies at the settlement level was much bigger than in the Novosibirsk Oblast. It totaled 12.2 per-

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<sup>11</sup> Local Self-Government Reform Issues: Structural and Financial Aspects. – M.: IET, 2006. – PP. 221–222.

<sup>12</sup> Bobrov I.V., Lyubushkina E.V.. “If We Had a Source of Income We Could Bring Gatchina Up to the Level of Versailles”, // Municipal Power, 2002, No. 1.

sons an average per oblast and exceeded 10 persons in 17 out of 25 regions. It is obvious that a great initial number of rural administrative authorities created, under otherwise equal conditions, more favorable conditions for implementation of the reform and encouraged reduction of additional budget expenditures.

With regard to the settlement model, the reform depended predominantly on the number of administrative authorities in transition from territorial government bodies of the constituent entity of the Russian Federation to municipal areas. And we can find out different developments here. For example, the number of administrative personnel in the Novosibirsk Oblast was reduced rather than increased in the course of the reform. According to the data reported by Regional administrative bodies, the number of administrative personnel remained unchanged in general at the level of urban and rural settlements, while it was reduced by an average of quarter (by 23%) at the level of Regional administrative bodies. This trend was not developed in the Stavropol Territory, no reduction in the number of administrative personnel was observed in transition from public to municipal areas administrative authorities.

Fourth. The regions employing the regional organizational model of local self-government applied different approaches towards organization of newly established urban/ rural settlements. In some of the regions, rural/ urban settlements were in most cases established on the basis of the previously established sub-municipal entities, whereby the new municipal entity reproduced the traditional administrative-territorial division. In 19 regions, the number of newly established urban/ rural settlements was nearly equal to the number of the previously established rural and settlement administrative authorities (by no more than 10%). On the contrary, other regions pursued the policy of consolidation of territories to ensure that the newly established settlements have the infrastructure and financial base required for resolution of issues of local significance. Though this kind of approach was related to specific social and administrative complications and conflicts, it concentrated a bigger administrative and organizational potential in the newly established settlements and reduced additional administrative costs in the course of the reform. Four regions applied this approach most consistently – the number of newly estab-

lished urban/ rural settlements was reduced 50 to 80% against the number of sub-municipal entities. Twenty nine regions chose a mixed approach, in which the reduction was 10 to 50%.

With regard to the regions in which municipal entities existed at the settlement level prior to the reform, no significant changes took place in the number of municipal entities during the reform in the overwhelming majority of such regions against the period prior to the reform.

Fifth. Finally, the financial load related to implementation of the municipal reform is expected to be effected by the development rates of this reform. It is specified in the Federal Law 129-FZ dated 12.10.2005 that the effective date of the Federal Law 131-FZ was postponed till January 1, 2009. The transition period shall be in force until the effective date, during which the regions shall annually establish through their laws and regulations a procedure for resolution of issues of local significance by newly established rural/ urban settlements, including the volume of authorities delegated to them, procedure for financing of resolution of issues of local significance, etc.

Analysis of the relevant regional laws of 2006 revealed 4 groups of regions from the point of view of implementation rates and scale of the municipal reform:

1. Regions in which the municipal reform has been implementing in full since January 1, 2006. Forty four regions are included into this group according to the official data available. Analysis of the available data base on regional laws allowed 43 regions to be included into this group with some disagreements with the official list.
2. Regions in which the authority to deal with some of the issues of local significance incidental to all newly established urban/ rural settlements is delegated to municipal areas. Twenty six regions can be included into this group. The authority to deal with 3 to 24 issues of local significance was delegated to the newly established rural/ urban settlements in 2006.
3. Regions in which different implementation rates of the municipal reform were set for different groups of newly established urban/ rural settlements. Nine regions can be included into this group.

4. Regions in which the municipal reform was not started in 2006 and all issues of local significance incidental to rural/ urban settlements were delegated to the level of municipal areas. Three regions can be included into this group.

Forty six regions implemented the municipal reform in full in 2006 as evidenced by the official data reported by the Ministry for Regional Development of the Russian Federation. However, a research into this issue disagrees on a few of the regions included into the official list. It is illustrated in the Table below that the two lists agree on 41 out of 46 regions. Five regions were excluded from this list after the research. The cities of federal significance Moscow and St. Petersburg are excluded as well, because they are actually not subject to the Federal Law 131-FZ, therefore implementation of the reform in these cities is a matter of relativity. Further, the Tyumen and Sakhalin Oblasts are excluded because they were included by mistake as evident from the data available. The law of the Sakhalin Oblast provides no evidence that the reform was implemented in full there – all settlement's authorities were virtually passed to municipal areas as of 2006. The situation is more complicated in the Tyumen Oblast. Formally, it derives from analysis of the law that the region has been implementing the local self-government reform in full in 2006. However, on April 24, 2005, a referendum was hold in urban/ rural settlements of the Tyumen Oblast concurrently with municipal elections, during which all urban/ rural settlements wished to pass the authority to deal with 16 of the issues of local significance to municipal areas. It is therefore quite reasonable not to regard this region as fully implemented the municipal reform. The Taimyr Autonomous Area was excluded, because it is integrated into the Krasnoyarsk Territory.

At the same time, two regions – Leningrad and Astrakhan Oblasts – were included into the list of regions in which the municipal reform was implemented in full. Strictly speaking, such entry is not fully correct, because both regions have settlements vested with authorities restricted by the regional laws in 2006. However, such settlements are too small in number, while regional laws provide for full implementation of the reform in the overwhelming majority of newly established of municipal entities. Therefore, it seems reasonable for the purposes of this analysis to



regard these regions as fully implemented the municipal reform. Accordingly, 43 constituent entities of the Russian Federation were included in the list of regions in which the municipal reform was implemented in full. The list of regions in which the municipal reform was implemented in full and the list compiled by the additional research are compared in *Table 1.1*.

*Table 1.1*

**Comparing the Data on the Lists of Regions in Which the Municipal Reform was Implemented in Full in 2006 as Provided by the Ministry for Regional Development of the Russian Federation and the IET**

<b>Regions in which the municipal reform was implemented in full in 2006 (as evidenced by the data of the Ministry for Regional Development of the Russian Federation)</b>	<b>Regions in which the municipal reform was implemented in full in 2006 (as evidenced by the data of the IET)</b>
1. Kursk Oblast	1. Kursk Oblast
2. Orel Oblast	2. Orel Oblast
3. Tambov Oblast	3. Tambov Oblast
4. Nenets Autonomous Okrug	4. Nenets Autonomous Okrug
5. Kabardino-Balkarian Republic	5. Kabardino-Balkarian Republic
6. Republic of Kalmykia	6. Republic of Kalmykia
7. Karachayevo-Circassian Republic	7. Karachayevo-Circassian Republic
8. Republic of North Ossetia – Alania	8. Republic of North Ossetia – Alania
9. Penza Oblast	9. Penza Oblast
10. Kurgan Oblast	10. Kurgan Oblast
11. Novosibirsk Oblast	11. Novosibirsk Oblast
12. Aginsk Buryat Autonomous Area	12. Aginsk Buryat Autonomous Area
13. Evenki Autonomous Area	13. Evenki Autonomous Area
14. Voronezh Oblast	14. Voronezh Oblast
15. Kaluga Oblast	15. Kaluga Oblast
16. Kostroma Oblast	16. Kostroma Oblast
17. Smolensk Oblast	17. Smolensk Oblast
18. Vologda Oblast	18. Vologda Oblast
19. Volgograd Oblast	19. Volgograd Oblast
20. Stavropol Territory	20. Stavropol Territory
21. Rostov Oblast	21. Rostov Oblast
22. Republic of Mariy El	22. Republic of Mariy El
23. Republic of Mordovia	23. Republic of Mordovia
24. Chuvash Republic – Chuvashia	24. Chuvash Republic – Chuvashia
25. Kirov Oblast	25. Kirov Oblast
26. Perm Territory	26. Perm Territory
27. Ulyanovsk Oblast	27. Ulyanovsk Oblast
28. Republic of Altai	28. Republic of Altai

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29. Republic of Daghestan	29. Republic of Daghestan
30. Republic of Buryatia	30. Republic of Buryatia
31. Republic of Tyva	31. Republic of Tyva
32. Republic of Sakha (Yakutia)	32. Republic of Sakha (Yakutia)
33. Altai Territory	33. Altai Territory
34. Krasnoyarsk Territory	34. Krasnoyarsk Territory
35. Irkutsk Oblast	35. Irkutsk Oblast
36. Omsk Oblast	36. Omsk Oblast
37. Chita Oblast	37. Chita Oblast
38. Bryansk Oblast	38. Bryansk Oblast
39. Lipetsk Oblast	39. Lipetsk Oblast
40. Ust-Ordyn Buryat Autonomous Area	40. Ust-Ordyn Buryat Autonomous Area
41. Khabarovsk Territory	41. Khabarovsk Territory
42. City of Moscow	42. Astrakhan Oblast
43. Town of St. Petersburg	43. Leningrad Oblast
44. Taimyr (Dolgano-Nenets) Autonomous Area	
45. Tyumen Oblast	
46. Sakhalin Oblast	

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Under otherwise equal conditions it may be assumed that it is the regions in which the municipal reform was implemented in full in 2006 that paid the highest financial costs in 2006, while in others such costs were one way or another extended in time. At the same time, it should be taken into account that regional laws are not the uniform tool restricting the competence of newly established urban/ rural settlements thereby interfering with full-scale implementation of the municipal reform. Agreements on delegation of authority from urban/ rural settlements to municipal areas, which are often concluded with violation of the applicable law and are virtually compulsory for the latter, became a widely used tool providing for a similar outcome. However, it is impossible to assess the scope of authority under such agreements in all regions, and in this case a specific situation at given regions should be analyzed.

The following can be hypothesized from the analysis made. Additional financial costs on the local self-government reform in the field of administration depend on the factors as follows:

- The initial territorial model of local self-government which existed in the region (including degrees of decentralization of administration as part of the regional model);

- The initial number of administrations at the settlement level (irrespective of whether or not there were independent municipal entities);
- Implementation rates of the municipal reform;
- For the settlement model – on changes in the number of administrative personnel in establishing independent municipal entities on the basis of territorial bodies of regional administration;
- For the regional model – on availability of newly established urban/ rural settlements which previously were governed by Regional administrative bodies (this is most typical of regional centers);
- For the regional model – on an approach selected for establishment of the territorial model of local self-government: establishment of rural/ urban settlements on the basis of the previously established sub-municipal entities or consolidation of rural territories.

The said analysis also shows that additional financial costs tend to arise not only in newly established rural/ urban settlements in the course of the reform. Taking into account that in most cases settlement-type municipal entities, which operated normally in the preceding years, had no their own budget, municipal property, and their autonomy was considerably limited, the need to increase the number of administrative bodies, personnel retraining, hardware and equipment of such settlements in a series of regions (especially with the two-tier territorial structure that existed prior to the reform) is comparable with newly established rural/ urban settlements (in particular at the regions in which rural territories were consolidated). The same is true with establishment of supervisory bodies – both newly established and previously established rural/ urban settlements pay attention to this process.

## Chapter 2. Analysis of Costs of the Local Self-Governance Reform Based on Budget Statistics

### 2.1. Factors Affecting Costs on Maintenance of Local Self-Governance Bodies

The present chapter focuses on an analysis of the correlation between costs on maintenance of local self-government bodies on the factors which are both related and unrelated to implementation of the municipal reform. Two indicators were used as explanatory variables: the growth in costs on maintenance of local self-government bodies in H1 2006 year on year and the amount of per capita costs on maintenance of local self-government bodies in H1 2006. Explanatory variables are listed in *Table 2.1*. This list was made in such a way so that to fully reflect the factors considered in the previous chapter, which have an effect on administrative costs under the municipal reform, as well as other factors which are not related to the municipal reform but which show financial potential of growth in administrative costs in the region.

*Table 2.1*

#### List of Explanatory Variables

Quantitative variables		
No.	Variable	Unit of measurement
1	2	3
1.	Per capita costs of CLBs on maintenance of local self-government bodies in H1 2005	RUR
2.	Growth in the number of municipal entities in the region	%
3.	Number of municipal entities in the region as of October 1, 2005	entities
4.	Relative reduction in the number of rural/ urban settlements against the number of previously established settlements / sub-municipal entities	%
5.	Population per settlement with the population less than 20 thousand <sup>13</sup> total in the region	persons

<sup>13</sup> While calculating the value, from the total population of a given region we deducted the number of residents of cities with the local population over 20,000 and from the number of settlements and city districts – the number of cities with the local population over 20,000

1	2	3
6.	A share of urban dwellers in the total population of the region	%
7.	CLB's fiscal capacity <sup>14</sup> in H1 2006	RUR
8.	Growth in CLB's fiscal capacity in H1 2006 year on year	%
9.	A share of financial aid in CLB revenues in H1 2005	%
10.	A share of financial aid in CLB revenues of in H1 2006	%
<b>Dummy variables</b>		
11.	Territorial structure of local self-government bodies prior to implementation of the municipal reform <i>Regional structure</i> <i>Settlement structure</i> <i>Two-tier structure</i> <i>Mixed structure</i>	
12.	Degree of implementation of the municipal reform <i>The reform has been implemented in full since January 1, 2006</i> <i>The reform has not been implemented in full since January 1, 2006</i>	
13.	Federal District <i>Central Federal District</i> <i>North-Western Federal District</i> <i>Southern Federal District</i> <i>Volga Federal District</i> <i>Urals Federal District</i> <i>Siberian Federal District</i> <i>Far East Federal District</i>	

It is envisaged that due to the growing administrative corps, the respective administrative costs should be on the rise more substantially in two groups of regions vis-à-vis others. This should occur, first, in the regions that had implemented the district model of the territorial organization of local self-governance prior to the launch of the municipal reform. Second, this may well become possible in the regions that had succeeded to complete the introduction of the municipal reform yet in 2006. It is suggested that a more dramatic rise in administrative costs in the former group of regions can be attributed to the fact that pre-reform the regions saw establishment of local self-governance bodies only at the level of administrative districts, while on the level of settlements (including set-

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<sup>14</sup> Fiscal capacity is understood as budgetary revenues per resident divided into the ratio if the cost of a minimum set of foodstuffs in a given region to the respective average nationwide index.

tlements per se, cities and rural councils), there were formed territorial subdivisions of local administrations with just a few staffers and, quite frequently, with a negligible scope of powers. Furthermore, no individual bodies of power were formed in settlements that were administrative centers of districts. Rather, the district administration would take charge of such entities. Accordingly, while pursuing the reform, in such regions one should expect growth in the administrative staff at a greater pace than in other regions, which can be explained by the rise in the standard number of administrative positions in local administrations and establishment of local self-governance bodies in administrative centers of districts and, accordingly, a more considerable rise in the local self-governance maintenance costs. It is also suggested there exists a correlation between the increment in the latter and the increment in the number of municipal entities in regions.

As to the variables that characterize the budgets' financial capacity, a greater increment in the local self-governance maintenance costs may become possible in regions with a greater degree of fiscal capacity and a lower share of financial aid in local budgetary revenues, which can afford channeling more considerable financial resources to maintain local self-governance bodies.

Whilst analyzing factors affecting the level of the respective expenditures, one should expect the presence of a positive correlation between this particular indicator and the level of fiscal capacity of local budgets, while the indicator in question will be negatively correlated with the share of financial aid in local budgetary revenues. It is also suggested that the expenditure level can find itself affected by the number of municipal entities, population density and the share of urban population. Meanwhile, the greater the number of municipal entities is, the higher the level of per capita administrative costs at the municipal level is. A greater level of per capita administrative costs can become characteristic of regions with a low population density rate and a low share of urban population, which is true, in particular, for regions of the Siberian and Far East federal districts. As well, a greater level of administrative costs can be noted in regions that implemented in full the local self-governance reform.

The list of the regions to be analyzed was compiled the following way. The cities of Moscow and St. Petersburg as well as the Chechen Republic and the Ingush Republic were initially excluded from the population of regions, because, as noted above, implementation of the new municipal law in these cities and republics has specific features which do not allow them to be included into the survey. Further, the data on the regions whose figures differed largely from the main group of regions was checked for reliability. Another two regions, the Kaluga Oblast and the Aginsk Buryat Autonomous Area, were excluded from the population of regions upon such check. As evidenced by budget data, local budget costs on maintenance of local self-government bodies in the Kaluga Oblast reduced almost by half. The Kaluga Oblast is listed among the regions which implemented the municipal reform in full as well as characterized by a dramatic growth (almost by seven times) in the number of municipal entities. The Aginsk Buryat Autonomous Area is situated on another pole, where costs on maintenance of local self-government bodies grew up to more than 200%. The Autonomous Areas has a total of 42 municipal entities whose number remained unchanged in the course of the municipal reform<sup>15</sup>.

By the regression analysis results with respect to growth in local self-governance bodies maintenance costs, the totality of regions can be described using the equation below<sup>16</sup>:

$$d = \frac{28}{0.005}(1-r) - \frac{0.012e05}{0.026} * (1-r) + \frac{0.58}{0.010} dd\_bo\_kmb * r + \frac{2.3}{0.004} dmo * r'$$

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<sup>15</sup> The present chapter contains an abridged description of the calculations results, while a more detailed description, including the one of the methodology employed is given in *Annex 2*.

<sup>16</sup>  $N = 81$ ,  $R^2 = 20\%$ ,  $R^2_{adj} = 15\%$  (In the course of the estimation, the constant was included in the equation which has proved to be insignificant to allow one to employ  $R^2$  and  $R^2_{adj}$ ), significance of the regression in general:  $F = 4.59$ ,  $P = 0.002$ , homoscedasticity (White;s test):  $(NR^2)_w = 3.1$ ,  $P = 0.93$ . A more detailed description of the results for estimation are given in *Annex 2*)

where

$d$  – growth in operational costs of local self-governance bodies in a regional consolidated municipal budget in H1 2006 vis-à-vis H1 2005, as per cent;

$r$  – dummy variable, that makes up 1 for the regions that implemented the municipal reform in full in 2006, and 0- for other regions;

$e05*(1-r)$  – per capita local self-governance maintenance costs of a regional consolidated municipal budget in H1 2005 for the regions that failed to fully implement the municipal reform in 2006 (for the regions that fully implemented the reform in question, this variable makes up 0), as Rb. per capita;

$dd\_bo\_kmb*r$  – growth in budget capacity of the consolidated local budget of a region in H1 2006 vs. H1 2005 in the regions that in 2006 implemented the municipal reform in full (for the regions that implemented the reform in question otherwise this variable takes value 0), as per cent;

$dmo*r$  – growth in the number of municipal entities in a region in the process of reform implementation in the regions that in 2006 implemented the municipal reform in full (for the regions that implemented the reform in question otherwise this variable takes the value 0), as per cent;

$P$ -value is given under every coefficient.

As evidenced by the above equation, different results were posted by the regions that in 2006 implemented the municipal reform in full and those ones in which the regional law had introduced a transition period during which the right to solve a part or all of matters of local significance for settlements was delegated to municipal districts.

So far as territories that introduced the municipal reform in part, it would be correct to assert that in those ones with a greater level of per capita local self-governance costs in the pre-reform period growth in the said costs in the period of the reform implementation proved to be smaller than in the other group Underlying the existence of this particular correlation could be two factors. First, it can be suggested that the regions with a greater level of per capita local self-governance costs in the pre-reform period at the time could already form premises for creation of independent settlements – at the sub-municipal level there had already been



established local administrations with a fairly large number of cadres, which were equipped with computerized means and vehicles. Second, the group of regions in question could pursue a more pro-active policy aimed at curbing the rise in administrative costs by administrative means. The trend appeared to a greater degree characteristic of the regions that partly implemented the municipal reform, as in most cases the financing of settlements in such regions is carried out on the basis of estimates and, accordingly, decisions on the volume of financing their administrative costs are made on the district level.

As concerns the territories that fully implemented the reform in 2006, the following correlations were exposed. In regions wherein the growth rate in budget capacity of local budgets and the growth rate in the number of municipal entities appeared greater than in others, displayed a greater growth rate in expenditures of the consolidated municipal budget on maintenance of the local self-governance bodies in H1 2006 compared with the respective period of the prior year. Thus, as the financial state of their municipal entities improved, the regions found it possible to channel a greater volume of funds to finance the local self-governance bodies' operations. As evidenced by the revealed correlation, the RF Subjects that fully implemented the municipal reform focused their policies primarily on financial possibilities for ensuring additional administrative costs without regard to the original level of administrative costs that had emerged prior to the beginning of the municipal reform.

The fact that, given other conditions being equal, in regions (from the group of those that fully implemented the municipal reform) with a greater growth rate in the number of municipal entities, saw a greater growth rate in expenditures on municipal administration proved our assumptions and evidenced that steered by the municipal reform implementation, a considerable rise in the number of municipal entities has resulted in growth in the number of local self-governance bodies and, accordingly, to growth in their maintenance costs.

It should be noted that growth in the number of municipal entities in a region forms an indicator that directly or indirectly mirrors versatile factors associated with the municipal reform implementation, such as the original pattern of the territorial organization of local self-governance, the

regional authorities' policy with regard to reorganization of the territorial structure, the proportion of newly established municipal entities, to name a few. However, we have failed to expose any correlation between growth in administrative costs and each of the factors considered individually, as well as with such parameters as the population density rate and the urban to rural population ratio.

Despite taking into account of a considerable number of variables in the analysis, we managed to explain just a minor fraction of the dispersion of the growth in the local self-governance maintenance costs. Thus, a considerable proportion of the growth in administrative costs appeared uncorrelated with the factors associated with the municipal reform implementation (at least, with those considered in the present research). It can be suggested that raised labor compensations to municipal staff that appeared in excess of the municipal entities' financial capacity contributed considerably to the noted growth, but the respective data across all the totality of the Russian regions were unavailable.

Below we present results of the regression analysis of the factors affecting the per capita local self-governance bodies maintenance costs in 2006. The totality of regions is described with the following equation<sup>17</sup>:

$$e06 = 1113(1 - r) + 0.098bo06\_kmb - 6.1fa06\_kmb * r - 21.5u\_p * (1 - r) + 612fo\_7 * (1 - r)$$

0.017                      0.000                      0.026  
0.001                      0.004

where

*e06* – per capita local self-governance bodies maintenance costs of the consolidated municipal budget of a given region in H1 2006 (as Rb. per person);

*r* – dummy variable, that makes up 1 for the regions that implemented the municipal reform in full in 2006, and 0 – for other regions;

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<sup>17</sup> *N* = 81, *R*<sup>2</sup> = 78%, *R*<sup>2</sup><sub>adj</sub> = 77% (In the course of conducting the estimation we included in the equation a common constant that proved to be insignificant to employ *R*<sup>2</sup> and *R*<sup>2</sup><sub>adj</sub>), significance of the regression in general: *F* = 53.2, *P* = 0.0000. Standard errors were estimated in White form. More detailed results of the estimation of the equation are given in *Appendix 2*.

*bo06\_kmb* – budget capacity of the consolidated local budget of the region in H1 2006, as Rb. per person;

*fa06\_kmb\*r* – share of financial assistance in revenues to the consolidated local budget in H1 2006 for regions that implemented the municipal reform in full (for the regions that implemented the reform in question otherwise this variable takes value 0), as per cent;

*u\_p\*(1-r)* – share of urban population in a region for the regions that implemented the reform otherwise (for the regions that implemented the reform in question in full this variable takes value 0), as per cent;

*fo\_7\*(1-r)* – attribution to the Far East Federal District for the regions that implemented the reform otherwise (for the regions that implemented the reform in question in full this variable takes value 0).

The regression analysis evidenced that in the regions that implemented the municipal reform in full the per capital local self-governance bodies maintenance costs found themselves influenced by factors different than those affecting the respective costs of the regions that implemented the said reform in part. It was found for the sample of regions as a whole that, given other conditions being equal, regions with a greater level of budget capacity were able to channel greater volumes of funds to finance the local self-governance bodies' operations than other regions. It should be noted that the level of introduction of the municipal reform had no effect on this correlation.

A common feature of the territories that fully implemented the municipal reform in 2006 became that, given other conditions being equal, the regions with a smaller proportion of financial assistance in revenues to local budgets found the level of per capita local self-governance administrative costs being greater than in other regions. Accordingly, enjoying a greater financial autonomy, their local self-governance bodies can afford spending more funds to maintain their staff. The absence of such correlation for the group of regions that implemented the municipal reform in part can be explained by the fact that in such regions in most cases settlements are financed on the basis of estimates and the indicator “the share of financial aid in local budget revenues” characterizes the level of autonomy of district budgets only.

The regions that partly implemented the municipal reform saw the effect of economies of scale, that is, per capita local self-governance costs in those of them with a greater proportion of urban population proved to be lower than in regions with the prevalence of rural population. Unanswered remains the question as to why this correlation does not exist for the regions that fully implemented the municipal reform.

As well, it was found for the totality of regions that partly implemented the municipal reform that local self-governance bodies maintenance costs, given other conditions being equal, appeared greater in the regions of the Far East Federal District when compared with other regions of the group. The absence of a similar correlation for the regions that implemented the municipal reform in full can be explained by the fact that only 2 out of 10 regions of the Federal District in question ruled to implement a full-scale reform in 2006.

Overall, it is safe to state that data on a period of one year are clearly insufficient to be able to make any clear-cut inference on factors effecting the level and changes in administrative costs. Nevertheless, the analysis revealed a series of dependences which can be verified during analysis of administrative costs at the level of municipal entities in specific regions, as well as taken into account in perspective, as soon as longer time series become available

## **2.2. Analysis of Costs on Maintenance of Local Self-Government Bodies Based on Budget Execution Reports of Constituent Entities of the Russian Federation and Municipal Entities in H1 2006**

Costs on maintenance of local self-government bodies were analyzed by using the same population of regions as in the regression analysis. Taking into account the revealed dependence of costs on maintenance of local self-government bodies upon growth in the number of municipal entities, as well as accounting significance of such factor as implementation rates of the municipal reform in 2006, the following groups were analyzed:

- The entire aggregate of the regions under consideration;
- Regions in which the number of municipal entities reduced by half or less than doubled in the course of the reform;
- Regions in which the number of municipal entities more than doubled in the course of the reform;
- Regions which claimed that the municipal reform was implemented in full in 2006;
- Regions in which the municipal reform was not implemented in full in 2006.

*Table 2.2* contains data on how the costs on maintenance of local self-government bodies vary with growth in the number of municipal entities in the region. The same data also shows that growth in maintenance costs varies somehow with the growth in the number of municipal entities. At regions in which the number of municipal entities more than doubled, growth in costs on maintenance of local self-government bodies grew by 23% against the regions in which the number of municipal entities declined, remained unchanged or less than doubled.

*Table 2.2*

**Movement of Costs on Maintenance of Local self-government bodies, %**

	Growth in nominal costs		Growth in actual costs		A share in total CLB costs	
	average	total	average	total	2005	2006
all regions	42.7	38.7	30.7	27.0	6.7	7.5
regions in which the number of municipal entities less than doubled	37.8	38.0	26.1	26.4	7.2	7.3
regions in which the number of municipal entities more than doubled	46.5	39.1	34.2	27.4	6.3	7.7

The difference in changes in a share of costs on maintenance of local self-government bodies is considerable too. It should be noted that as early as prior to the reform a share of costs on maintenance of local self-

government bodies in the group regions in which the number of municipal entities in the course of the reform less than doubled was much bigger against the regions in which a share of municipal entities more than doubled. This is well explainable, because the highest growth in the number of municipal entities is common to the regions employing the regional model of territorial pattern of local self-government which allowed the economies on scale to be applied for administration purposes thus showing a smaller share of administrative costs than the settlement and, above all, the two-tier models. However, not only did a share of administrative costs at the regions in which the number of municipal entities more than doubled grow faster against the regions in which it less than doubled, (22.2% and 1.3% respectively), but also a share of costs on maintenance of local self-government bodies increased in absolute terms (7.7% and 7.3% respectively), as evidenced by the results of the reform.

However, analysis of the entire population of regions is not sufficient to provide the “cost” of the reform from the point of view of administrative costs. Since not all of the regions implemented the municipal reform in full in 2006, the growth in costs on maintenance of local self-government bodies is not fully reflected in the budget data for H1 2006. Full data can be obtained by considering the population of regions in which the municipal reform was implemented in full in 2006. The relevant data is illustrated in *Table 2.3*.

The following aspects should be highlighted based on the analysis of the data presented in the Table.

First, real costs on maintenance of local self-government bodies at the regions in which the municipal reform was implemented in 2006 grew 6.8% above the average of the entire population of regions. In comparing the relevant growth in revenues at the regions in which the municipal reform was implemented in full and not implemented, the growth in the former is 14.7% above that in the latter.

Table 2.3

**Movement of Costs on Maintenance of Local self-government bodies at Regions in Which the Local self-government reform was Implemented in Full in 2006, %**

	Growth in nominal costs		Growth in actual costs		A share in total CLB costs	
	average	total	average	total	2005	2006
regions in which the reform was implemented in full in 2006	45.0	42.4	32.8	30.4	6.8	7.7
of which regions with less than doubled growth in the number of municipal entities	35.8	34.3	24.4	23.0	7.2	7.4
of which regions with more than doubled growth in the number of municipal entities	54.7	50.7	41.7	38.0	6.4	7.9
regions in which the reform was <b>not</b> implemented in full in 2006	40.4	36.0	28.6	24.5	6.6	7.4
of which regions with less than doubled growth in the number of municipal entities	40.6	42.8	28.8	30.8	7.2	7.2
of which regions with more than doubled growth in the number of municipal entities	40.3	33.2	28.5	22.0	6.3	7.5

Second, the highest growth that was observed in costs on maintenance of local self-government bodies is typical of the regions in which the municipal reform was implemented and the number of municipal entities more than doubled, which is 70.9% above the corresponding growth at the regions in which the municipal reform was implemented and the number of municipal entities less than doubled, and 46.3% above the growth at the regions in which the reform was not implemented and the number of municipal entities more than doubled. At the same time, as applied to the regions in which the municipal reform was not implemented in full in 2006, there is no difference in growth in costs on main-

tenance of local self-government bodies for groups of regions and the number of municipal entities more than doubled and less than doubled.

Third, a considerably higher growth in a share of costs on maintenance of local self-government bodies in municipal budgets is typical of the regions in which the number of municipal entities more than doubled. In particular, such share grew most, more than 23%, in the regions in which the municipal reform was implemented in full; this parameter grew moderately, about 19%, at the regions in which the municipal reform was not implemented in full in 2006.

The structure of data on costs was analyzed in addition to the analysis of general movement of costs on maintenance of local self-government bodies. As noted in the Foreword, costs on maintenance of local self-government bodies comprised maintenance costs of the senior executive officer of a local self-government body, operational costs of representative local self-government bodies, operational costs of local administrative bodies, operational costs of finance and supervisory bodies. The structure of the relevant cost items is illustrated in *Table 2.4*.

*Table 2.4*

**Structures of Costs on Maintenance of Local self-government bodies (Average by Local Budget, %)**

	<b>Operational costs of senior executive officer</b>	<b>Operational costs of representative bodies</b>	<b>Operational costs of local administrative bodies</b>	<b>Operational costs of finance and supervisory bodies</b>
2005	5.7	4.8	83.8	5.7
2006	6.1	5.0	81.4	7.5

The data illustrated in the *Table 2.4* shows no significant changes in the structure of data on costs in the course of the municipal reform. Both in 2005 and 2006, more than 80% of funds were allocated to cover operational costs of local administrative bodies. It means that this type of costs is most significant to determine the “cost of the reform”. A share of operational costs of senior executive officer of a local self-government body and operational costs of representative bodies changed insignificantly, while a share of operational costs of finance and supervisory bodies slightly increased. It is pertinent to note that a share of operational costs of local administrative bodies



changed insignificantly region by region, while other purposes of costs on maintenance of local self-government bodies varied substantially.

Analysis of the structure of costs at different groups of regions, in which the municipal reform was implemented and was not implemented in full in 2006 and the number of municipal entities more than or less than doubled, showed no large differences in these groups. More interesting inferences can be made based on consideration of growth in costs in these items. The relevant data is presented in *Table 2.5*.

*Table 2.5*

**Growth in Real Operational Costs of Different Local self-government bodies, %**

	<b>Operational costs of senior executive officer</b>	<b>Operational costs of representative bodies</b>	<b>Operational costs of local administrative bodies</b>	<b>Operational costs of finance and supervisory bodies</b>
all regions	35.6	44.9	23.2	55.6
regions in which the municipal reform was implemented	7.7	28.8	32.6	44.9
regions in which the municipal reform was not implemented	148.2	59.3	17.0	64.1

The data illustrated in the Table shows that substantial growth in costs at the regions in which the municipal reform was implemented is only typical of operational costs of local administrative bodies. This can be explained by the fact that local self-government bodies of municipal entities were established in all of the regions in which the municipal reform was or was not implemented in 2006. Accordingly, chief executive of municipal entity, representative body and local administrative bodies were established at all municipal entities. However, it is the local administrative authority costs that depend mostly on the scope of authorities of municipal entities. Logically, operating costs of the chief executive of the municipal entity and the representative body do not depend in full on whether or not the municipal reform have been implemented in full in a given region, while operating costs of local administrative authority do.

At the same time, more detailed analysis of the data illustrated in the Table shows that such explanation is not enough. It is pertinent to note that an extremely wide dispersion of growth in operational costs of the chief executives of municipal entities between 7.7% at the regions in which the municipal reform was implemented and 148.2% at the regions in which the municipal reform was not implemented in full. Most non-proportional growth in operational costs of the chief executive of municipal entity was typical of such regions such as Udmurtiya, the Khabarovsk Territory, the Kirov Oblast, the Moscow Oblast and the Chita Oblast, the Republic of Altai, the Ust-Ordyn Buryat Autonomous Area. The relevant costs grew 1 000% to more than 9 000% at these regions. It may be assumed that under unconsolidated budget classification a share of operational costs of local administrative bodies is recognized in the “Operational Costs of Senior Executive Officer of Local self-government bodies” sub-item in these and a series of other regions. As noted above, maintenance costs of finance bodies are also recognized in different ways in budget classification: in some municipal entities they are recognized in the “Operation of Local administrative bodies” sub-item, in others in the “Operational Costs of Finance and Supervisory Bodies” sub-item.

Accordingly, it may be inferred that analysis of growth of costs by purpose of financing of local self-government bodies fails to be informative as the basis for making contentive inferences under the current budget account system. Movement of aggregate operational costs of local self-government bodies is a more reliable base for such inferences and estimations.

Additional information can be obtained from analysis of municipal budget expenditures in 2006, because data on most of the regions was provided in terms of different types of municipal entities: urban/ rural settlements, municipal areas and urban districts. Since the overwhelming majority of newly established municipal entities are referred to rural/ urban settlements, it is the costs of urban/ rural settlements and municipal areas that of most interest in the context of this analysis. General information on this issue is illustrated in *Table 2.6* below.

Table 2.6

**A Share of Budget Costs of Rural/ Urban Settlements  
in Consolidated Budget Expenditures of Municipal Areas in H1 2006**

	Number of regions which were		A share of Settlements' Budgets in consolidated budgets of municipal areas, %
	included into the sample	not included into the sample	
All regions	78	5	11.9
of which regions with less than doubled growth in the number of municipal entities	34	2	16.4
of which regions with more than doubled growth in the number of municipal entities	44	3	8.5
All regions in which the municipal reform was implemented	43	0	16.6
of which regions with less than doubled growth in the number of municipal entities	22	0	19.6
of which regions with more than doubled growth in the number of municipal entities	21	0	13.5
All regions in which the municipal reform was <b>not</b> implemented	35	5	6.2
of which regions with less than doubled growth in the number of municipal entities	12	2	10.6
of which regions with more than doubled growth in the number of municipal entities	23	3	3.9

It should be noted that a share of costs of rural/ urban settlements in the total budget costs of municipal areas and rural/ urban settlements is much bigger at the regions in which the number of municipal entities less than doubled, which can be explained by the fact that this group includes primarily those regions in which the settlement or the two-tier model was

introduced prior to the inception of the reform. This means that rural/ urban settlements were already vested with certain authorities. Accordingly, they had more adequate preconditions for autonomy than newly established rural/ urban settlements. At the same time, it makes sense that a share of settlements' budgets at the regions in which the municipal reform was implemented in full is 2.7 times above those at the regions in which the reform was not implemented, while the gap between the groups of regions in which the number of municipal entities more than doubled and less than doubled is not wide.

Data on a share of costs on maintenance of local self-government bodies at the level of municipal areas and rural/ urban settlements is presented in *Table 2.7*. As applied to administrative costs, this is a clear example of substantial losses from insufficient scale at the settlement level. A share of costs on maintenance of local self-government bodies is 7% at the level of municipal areas against nearly 30% in urban/ rural settlements. At the same time, substantial administrative costs at this level account for a insignificant share in the consolidated municipal budget, since a total amount of budgets of urban/ rural settlements is small as well as their share in the consolidated municipal budget.

It should be noted that a share of costs on maintenance of local self-government bodies in settlements' budgets is smaller at the regions in which the municipal reform was implemented against the regions in which the municipal reform was not implemented in full in 2006, while a share in the consolidated municipal budgets is bigger in the former against the latter. This is because settlements' budgets not only account for a bigger share in the consolidated budget of municipal areas, but also in the consolidated municipal budget in all of the regions in which the municipal reform was implemented. The relevant share accounts for 10.5% at the regions in which the municipal reform was implemented and 3.1% at the regions in which the reform was not implemented.

The following inferences can be made based on the analysis made.

*First*, the initial data must be checked for reliability in order to be able to obtain adequate analysis results. As applied to maintenance costs of local self-government bodies, it would be wrong to make assessments based on the entire population of regions. Four regions, the city of Mos-

cow, the city of St. Petersburg, the Ingush Republic and the Chechen Republic, were initially excluded from this aggregate, because they could not serve as the basis for assessment of costs under the Federal Law 131-FZ. Further, another two regions, Kaluga Oblast and Aginsk Buryat Autonomous Area, were excluded from the analysis, because their budget data was found to be highly unreliable.

Table 2.7

**A Share of Costs on Maintenance of Local self-government bodies at Municipal Areas\* and Rural/ Urban Settlements\*\***

	A share of costs on maintenance of local self-government bodies at municipal areas, %		A share of costs on maintenance of local self-government bodies at municipal areas at rural/ urban settlements, %	
	in budget expenditures at the regions	in CLB	in budget expenditures at rural/ urban settlements	in CLB
all regions	7.0	3.3	30.2	2.1
regions in which the municipal reform was implemented	6.0	3.0	28.8	2.5
regions in which the municipal reform was <b>not</b> implemented	8.2	3.7	32.9	1.3

\* The sample included 78 regions, except for the Moscow Oblast, the Saratov Oblast and the Sakhalin Oblast as well as the Koryak and the Chukot Autonomous Areas.

\*\* The sample included 70 regions, except for Moscow Oblast, the Saratov Oblast, the Belgorod Oblast, the Ivanovo Oblast, the Kaliningrad Oblast, the Ryazan Oblast, the Sverdlov Oblast, the Yaroslavl Oblast, and the Sakhalin Oblast, the Koryak and the Chukot Autonomous Areas, the Udmurt Republic, the Jewish Autonomous Oblast.

However, a series of errors in budget reports are of system nature and cannot be corrected by adjusting the sample. For instance, an extremely inadequate diversity of costs on maintenance of local self-government bodies recorded in specific sub-items of the budget classification could render useless any kind of inferences or assessments.

*Second*, growth rates in costs on maintenance of local self-government bodies were much faster in 2006 year on year than in the preceding years.

For instance, they tripled against the period between 2003 and 2004. It may be assumed that it is the implementation of the municipal reform that could boost these costs.

*Third*, establishment of new municipal entities and delegation to these municipal entities the authority to deal with all issues of local significance, as provided for in Federal Law 131-FZ (at least in compliance with regional laws and regulations), are factors that somehow boosted the growth in costs on maintenance of local self-government bodies in the course of the reform. The average growth in costs on maintenance of local self-government bodies was 30.7% in real terms in all regions against 32.8% in the regions which implemented the municipal reform in full; 28.6% in the regions in which the municipal reform was not implemented in full; 34.2% in the regions in which the number of municipal entities more than doubled. The highest growth (41.7%) of such costs is typical of the regions in which the municipal reform was implemented in full in 2006 and the number of municipal entities more than doubled.

*Fourth*, growth in costs on maintenance of local self-government bodies due to implementation of the municipal reform is far from coming to the end of its potential as evident by faster growth rates of such costs at the regions in which the municipal reform was implemented in full against the regions in which the municipal reform was not implemented in full in 2006. It may, therefore, be assumed that such costs would keep growing due to the municipal reform throughout the entire transition period. Operational costs of local administrative bodies are expected to be first to grow. Chief executives of municipal entities and representative bodies can be found almost in all newly established municipal entities, and operational costs of these persons have nothing to do with their terms of reference and a list of issues of local significance they are entitled to deal with. However, operational costs of local administrative bodies should depend largely on these parameters, because granting more authority to municipal entities specifies additional requirements to the complement and qualification of executive personnel.

*Fifth*, analysis of the structure of consolidated municipal budgets in 2006 allowed us to reveal factors which effect the amount of budget funds at rural/ urban settlements, which is an indirect indicator of the

scope of authorities. For instance, a share of settlements' budgets in consolidated regional budgets is bigger against the regions in which the number of municipal entities less than doubled in the course of the reform as well as at the regions in which the municipal reform was implemented in full in 2006. A share of settlements' budgets in consolidated regional budgets accounts for 11.9% against 16.4% at the regions in which the number of municipal entities less than doubled, and 16.6% at the regions in which the municipal reform was implemented in full.

*Sixth*, a share of costs on maintenance of local self-government bodies in settlements' budgets more than four times as much as a share of relevant costs in municipal areas' budgets – 30% and 7% respectively. This is an illustrative example of losses from insufficient scope of administrative authorities at the settlement level. At the same time, since budgets of urban/ rural settlements account for a small share in consolidated municipal budgets, the load of such ill-proportioned administrative costs of rural/ urban settlements on consolidated municipal budgets is not heavy, about 2% for the entire population of regions.

The analysis made allows us to assess, as a first approximation, both incurred and potential extra costs on maintenance of local self-government bodies related to the implementation of the municipal reform.

As noted above, growth in costs on maintenance of local self-government bodies in 2006 year on year was faster against the preceding years. Taking into account the growth in the previous years as well as the data on increase in wages of municipal servants and growth in other administrative costs at specific regions and municipal entities, growth in real costs on maintenance of local self-government bodies irrelevant to the municipal reform can be assessed 10%, very roughly though. Further, one can assess growth in costs relevant to the reform by deducting the growth in costs irrelevant to the municipal reform from the total growth in costs on maintenance of local self-government bodies of consolidated municipal budgets. Based on the value of average costs of consolidated municipal budgets on maintenance of local self-government bodies, one can calculate by using the formula below extra costs on maintenance of

local self-government bodies in 2006 relevant to the implementation of the municipal reform:

$$E_0 = (d_{total} - d_0) \cdot 2e_{av} \cdot \frac{P_t}{P_{t-1}} \cdot N$$

where  $E_0$  is reform costs in 2006 (RUR million),  $d_{total}$  is average growth in real local budget administrative costs in 2006 (for more details see *Table 1.2*),  $d_0$  is growth in local budget administrative costs irrelevant to implementation of the municipal reform,  $d_0 = 0,1$ ,  $e_{av}$  is the average amount of local budget administrative costs for all regions<sup>18</sup> in 2005 in terms of RUR million (since the calculation was made based on semi-annual data, the figures should be doubled),  $\frac{P_t}{P_{t-1}}$  is price index (June 2006 year on year),  $N$  is total number of regions. The following results can be obtained by inserting specific values into the formula:

$$E_0 = (0,307 - 0,1) * 2 * 360,5 * 1,092 * 83 \approx \text{RUR } 13.6 \text{ billion.}$$

As indicated in *Table 2.3*, growth in costs on maintenance of local self-government bodies at the regions in which the municipal reform was implemented was higher against the regions in which the reform was not implemented in full in 2006. Therefore, as noted above, it may be assumed that growth in administrative costs did not come to an end in 2006. These costs might grow further at the regions in which the municipal reform was not implemented in full. For the purpose of assessment of potential extra costs, let's assume that growth in costs on maintenance of local self-government bodies at regions in which the municipal reform was not implemented in full would be equal to that in the regions in

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<sup>18</sup> In calculating average costs as well as average growth in costs, the Kaluga Oblast and the the Aginsk Buryat Autonomous Area were excluded from the sample, because budget data on these regions was found unreliable. In assessing the “cost of the reform”, administrative costs of local self-government bodies of these regions were replaced with sample costs, save for these regions.



which the municipal reform was implemented in 2006 in case the reform was implemented. In doing so, potential costs for should be assessed specifically for each of these groups of regions by the formula below, since the growth in costs at the regions in which the municipal reform was implemented in full differs largely from that in the groups of regions in which the number of municipal entities less than doubled and more than doubled:

$$E_I = \sum_{i=1}^2 [ \{ (d_{total} - d_0)_i^{implem} - (d_{total} - d_0)_i^{not\ implem} \} * 2 (e_{av})_i^{not\ implem} * \frac{P_t}{P_{t-1}} * N_i^{not\ implem} ],$$

where  $i$  is index of groups of regions:  $i = 1$  corresponds to the group of regions in which the number of municipal entities less than doubled,  $i = 2$  corresponds to the group of regions in which the number of municipal entities more than doubled.  $(d_{total} - d_0)_i^{implem}$  is average growth in administrative costs caused by the reform in the regions within the  $i$ -group in which the reform was implemented in full.  $(d_{total} - d_0)_i^{not\ implem}$  is average growth in administrative costs caused by the reform in the  $i$ -group of regions in which the reform was implemented in full.  $(e_{av})_i^{not\ implem}$  is the average municipal budget administrative costs in H1 2005 by  $i$ -group of regions in which the reform was implemented in full.  $\frac{P_t}{P_{t-1}}$  is price index

(June 2006 year on year),  $N_i^{not\ implem}$  is number of the regions within the  $i$ -group in which the reform was not implemented in full.

However, given that the growth in administrative costs in the group of regions in which the reform was not implemented and the number of municipal entities less than doubled is already higher than the growth in the corresponding group regions in which the municipal reform was implemented in full in 2006, the formula may be simplified the following way:

$$E_1 = \{(d_{total})_2^{implem} - (d_{total})_2^{not implem}\} * 2 (e_{av})_2^{not implem} * \frac{P_t}{P_{t-1}} * N_2^{not implem},$$

where  $(d_{total})_2^{implem}$  is average total growth in local budget administrative costs at the regions which implemented the municipal reform in full and the number of municipal entities more than doubled,  $(d_{total})_2^{not implem}$  is average total growth in local budget administrative costs at the regions in which the municipal reform was not implemented in full and the number of municipal entities more than doubled.  $(e_{av})_2^{not implem}$  is the average municipal budget administrative costs in H1 2005 at the regions in which the reform was not implemented in full and the number of municipal entities more than doubled,  $\frac{P_t}{P_{t-1}}$  is price index,  $N_2^{not implem}$  is number of regions in which the reform was not implemented in full and the number of municipal entities more than doubled.

The following results can be obtained by inserting specific values into the formula below:

$$E_1 = (0,417 - 0,285) * 2 * 450,7 * 1,092 * 26 \approx \text{RUR } 3.4 \text{ billion.}$$

Hence, given the accepted prerequisites and limits, extra costs of local budgets on maintenance of local self-government bodies relevant to the implementation of the municipal reform may be estimated to the amount of RUR 13.6 bln or 1.1% of consolidated municipal budget costs at mid-2006 values. Potential costs on maintenance of local self-government bodies relevant to full implementation of the municipal reform at the regions in which it was completed in 2006 are estimated at this stage of the survey to the amount of RUR 3.4 bln or 0.3% of the consolidated municipal budget costs at mid-2006 values.

### **2.3. Analysis of Budget Costs on the Municipal Reform at the Constituent Entities of the Russian Federation Based on Budget Laws for 2005 and 2006**

Budget laws for 2005 and 2006 are the unique source of information on budget expenditures on municipal reform of the constituent entities of the Russian Federation that does not require detailed analysis of the situation at specific regions. The strong point is that such information allows a large array of regions to be covered. However, it has less potential as a source for assessment of real costs relevant to the reform.

First, it does not always happen that budget laws recognize such costs in a clear and transparent form. Since forms of recognition of such costs may vary, it could be impossible to identify costs earmarked for financing of municipal entities. Purchases of computers, office appliances, service motor vehicles might just as well be covered with own revenues of municipal areas and rural/ urban settlements, and such costs could be recognized in determining the amount of donations as part of fiscal capacity equalization.

Second, as evidenced by the available data, many regions allocated funds for the purpose of implementation of the municipal reform from regional extra budget revenues rather than planned revenues of the same. Amounts of financing with extra revenues could exceed considerably the planned allocations. However, no relevant information can be obtained from the sources accessible for the public.

Therefore, the relevant information should first of all be regarded as illustrative and additional to the data that was obtained from the surveys conducted in specific regions. Nevertheless, if not for the assessment of amounts of financing, it can be useful to see targets of financing as well as assess costs of provision of conditions for efficient operation of local self-government bodies. The data obtained from regional budget laws for 2005 and 2006 is illustrated in *Table 2.8*.

Table 2.8

**Data on Funds Allocated to Finance the Municipal Reform Under  
Regional Budget Laws for 2005 and 2006**

Region	Year	Amount of allocated funds, RUR thousand	Form of allocation	Number of municipal areas (urban districts) subject to financing	Distribution of funds between municipal entities (from - to), RUR thousand
1	2	3	4	5	6
Arkhangelsk Oblast	2006	10 100	Subsidies on purchase of hardware and software at newly established rural/ urban settlements	19	from 149 to 1094
	2005	16 085	Subventions on preliminary measures related to the local self-government reform	26	from 167 to 1384
Vologda Oblast	2005	37 835	Subventions on purchase of office appliances and software	24	from 484 to 3363
	2005	5 980	Subsidy on real estate classification	26	230
	2006	6 704	Training funds as part of a donation provided by the fund for local budget equalization	26	from 143 to 520
Leningrad Oblast	2005	18 000	Subsidies on implementation of the Federal Treasury-based system of execution of local budgets	N/A	N/A
Omsk Oblast	2005	16 640*	Subventions on technical equipment of municipal entities for Federal Treasury-based budget execution	32	520.0
Samara Oblast	2005	27 762	Subventions on purchase of office appliances and software	30	from 835 to 1287
Saratov Oblast	2005	4 496	Funds which is allocated to budgets of municipal entities for advanced training of municipal servants and elective public officials	42	from 9.1 to 202.8

1	2	3	4	5	6
Tambov Oblast	2005	1 000	Funds which is allocated to purchase of service motor vehicles for (urban) councils as part of donations on budget equalization	5	till 200.0
Ulyanovsk Oblast	2006	5 928	Mutual payment funds on purchase of office appliances for urban and rural settlements	21	from 189.5 to 450.2
	2006	1 024,0	Mutual payment funds on introduction of an automated budgeting and execution system for local budgets	8	till 128.0
Khabarovsk Territory	2006	28 016 (in part)	The "Special-Purpose Training of Specialists" territorial program	N/A	N/A
Yaroslavl Oblast	2006	30 000	Subsidies on purchase of hardware and software for budget accounting and treasure system	18	from 1100 to 2350

\* the town of Omsk is excluded.

As illustrated in the *Table*, budget funds to be allocated to implement the reform of local self-government bodies were found out to be specified in the budget laws of 10 constituent entities of the Russian Federation. The overwhelming majority of the funds was allocated for purchase of personal computers, office appliances and software at municipal entities or creation of conditions for the Federal Treasury-based budget execution. Obviously, the two purposes are closely inter-related and duplicating one another. The relevant regional budget expenditures earmarked for 2005 and 2006 are presented in *Table 2.9*. It is illustrated in the *Table* that no more than four of the regions allocated budget funds for the same purposes in 2005, while in 2006 the number of such regions reduced to make 3. The aggregate amount of funds allocated in all regions in 2005 more than doubled the corresponding amount in 2006. However, the data under consideration is insufficient to make any inference on volumes of purchases in physical terms, because there is no data on types of equipment and prices at which it was scheduled to be bought.

It is only the Tambov Oblast where purchases of service motor vehicles were planned, but for municipal areas and urban districts rather than

rural/ urban settlements. However, it may be inferred based on the data on this region that RUR 200 thousand of budget funds was allocated to purchase a unit of transport in 2005. This information is needed to assess the potential of costs on the municipal reform and further will be used in the survey.

*Table 2.9*

**Budget Costs of Constituent Entities of the Russian Federation  
Earmarked to Provide Conditions for Fiscal Execution of Budgets \***

2005		2006	
Region	Amount, RUR thousand	Region	Amount, RUR thousand
Vologda Oblast	37 835	Arkhangelsk Oblast	10 100
Leningrad Oblast	18 000	Ulyanovsk Oblast	6 952
Omsk Oblast	16 640	Yaroslavl Oblast	30 000
Samara Oblast	27 762		
<b>Total</b>	<b>100 237</b>	<b>Total</b>	<b>47 052</b>

\* These costs also include regional budget expenditures allocated for purchase of personal computers, office appliances and software at rural/ urban settlements.

## Chapter 3. Survey on Implementation of the Local Self-Government Reform in Specific Regions

### 3.1. Vologda Oblast

#### *Implementing Municipal Reform in Vologda Oblast*

The Data on the Vologda Oblast is most sufficient for a comprehensive analysis of the costs incidental to the implementation of the local self-government reform, as the administration of the Oblast has continuously been focused on information and analytical support to the municipal reform<sup>19</sup>.

#### *Reform of the territorial principles of local self-government*

The Vologda Oblast implemented the regional model of local self-government prior to the reform. The region had two cities of oblast significance, Vologda and Cherepovets, and 26 municipal areas. The regions included 375 village councils, 8 urban-type communities, 10 cities of regional significance and 2 cities of oblast significance without the autonomous municipal entity status (Velikiy Ustyug and Sokol). Three hundred forty four new municipal entities, of which 321 rural settlements and 23 urban settlements, were established in the course of the reform. The new municipal entities were established both on the basis of separate village councils and through consolidation of the previously established sub-municipal entities – the number of newly established urban/ rural settlements tuned out to be 13% less than the number of sub-municipal entities. The results of changes in territorial pattern of local self-government are presented in *Table 3.1*. It should be noted that about 57% of urban/ rural settlements ended up with a population of less than 1000 persons upon the reform of territorial structure.

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<sup>19</sup> The Consultant would like to thank the Department for Municipal Entities of the Government of the Vologda Oblast for information and analical data that was used in this chapter, in particular the Analytical note on structural and staff situation at municipal entities at the settlement level depending on the population size and scope of delegated authorities.

Table 3.1

**Description of Newly Established Urban/ Rural Settlements  
at Vologda Oblast**

<b>Population (persons)</b>	<b>Number of settlements (pcs.)</b>	<b>A share in total number of newly established urban/ rural settlements</b>
less than 300 persons	19	5.5 %
from 300 to 700 persons	107	31.1 %
from 700 to 1 000 persons	70	20.3 %
from 1 000 to 2 000 persons	77	22.4 %
from 2 000 to 3 000 persons	29	8.4 %
from 3 000 to 5 000 persons	15	4.4 %
from 5 000 to 10 000 persons	16	4.6 %
More than 10 000 persons	11	3.2 %
<b>Total</b>	<b>344</b>	

*Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

The Oblast has consistently been implementing the municipal reform in full since its inception in 2006. The rural/ urban settlements only have authorities to deal with some of the issues of local significance which are provided for by the Federal Law 131-FZ, while the rest of these issues are delegated to the local self-government bodies of municipal areas on a contractual basis. As evidenced by the data reported by the Administration Authorities of the Oblast, 69% of issues of local significance may be dealt with by the settlements themselves on average at the municipal entities at the Oblast, 12% of which may be dealt with by settlements in conjunction with regions (i.e. regional local self-government bodies are authorized to deal with these issues in part), and 19% of them are delegated to municipal areas. More than 70% of rural/ urban settlements delegated to the regions to deal with all or some of issues of local significance such as preparedness activity; provision of library services to the general public; approval of general lay-outs of rural/ urban settlements, land-use plans and development plans; creation of conditions for mass physical training and sports; estimation of subsidies on payment for residential properties and public utility services, as well as provision of subsidies to individuals; creation of conditions for provision of recreation and culture services for those who live in urban/ rural settlements. Most of the urban/



rural settlements that are authorized to deal with issues of local significance on their own are located in eight municipal areas, namely Velikiy Ustyug, Beloziorsk, Nikolsk, Chagodoshensk, Kichim-Gorodetskiy, Ust-Kubinsk, Cherepovets and Kirillovsk.

It should be noted that though at the oblast level the issues of conclusion of agreements on delegation of authority between local self-government bodies municipal areas and rural/ urban settlements are not regulated, at the regional level such agreements must be uniformly concluded with all rural/ urban settlements of a given region, while inter-regional relations may differ largely.

#### *Reforming Organizational Principles of Local Self-Government*

It should be noted that in spite of that the overwhelming majority of municipal entities in the Vologda Oblast are newly established and the Oblast lost the opportunity afforded by the federal law to set a uniform structure of local self-government bodies at newly established municipal entities for the initial term of office. This issue was left to the discretion of the municipal entities thus favorably distinguishing the Vologda Oblast from most of other regions included into this survey.

#### *Specific Issues on Financial Fundamental Principles of Local Self-Government*

Unlike most of the regions in which the municipal reform was implemented, the Vologda Oblast resolved to equalize local budgets of the settlements c regional level. In 2006, such equalization was performed on a per capita basis.

Since 2007 the system of intergovernmental transfers to the settlements has been falling well within the fiscal equalization scheme traditional for the Vologda Oblast. A local Law No. 1323-OZ of the Vologda Oblast “On Standard Consumption Requirements” dated 16.07.2005 is in force in the Oblast, which actually specifies such standards not only for determining regional budget expenditures on maintenance of regional agencies, but also for municipal entities with a view to promoting intergovernmental fiscal relations. This law used to regulate only the costs of municipal areas and urban districts, while now it covers also standard costs of rural/ urban settlements. It should be noted that such approach to management of intergovernmental fiscal relations fails to be compliant

with the Budget Code and shall be legitimate till the date of transition to a full implementation of the municipal reform, i.e. January 1, 2009.

*Changes in the Number Local administrative bodies*

A total number of employees at local administrative bodies at the Oblast increased 8.3%, the number of regional administrative personnel grew up 2.8%, the number of administrative bodies at rural/ urban increased 12% against the number of personnel at the level of sub-municipal entities prior to the inception of the municipal reform. The number of municipal servants grew faster than that of administrative bodies, from which it may be inferred that the personnel of administrative bodies, which previously were not ranked as such, became municipal servants. The number of personnel at local administrative bodies reduced at both the regional and settlement levels at three regions of the Oblast. It may be assumed that those public servants, which used to be involved in public utility services within administrative bodies, were given the status of independent legal entity as part of completion of division of administrative and economic functions. The number of personnel reduced only at the regional level at another two regions. In other regions the number of administrative personnel grew at a range of 2.2% to 42.4%, including 3.4% to 58.9% at the settlement level (against the previously established sub-municipal bodies). Growth in the number of administrative personnel at eight regions with consistently implemented municipal reform was a bit higher, 10% on average, than total growth in personnel, including slightly more than 15% at rural/ urban settlements.

A series of factors effecting changes in the number of local administrative bodies are explained in the analysis made by the Department for Relationship with Municipal Entities under the Government of the Vologda Oblast. The results of this analysis are presented in *Table 3.2*.

It is illustrated in the Table that the number of administrative bodies at rural/ urban settlements depends both on objective (in particular their population, scale of the municipal reform) and subjective factors. For instance, the regions with the largest number of administrative bodies at rural/ urban settlements per each of the presented groups include both regions in which rural/ urban settlements have maximum autonomy (Ve-

likiy Ustyug, Kichim-Gorodetskiy, Kirillovsk) and regions which are not included in this group (Kaduisk, Totemskiy).

*Table 3.2*

**Description of Administrative Bodies at Rural/ Urban Settlements With Different Population**

<b>Population</b>	<b>Population of municipal entity per 1 servant of administrative bodies at rural/ urban settlements</b>	<b>Number of actually exercised authorities per 1 servant of administrative bodies at rural/ urban settlements</b>	<b>Range of authorized personnel complement of administrative bodies at rural/ urban settlements</b>
Less than 300 persons	66	6	3 - 11
from 300 up to 700 persons	116	5	5 - 10
from 700 up to 1 000 persons	164	4	5 - 13
from 1 000 up to 2 000 persons	213	3.4	6 - 18
from 2 000 up to 3 000 persons	285	2.3	N/A
from 3 000 up to 5 000 persons	407	2.2	N/A
from 5 000 up to 10 000 persons	586	1.7	N/A
More than 10 000 persons	972	1.2	N/A
<b>Regional average</b>	302	3.4	9

*Changes in Administrative costs*

Budgeted costs on maintenance of local self-government bodies of consolidated regional budgets for 2006 of municipal areas in the Vologda Oblast grew an average of 27.2% and a total of 11.5% against the actual costs incurred in the Oblast in 2005. Growth in costs at the regions with maximum-autonomy rural/ urban settlements differed slightly from the foregoing figures.

There is a wide space of data on growth in costs: no growth was observed with regard to costs on maintenance of local self-government bodies in the Vashkinsk Municipal Area against more than a 60% growth of this parameter in the Babushkinsk Region and the Vologda. However, it should be taken into account that in absence of growth at the Vashkinsk

Municipal Area, its per capita costs on maintenance of local self-government bodies of the consolidated regional budget remained the highest among the regions of the Oblast. Besides the Vashkinsk Region, per capita costs of more than RUR 2 thousand in 2006 are typical of the Kaduisk Region, the Mezhdurechenskiy Region and the Ust-Kubinsk Region. Except for the Kaduisk Region, all other regions included into this list have population less than 10 000 and are 100% rural. The lowest per capita costs on maintenance of local self-government bodies – less than RUR 1000 – are typical of the Velikiy Ustyug Region and the Sokolskiy Region with a population of more than 50 thousand and a share of urban population of more than 60%.

A single analysis of costs on maintenance of local self-government bodies in the budgets of municipal areas and urban /rural settlements shows that at municipal areas a share of such costs accounts for about 10% with less than 7% at the Velikiy Ustyug Region and the Totemskiy Region, and more than 14% at the Kaduisk Region and the Kirillovsk Region. Per capita costs on maintenance of local self-government bodies average RUR 712 for all regions with less than RUR 400 at the Velikiy Ustyug Region and the Vologda Region, and more than 1000 RUR at the Kaduisk Region, the Mezhdurechenskiy Region and the Ust-Kubinsk Region.

With regard to budgets of rural/ urban settlements, a share of costs on maintenance of local self-government bodies is incomparably bigger, more than 37%. It varies from 26.6% in the Velikiy Ustyug Area to 47.3% in the Vologda Area. Per capita costs on maintenance of local self-government bodies at rural/ urban settlements average RUR 538 (more than 75% of the regional ones) in the Oblast within a range of RUR 308 in the Sokolskiy Region to RUR 763 in Vashkinsk.

Analysis of per capita costs on maintenance of local self-government bodies shows that such costs depend largely on the population and a share of rural population both at regional and settlement levels. For instance, at all rural municipal areas with a population of 10 thousand and less per capita costs on maintenance of local self-government bodies exceed RUR 950 and RUR 660 at the regional and settlement level respectively, with maximum costs incurred at the settlement level. With regard to the re-

gional level, extremely high administrative costs are typical of the Chagodoshensk Region, the Kaduisk Region and the Kirillovsk Region, for which no objective factors are responsible.

*Provision of Local Administrative Bodies with Hardware and Equipment*

The Administrative Authorities of the Vologda Oblast believe that each administrative body of rural/ urban settlements should be equipped with at least three personal computers and one service vehicle in order to be able to operate efficiently. For the time being, each of the rural/ urban settlements is equipped with at least one computer, 140 rural/ urban settlements are equipped with three or more personal computers. The estimated demand in additional hardware and office appliances is 667 personal computers, 693 printers, 215 facsimiles, as evidenced by the information provided by the Administrative Authorities of the Vologda Oblast.

*Vologda Oblast's Budget Expenditures on the Municipal Reform*

The Vologda Oblast's expenditures on the municipal reform were taken into account during the development of a system of intergovernmental fiscal relations. This was financed as follows:

- subventions from the regional Compensation Fund;
- subsidies from the regional Fund for Co-financing of Social Expenditures;
- donations from the regional Fund for Local Budgets Equalization.

The costs incurred in the period between 2005 and 2006 are presented in Table 3.3 below.

Hence, RUR 59 900 thousand was planned for allocation on the municipal reform from the Vologda Oblast's budget in 2005 against RUR 6 704 thousand in 2006. Accordingly, in 2005, it averaged RUR 2 304 thousand per single municipal area and RUR 174 thousand per single rural/ urban settlement against RUR 258 thousand per single municipal area and less than 20 thousand per single rural/ urban settlement in 2006. These costs were insignificant for the regional budget – in 2005 they accounted for less than 0.3% of the budget expenditures, while 0.03% in 2006. Fifty seven per cent of this amount was planned to finance the provision of local administrative bodies with hardware and software; 10% on

training of the local administrative personnel. It is, however, impossible to assess targets of another 24% of such costs based on the information on the regional budget, because such funds were targeted to finance the local self-government reform as a whole, while each municipal area was entitled to earmark such funds at its own discretion.

*Table 3.3*

**Vologda Oblast’s Budget Expenditures on Local Self-Government Reform (Under Budget Laws, RUR thousand)**

	2005 (plan)		2006 (plan)	
	Subventions on preliminary measures related to the local self-government reform	Subventions on purchase of office appliances and software	Subsidy on real estate classification	Training costs as part of donation from the Fund for Local Budgets Equalization
Total	16085	37835	5980	6 704
Number of municipal areas received budget allocations	26	24	26	26
Distribution between municipal areas (from – to)	from 167 to 1384	from 484 to 3363	till 230	from 143 to 520

However, targeted allocations fail to provide an insight into the amounts of financing of the municipal reform. In the Vologda Oblast, like in other Oblasts, the municipal reform was financed with extra funds from above-standard budget expenditures. First of all they the funds were targeted to finance purchases of service motor vehicles for administrative bodies at rural/ urban settlements, because the Administration of the Oblast regarded this issue as more severe over the provision of personal computers and other office appliances. In 2006, extra RUR 11470 thousand was allocated to purchase 92 motor vehicles. Another RUR 10 mln is expected to be allocated till the end of the year. In addition, 52 motor vehicles are scheduled for purchase in Q1 2007.

*Implementing the Local Self-Government Reform  
in the Griazovets Region*

*Reforming Territorial Principles of Local Self-Government*

The regional model of local self-government was implemented prior to the reform in the Griazovets Region as well as in other regions in the Oblast: the concept of municipal entity was introduced at the regional level, territorial units of regional administrative bodies operated in 18 village councils. The town of Griazovets, the administrative center of the region, had been governed by the Regional Administrative Body until its municipal administrative body was established in 2004 on the threshold of transition to the two-tier model of local self-government. As a result, by the beginning of 2005, territorial units of the Regional Administrative Body were established in all village councils as well as the Vokhtoga Urban-Type Community and the town of Griazovets.

In demarcation of boundaries of settlement-type municipal entities, it was resolved to consolidate territories of urban/ rural settlements against the previously established village councils. As a result, 11 settlements, including 9 rural and 2 urban settlements (Griazovets and Vokhtozhskiy) were established on the territory of the region. However, boundaries of only three rural settlements matched the boundaries of village councils (Proskovskoye, Rostilovskoye and Pertsevskoye Rural Settlements). The Yurovskoye Rural Settlement was established by consolidating three villages Soviets. The rest of 5 rural settlements were established on the basis of two villages Soviets each.

As a result of consolidation of village councils in establishing rural settlements, the population of rural settlements of the region came to average 1 700. The Sidorovskoye Rural Settlement has the smallest population, barely 897, four rural/ urban settlements have a population of 1 000 to 2 000, the Komianskoye Settlement has a population of 2 206, and the Yurovskoye Settlement has a population of 3 183. All rural settlements of the Griazovets Region are distinguished by dispersion of the population over the territory, include 31 to 91 communities with an average population density at rural settlements of the region about 2.8 persons per 1 m<sup>2</sup>.

The population of the Griazovets and Vokhtozhskiy Urban Settlements totals 15.7 and 8,8 thousand respectively. However, while the Gri-

azovets Municipal Entity only includes 3 communities, the Vokhtozhskiy Municipal Entity has 40 communities.

#### *Reforming Organizational Principles of Local Self-Government*

All rural/ urban settlements of the Griazovets Municipal Area chose a model of local government under which the head of a community is to be elected and rule the representative body. The head of a local government body is to be appointed on a contractual basis, except for two rural settlements with a population of less than 1000 (Sidorovskoye and Kamen-skoye) in which the head of the settlement rules both the representative body and the local government body.

#### *Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

Notwithstanding the fact that the Federal Law 131-FZ was announced to take full force in the Vologda Oblast in 2006, the rural/ urban settlements of the Griazovets Region were delegated less authorities than it is provided for by the federal level. At the end of 2005 – early in 2006, the regional administrative bodies initiated agreements on delegation of a share of the authorities of rural/ urban settlements to the regional level. All rural/ urban settlements passed an equal set of their authorities to the region, and agreements were entered into in compliance with the text of a model agreement developed by the regional administrative body.

As a result, the following settlements' authorities were passed to the administration of the municipal area on a contractual basis:

- the authority to manage provision of library services;
- the authority to deal with issues of local significance in the field of creation of conditions for provision of recreation and culture and art services (in part);
- the authority to create conditions for provision of services of physical training and sports as well as services of intersettlement organizations and facilities;
- the authority to estimate and grant subsidies in payment for residential premises and public utility services and provide subsidies to the individuals entitled to such subsidies payable under the housing law;
- the authority to draft and approve town planning documentation including master plans, land use and development rules, urban devel-



opment standards, as well as issue construction permits and occupancy permits;

- the authority to arrange, award and execute municipal contracts (in part);
- the authority to set tariffs of public utility services;
- the authority related to privatization of municipal property (in part);
- the authority to civil defense, protection from critical emergencies;
- the authority to manage collection of statistics on economic and social situation at the municipal entity;
- the authority to arrange for and hold measures on preparedness activity (in part).

It should be noted that all agreements contain standards specifying that execution of municipal area's agreements must be financed with subventions from budgets of rural/ urban settlements. However, the agreements provide no description of the method used to calculate subventions. Additional agreements specifying the amount of subventions to be transferred by the settlement to the region were entered into for the purpose of exercising specific authorities. Additional agreements were concluded further to the agreements on delegation of authority to provide services of library, culture and art, physical training and sports. Moreover, since June 2006 the regional budget has been receiving subventions for exercising of the authority to estimate and grant housing subsidies.

A total of RUR 15.5 mln, 25.3% of the total budget expenditures of rural/ urban settlements, of subventions were allocated to the municipal from the settlements' budgets so that it can exercise the authorities delegated to it under the agreements.

The regional administrative body is assigned to execute, as financed with the municipal area's budget funds, the rest of the authorities delegated from the settlement level under the agreements.

In the Griazovets Region, besides delegation of authorities from the settlement level up to the regional level, a practice of delegation of authorities from the regional level down to the settlement level was established, but it is applied only to the Griazovets Urban Settlement to which regional authorities were delegated, because the town of Griazovets is

classified as administrative center. In particular, the following authorities were delegated to this Settlement in 2006:

- authority to provide conditions enabling local self-government bodies to take relevant regional, oblast and interregional measures;
- authority to participate in the development and implementation of regional special programs on socio-economic development relative to the town of Griazovets as administrative center in the region;
- authority to create favorable conditions for the development and management in the field of tourism;
- authority to participate in regional and interregional relations;
- authority to take measures required for the development of the infrastructure and image of the town of Griazovets as administrative center in the region.

RUR 155 350, RUR 10 per citizen annually, was allocated for financing the said authorities with the regional budget funds. In 2006, such funds accounted for less than 1% of the municipal budget.

Besides the agreements on delegation of authority which legally provide for a simultaneous transfer of funds allocated for their execution, a few agreements on cooperation without imposing any financial liabilities on the parties thereof were concluded in the region. In particular, the administrative bodies of the region and the urban settlement entered into an agreement on cooperation in the field of archive record-keeping under which the municipal area shall provide the settlement with advisory and methodological services as well as assistance in advanced training of personnel specializing in the field of archive record-keeping.

#### *Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

Analysis of changes in the authorized personnel complement at municipal entities of the Griazovets Region shows that this parameter remained at the pre-reform level (for more details see *Table 3.4*), for which a special-purpose policy pursued by the regional administrative body in the field of establishment of rural/ urban settlements is responsible for.

Table 3.4

**Changes in Authorized Personnel Complement and Costs  
on Maintenance of Local Self-Government Bodies, 2005 (Actual) –  
2006 (Approved Budget)**

	Total in the Region			Regional administrative bodies (exclusive of rural district administrative bodies/ rural/ urban settlements)			Rural district administrative bodies (2005) / rural/ urban settlements (2006) in the region		
	2005	2006	Growth, %	2005	2006	Growth, %	2005	2006	Growth, %
1	2	3	4	5	6	7	8	9	10
Number of servants at municipal entities – total, including *	323.0	349.8	8.3	125.0	199.0	59.2	198.0	150.8	-23.9
municipal servants	186.0	301.0	61.8	94.5	162.5	55.1	85.5	130.0	19.3
local administrative personnel not classified as municipal servants (if available)	76.0	0.0	-100.0				76.0	0.0	-100.0
technical personnel	61.0	46.3	-24.2	24.5	25.5	4.1	36.5	20.8	-43.2
Costs on maintenance of local self-government bodies, RUR thousand, including	62 717.3	55 396.6	-11.7	40 768.9	35 975.5	-11.8	21 948.4	19 421.1	-11.5
costs on maintenance of local government body, including	55 740.1	52 433.9	-5.9	40 191.7	33 012.8	-17.9	15 548.4	19 421.1	24.9
with the regional budget	40 191.7	25 014.0	-37.8	40 191.7	25 014.0	-37.8			
with subventions from the regional budget	0.0	7 998.8	100	0.0	7 998.8	100			
costs on maintenance of local administrative personnel not classified as municipal servants (if available)	6 400.0	0.0	-100.0				6 400.0		-100.0
Costs on maintenance of supervisory bodies	0.0	724.7	100	0.0	724.7	100			
costs on maintenance of the Regional Land Assembly	577.2	2 238.0	287.7	577.2	2 238.0	287.7			

	1	2	3	4	5	6	7	8	9	10
Costs on wages of servants at municipal entities, RUR thousand, including		36 372.6	43 798.0	20.4	18 864.3	27 283.4	44.6	17 508.3	16 514.6	-5.7
costs on maintenance of local government body, including		29 397.3	41 926.5	42.6	18 289.0	25 411.9	38.9	11 108.3	16 514.6	48.7
with the regional budget		18 289.0	17 022.2	-6.9	18 289.0	17 022.2	-6.9			
with subventions from the regional budget		0.0	8 389.7	100	0.0	8 389.7	100			
costs on maintenance of local administrative personnel not classified as municipal servants (if available)		6 400.0	0.0	-100.0				6 400.0		-100.0
costs on maintenance of supervisory bodies		0.0	724.7		0.0	724.7	100			
costs on maintenance the Regional Land Assembly		575.3	1 146.8	99.3	575.3	1 146.8	99.3			

\* the personnel employed at the Regional Land Assembly (5 persons in 2005, 7 persons in 2006) and the Accounts Chamber (1 person in 2005, 4 persons in 2006), which were financed with regional budget funds, are also classified as servants of municipal areas at the regional level.

*Data source:* based on the data reported by the Administrative body of the Griazovets Municipal Area.

It should be noted that both rural and regional administrative bodies saw significant changes in the personnel complement with total number of servants at municipal entities remaining at the pre-reform level.

First, local administrative personnel (exclusive of technical personnel) was granted the status of municipal servants, which was not the case in previous years. These are accountants of rural administrative bodies and land surveyors. In 2005, the above categories of personnel were classified as personnel of sub-municipal entities, while they were not classified as municipal servants; accountants were financed under the “Education” and “Culture and Art” items, while land surveyors under the sub-item “Land Resources” of the “Agricultural Industry” item. In 2006, these specialists

were granted the status of municipal servants to be financed under the “National Issues” item.

Second, land surveyors became to be classified as servants of administrative bodies of municipal area with their subsequent reduction in number. As a result, the authorized personnel complement of administrative bodies at rural/ urban settlements was reduced, while that of the Committee for Regional Property Management more than tripled, from 9 to 27.5 persons. It should be noted that land surveyors continued to operate on the territories of rural/ urban settlements in the capacity of regional administrative servants in 2006.

Third, consolidation of village councils in establishing rural settlements allowed the number of specialists to be reduced considerably at the settlement level, in particular accountants employed at rural administrative bodies, some of which were fired, others were included into the authorized personnel complement of LLC Public Utility Services established on the basis of the previously established public utility service units operated under local administrative bodies. The foregoing consolidation allowed the number of technical personnel to be reduced as well. Authorized technical personnel complement at the settlement level was reduced 43%: from 36.5 to 20.75 persons.

Pursuant to the foregoing regional policy on demarcation of boundaries and organization of territorial administration, the number of administrative personnel remained unchanged in the urban/ rural settlements established on the territory of a single village councils. In urban/ rural settlements which were established on the territory of two and more village councils, the number of personnel of municipal entities tended to reduction. Growth in the number of local government bodies was observed in the town of Griazovets, in which local administrative body was not established until the inception of the municipal reform and initially had a limited scope of authorities.

Table 3.5

### Description of Rural/ Urban Settlements and Their Local Self-Government Bodies at the Griazovets Region\*

Settlement's name	Number of village councils which served as basis for establishment of urban/ rural settlements	Number of communities on the territory of the urban/ rural settlement	Population, persons	Number of personnel employed at local administrative bodies, persons		Number of personnel employed at local administrative bodies (exclusive of technical personnel), persons		Population of municipal entity per 1 servant of administrative bodies at rural/ urban settlements (exclusive of technical personnel)	
				2005	2006	2005	2006	2005	2006
Sidorovskoye	2	39	897	9	9	6	6	149.5	149.5
Frolovsk	2	31	1015	13	11.5	9	6	112.8	169.2
Ploskovskoye	1	40	1200	9	8	5	6	240.0	200.0
Letskoye	2	54	1400	18	11.5	9	8	155.6	175.0
Pertsevskoye	1	63	1760	8	8	6	6	293.3	293.3
Rostilovskoye	1	54	1876	8	12.5	6	8	312.7	234.5
Komianskoye	2	86	2206	20.5	13.25	16.5	10	133.7	220.6
Yurovskoye	3	91	3183	33.5	18.5	26.5	13.5	120.1	235.8
Vokhtoga	1	4	8800	29.5	28.5	21	20	419.0	440.0
Griazovets	1	3	15700	11	17	9	14	1744.4	1121.4

\* this might disagree insignificantly with the data reported by the regional administrative body, because some of the rural/ urban settlements did not include accountants and land surveyors, which were not classified as municipal servants in 2005, into the personnel of municipal entities.

*Data source:* the data was obtained from a questionnaire of administrative personnel at rural/ urban settlements.

The regional level saw some substantial changes. In particular, the Agricultural Administrative body (12 persons), which used to be integrated into the local government body and financed with the regional budget funds, was granted the legal entity status to be financed with subventions from the regional budget. The issue of social security management was delegated to the municipal level, which used to be vested in

territorial branches of the Regional Department for Labor and Social Security, and its personnel was granted the status of civil servants. In 2006, public bodies delegated the social security authority to local self-government bodies at municipal areas. As a result, social security servants became municipal servants, but their maintenance costs are financed with subventions from the regional budget.

*Table 3.4* also illustrates changes in costs on maintenance of local government officials and local self-government bodies in the period between 2005 and 2006. Data on actual budget execution is presented for 2005, while data on updated budgets of regions and rural/ urban settlements is presented for 2006. Individually is presented data on costs on maintenance of administrative bodies including all costs recognized in the “Public Governance” item as well as costs on purchase of office appliances, payment for public utilities, communication services, travel expenses and other heads of costs, and severally costs on salaries of (including accruals) of servants of municipal entities.

As indicated in the Table, in 2006, costs on financing of local self-government bodies reduced 11.7% year on year. Costs reduced at both the regional (-11.8%) and the settlement levels (-11.5%). There are several reasons for such reduction of costs in the “Public Governance” item. First, the data on 2005 included costs on purchase of office appliances for regional administrative bodies which were covered in 2005 with extra revenues. Second, the region was able to regulate costs of municipal administration, as it required no donations in 2005. As a result, municipal servants received additional payment. In 2006, the regional budget was approved in compliance with the requirements specified in the regional law “On Standard Consumption Requirements”. Third, costs on municipal elections, which were held in 2005, were recognized in the same item.

The situation regarding the costs on salaries of servants of municipal entities was found to be different. Analysis shows that these costs increased 20.4% in the region with maximum growth at the regional level (44.6%). Costs at the settlement level reduced, because settlements’ budgets ceased to finance land surveyors which in 2006 were included into the staff members of the Regional Property Management Committee,

as well as the number of accountants and, accordingly, the costs on the maintenance reduced substantially.

*Provision of Rural/ Urban Settlements with Computers, Office Appliances and Motor Vehicles*

At the moment, rural/ urban settlements of the Griazovets Region are equipped with 1 personal computer per 1.2 users on average (for more details see *Table 3.6*), which is better year on year, because in 2006 the Plaskovsk Rural Settlement purchased one personal computer, the Komanovsk Rural Settlement purchased one personal computer, Frolovsk Rural Settlement purchased five personal computers and Vokhtoga Urban Settlement purchased two personal computers.

Further, another 18 personal computers need to be purchased for rural/ urban settlements of the region so that local self-government bodies can operate efficiently, as estimated by the local administrative personnel. Should the demand for computer hardware have been met, one municipal servant would be provided with one personal computer on average.

With regard to provision of service motor vehicles, each rural/ urban settlement has at least one vehicle. Six rural/ urban settlements have two motor vehicles, the Yurovskoye has three motor vehicles.

*Table 3.6*

**Provision of Rural/ Urban Settlements of Griazovets Municipal Area with Computer Hardware and Service Motor vehicles**

	Number of personal computers, pcs.		Provision of computers (number municipal servants per personal computer in 2006, persons)	Assessment of the demand for computer hardware at local self-government bodies of rural/ urban settlements, pcs.	Assessment of provision of computer hardware in case the settlements' demand is met	Number of service motor vehicles, pcs.
	2005	2006				
1	2	3	4	5	6	7
Sidorovskoye	4	4	1.5	1	1.2	1
Pertsevskoye	5	5	1.2	1	1.0	1
Griazovets	6	6	2.3	2	1.8	2
Ploskovskoye	5	6	1.0	3	0.7	2



1	2	3	4	5	6	7
Rostilovskoye	7	7	1.1	1	1.0	1
Letskoye	7	7	1.1	2	0.9	2
Komianskoye	7	8	1.3	3	0.9	2
Frolovsk	3	8	0.8	1	0.7	2
Yurovskoye	10	10	1.4	1	1.2	3
Vokhtoga	13	15	1.3	3	1.1	2
AVERAGE			1.2		1.0	

*Data source:* the data was obtained from a questionnaire of municipal servants of rural/urban settlements.

### *Municipal Reform Implementation Costs*

*Table 3.7* illustrates costs incurred on implementation of the local self-government reform financed with subventions from the regional budget and the municipal area's own funds in the period between 2005 and 2006

As indicated in the Table, subventions from the regional budget on the municipal reform in 2005 accounted for 0.6% of the regional budget. Subventions covered mostly costs incurred on inventory and classification of property and purchase of office appliances and software for rural/urban settlements. In addition, substantial amounts (RUR 825.7 thousand of the subsidies earmarked to hold preparatory measure concerning the municipal reform) were earmarked for publishing of by-laws and regulations adopted in rural/urban settlements, manufacturing seals and stamps for the same and miscellaneous costs. In 2006, the regional budget funds were only allocated to purchase motor vehicles, RUR 250 thousand.

The regional budget funds covered costs on inventory and classification of property (RUR 2870 thousand), as well as renovation of the administrative building of the Griazovets Urban Settlement. A total of 0.5% of the regional budget in 2005 and 0.6% in 2006 was spent on the municipal reform (this indicator accounted for 0.5% in the consolidated regional budget).

In addition, costs to the amount of RUR 257.8 thousand on training of settlements' specialists were recognized as part of donations in calculating intergovernmental transfers to rural/urban settlements in 2006. These

allocations covered costs on training of chief executives of local administrative bodies and finance specialists.

*Table 3.7*

**Municipal Reform Implementation Costs at the Griazovets  
Municipal Area**

Heads of costs	Budget of the constituent entity of the Russian Federation		Regional budget	
	2005	2006	2005	2006
Advanced training and/or training of administrative personnel at rural/ urban settlements	15.4			
Inventory and classification and registration of the title to the property passed to rural/ urban settlements	230.0		1470.0	1400.0
Boundary survey, demarcation of settlements' boundaries				100.0
Renovation of building and premises of administrative bodies at rural/ urban settlements			475.0	
Furnishing of administrative buildings at rural/ urban settlements (furniture)	37.9			
Purchase of office appliances, computer hardware and software for rural/ urban settlements	1391.6			
Purchase of motor vehicles for rural/ urban settlements		250.0		
Manufacturing of seals and stamps for the administrative bodies of rural/ urban settlements, publishing of by-laws and regulations, etc.	825.7			
<b>TOTAL</b>	<b>2 500.6</b>	<b>250.0</b>	<b>1 945.0</b>	<b>1 500.0</b>
A share in the municipal area's budget, as %	0.6	0.1	0.6	0.5

*Data source:* based on the data reported by the Administrative body of the Griazovets Municipal Area.

### Supervisory Bodies

The Griazovets Region has its Accounts Chamber, an self-dependent legal entity with a status specified in the regional Charter. In 2005, the authorized personnel complement of the Accounts Chamber included only one person, the Chairperson. In 2006, the authorized personnel complement increased up to four persons including the Chairperson and three specialist. The Chairperson of the Accounts Chamber is to be appointed as such by the Chairperson of the Regional Land Assembly.

The Griazovets Region's Accounts Chamber entered into agreements with local self-government bodies of rural/ urban settlements entitling the Accounts Chamber to audit these bodies. In particular, the Accounts Chamber is authorized:

- to assess the relevance of revenue and expenditure budget accounts at rural/ urban settlements;
- to supervise timely execution of budget revenue and expenditure accounts;
- to carry out financial expertise of draft resolutions developed by Councils of rural/ urban settlements, in which a provision is made for budget expenditures of a rural/ urban settlement;
- to prepare and submit reports on management of the property owned by a rural/ urban settlement.

In 2005, maintenance costs on the Accounts Chamber totaled RUR 567.3 thousand (0.14% of the regional budget expenditures), in 2006 (pursuant to the adopted budget) – RUR 724.4 thousand (0.21% of the municipal area's budget expenditures). Hence the costs grew 27.8%.

No supervisory bodies were established in urban/ rural settlements.

### *Implementing the Local Self-Government Reform in the Sokolskiy Municipal Area*

#### Reforming Territorial Principles of Local Self-Government

The regional model of local self-government was implemented at the Sokolskiy Region as well as in other regions within the Oblast prior to the reform: the municipal entity principle was established at the regional level, territorial units of the regional administration operated in 12 village

councils. The town of Sokol, regional administrative center, was governed by the Regional Administrative Body until its municipal administrative body was established in 2006.

In the Sokolskiy Region, unlike the Griazovets Region, it was resolved to retain the territories of the previously established village councils during demarcation of boundaries of settlement-type municipal entities. As a result, 13 urban/ rural settlements were established on the territory of the region, including 11 rural and 2 urban settlements (the town of Sokol and the town of Kadnikov).

The rural/ urban settlements of the region have the population as follows. There settlements with a population of less than 500; five settlements with a population of 500 to 1 000, another two settlements have a population of more than 1 000. The town of Kadnikov, municipal entity, has the largest population of 5.2 thousand, and the town of Sokol, municipal entity, is ranked second with a population of 42.3 thousand. The population of the municipal area totals 56.8 thousand, of which the town of Sokol accounts for about 74.4% of the total population.

#### *Reforming Organizational Principles of Local Self-Government*

All rural settlements of the region adopted the model of municipal administration under which the chief executive of a settlement is to be elected at municipal elections and combine the position of the head of local government body and the chairperson of the representative body. Heads of the Kadnikov and Sokol Urban Settlements are also elected at municipal elections but only may run their local administrative bodies. The Chairperson of the representative body is to be elected among the Council members.

Members of representative bodies at all rural/ urban settlements at the Sokolskiy Region are not subject to budget financing as such, except for the town of Sokol in which 20 members of the representative body are financed with budget funds. It should be noted that such governance pattern of municipal entity is contradicting the federal laws which specifies that not more than 10% members of the representative body may be financed with budget funds.

### *Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

A practice of agreements on delegation of a share of authorities from the settlements level to the municipal area's level has been widely applied in the Sokolskiy Region as well as other regions of the Oblast. A total of 14 issues of local significance were delegated from the settlement level to the regional level, including:

- authority to estimate and grant subsidies in payment for residential premises and public utility services and provide subsidies to the individuals entitled to such subsidies payable under the housing law;
- the authority to draft and approve town planning documentation including master plans, land use and development rules, urban development standards, as well as issue construction permits and occupancy permits;
- the authority to manage land control;
- the authority to manage provision of library services;
- the authority to deal with issues of local significance in the field of creation of conditions for provision of recreation and culture and art services;
- the authority to arrange for, award and execute municipal contracts (in part);
- the authority to estimate and grant subsidies in payment for residential premises and public utility services and provide subsidies to the individuals entitled to such subsidies payable under the housing law;
- the authority to manage heat supply, water supply and water removal (in part);
- the authority to set tariffs of public utility services;
- the authority to manage collection of statistics on economic and social situation at the municipal entity;
- the authority to create conditions for provision of services of physical training and sports as well as services of intersettlement organizations and facilities;
- the authority to manage municipal property;

- the authority to arrange for and hold measures on preparedness activity (in part);
- the authority to manage provision of public transport services.

Agreements for 2006 were initiated by the municipal area. The agreements were concluded by all rural/ urban settlements, exclusive of the town of Sokol whose administration was granted all the authorities specified for rural/ urban settlements by the Federal Law 131-FZ, save for the authority to estimate and provide housing subsidies and the authority to draft and approve town planning documentation which the Administrative Body of the town of Sokol delegated to the municipal area on a contractual basis.

A total of RUR 13208.2 thousand of subventions, which accounts for 22.2% of rural/ urban settlements' budgets, was earmarked to finance the delegated authorities in 2006.

*Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

In 2006, implementation of the municipal reform at Sokolskiy Municipal Area resulted in a substantial increase of 43.5% year on year in the number of administrative personnel in the region (for more details see *Table 3.8*). It is the growth of administrative personnel at the sub-regional level that was responsible for such a drastic increase in the number of servants of municipal entities. In 2006, the authorized personnel complement at settlements' administrative bodies was more than three times as much as the number of administrative bodies of the previously established village councils which existed on the territory of the region prior to the reform.

It should be noted that in the Sokolskiy Region as well as in the Griazovets all accountants and land surveyors were not classified as municipal servants. The accountants and finance specialists were granted the municipal servant status at the end of 2005, prior to the inception of the municipal reform. Positions of accountant and financial specialist are combined in eight and not combined in four rural/ urban settlements. Land surveyors operated in each of 11 village councils as well as in the town of Kadnikov, their financing was recognized in the "Agricultural Industry" sub-item of the "National Economy" item. In 2005, their main-

tenance costs totaled RUR 797.2 thousand. In 2006, all land surveyors continued to operate in settlements' administrative bodies and were granted the status of municipal servant. At the settlement level law officers are only available in the town of Kadnikov (1 person) and the town of Sokol (2 persons). Other rural/ urban settlements receive legal support from the law officers (three persons) operating at the regional administrative body.

Urban/ rural settlements have no specialists in charge of public authorities (military registration and enlistment and passport and visa service). These authorities are vested in other local administrative personnel. It is only the authorities to military registration and enlistment that are financed with regional budget funds. In 2006, RUR 32 thousand was allocated to each rural/ urban settlement for this purpose, save for the town of Sokol whose administrative personnel is not entitled to military registration and enlistment, because the Regional Military Registration and Enlistment Office is located in the town.

With regard to the regional level, no substantial changes occurred in the number of personnel (for more details see Table 3.9). The authorized personnel complement of the regional administrative body was reduced by three regular staff offices mainly due to reduction in technical personnel. The local government body structure remained unchanged, including the Chief Executive of local self-government body and its personnel, Deputies Chief Executive, Committee for Economy, the Committee for Physical Training and Sports, the Methods and Procedures Department, the Legal Department, the Mobilization Department, the Industrial Department, the Communication and Transport Department, the Department of Public Utility and Fuel and Power Resources, the Department of Architecture and Urban Planning, the Department of Trade, the Department of Services and Protection of Consumers, the Department of Record-Keeping, the Department for Housing Distribution and Privatization, Department for Youth and Public Relations, Department of Record Services and Archives, Construction Department, IT Department, Accounting Office and Department of Technical Services (Maintenance Department and Motor Transport Service).

In addition, the authorized personnel complement of industrial units classified as autonomous legal entities of the administrative body increased insignificantly. Changes in the authorized personnel complement of the industrial units of the regional administrative body are illustrated in the Table. As indicated in *Table 3.8*, a Healthcare Department (its authorized personnel complement includes four persons) was established in the region. The number of personnel of the Municipal Property Management Committee (MPMC) increased by four regular staff offices. The authorized personnel complement of the Social Security Department increased substantially (by 7 persons).

*Table 3.8*

**Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies at the Sokolskiy Municipal Area and its Rural/ Urban Settlements**

	Total in the region			Regional administrative bodies (exclusive of administrative bodies of village councils/ urban/ rural settlements)			Administrative bodies at village councils (2005) / urban/ rural settlements (2006), total in the region		
	2005	2006	Growth, %	2005	2006	Growth, %	2005	2006	Growth, %
Authorized personnel complement of executive local self-government bodies – total, persons, including	240.0	344.5	43.5	181.5	193.5	6.6	58.5	151.0	158.1
local government personnel, including	160.0	252.5	57.8	101.5	101.5	0.0	58.5	151.0	158.1
municipal servants	N/A	N/A	N/A	156.0	172.0	10.3	N/A	N/A	N/A
technical personnel	N/A	N/A	N/A	25.5	21.5	-15.7	N/A	N/A	N/A
personnel of industrial units of the local government body	80.0	92.0	15.0	80.0	92.0	15.0	0	0	0
Total maintenance costs, RUR thousand *, including	24 125.7	47 271.6	95.9	24 125.7	25 866.7	7.2	9 467.6	21 404.9	1 26.1
costs on maintenance executive local self-government bodies	33 045.3	43 827.3	32.6	33 045.3	25 296.7	-23.4	9 467.6	18 530.6	95.7
costs on maintenance of other local self-government bodies	548.0	3 444.3	528.5	548.0	570.0	4.0	N/A	2 874.3	n/a

*Data source:* based on the data reported by the Administrative body of the Sokolskiy Municipal Area.



Table 3.9

### Changes in Authorized Personnel Complement of Specific Administrative Departments at the Sokolskiy Municipal Area

	Number of personnel at the municipal area, persons		Changes in au- thorized person- nel complement, regular staff office	Growth in au- thorized person- nel complement, %
	as of 01.07.2006	as of 01.01.2006		
Regional Administrative Body	101.5	97.5	-4	-3.9
Record Keeping and Archives Department	3	3	0	0.0
Financial Administrative Department	25	26	1	4.0
MPMC	9	13	4	44.4
Agricultural Department	12	12	0	0.0
Educational Department	8	8	0	0.0
Healthcare Department	0	4	4	
Culture and Art Department	3	3	0	0.0
Subsidies Department	5	5	0	0.0
Social Security Department	14	21	7	50.0
<b>TOTAL</b>	181.5	193.5	13	6.6

*Data source:* based on the data reported by the Administrative body of the Sokolskiy of municipal area.

Substantial changes in the number of personnel of local administrative bodies resulted in a total of 95.9% growth of administrative costs in the region. The costs grew most at the settlement level: in 2006, the costs at rural/ urban settlements grew 126.8% year on year. Two items of the budget classification saw growth in costs: costs on the “Financing of Maintenance of Local Administrative Bodies” sub-item grew 95.7%. In addition, costs on maintenance of the senior executive officer of local self-government bodies, RUR 2874.3 thousand, emerged.

Regional level costs on maintenance of the chief executive of the municipal entity remained unchanged, costs on maintenance of executive local self-government bodies reduced 23.4%.

As a result of increase in administrative costs and reduction of the total consolidated regional budget expenditures in 2006, a share of administrative costs increased substantially, from 7.4% in 2005 to 10.6% in 2006. In 2006, administrative costs accounted for 7.2% of the regional budget expenditures and 27% of the budget expenditures of rural/ urban settlements.

#### *Municipal Reform Implementation Costs*

Measures on the local self-government reform in the Sokolskiy Region were financed with Oblast and regional budgets in 2005 and 2006. In 2005, RUR 4372 thousand was spent, including RUR 4100 thousand of the Oblast budget funds and RUR 272 thousand of the regional budget funds. In 2006, RUR 1346.3 thousand was spent, including RUR 790 thousand from the oblast budget and RUR 556.3 thousand from the regional budget (for more details see *Table 3.10*).

In 2005, costs on purchase of office appliances and software as well as costs on compensatory payments to chief executives of administrative bodies at rural/ urban settlements, which were abolished due to the municipal reform, were financed with regional budget funds. In 2006, purchase of motor vehicles for five rural/ urban settlements was planned to be financed with regional budget funds, cars VAZ-2107 at a price of RUR 140 thousand each are planned to be purchased for four rural/ urban settlements, a truck GAZ (Sobol) at a price of RUR 230 thousand for one rural/ urban settlement.

The following heads of costs were financed with the regional budget funds:

- payment for higher education of finance specialists of 10 urban/ rural settlements;
- renovation of premises for administrative bodies at rural/ urban settlements;
- purchase of furniture for newly established administrative body of the town of Sokol;

- payment of compensations to discharged chief executive of rural administrative bodies (compensations for carry-over vacation, lump sum discharge allowance equal to the monthly salary, monthly average salary at the former office held within a period of three months).

As a result, intramural regional budget expenditures on the municipal reform accounted for 0.04% of the budget expenditures in 2005 and 0.09% of the consolidated regional budget expenditures (or 0.11% of the regional budget expenditures) in 2006. Taking into account subventions from the regional budget, reform costs accounted for 0.8 and 0.15% of the consolidated budget expenditures of the municipal area (0.17% of the regional budget expenditures) in 2005 and 2006 respectively.

At the moment urban/ rural settlements still need more office appliances and computer hardware. A set of equipment (personal computer, printer, scanner, facsimile) is estimated to cost about RUR 30 thousand, as evidenced by the estimates of the regional administrative body.

*Table 3.10*

**Municipal Reform Implementation Costs on the Territory of the Sokolskiy Municipal Area, (RUR thousand)**

Heads of costs	Budget of the constituent entity of the Russian Federation		Regional budget	
	2005	2006	2005	2006
1	2	3	4	5
Advanced training and/or training of administrative personnel at rural/ urban settlements at rural/ urban settlements			272.0	
Renovation of buildings and premises of administrative bodies at rural/ urban settlements			621.5	
Furnishing of administrative buildings at rural/ urban settlements (furniture)			75.5	
Purchase of office appliances, computer hardware and software for rural/ urban settlements	3 363.0			
Purchase of motor vehicles for rural/ urban settlements		790.0		

	1	2	3	4	5
Costs on measures on reforming of local self-government bodies (discharge allowances due to the personnel of territorial units of the regional administrative body located in village councils)		737.0			556.3
TOTAL		4 100	790	272	556.3

*Data source:* based on the data reported by the Administrative body of the Sokolskiy Municipal Area.

### Sokol Urban Settlement

The Sokol Urban Settlement with a population of 42.3 thousand was established in 2005 as part of the municipal reform. The settlement was governed by the regional local self-government body until 2005 in which its municipal administrative body was established.

At the moment the authorized personnel complement of the local government body is 51 persons, including 39 municipal servants, 12 persons of technical personnel. The municipal servants are comprised of five finance specialists, 3 accountants, 3 land surveyors and 2 law officers. It should be noted that the town of Sokol is one of the two urban/ rural settlements in the region which have their own law officers. The urban administrative body is not entitled to execute public authorities of military registration and enlistment and passport and visa service, because relevant public offices are located in the town, in particular the Sokolskiy Regional Registration and Enlistment Office and the Griazovets Regional Internal Affairs Office.

Besides the local government body, it is the representative body, 20 members of which operate on a full-time basis, that is financed with municipal budget funds. At the moment there are no supervisory local self-government in the town.

A total of RUR 25486 thousand (39.2% of the municipal budget) of costs on maintenance of local self-government bodies and their personnel was earmarked in the municipal budget in 2006, including RUR 13828 thousand (21% of the municipal budget) of costs on maintenance of the local government body, RUR 623 thousand (0.9% of the municipal budget) of costs on maintenance of the head of the local self-government

body, RUR 11035 thousand (17.3% of the municipal budget) on maintenance of the representative body. As evidenced by the above data, the maintenance costs on the representative body are comparable with the costs on local administrative body due to a considerable number of full-time members at the representative body. At the moment there is a need for advanced training of municipal servants of the local government body, especially the Department of Finance, the Accounting Department and the Department of Property Management.

With regard to the municipal administrative body's demand for computer hardware, at the moment it is equipped with 20 personal computers (one personal computer per 1.95 persons), one of which has access to the Internet. There is a demand for another, not less than, 10 personal computers (one personal computer per 1.3 persons) to ensure efficient operation of municipal servants, as evidenced by estimates of the municipal administrative body.

The municipal administrative body has no its own motor vehicles, there are four rented motor vehicles at a total of RUR 5200 monthly or RUR 62400 annually.

#### Kadnikov Urban Settlement

The territory of the urban settlement, 'the town of Kadnikov', comprises the municipal territory as well as territories of the adjacent rural communities. The municipal entity has a population of 5200, including 4500 of urban population, 700 of rural population.

In 2006, the list of the settlement's authorities delegated to the municipal area on a contractual basis was similar to that of other rural/ urban settlements. At the moment, the Kadnikov Urban Settlement and the regional administrative body have been negotiating on agreements to be concluded for 2007. The administrative personnel believe that the Kadnikov Urban Settlement can be granted any authority, exclusive of the authorities to provide public transport service, town planning, record services and archives and communication services.

The authorized personnel complement of the administrative body of the urban settlement includes 18 persons, of which 14 municipal servants and 4 technical personnel offices. The personnel complement provides for the following offices and structural units: the Chief Executive of the

Administrative Body, Deputy Chief Executive, the Department of Finance (3 persons), Front Office (3 persons), the Legal Department (3 persons) and the Military Registration and Enlistment Office (2 persons). It should be noted that a competitive law officer position is provided for by the authorized personnel complement of the local government bodies at the towns of Kadnikov and Sokol. Besides law officers, the authorized personnel complement of the Legal Department includes a land specialist and a specialist on property relations.

In 2006, the authorized personnel complement of the local government body increased by three regular staff offices year on year. A total 15 persons were employed by the administrative body in 2005, including eight municipal servants, two technical specialists. Four accountants and one land surveyor which operated at the municipal administrative body, were not classified as municipal servants whereby they were financed through industrial items of the budget classification, in particular two accountants – the “Education” item, another two accountants – the “Culture and Art” item. Costs on payment of salaries to land surveyors were included into the municipal cost-estimate, the “Local Self-Government” item.

At the Sokolskiy Region (exclusive of Sokol), like other rural/ urban settlements, the municipal administrative body of the town of Kadnikov is granted the public authorities to provide military registration and enlistment and passport and visa services. The authority to provide passport and visa service is vested in the specialists of the Front Office, while the authority to provide military registration and enlistment service is vested in a special unit within the administrative body. At the moment no subventions for execution of public authorities have been remitted from the regional budget. As evident from the available data, at the moment it has been resolved to finance the Military Registration and Enlistment Office in urban/ rural settlements, but no subventions were remitted to the municipal budget within a period during which this report was drafted. No information on execution of the passport and visa authority is available for the general public.

In 2006, costs on maintenance of local self-government bodies grew substantially. In 2005 cost-estimate on maintenance of the administrative

body at the town of Kadnikov and the Kadnikov Village Councils totaled RUR 1 638.5 thousand, in 2006 costs on maintenance of local self-government bodies totaled RUR 2 710.5 thousand, which is 1.6 times as much as the costs incurred in 2005. In 2006, maintenance costs on the chief executive of municipal entity and on the administrative body totaled RUR 400 thousand and RUR 2 310.5 thousand respectively, including RUR 240.5 thousand allocated to finance the military registration and enlistment office. A share of administrative costs in the settlement's costs increased substantially from 9.06% in 2005 to 33.7% in 2006 due to both growth in administrative costs and reduction in the authorities vested in the Settlement.

It may be assumed that costs on maintenance of local self-government bodies of the town of Kadnikov grew substantially due to a considerable growth in official salaries of municipal servants. In particular, the monthly official salary of the Chief Executive of the municipal administrative body grew from RUR 5056 in 2005 to RUR 9026 in 2006. The monthly payroll grew even higher against the official salaries after a substantial amount of increments to the official salary was introduced. In particular, the amount of the monthly payroll grew from RUR 5056 to RUR 23 178.32 for the Chief Executive of the Local Government Body and from RUR 4 550 to RUR 7 693.6 – 8 111.05 for the first category specialist (depending on seniority as well as the amount of increment payable for special labor conditions).

With regard to computer hardware and motor vehicles, in 2005 the municipal administrative body was equipped with seven personal computers. In 2006, a notebook was purchased. As a result, computer hardware supply was one personal computer per 1.75 persons. The personal computers have access to the Internet. The chief executive of the municipal administrative body used his own car for business trips until a service motor vehicle was purchased in the fall of 2006.

#### Pelshemskoye Rural Settlement

The Pelshemskoye Rural Settlement has a population of 626 thousand and comprises 16 communities of which the most distant one is as far as 14 km of the administrative center of the Settlement.

The authorized personnel complement of the local government body remained unchanged. A total of six persons, including five municipal servants, are employed by the administrative body. The authorized personnel complement of the administrative body provides for the following offices: the Chief Executive of the Administrative Body, two Deputies Chief Executive (Deputy of Finance and Deputy of General Issues), land specialists and property relations, social security specialist. Technical personnel includes a driver, worker, yard-keeper, cleaner and boiler fireman (they are paid at a single wage rate). There were three municipal servants prior to the reform, because neither the accountant, nor the land surveyor had the status of such and were financed through other items of the budget classification (Education, Land Management). In 2006, it was resolved to introduce a second office of Deputy Chief Executive of the local government body, because the salary of the Chief Accountant-and-Financial Specialist was reduced substantially after this office was granted the status of municipal servant. To retain the original amount of salary of the Chief Accountant-and-Financial Specialist, it was resolved to promote him to a Deputy Chief Executive.

In 2006, administrative costs of the Settlement grew RUR 257.9 thousand year on year (34.2%) from RUR 753.1 thousand to RUR 1011 thousand. A share of administrative costs enlarged from 21.4% to 54.3% in the total costs.

Rural administrative bodies are equipped with computer hardware in the ratio of one personal computer per 1.6 persons. The administrative body is equipped with three personal computers, two of which are brand new, none of which having access to the Internet, except for a rural school. The administrative body has one service motor vehicle.

### **3.2. Tver Oblast**

#### *Implementing Municipal Reform in Tver Oblast*

##### *Reforming Basic Principles of Local Self-Government*

The regional model of local self-government organization was introduced into the Tver Oblast prior to the inception of the municipal reform:



municipal entities were established at five cities (Tver, Torzhok, Pzhev, Kimry, Vyshiy Volochok) and 36 administrative regions.

Three hundred sixty two municipal entities, including 318 rural and 44 urban settlements, were established as a result of the reform of territorial principles of local self-government in the Tver Oblast. In establishing its rural/ urban settlements, the Tver Oblast, unlike most of the Russian regions, focused on availability of social infrastructure and economic basis at newly established municipal entities. Given these criteria, the Oblast pursued actively a policy of consolidation of sub-municipal entities in the course of demarcation of boundaries of rural/ urban settlements. As a result, the number of newly established urban/ rural settlements is half the number of the previously established rural districts<sup>20</sup>. Changes in the territorial pattern of local self-government are presented in *Table 3.11*. It should be noted that about 55.5% of rural/ urban settlements have a population of less than 1 000 persons, notwithstanding active policy of consolidation of territories in establishing such settlements.

*Table 3.11*

**Description of Newly Established Urban/ Rural Settlements  
at the Tver Oblast**

Population (persons)	Number of urban/ rural settlements (pcs.)	As share in the number of newly established urban/ rural settlements (%)
1	2	3
less than 300 persons	3	0.8 %
from 300 to 700 persons	99	27.3 %
from 700 to 1 000 persons	63	17.4 %
from 1 000 to 2 000 persons	112	30.9 %
from 2 000 to 3 000 persons	41	11.3 %

<sup>20</sup> On the strategy of demarcation of municipal entities' boundaries by the government bodies at the Tver Oblast see (Starodubovskaya at al. "Local Self-Government Reform Issues". Structural and Financial Aspects. M. IET, 2005, PP. 298–300.)

1	2	3
from 3 000 to 5 000 persons	18	5.0 %
from 5 000 to 10 000 persons	15	4.1 %
more than 10 000 persons	12	3.3 %
<b>Total</b>	363	

*Data source:* based on the data reported by the Department of Finance of the Tver Oblast.

### *Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

It was resolved in the Oblast to delimitate the issues of local significance concerning rural/ urban settlements between municipal areas and rural/ urban settlements over the period of transition related to the municipal reform. The delimitation was provided for by the Oblast Law No.142-ZO “On Resolution by Local Self-Government Bodies at the Tver Oblast of Specific Issues of Local Significance Concerning Newly Established Urban/ Rural Settlements at the Tver Oblast” dated December 9, 2005. The law provides a list of issues of local significance concerning rural/ urban settlements to be resolved in 2006 by local self-government bodies at municipal areas. A total of 13 issues of local significance including almost all issues of provision of public sector services were delegated the regional level under the law, in particular, regional local self-government bodies shall be responsible for provision of public utility services, cultural services, library services for the general public. In addition, the regional level was vested with all issues concerning public safety measures, namely fire safety measures, maintenance of emergency-rescue services, emergency safety, etc. Further, the law delegated to municipal areas some of budgeting authorities of local self-government bodies at total/ urban settlements, in particular the authority to budgeting and execution of local budgets. In addition, the law provided for agreements between local self-government bodies and rural/ urban settlements and municipal areas on delegation of additional authorities, which were legally vested in the settlement level, to the regional level. The practice of agreements was widely applied by 18 of 36 regions at the Oblast, while approaches towards conclusion of such agreements differed between the

regions. In some regions all rural/ urban settlements delegated an equal number of authorities to the regional level, in others the decision on which authority to delegate was made individually by each rural/ urban settlement. Three municipal areas retained the smallest number of authorities, namely Vyshnevolotskoye, Olenisnkoye and Belskoye.

The following authorities to deal with issues of local significance of rural/ urban settlements were commonly delegated to the regional level:

- the authority to approve master plans of the rural/ urban settlement, land use and development rules, as well as approve land planning documentation based on the master plans of the rural/ urban settlement (delegated to the regions by 36.7% of rural/ urban settlements);
- the authority to promote physical training and sports on the territory of the urban/ rural settlement (delegated to the regions by 35.6% of rural/ urban settlements).

The following authorities to deal with issues of local significance were rarely delegated to the regional level:

- the authority to provide funeral services and maintain burial sites (delegated to the regions by 4.4% of rural/ urban settlements);
- the authority to manage collection and removal of domestic waste and garbage (delegated to the regions by 5% of rural/ urban settlements);
- the authority to manage street lighting and mount nameboards of streets and numberboards of buildings (delegated to the regions by 5.2% of rural/ urban settlements).

The practice of delimitation of issues of local significance concerning rural/ urban settlements between the two levels of municipal administration will be continued in 2007 as well. The Oblast Law No. 94-ZO “On Resolution by Local Self-Government Bodies at the Tver Oblast of Issues of Local Significance Concerning Rural/ Urban Settlements at the Tver Oblast in 2007” was adopted on September 26, 2006. The law extended the list of issues to be resolved by local self-government bodies at rural/ urban settlements. In particular, such settlements were granted the authority to manage supply of electric power and fuel within their boundaries, as well as the authority to provide library and culture services to the general public.

In addition, it was resolved to introduce the Federal Law 131-FZ into two regions (Kalininsky and Lesnoi) of the Oblast in 2007. These regions were selected based on intention of municipalities at rural/ urban settlements to assume additional issues of local significance as well as the consent of chief executives to the delegation of authorities.

#### *Reforming Organizational Principles of Local Self-Government*

The Law of the Tver Oblast No. 72-OZ “*On Local Self-Government Bodies and Local Administrative Officials of Newly Established Municipal Entities at the Tver Oblast*” was adopted on April 28, 2005, which specifies the procedure for election of chief executives of newly established municipal entities over the initial term of their office and status in the local self-government structure. In particular, the Law specifies that chief executives of newly established municipal entities over the initial term of their office shall be elected from their members by secret ballot for a period of three years by first-sitting representative bodies of newly established municipal entities. The chief executive of a municipal entity shall be deemed elected by more than half of the votes cast by a specified number of the members present. In urban/ rural settlements with a population of less than 1000 persons the chief executive of a municipal entity is in the capacity of the Chairperson of the Representative Body of a rural/ urban settlements and the chief executive of the local government body.

#### *Specific Issues on Financial Fundamental Principles of Local Self-Government*

The Oblast Law on delimitation of issues of local significance between municipal areas and rural/ urban settlements also regulates division of sources of revenues between local budgets of different types. In 2006, collection of all tax revenues, which were granted to rural/ urban settlements under the Budget Code, were delegated to municipal areas; settlements’ costs were financed with non-tax revenues (land rent) and inter-governmental transfers. In 2007, the list of sources of revenues of budgets of rural/ urban settlements was extended. Allowance was made for including some of tax revenues into these sources of revenues, namely personal income tax revenues – in compliance with the 5 per cent standard; land tax revenues – in compliance with the 50 per cent standard.

With regard to intergovernmental transfers, the Law of the Tver Oblast No. 94-ZO “On Intergovernmental Transfers in the Tver Oblast” dated July 26, 2005 specifies that budgets of urban/ rural settlements shall receive donations to be allocated on a per capita basis from the Oblast fund for financial aid to urban/ rural settlements as well as regional funds for financial aid to urban/ rural settlements. No authority to equalize fiscal capacity with regional budget funds was delegated. The regional funds must be established with own funds of the regions. The regional funds for financial aid to urban/ rural settlements are legally distributed with a view to maximizing as much as possible the estimated fiscal capacity equalization of rural/ urban settlements. The size of fund as well as the level of estimated fiscal capacity to be equalized are set by resolution of the representative body of a municipal area. Fiscal capacity is estimated with the use of the tax potential index and the budget expenditures index.

However, as evidenced by the data reported by the Tver Oblast, it is donations, not subsidies, that account for the biggest share of intergovernmental transfers to settlements’ budgets, i.e. such aid is virtually of target nature. As noted in the previous surveys on this issue, analysis of the structure of specific budget revenues of rural/ urban settlements shows that land rentals are not above 20% of the total local budget revenues. The rest of the revenues are non-repayable receipts from the budgets at other levels. Fiscal capacity equalization donations account for not more than 10% of the amount of non-repayable transfers. The rest are subsidies.

#### *Changes in the Number of Local Administrative Bodies*

This section of the survey was prepared based on the data reported by administrative bodies of 28 municipal areas in the Tver Oblast. All in all, in the regions of the Oblast included into the sample the number of employees at local administrative bodies increased 1.9%, the number of regional administrative personnel increased 1.2%, the number of administrative bodies at rural/ urban settlements at rural/ urban settlements increased 4% against the number of personnel at the level of sub-municipal entities prior to the inception of the municipal reform (for more details see *Table 3.12*). The number of municipal servants at the settlement level

grew faster than that of authorized personnel complement of administrative bodies, from which it may be inferred that, on the one hand, the status of municipal servant was granted to administrative personnel which previously was not classified as such, and that, on the other hand, the number of technical personnel reduced due to consolidation of local administrative bodies in the course of the reform.

The number of servants holding elective offices at municipal entities grew most in 2006 – 2.5 times as much as that prior to the inception of the municipal reform. The number of elective offices grew mostly at the settlement level, because a considerable number of rural/ urban settlements chose the option of organizational structure of local self-government under which the chief executive of municipal entity is to be elected at municipal elections and run the local administrative body. Such local self-government administration system was established in 181 out of 318 rural/ urban settlements. At the rest of 188 rural/ urban settlements chief executives of local administrative bodies are appointed on a contractual basis. To date, the practice of including full-time members into representative bodies has not been widely used, though rural/ urban settlements would like to provide for such a possibility at the moment.

It should be noted that the regions of the Oblast saw opposite developments in changes in the authorized executive and managerial personnel complement. The authorized personnel complement at municipal entities was growing in some of the regions and declining in others. The number of local administrative bodies declined both at the regional level and the settlement level in five regions of the sample. It may be assumed that the servants, which were in charge of public utility management within their administrative bodies, were granted the status of self-dependent legal entity as part of completed division of managerial and economic functions. In addition, centralized accounting departments which used to be ranked at the sub-municipal level prior to the reform, were disembodied in the regions of the Oblast. All state budget-funded entities were granted the status of self-dependent legal entity having their own accounting departments. In particular, a substantial reduction in the number of accountants and finance specialists was typical of local administrative bodies at the Bologovskiy Region, the Zapadnodvinskiy Region, the Kalyazinskiy Re-

gion, the Likhoslavskiy Region and the Firovskiy Region. Reduction in the number of centralized accounting departments was mainly responsible for the reduction in the number of personnel at rural/ urban settlements at the Konakovo Region. Another three regions saw reduction in the number of personnel at the regional level only.

*Table 3.12*

### Changes in Authorized Personnel Complement at Local Self-Government Bodies at the Tver Oblast

	Growth in the number of local self-government bodies, total in the sample of regions, %		Regions which saw growth in the number of local self-government bodies (exclusive of technical personnel)		Regions which saw reduction in the number of local self-government bodies (exclusive of technical personnel)	
	including technical personnel	exclusive of technical personnel	number of regions	growth in authorized personnel complement of local-self government bodies, on average in sample, %	number of regions	growth in authorized personnel complement of local-self government bodies, on average in sample, %
Total in the region	1.9	2.3	17	11.5	11	-11.8
At the regional level	1.2	0.4	16	9.3	11	-14.5
At the settlement level	4.0	4.7	19	40.4	9	-23.3

*Data source:* based on the data reported by administrative bodies of municipal areas in the Tver Oblast.

Growth potential in the number of administrative personnel at the settlement level is above all related to the need for including land surveyors and law officers into the authorized personnel complement local administrative bodies. At the moment, land surveyors are available only in two of the 28 regions, in 1–2 rural/ urban settlements, of the Oblast which provided the relevant data. However, it is not clear from the provided data

whether or not land surveyors are available at all regions at the regional level. Further, there is an acute shortage of law officers, above all at the settlement level. As evident from the available data, only two rural/ urban settlements have law officers included into the authorized personnel complement of local administrative bodies. The situation with law officers at the regional level is a shade better, where local administrative bodies (exclusive of administrative bodies at two regions), have full-time law officers. The number of law officers at the regional level varies between one and three persons in each.

#### Changes in Administrative Costs

In 2006, costs on maintenance of local self-government bodies increased 33.4% year on year at 28 regions of the Tver Oblast included into the sample. Such costs grew 34% and 24.7% respectively at regional and settlement local self-government bodies (for more details see *Table 3.13*).

The regions of the Oblast differed largely in growth rates in costs. As indicated in *Table 3.13*, in some regions maintenance costs grew more than 100%, in others they remained at the pre-reform level. Some regions of the Oblast saw decline in costs on maintenance of local self-government bodies, in particular, at the Konakovo Region and the Selizharovskiy Region. It should be noted that the Konakovo Region saw such reduction as a result of reduction in costs at the regional level, while at the Selizharovskiy Region it was caused by reduction in costs at the settlement level. Another three regions of the Oblast (the Zapadnodvinskiy Region, the Sandovskiy Region and the Sonovskiy Region) saw reduction in administrative costs at the settlement level.

With regard to a share of administrative costs in the total municipal budget costs, in accordance with the approved budgets for 2006 they accounted for 11.6% in the Oblast as a whole, a bit more than the value of the similar parameter in 2005 which accounted for 10.2% in the actually executed budgets. In 2006, costs in the “National Issues” item accounted for 9.4% of the municipal areas’ costs and 57.9% of the settlements’ costs.



Table 3.13

**Changes in Costs on Maintenance of Local Self-Government Bodies  
at the Tver Oblast, 2005 (actual) – 2006 (estimated)**

	Growth in costs on maintenance of local self-government bodies, total in the sample of regions, %	Regions which saw growth in costs on maintenance of local self-government bodies				Regions which saw reduction in costs on maintenance of local self-government bodies	
		number of regions	growth in costs, %			number of regions	growth in costs, average in the sample, %
			minimum	maximum	average		
Total in the region	33.4	26	2.9	109.3	37.7	2	-6.2
At the regional level	34	27	1.5	118.4	35.5	1	-8.8
At the settlement level	24.7	24	4.7	318.5	70.9	4	-27.2

*Data source:* based on the data reported by administrative bodies of municipal areas in the Tver Oblast.

*Tver Oblast's Budget Expenditures on Municipal Reform Implementation*

In the Tver Oblast, the municipal reform was financed with regional budget funds derived from extra revenues such as:

- RUR 7 mln of subsidies from the regional Fund for Municipal Finance Reform for the purpose of implementing the municipal reform (so that the Lesnoi Region and the Kalininskiy Region can transit to a full-scale introduction of the Law 131-FZ);
- subsidies from the regional Social Expenditures Co-financing Fund;
- RUR 15 mln to create a physical infrastructure of rural/ urban settlements;
- technical inventory of the public utility service's fixed assets (at value of RUR 30 mln) to be assigned to newly established rural/ urban settlements.

As evidenced by the data reported by 28 regions in the Oblast, 20 regions received regional budget funds for the purpose of implementing municipal reform. Each of the 20 regions received an average of RUR 555.3 thousand, which accounts for 48.8 % of the total regional budget funds transferred to the regions for the purpose of implementing the municipal reform in 2006, on technical inventory of the public utility service's fixed assets to be assigned to newly established rural/ urban settlements.

The rest of 51.2% of the regional budget transfers were distributed as follows:

- 51.1% to purchase of office appliances, computer hardware and software for rural/ urban settlements;
- 19.2% to provide furnishing of administrative buildings at rural/ urban settlements (furniture);
- 12.4% to renovate building and premises of administrative bodies at rural/ urban settlements;
- 6.6% to conduct boundary survey, demarcation of settlements' boundaries;
- 0.24% to provide rural/ urban settlements with communication services.

It should be noted that as part of the regional budget these costs are insignificant – they accounted for less than 0.3% of budget expenditures in 2006. In 2007, the similar amount of regional budget funds is scheduled to be allocated for implementation of the municipal reform. Extra funds are scheduled to be allocated for the development of a network of municipal servant training centers. However, the demand for resources to finance the measures provided for by the municipal reform is much stronger than the amounts of budget funds earmarked for such financing. In particular, about RUR 400 mln is required for technical inventory of the public utility service's fixed assets to be assigned from the regional to the settlement levels, as evidenced by the estimates of the Tver Oblast's Department of Finance.

Besides the municipal areas' costs which are financed with regional budget funds, the measures aimed at implementing the municipal reform are covered with regional budget funds. In 2005, RUR 65.3 to 1 946 thou-

sand was allocated for this purpose by 20 out of the 28 regions of the Oblast which provided the relevant data. An average of 0.25% of regional budget funds were spent on the implementation of the municipal reform in this group of regions. Most of these funds (44.3%) was allocated to purchase personal computers and other office appliances for newly established urban/ rural settlements.

In 2006, the regions allocated RUR 40 to 2 797.8 thousand to implement the municipal reform. Purchase of personal computers and other office appliances was kept to be financed with these funds accounting for 14.3% of the funds allocated to the reform in 28 regions of the sample. In addition, renovation of building and premises of administrative bodies at rural/ urban settlements (17.1% of costs), renovation of administrative buildings and premises of rural/ urban settlements and purchase of motor vehicles for rural/ urban settlements (13.8% of costs on each target of financing) were among the priority targets of financing. The structure of regional budget costs on the reform is shown in *Table 3.14*.

*Table 3.14*

**Structure of Regional Budget Costs on Implementation  
of the Municipal Reform, on Average in the Sample of Regions, %**

Year	Structure of regional budget costs on implementation of the municipal reform, average in the sample of regions, %									
	Number of municipal areas in the sample	A share of costs on implementation of the municipal reform, average in the sample, %	Advanced training and/or training of administrative personnel of rural/ urban settlements	Inventory and classification and registration of the title to the property granted to rural/ urban settlements	Boundary survey, demarcation of settlements' boundaries	Renovation of building and premises of administrative bodies at rural/ urban settlements	Furnishing of administrative buildings at rural/ urban settlements (furniture)	Purchase of office appliances, computer hardware and software for rural/ urban settlements	Purchase of motor vehicles for rural/ urban settlements	Other heads of costs
2005	20	0.25	7.5	1.4	14.9	12.3	4.0	44.3	9	57
2006	28	n/a	9.9	10.6	9.5	17.1	13.8	14.3	13.8	38

*Data source:* based on the data reported by the Tver Oblast's Department of Finance.

*Assessing Municipal Areas' Needs in Financing of Measures Aimed at Implementing the Municipal Reform*

In 2007, the Kalininskiy Region and the Lesnoi Region will introduce in full the Law 131-FZ. In 2006, the Tver Oblast's Department of Finance requested from these regions information on the amount of costs they need to insure that their rural/ urban settlements be able to deal with all issues of local significance that are supposed to be resolved by them under the applicable federal law.

As a result, the Regions, in particular the Kalininskiy Region which comprises 8 rural/ urban settlements, provided their estimates of funds (RUR 26.5 mln) required for financing the measures aimed at:

- purchasing premises for four of settlements' administrative bodies (23.5%);
- renovating the existing administrative premises at rural/ urban settlements (51.1%);
- providing furniture for settlements' administrative bodies (6.4%);
- installing additional communication facilities (0.9%);
- purchasing office appliances (7%);
- purchasing service motor vehicles (11.3%).

Costs on purchase of computer hardware were estimated at RUR 25 thousand per personal computer, RUR 24.6 thousand per software. The following trade marks were considered for purchase in assessing the demand for service motor vehicles: VAZ-2107 at a price of RUR 151 thousand, Niva VAZ – 21011 or UAZ at a price of RUR 218 thousand, Gazel minivan at a price of RUR 328 thousand.

In addition, the regions made assessed their financial needs to be able to take measures required for delegation to rural / urban settlements the authorities to manage budgeting and execution of budgets of rural/ urban settlements and supervise over their execution. In particular, as evidenced by the assessment made by the administrative body of the Lesnoi Region, the following basic measures should be taken aimed at:

- adding two regular staff offices to the list of authorized personnel complement of all settlements' administrative bodies (chief specialist of the Budget Department and chief specialist of the Accounting and Reporting Department);

- establishing a centralized department of the Federal Treasury-based budget execution under the Lesnoi Settlement composed of the head of the department and the data base administrator;
- purchasing a personal computer for each specialist as well as purchasing copying devices;
- purchasing software ('1C Accounting' software designed for electronic exchange of documents with the Federal Treasury Department, a Budgeting Computer Control System);
- training all specialists at advanced training courses;
- supplying and installing equipment at specialists' workplaces.

The total value of measures required for delegation of this authority by the region was estimated RUR 2.3 mln. In addition, settlements' costs on maintenance of local self-government bodies were scheduled to be increased RUR 1.2 mln due to extension of the authorized personnel complement of local administrative bodies.

Supervisory Bodies

As of July 1, 2006, 19 supervisory bodies of municipal entities, including five Accounts Chambers, two Audit Commissions, were established in the Tver Oblast. However, as evident by the available data, it is only at the city of Tver that the Accounts Chamber has the status of local self-government body. In general, the authorized personnel complement of supervisory bodies comprised 25 persons at municipal entities of the Oblast. The supervisory bodies in the Tver Oblast are described in *Table 3.15*.

*Table 3.15*

**Supervisory Bodies At Municipal Entities of the Tver Oblast and their Maintenance Costs\***

Name	Total	Municipal areas	Urban districts	Urban settlements	Rural settlements
1	2	3	4	5	6
Established supervisory bodies of municipal entities, total, including in the form of	19	13	3	2	1
Accounts Chamber	5	3	2	0	0
Audit Commission	2	0	0	1	1

	1	2	3	4	5	6
Other forms		12	10	1	1	
Total authorized personnel complement of supervisory bodies of municipal entities, (persons), including		24	13	10	1	0
Accounts Chamber		8	2	6	0	0
Audit Commission		1	0	0	0	1
Other forms		16	11	4	1	0
Maintenance costs on supervisory local self-government bodies, RUR thousand		2047,7	2025,7	0	0	22,0

\* the data on the number of supervisory bodies and their authorized personnel complement is based on the data as of 01.07.2006. Maintenance costs of the supervisory bodies are based on the data of municipal budgets approved for 2006.

*Data source:* based on the data reported by the Tver Oblast's Department of Finance.

### *Implementing the Local Self-Government Reform in the Konakovo Municipal Area*

#### *Reforming Basic Principles of Local Self-Government*

The regional model of local self-government was applied at the Konakovo Region as well as in other regions of the Oblast prior to the reform: the municipal entity was established at the regional level; territorial units of the regional administrative body operated at 19 rural districts. The town of Konakovo, regional administrative center, used to be governed by the Regional Administrative Body until the establishment of its municipal administrative body.

No specific-task policy aimed at consolidating the territories was implemented during demarcation of settlements' boundaries. All rural/ urban settlements were established within the boundaries of the previously established rural districts, save for the Kozlovskoye Rural Settlement established on the territory of two rural districts, Sintsovskoye and Gavrilovskoye, and the Gorodneskoye Rural Settlement established on the territory of the Gorodneskoye and the Turyginsloye Rural Districts. It should be noted that such approach towards demarcation of settlements' boundaries is not typical of the Tver Oblast which pursued a, task-

specific policy aimed at reducing the number of rural/ urban settlements. In addition, an urban settlement was established at the town of Konakovo. As a result, a total of 17 settlements, 6 urban and 11 rural ones, were established on the territory of the region.

The population of rural/ urban settlements are classified in the Region as follows:

- less than 1000 persons – 2 urban/ rural settlements;
- from 1000 to 2000 persons – 6 urban/ rural settlements;
- from 2000 to 3000 persons – 4 urban/ rural settlements;
- from 3000 to 5000 persons – 3 urban/ rural settlements.

Three urban settlements have the biggest population: the Novozavodskiy Community has a population of 8083; the Redkino Community has a population of 11 740; the town of Konakovo has a population of 42 437. They account for 69% of the regional population, the town of Konakovo alone accounts for 47% of the total population of the municipal area.

#### *Reforming Organizational Principles of Local Self-Government*

It is specified in the Oblast Law No. 72-OZ “*On Local Self-Government Bodies and Officials of Local Self-Government Bodies at Newly Established Municipal Entities at the Tver Oblast*” dated April 28, 2005 that the local self-government administration system at the Konakovo Region shall be deemed uniform at all rural /urban settlements. The chief executive of the municipal entity shall be elected out of the members and act as the chairperson of the representative body. The chief executive of the administrative body shall be appointed on a contractual basis, except for two rural settlements with the population of less than 1000, namely Kozlovskoye and Yurievo-Devichevskoye, at which the chief executive of the settlement shall be elected and run the local government body.

The number of representative bodies is in line with the federal laws. The Board of Members has the status of legal entity. At four rural/ urban settlements both the chief executive of the settlement and the Board of Members are maintained at the cost of the budget, while in other settlements no other office but the chief executive is financed with budget funds.

### *Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

In the period between 2006 and 2007, authorities were delimited between rural/ urban settlements and the region in compliance with the Oblast Laws, likewise in other regions of the Tver Oblast. The practice of agreements failed to be widely applied on the territory of the region.

Two agreements were concluded in 2006: The first agreement was entered into with the Konakovo Urban Settlement under which the regional local self-government bodies were granted the authority to manage street lighting within the municipal boundaries. The second agreement was entered into with the Izoplitovskiy Rural Settlement under which the region delegated to the Settlement the authority to supply gas to villages located on the territory of the Settlement<sup>21</sup>. Delegation of the authorities allowed for allocation of subventions from the relevant budgets, the amount of subventions was specified in the agreement.

At the moment, agreements for 2007 are being negotiated. As noted in the description of the situation at the Tver Oblast, the Oblast Law dated December 9, 2006 No.142-ZO "On Resolution by Local Self-Government Bodies at the Tver Oblast of Issues of Local Significance Concerning Rural/ Urban Settlements at the Tver Oblast in 2007" extended the list of issues of local significance retained within the scope of authorities vested in newly established rural/ urban settlements, in particular, the authority to provide library services for general public as well as the authority to provide cultural services. Some of the rural/ urban settlements at the Konakovo Region resolved to delegate such authorities to the regional level in 2007. Negotiations are being conducted with the Radchenko, the Izoplit, the Kozlovo Urban Settlements and the Dmitrova Gora, the Ruchiy, the Mokshino Rural Settlements. It is typical of the Oblast that local self-government bodies of rural/ urban settlements are not forced either by the Oblast's or the Konakovo Regional Administra-

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<sup>21</sup> Local responsibility for gas supply of local residents (within the settlement limits) was transferred to the rayon level under the Oblast Law No. 142-ZO "On Resolution by Local Self-Government Bodies of the Tver Oblast of Specific Issues of Local Significance Concerning Newly Established Urban/ Rural Settlements at the Tver Oblast" dated December 9, 2005.



tive Bodies to enter into agreements on delegation of authorities, though there is an standard agreement. The agreements will specify the amount of subventions to be paid from budgets of rural/ urban settlements for execution of such authorities. The amount of such subventions payable from budgets of rural/ urban settlements to the municipal area's budget is estimated about RUR 9.8 mln in 2007.

In addition, the Konakovo Region has widely applied a practice of co-financing with subventions from budgets of rural/ urban settlements to deal with both issues of local significance incidental to rural/ urban settlements delegated to the regions under the Oblast Law and the issues of the municipal area to be resolved by the latter under the federal law. In particular, Vakhononskoye, Dmitrovogorodetskoye and Mokshinskoye Rural Settlements remitted to the regional budget subventions for execution of authorities in the field of education. The Vakhononskoye and Dmitrovogorodetskoye Rural Settlements provided co-financing of purchase of equipment for healthcare facilities, the Vakhononskoye Rural Settlement also allocated funds to finance the public utility service. The Gorodneskoye Rural Settlement covered the costs on gas supply to the villages located on the territory of the Settlement. Subventions were allocated under agreements which specified the amount of such subventions as well as the targets of allocation. In 2006, a total of about RUR 17.5 mln, 3.1% of the regional budget revenues, was remitted to the municipal area's budget.

#### *Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

As illustrated in the *Tables 3.16* and *3.17*, in 2006 the authorized personnel complement at local self-government bodies in the Konakovo Region reduced 6.9% year on year due to a substantial decrease in the authorized personnel complement at settlements' administrative bodies (by 22.4% of settlements' administrative bodies). The reduction in the number of administrative personnel at the settlement level was effected by the two tendencies as follows.

First, the authorized technical personnel complement at settlements' administrative bodies reduced 28% with maximum reduction at the Gorodnya Rural Settlement (6.5 regular staff offices) and Kozlovo Rural

Settlement (2.5 regular staff offices) due to consolidation of two rural administrative bodies at the time these Settlements were established.

Second, centralized accounting departments with the authorized personnel complement ranging between 1 to 8 persons operated in rural districts until 2006, which provided services to all state budget-funded entities located on the territories of rural districts, because the state budget-funded entities were not classified as autonomous legal entities. Though the personnel at the centralized accounting departments had the status of municipal servant with their operation being financed through the industrial items of the budget classification rather than the “National Issues” item. In 2006, all the state budget-funded entities were financed by the municipal area. As a result, the centralized accounting departments at urban/ rural settlements were disembodied, some of the accountants were retained in the capacity of finance specialists or accountants at settlements’ administrative bodies, others were discharged as part of a general staff reduction, others were employed by the centralized accounting departments established within the industrial units at the regional administrative body. Eventually, only 19 out of 62 accountants worked at urban/ rural settlements in 2006.

The foregoing staff reduction in the local administrative bodies resulted in decline in the number of administrative personnel at the settlement level. However, no growth in the number of administrative personnel at rural/ urban settlements of the region was attained even by establishing the administrative body, 19 persons, at the town of Konakovo.

On the contrary, the authorized personnel complement at local government bodies at the regional level was growing. The number of municipal servants and technical personnel increased 14.3% and 13.6% respectively. Growth in the number of municipal servants was caused in particular by adding new offices to the authorized personnel complement at the Department of Finance (from 15 to 29 persons), the Department of Education (from 38.5 to 57 persons) in which a central accounting office was established, the Committee for Property Management (from 9 to 12 persons). In addition, new departments were established within the local self-government structure: the Department of Agriculture and the Department of Healthcare. Concurrently, the regional administrative struc-

ture saw substantial changes, in particular the Committee for Youth and Family Affairs was granted the status of self-dependent legal entity, the Committee for Physical Training and Sports abolished its Department of Culture and ‘Single Window’ Department. Other organizational changes took place as well.

*Table 3.16*

**Changes in Authorized Personnel Complement and Costs  
on Maintenance of Local Self-Government Bodies,  
2005 (actual) – 2006 (approved budget)**

	Total in the region			Regional administrative bodies (exclusive of rural district administrative bodies/ rural/ urban settlements)			Rural district administrative bodies (2005) / rural/ urban settlements (2006) total in the region		
	2005	2006	growth, %	2005	2006	growth, %	2005	2006	growth, %
Total number of personnel at local self-government bodies – persons, including	380.5	356.0	-6.4	166.5	190.0	14.1	214.0	166.0	-22.4
personnel occupying ‘A’ category elective offices	1.0	8.0	700.0	1.0	1.0	0.0		7.0	
municipal servants	275.5	264.0	-4.2	143.5	164.0	14.3	132.0	100.0	-24.2
technical personnel	104.0	84.0	-19.2	22.0	25.0	13.6	82.0	59.0	-28.0
Budget expenditures on maintenance of local self-government bodies (wages with increments) - total, RUR thousand, including	24 352.0	31 857.0	30.8	N/A	14 370.0	N/A	N/A	17 487.0	N/A
costs on maintenance of elective officials	252.0	780.0	209.5	N/A	372.0	N/A	N/A	408.0	N/A
costs on maintenance of local government body and other local self-government bodies	24 100.0	31 077.0	29.0	N/A	13 998.0	N/A	N/A	17 079.0	N/A

*Data source:* based on the data reported by the Administrative body of the Konakovo Region.

Table 3.17

### Description of Rural/ Urban Settlements and Local Self-Government Bodies at Rural/ Urban Settlements of the Konakovo Region

Urban/ Rural Settlement	Number of rural districts on the basis of which rural/ urban settlements were established	Population, persons	Number of personnel employed at local administrative bodies, persons		Number of personnel employed at local administrative bodies (exclusive of technical personnel)*, persons		Population of municipal entity per 1 servant of administrative bodies at rural/ urban settlements (exclusive of technical personnel)	
			2005	2006	2005	2006	2005	2006
Kozlovo Rural Settlement	2	445	16	8.5	8	3	55.6	148.3
Yurievo-Devichevskoye Rural Settlement	1	803	9.5	8.5	5	4	160.6	200.8
Ruchiy Rural Settlement	1	1 010	10.5	8.5	6	4	168.3	252.5
Staromelkovo Rural Settlement	1	1 335	10.5	9.5	6	4	222.5	333.8
Rural Settlement Per-vomaiskoye	1	1 480	11.5	9.5	7	4	211.4	370
Vakhonino Rural Settlement	1	1 609	10.5	8	6	5	268.2	321.8
Zsvidovskoye Rural Settlement	1	1 611	10	9	5	4	322.2	402.8
Dmitrova Gora Rural Settlement	1	1 735	12.5	8.5	8	5	216.9	347
Radchenko Community	1	2 058	12.5	9.5	8	4	257.3	514.5
Selikhovskoye Rural Settlement	1	2 101	11.5	9	7	4	300.1	525.3
Mokshino Rural Settlement	1	2 490	12	9	7	4	355.7	622.5
Gorodnya Rural Settlement	2	2 730	17.5	8	8	5	341.3	546
Kozlovo Community	1	4 259	11	10	7	5	608.4	851.8
Izoplit Community	1	4 416	9	9	5	6	883.2	736
Novozavidovskiy Community	1	8 083	20	13	15	8	538.9	1 010.4
Redkino Community	1	11 740	24.5	16.5	19	11	617.9	1 067.3
Konakovo Urban Settlement	1	42 437		N/A		19		2 233.5

*Data source:* based on the data reported by the Administrative body of the Konakovo Region.

Analysis of costs shows that costs on maintenance of local self-government bodies grew substantially in 2006, 30.8% in the region. Costs on financing of duties of elective officials grew most (more than three times), which was due to both increase in the number of elective officials in urban/ rural settlements at the Oblast and financing of Council of Deputies at specific rural/ urban settlements. In particular, a Council of Deputies comprising six persons (the Chairperson of the Council of Deputies, four chief specialists and one leading specialist) was established at the town of Konakovo. In addition, the town is financing an Auditing Commission comprising the Chairperson, Deputy Chairperson and leading specialist. Further, two members of the Council of Deputies operate on a full-time basis, namely the chief executive of the town, who is also the Chairperson of the Council of Deputies, and the Deputy Chairperson. The cost-estimate of the Council of Deputies includes a total of 12 regular staff offices, namely two members, nine municipal servants and one technical specialist. Monthly maintenance costs on the representative body exceed RUR 85 thousand.

It should be noted that growth in local budget costs on municipal administration was not only caused by increase in the number of personnel at local self-government bodies, but also an increase in official salaries of municipal servants with subsequent growth in payroll. In particular, official salaries of municipal servants grew 50 to 72% at the settlement level due to the reform. However, official salaries grew less (not more than 20%) at the regional level.

#### *Municipal Reform Costs*

In 2005, neither Oblast nor regional budget funds were allocated to finance measures aimed implementing the municipal reform on the territory of the Konakovo Municipal Area.

At the end of 2006, it was resolved to finance the Konakovo Municipal Area with additional regional budget revenues. RUR 4 mln was allocated for technical inventory of the public utility infrastructure's fixed assets, as well as RUR 705 thousand for purchase of office appliances and furniture for rural administrative bodies. Similar amount of regional budget funds is scheduled for allocation for the same purpose in 2007, as evidenced by the data reported by the municipal administration body.

The following measures were financed with regional budget funds in 2006:

- renovation of buildings and premises of administrative bodies at rural/ urban settlements and furniture – RUR 426 thousand;
- purchase of personal computers, office appliances, software and communication services – RUR 279 thousand;
- advanced training of personnel of settlements' administrative bodies – RUR 42 thousand.

Finally, the municipal reform costs totaled 747 RUR thousand, 0.14% of the regional budget, in 2006.

#### Supervisory Bodies

No supervisory bodies were established either at the regional level or the settlement level, save for the town of Konakovo in which an Accounts Commission comprising three persons as municipal servants was established within the Council of Deputies.

### **3.3. The Chuvash Republic**

#### *Implementing Municipal Reform in the Chuvash Republic*

##### Reforming Basic Principles of Local Self-Government

The regional model of local self-government was implemented into the Chuvash Republic prior to the inception of the municipal reform, 26 towns and regions had the status of municipal entity. The number of municipal entities in the Chuvash Republic increased up to 317 as a result of the reform of territorial principles local self-government. At the moment, five urban districts, 21 municipal area and 291 urban and rural settlements have the status of municipal entity.

##### Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements

The Chuvash Republic falls into the category of the regions which since 2006 have been implementing the municipal reform in full. At the same time, the Presidential Office of the Chuvash Republic developed a standard agreement specifying a list of authorities recommended by the

Government of the Republic to be delegated up to the regional level by rural/ urban settlements, namely:

- the authority to develop rural/ urban settlements' by-laws and regulations on budgeting, approval and budget execution accounting as well as budget execution reports made by rural/ urban settlements;
- the authority to draft rural/ urban settlements' by-laws and regulations on setting tariffs of services provided by municipal enterprises and institutions on regulation of tariffs of goods and services of the public utility company (exclusive of electric power supply and heat supply), tariffs of access to the public utility infrastructure, increments to tariffs of goods and services provided by public utility companies, price (tariff) increments for consumers on the territory of these urban/ rural settlements;
- the authority to develop rural/ urban settlements' by-laws and regulations on management and disposal of municipal property including land located on the territory of the urban/ rural settlement prior to delimitation of public land ownership;
- the authority to develop rural/ urban settlements' by-laws and regulations on management of general-purpose motor roads, housing construction and the public utility service on the territory of these urban/ rural settlements;
- the authority to develop draft master plans of rural/ urban settlements, land use and development rules, documentation on land planning and issue of permits for construction, settlement development standards, on reservation and lien of land, including redemption, located within the boundaries of rural/ urban settlements for municipal purposes;
- the authority to keep the municipal property register, draft agreements on lease and purchase of municipal property, ensure safety and proper use of municipal property and land, keep records of payments for lease of municipal property and land located on the territory of the urban/ rural settlement;
- the authority to represent interests of settlements' local self-government bodies in law courts concerning issues of management and disposal of property and land recourses, taking measures aimed at eliminating violations of the applicable law;

- the authority to manage interaction between culture-and-art establishments of rural/ urban settlements located on the territory of the region, and participation of rural/ urban settlements in cultural measures at the region;
- the authority to coordinate activities of settlements' local self-government bodies in the field of development of physical training and sports on the territory of the region.

The public authority to provide record-keeping of certificates of civil statutes was delegated down to the level of municipal areas, while the public authority to manage military registration and enlistment was delegated down to rural/ urban settlements. However, the municipal servant office exercising this authority is to be paid in full if more than 500 draft-age persons are residing at the rural/ urban settlement, or 0.4 of the wage if less than 500.

*Reforming Organizational Principles of Local Self-Government*

The Chuvash Republic didn't take the privilege granted by the transition-period provisions of the Federal Law FZ-131 on establishment of a procedure for election of chief executives of newly established municipal entities for the initial term of office as well as determine the status of a given office within the structure of local self-government bodies. The Chuvash Republic Law *"On Elections to Local Self-Government Bodies in the Chuvash Republic"* of November 25, 2003 No. 41<sup>22</sup> has a provision granting the right to both the existing and newly established municipal entities to develop at their own discretion a local self-government structure. The term of office of first-sitting representative local self-government bodies as well as chief executives of newly established urban/ rural settlements shall be five years.

Most of the newly established urban/ rural settlements of the Chuvash Republic introduced the traditional model of local self-government structure under which the chief executive of the municipal entity is to be elected at municipal elections and run the local government body. The chairperson of the representative body is to be elected out of the members of the same.

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<sup>22</sup> The Law of the Chivash Republic No. 65 as in force on 29.12.2005.



*Changes in the Number of Local Administrative Bodies and administrative costs*

The Chuvash Republic has been pursuing the policy of reduction of the number of administrative personnel and administrative costs. As a result, the number of local administrative bodies even slightly reduced in the course of the reform, 2 967 persons (including 2 204 municipal servants) in 2005 against 2 829 persons (including 2 064 municipal servants) in 2006, about 52% of which were administrative personnel at municipal areas and 48% of administrative personnel at rural/ urban settlements. More details on changes in the number of local administrative bodies (exclusive of urban districts) are presented in *Table 3.18*. As illustrated in the Table, the personnel complement of local administrative bodies grew, insignificantly, only at five regions, while 16 regions saw reduction in the same parameter. The authorized personnel complement of local administrative bodies reduced almost 5% in the Chuvash Republic as a whole. However, it should be taken into account that the data on personnel complement of local administrative bodies provided by municipal areas differ from the data reported the regions. For instance в, as evidenced by the regional data, Maryinsk-Posad Region had 126 persons of authorized personnel complement of the local government body in 2005 against 110.5 reported by the regional administrative body. Accordingly, the personnel complement of administrative bodies reduced based on the regional data, while it increased based on the local administration data.

It may be inferred from the provided data that the average republican number of personnel at regional administrative bodies is 70 persons, while the number of administrative personnel at a rural/ urban settlement averages 4.6 persons (including the chief executive and technical personnel) in the Chuvash Republic, which means about three municipal servants per single rural/ urban settlement. Such a small number of administrative personnel is managed to be maintained, because in particular administrative bodies at rural/ urban settlements have no finance specialists among their regular staff. To service local budgets, each municipal area established a central accounting office in the form of budget-funded entity not integrated into the municipal area's administrative structure. The

number of regional administrative personnel has also been reduced since January 2006 by way of assigning social services up to the republican level.

Table 3.18

**Changes in Authorized Personnel Complement of Local Administrative Bodies in the Chuvash Republic, in the Period Between 2005 and 2006**

	Growth in the number of administrative personnel of municipal entities, average in the regions, %	Regional which saw growth in the number of personnel at local administrative bodies		Regional which saw reduction in the number of personnel at local administrative bodies		A share of personnel of settlements' administrative bodies in total number of personnel of local administrative bodies, average in the regions, %
		number of regions	growth in authorized personnel complement of local-self government bodies, average in the regions, %	number of regions	growth in authorized personnel complement of local-self government bodies, average in the regions, %	
Total personnel of local administrative bodies	-4.6	5	3.3	16	-7.6	46.8
Municipal servants	-6.4	5	4.7	16	-11.2	43.9

*Data source:* based on the data reported by the Presidential Office of the Chuvash Republic.

At the moment, the Chuvash Republic has been holding measures aimed at optimizing the number of administrative personnel as part of the municipal reform. The number of administrative personnel at municipal areas of the Republic averages 2.7 persons per population of 1000, as evidenced by the estimates of the Chuvash Ministry of Finance<sup>23</sup>. The regions in which this parameter is above this number (10 regions) were recommended to reduce their administrative personnel complement. Based on the delimitation, under the applicable federal law, of some of the authorities from the regional level down to the settlement level of

<sup>23</sup> A letter No. 08-21/1873 to the Chuvash Ministry of Finance dated 27.04.06.

municipal administration, the Chuvash Ministry of Finance recommends that every regional administrative body should reduce 16 of its regular staff offices including:

- up to three regular staff offices at departments of construction, architecture and public utility service;
- up to four regular staff offices at social security departments;
- up to six regular staff offices at departments of agriculture;
- up to three regular staff offices at economic groups.

The foregoing regular staff offices are expected to be included into the authorized personnel complement of administrative bodies at rural/ urban settlements ‘depending on rural/ urban settlements’ readiness to exercise their authorities’.

Changes in costs on maintenance of local administrative bodies in consolidated regional budgets are illustrated in *Table 3.19*. In spite of reduction in the regular staff list of local administrative bodies, the relevant costs tended to grow almost 13%. Only 5 of the 21 regions saw reduction in costs on financing of local administrative bodies. There is a marked upward trend towards increase in wages of municipal servants in the Chuvash Republic.

*Table 3.19*

**Changes in Costs on Maintenance of Local Administrative Bodies, 2005 (Actual) – 2006 (Estimated)**

Growth in costs on maintenance of local administrative bodies, total in municipal areas, %	Regions which saw growth in costs on maintenance of local administrative bodies		Regions which saw reduction in costs on maintenance of local administrative bodies	
	number of regions	growth in costs, average in the regions, %	number of regions	growth in costs, average in the regions, %
12.8 %	16	19.2	5	-7.6

*The Chuvash Republic’s Budget Expenditures Allocated for Implementation of the Municipal Reform*

In 2006, the Chuvash Republic’s budget expenditures on provision of local self-government bodies with personal computers, office appliances

and software totaled RUR 9 million 907 thousand: two sets of computer hardware (personal computer, monitor, printer, scanner, power supply box) and software were supplied to each of the 291 rural/ urban settlements, the one set to the local administrative body, the other to the model library. The foregoing funds were allocated in pursuance of the Order No. 8-p of the Cabinet of Ministers of the Chuvash Republic issued on January 24, 2006. No budget funds were allocated for these purposes in 2005.

To date, the Republican budget expenditures on training, retraining and advanced training of municipal servants were allocated for training of administrative personnel of municipal areas. In 2006, the Presidential Office of the Chuvash Republic issued a Regulation on March 31, 2006 which approved a Republic Program on Training of Municipal Servants for 2006 – 2008. Most of the measures provided for by the Program are expected to be financed with local budget funds.

*Implementing the Local Self-Government Reform  
in the Maryinsk-Posad Region*

*Reforming Territorial Principles of Local Self-Government*

Prior to the reform the Maryinsk-Posad Region was a single municipal entity comprising the town of Maryinsk-Posad and 11 village councils in the form of sub-municipal bodies. At the moment, the Region comprises one urban settlement and 11 rural settlements, all of which are newly established municipal entities. The Maryinsk-Posad Region has a population of 26.6 thousand, 10.2 thousand of urban population, while 16.4 thousand are residing at 78 rural communities. The rural settlements have an average population of 1 490.

*Reforming Organizational Principles of Local Self-Government*

The chief executive is to be elected at municipal elections and run the local administrative body at the level of municipal area. The representative body comprises 19 members, all of which, including the Chairperson of the Representative Body, perform their duties on an part-time basis. The similar local self-government structure was established at the Maryinsk-Posad Urban Settlement. Its representative body comprises 15 members. Besides his duties, the chief executive of the settlement is to be the Chairperson of the Representative Body at all rural settlements. All

members of the representative bodies at urban/ rural settlements operate on a part-time basis. Their number meets the standards specified in the Federal Law 131-FZ.

*Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

All rural/ urban settlements at the Maryinsk-Posad Region entered into agreements on delegation of authority to local self-government bodies of the municipal area in compliance with a standard agreement developed at the republican level. Special agreements on delegation to the municipal area of the authorities to budgeting, budget accounting and execution as well as administration of budget revenues at urban/ rural settlements. Agreements on the procedure for local budget execution were concluded between administrative bodies of urban/ rural settlements and the Chuvash Ministry of Finance. It is envisaged under these agreements that a branch of the Chuvash Ministry of Finance at the Maryinsk-Posad Region shall exercise the settlements' authorities to open and maintain accounts of chief administrators of budget funds and recipients of budget funds during the Federal Treasury-based budget execution. Furthermore, agreements on cooperation between administrative bodies of urban/ rural settlements and the Maryinsk-Posad Centralized Library System of the Chuvash Republic, regional cultural institution.

*Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

As noted above, the data from different sources on authorized personnel complement of local administrative bodies at the Maryinsk-Posad Region differ largely. Therefore, we shall restrict our analysis to rural settlements of the Region in which the data on relevant parameters, as illustrated in *Table 3.20*. The number of local administrative personnel ranges between 3.5 and 4.5 persons at all rural settlements irrespective of their number and population dispersion, as illustrated in the Table. Basically, local administrative bodies comprise mainly the chief executive, two specialists and one technical specialist as was the case prior to the inception of the municipal reform. Delegation of authorities is of random nature under the circumstances. For example, in the Karabashskiy Rural Settlement one of the administrative specialists is in charge of record-

keeping, archives, recreation, physical training and sports, relations with youth, creation of conditions for promotion of trade, public catering and communication, housing policy, trusteeship and guardianship; the other specialist is in charge of military registration and enlistment, passport and visa service, local taxes, land relations, the issues of land development and landscaping, fire safety, emergency safety.

*Table 3.20*

**Administrative Personnel and Costs on maintenance of Local Self-Government Bodies of Rural/ Urban Settlements at the Maryinsk-Posad Region**

Rural/ Urban Settlements	Population	Number of communities	Administrative personnel		Population per 1 administrative servant	Per capita costs on maintenance of local-self government bodies, RUR	A share of costs on maintenance of local-self government bodies, %
			Total	Including municipal servants			
Pervochurashevskoye	2 142	14	3.5	3	612	207.0	33.3
Shoeshelskoye	2 014	6	3.5	3	575	196.6	19.6
Elbarusovskoye	2 007	7	3.5	3	573	212.8	28.1
Oktiabskoye	1 983	7	3.5	3	567	208.7	29.8
Bolsheshigayevskoye	1 870	6	3.5	3	534	195.6	28.4
Bichurinskoye	1 305	5	4.5	3	290	312.0	31.3
Volzhskoye	1 276	12	4.5	4	284	373.6	40.8
Kugeevskoye	1 243	N/A	3.5	3	355	277.5	39.2
Sutchevskoye	1 241	5	3	2.5	413	242.0	40.2
Aksarinskoye	1 194	6	3.5	3	341	275.5	25.4
Karabashskoye	1 128	4	4	5	282	312.1	43.0

Such a strict restriction of the number of local administrative personnel allows a share of costs on maintenance of local self-government bodies to be maintained 32.6% on average at rural settlements of the Region, which, however, is slightly less than the Russian average. However, the relevant share differs largely by settlement, from 19.6 to 43%. Like in other regions per capita costs on maintenance of local self-government

bodies reflect, not very strong though, dependence on the population of a rural/ urban settlement. For instance, at all rural/ urban settlements with a population of less than 1 500 such costs total more than RUR 240, while at urban/ rural settlements with a population of more than 1500 less than RUR 220. It should be noted that the amount of per capita costs is basically less than that in the considered municipal entities at other regions.

Chief executives of rural/ urban settlements of the Region were unanimous in their opinion that it is impossible to efficiently manage issues of local significance under such a tight restriction on the number of local administrative personnel complement. They believe that the authorized personnel complement at administrative bodies should be at least doubled by adding deputy chief executive as well as accountants, land surveyors, a public utility specialist.

#### *Availability of Computer Hardware and Motor Vehicles at Administrative Bodies at Rural/ Urban Settlements*

Each of the local government bodies is equipped with at least one set of computer hardware. The issue of service motor vehicles availability is more severe. No motor vehicles were purchased by administrative bodies at rural/ urban settlements in 2005 and 2006. However, every day chief executives of rural settlements have to travel by road to the regional center at their own cars. It is not envisaged to compensate the chief executives for motor vehicle amortization and fuel expenses.

#### *Municipal Reform Implementation Costs*

As evidenced by the data reported by the Regional Administrative Body, financing of costs on the municipal reform in the region was slender. It is only purchase of personal computers, office appliances and software (RUR 401 thousand) that was covered with republican budget funds in 2006. The regional budget allocated small amounts to finance inventory, technical classification and registration of property (RUR 32 thousand in 2006), boundary survey, demarcation of settlements' boundaries (RUR 60 thousand in 2005, RUR 305 thousand in 2006); furniture of administrative bodies at rural/ urban settlements (RUR 102 thousand in 2005); charter registration and manufacturing of seals for local self-government bodies of rural/ urban settlements (RUR 237 thousand in 2005).

### Supervisory Bodies

Supervisory bodies were established and comprised the members of the representative bodies at all rural/ urban settlements of the Region. Since they operate on a part-time basis, no special operational costs are provided for by the local budgets for this purpose.

### *Implementing the Local Self-Government Reform in the Cheboksary Region*

#### Reforming Territorial Principles of Local Self-Government

The regional model of local self-government was implemented in the Cheboksary Region prior to the reform: municipal entity was established at the regional level only, 23 village councils were administered through territorial units of the regional administrative body.

Two factors were mostly taken into account during demarcation of settlements' boundaries in the course of the municipal reform, namely the population and administrative center accessibility. The Cheboksary Region pursued a policy of consolidation of village councils during establishment of settlement-type municipal entities. As a result, 17 rural settlements were established instead of 23 sub-municipal entities on the territory of the Region.

#### Reforming Organizational Principles of Local Self-Government

The model of local self-government was introduced at newly established municipal entities in the Cheboksary Region under which chief executives of rural/ urban settlements are to be elected at municipal elections and run local administrative bodies. The Chairperson of the representative body is to be elected out of the members of and run the representative body. The members of representative bodies operate on a full-time basis.

#### Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements

All rural/ urban settlements of the Cheboksary Region entered into agreements on delegation of authorities to local self-government bodies of the municipal area in compliance with a standard agreement developed



at the republican level. Further, additional agreements were concluded on delegation to the municipal area of

- the authority to draft, execute and accounting of budget execution as well as administer budget revenues of the rural/ urban settlement;
- the authority to manage privatization of the municipal housing stock;
- the authority to provide methodological service for awarding of municipal contracts on supply of goods, works and provision of services for municipal purposes;
- the authority to consider applications submitted by individuals and legal entities:
  - concerning town planning issues: issuance of construction licenses, occupancy permits during construction, reconstruction, overhaul of buildings and premises, approvals for rebuilding and redesign of residential premises, as well as documents which evidence that residential premises are uninhabitable;
  - concerning land issues: approval of land boundaries, of paid or free assignment of the title, of lease, of non-repayable (limited) utilization, of permanent (unlimited) utilization, of alterations in designated purpose of the land, advance approval of ownership in land, land reclassification, land auctions or the right to award agreements on land lease, as well as procedure for delimitation of public ownership in land;
  - concerning property issues: procedure for management and disposal of rural settlement's municipal property (keeping the municipal property register, municipal treasury, non-residential premises lease, privatization of municipal property (auctions etc.), public registration of real estate, purchase agreements, lease with the Federal Registration Service Branch in the Chuvash Republic.

As evidenced by the foregoing list, most of the authorities concerning provision of municipal services were retained at the level of local self-government bodies at rural/ urban settlements, while the authority to methodological support to local self-government bodies at rural/ urban settlements were delegated to the regional level.

It is the authority to draft and execute the settlement's budget that is regarded as most essential of the authorities delegated to the region. In the Cheboksary Region, however, unlike many other municipal areas which were vested with this authority, chief executives of rural/ urban settlements participate actively in drafting and execution of their budgets. In particular, the procedure for budgeting at the rural/ urban settlement is as follows: the Regional Department of Finance develops long-term estimates for the draft budget of the settlement, chief executives of rural/ urban settlements determine financing priorities for the upcoming financial year, amounts of financing are determined jointly by the regional administrative body and the urban/ rural settlement, specialists of the Department of Finance of the urban/ rural settlement carry out budgeting based on the agreed amounts of financing. During the Federal Treasury-based budget execution the treasury office must provide chief executives of the rural/ urban settlement with statements on transactions concerning the settlement's budget account.

It should be noted that agreements are identical for all rural/ urban settlements, because texts of the agreements were drafted at the level of municipal area. No allowance is made for remittance of subventions from settlements' budgets to the region. The authorities are delegated with the regional budget funds.

Like in other regions of the Republic, the public authorities to military registration and enlistment as well as passport and visa service were delegated to the settlement level. However, subventions from the republican budget are only remitted to finance discharge of the duties of the personnel employed at military registration and enlistment office.

#### *Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

The authorized municipal servant complement remained unchanged in the Cheboksary Region due to a republican purpose-oriented policy aimed at retaining the pre-reform number of local self-government personnel. At the regional level, the number of municipal servants reduced from 68 in 2005 to 65 persons in 2006. At the moment, the number of regional administrative personnel totals 80 persons including service personnel. At the settlement level, the number of municipal servants in-

creased from 87 persons in 2005 up to 96 persons in 2006. However, 21 of 96 municipal servants are employed at the military registration and enlistment office which is financed with subventions from the republican budget.

The authorized personnel complement of local self-government bodies was retained at the pre-reform level due to organizational changes, including changes that took place at the regional level, in particular establishment of a central accounting office which provides services for local self-government bodies at rural/ urban settlements. As a result, the number of accountants was reduced from 23 down to 9 at rural/ urban settlements.

In addition, the number of administrative personnel at the settlement level was reduced during consolidation of rural administrative bodies, because at the moment only one specialist is envisaged for provision of services to general public on the territory of administrative centers of the previously established village councils, while the authorized personnel complement at each rural administrative body comprised 3 - 4 persons prior to the reform. The chief executive of the settlement has a schedule of public days at each of the village councils within the settlement.

Since newly established rural/ urban settlements were entitled to determine the local administrative structure, duties of the personnel of local administrative bodies differ largely between rural/ urban settlements of the region. For example, local administrative bodies comprise 5 persons at the Atlashevskoye Rural Settlement (with a population of about six thousand) and the Bolshekatrasskoye Rural Settlement (with a population of three thousand). Offices of Chief Executive, Deputy Chief Executive, two leading specialists and one specialist on military registration and enlistment are envisaged in the authorized personnel complement of administrative bodies. However, the following duties are envisaged for the leading specialists at the Atlashevskoye Rural Settlement: the one provides support to the representative body, while the other is in charge of social security as well as book-keeping. At the Bolshekatrasskoye Rural Settlement, one specialist is in charge of municipal procurement and economic issues, while the other deals with social security issues. The spe-

cialist of military registration and enlistment office at the Bolshkatrasskoye Rural Settlement also provides passport and visa service.

As evidenced by the estimates made by the officials of rural/ urban settlements, they would be able to efficiently deal with all issues of local significance provided for by Federal Law 131-FZ, provided that their authorized personnel complement at local administrative bodies includes land surveyors, law officers and programmers. At the moment land surveyors are available only at the regional administrative body, because all land authorities rural/ urban settlements were delegated to the region on a contractual basis.

Municipal administrative costs remained the same As a result of the republican policy aimed at retaining the number of local administrative bodies as well as regulating wages of municipal servants. In 2005 costs on regional budget management totaled RUR 24 326 thousand, in 2006 the consolidated regional budget costs totaled RUR 24 763 thousand. Therefore, costs grew 7.5%. It should be noted that 52.8% of the consolidated budget expenditures on management were targeted to maintenance of the regional local self-government bodies and 47.2% on maintenance of administrative bodies at rural/ urban settlements.

#### *Municipal Reform Implementation Costs*

Newly established urban/ rural settlements in the Cheboksary Region were computerized with republican budget funds: every rural/ urban settlement received one personal computer, printer, scanner, copying machine and modem. The cost of a set of was about RUR 30 thousand. By and large, a total of about RUR 5 mln of republican budget funds was spent on computerization of rural/ urban settlements at the Cheboksary Region in 2006. In addition, a total of RUR 521 478.5 was spent on computerization of rural/ urban settlements from the regional budget.

Further, in 2006 demarcation of settlements' boundaries under the laws on land and urban planning was financed with regional budget funds. A total of RUR 5 mln was spent on demarcation of boundaries of 10 out of 17 rural/ urban settlements at the region. Funds will be needed on demarcation of boundaries of the rest 7 rural/ urban settlements.

Provision of rural settlements with service motor vehicles is another cost-item on the municipal reform. At the moment some rural/ urban set-

tlements have one motor vehicle, others have none at all. All available motor vehicles are old, but the Republican Administrative Body is reluctant to finance purchase of motor vehicles, while the Regional one have no funds for this purpose.

#### *Supervisory Bodies*

Financial control in the Cheboksary Region is conducted by auditing commissions established within representative bodies at both rural/ urban settlements and the municipal area. There is one full-time auditor in the department of finance at the administrative body of the municipal area. No supervisory bodies were established within local self-government bodies in the region.

### **3.4. Orenburg Oblast**

#### *Reforming Basic Principles of Local Self-Government<sup>24</sup>*

Reforms in the field of local self-government, especially the territorial structure, were launched in the Orenburg Oblast as early as prior to the inception of the municipal reform. The settlement model of local self-government was originally introduced in 1996 almost at all regions of the Orenburg Oblast. The Oblast had 579 municipal entities including 11 towns, others were rural settlements (communities, villages, village councils). Territorial units of state power were established on the basis of regional administrative bodies in the Orenburg Oblast. A single exception was the Abdulinskiy Region in which the regional model of local self-government was implemented: the town of Abdulino as well as communities and village councils had the status of sub-municipal entity, their administrative bodies were classified as territorial units of the regional executive government authorities.

A tendency for municipal power centralization emerged under the settlement model of local self-government. The Law of the Orenburg Oblast No. 129/31 “On the Council of Representatives of Municipal Entities at

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<sup>24</sup> This section was drafted on the basis of a study set out at Schepachev V.A. “Establishing and Developing Local Self-Government at the Constituent Entity of the Russian Federation. Federal and Regional Peculiarities”. Orenburg, 2004.

the Region” dated September 12, 1997, introduced a Council of Representatives in addition to executive government bodies at each region (exclusive of the Abdulinskiy Region), which comprised the chief executive of the Region to be appointed by the Governor of the Oblast, and chief executives of municipal entities. This collegial regional body had a wide scope of authorities, in particular regulation of issues related to introduction of local taxes and dues, the procedure for disposal of municipal property, approval of regional programs. Its resolutions and regulations were binding for all local self-government bodies, officials, legal entities and individuals located and operated on the territory of the region. However, a series of standards specified by the Federal Law with regard to delegation of commanding authorities to the Council of Representatives were acknowledged void at court upon an appeal filed by the chief executive of the Nikolsk Village Council. Given the appointive nature of this body, the Council of Representatives became to be classified as advisory body under the Chief Executive of the Regional Administrative Body.

The Orenburg Oblast launched a region wide transition to the regional model of local self-government in spring 2000. Such transition was justified by the Regulation No. 2-p of the Government of the Orenburg Oblast “On the Local Self-Government Reform in Orenburg Oblast” dated March 24, 2000, in which it was underlined that the applicable local self-government system had proved ineffective in the Oblast as evidenced by the results of the work performed by local self-government bodies at settlement councils and village councils over three years since the inception of the system. The Oblast’s administrative officials believed that this was caused by “disunity of local administrative bodies at the regions, village councils and settlement councils, lack of streamlined division of terms of reference and authorities between them; both territorial government bodies, regional administrative bodies, and rural administrative bodies have insufficient financial and physical resources, power authorizations required for them to be able to maintain and develop the infrastructure designed to sustain and foster economic potential of the municipal entities as well as satisfy most essential needs of the general public”. Thereby, all entities at the municipal level lost their status of municipal entity, exclusive of four settlements in which chief executives of municipal entities

hold local public gatherings: the Krasnouralskiy, the Progoridniy and the Chernorechensk Village Councils in the Orenburg Region as well as the Sofievskiy Village Council in the Ponomariovskiy Region.

Therefore, a total of 47 of municipal entities existed on the territory of the Orenburg Oblast by the inception of the municipal reform, including:

- 8 towns (Buguruslan, Buzuluk, Gai, Mednogorsk, Novotroitsk, Sorochinsk, Orenburg, Orsk) not integrated into the relevant regions;
- 4 settlement-type municipal entities not integrated into the relevant regions;
- 35 regions.

The territorial structure of local self-government was reformed dramatically in the course of the municipal reform. It was originally resolved to make efforts in retaining the regional structure of local self-government by establishing urban districts on the basis of municipal areas<sup>25</sup>. This was provided for by two Oblast laws on establishment of urban districts and demarcation of boundaries<sup>26</sup>. However, the municipal community forced this approach to be revised so that the both laws were recognized void<sup>27</sup>. Eventually, the following territorial structure of local self-government was established in the region in the course of the municipal reform:

- 9 urban districts;
- 35 municipal areas;
- 4 urban settlements;
- 565 rural settlements.

The Orenburg Oblast has a total of 613 of municipal entities, of which 566 are newly established ones (4 urban settlements, 561 rural settlements and one municipal area).

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<sup>25</sup> Such approach was introduced in particular in the Sverdlovsk Oblast, the Kaliningrad Oblast and the Sakhalin Oblast.

<sup>26</sup> Laws of the Orenburg Oblast No. 1470/244-III-OZ (applicable to all regions, save for the Gaiskiy Region and the Sorochinskiy Region) and No. 1471/245-III-OZ (applicable to the Gaiskiy Region and the Sorochinskiy Region) dated September 24, 2004.

<sup>27</sup> Laws of the Orenburg Oblast No. 1847/306-III-OZ dated February 25, 2005 and No. 1887/340-III-OZ dated March 9, 2005, with the same title “On Voidance of the Orenburg Oblast Law “On Establishment of Urban Districts and Demarcation of Boundaries”.

## *Reforming Organizational Principles of Local Self-Government*

In accordance with the Law of the Orenburg Oblast No. 1153/177-III-OZ "On Election of Chief Executives of Municipal Entities and Other Officials of Local Self-Government Bodies in the Orenburg Oblast" dated May 12, 2004, the chief executive of the municipal entity may be elected both at municipal elections and by the representative body of the municipal entity out of the members of the same. A resolution on election of the chief executive of the municipal entity out of the members of the representative body of the municipal entity shall be taken at a meeting by a majority of vote of a specified number of members. Candidates for the office of chief executive of the municipal entity shall be nominated by:

- The Chief Executive of the Oblast Administrative Body;
- members of the representative body of municipal entity, including self-nomination.

As applied to newly established municipal entities, a uniform procedure for electing chief executives of newly established municipal entities for the first term of office – by the representative body out of its members<sup>28</sup> – was established. A special law was adopted with regard to the Orenburg Region which is also referred to a newly established one. The law specifies that the personnel of the representative body shall comprise 20 persons, the terms of office of the first-sitting representative body and the chief executive of municipal entity of the Orenburg Region shall be five years, as well as the procedure for election of the chief executive of this region for the first term of office – out of the members of the representative body<sup>29</sup> – was established.

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<sup>28</sup> The Law of the Orenburg Oblast dated on May 25, 2005 No. N 2150/386-III-OZ "On the Procedure for Election of Chief Executives of Newly Established Municipal Entities at the Orenburg Oblast".

<sup>29</sup> The Law of the Orenburg Oblast dated on May 25, 2005 No. 2152/388-III-OZ "On Establishment of Local Self-Government Bodies and Preparation and Holding of Elections at Municipal Entities in the Orenburg Region, the Orenburg Oblast".



Chief executives of newly established urban/ rural settlements are elected out of the members of and run the representative body in the course of the municipal reform in Orenburg Oblast. The same persons are in charge of the local government body in rural settlements. Chief executives of urban settlements are hired on a contractual basis. Chief executives of four previously established rural/ urban settlements are elected at municipal general elections. Municipal areas differ in models: in 13 regions chief executives are elected at general elections, while in others they are elected out of the members of the representative body as advised by the Governor of the Oblast.

*Delimitation of Authority Between Municipal Area  
and Rural/ Urban Settlements*

The Orenburg Oblast is not referred to the regions which implemented the municipal reform in full in 2006. Eight issues of local significance incidental to newly established urban/ rural settlements were delegated to municipal areas under the Orenburg Oblast Law No. 2843/500-III-OZ “On Peculiarities of Implementation of the Federal Law No. 131-FZ “On General Principles of Local Self-Government Organization in the Russian Federation” dated 06.10.2003 in the Transition Period” dated December 15, 2005, including:

1) the authority to supply electric power, heat, gas and fuel the population residing within the boundaries of the urban/ rural settlement;

2) the authority to approve master plans of rural/ urban settlements, land use and development rules, documentation on land planning and issue of permits for construction, settlement development standards, on reservation and lien of land, including redemption, located within the boundaries of rural/ urban settlements for municipal purposes, provision of land control over utilization of the land owned by the urban/ rural settlement;

3) the authority to take measures aimed at providing civil defense, protecting the residents of the urban/ rural and the territory of the settlement from natural and man-made emergencies;

4) the authority to establish, maintain and manage emergency rescue services and/or search-and-rescue units on the territory of the urban/ rural settlement;

5) the authority to manage preparedness activity at municipal enterprises and institutions located on the territory of the urban/ rural settlement;

6) the authority to manage provision of library services;

7) the authority to create conditions for provision of recreational and cultural services to the residents of the urban/ rural settlements;

8) the authority to create conditions for provision of services of physical training and sports on the territory of the urban/ rural settlement.

At the same time the practice of agreements on delegation of the authorities of local self-government bodies at rural/ urban settlements to municipal areas has been widely accepted to date. However, not always do these agreements comply with the applicable law: issues of local significance are delegated rather than authorities; no allowance is made for subventions from budgets of rural/ urban settlements to budgets of municipal areas for the purpose of exercising the delegated authorities; no provision is made for sanctions for default cases.

Transition to a full-scale implementation of the municipal reform is envisaged in the Oblast in 2007. Nevertheless, the practice of agreements shows that it will not extend considerably the autonomy of local self-government bodies at rural/ urban settlements. For example, an agreement developed for 2007 by the regional administrative body at the Novosergievsk Region provides for delegation of 12 key issues of local significance to the regional level, namely public utility services, construction and maintenance of motor roads, provision of cultural services, physical raining and sports, library service, establishment of settlements' archive funds, land utilization and development, civil defense, preparedness activity, promotion of agricultural production and small businesses, realtions with children and youth, calculation and provision of subsidies in payment of rent of residential premises and public utility services.

All rural/ urban settlements have to enter into uniform agreements under strict administrative pressure. Representative bodies of rural/ urban settlements resolve the issue verbally, no written instruments are issued.

Voting on a specific issue is replaced by blanket ballot. The Regional Administrative Body submits a report on the method that was used for delegation of authorities in the previous period as well as the amount of costs incurred for this purpose. Delimitation of property is not correlated whatsoever with delimitation of authorities: for example, authorities to provide public utility services are delegated to local self-government bodies of the municipal area, the title to boiler houses is passed to the municipal property<sup>30</sup>.

*Specific Issues on Financial Fundamental Principles  
of Local Self-Government*

Authorities to equalize fiscal capacity of rural/ urban settlements were delegated to municipal areas at the Orenburg Oblast. It is specified in the Oblast Law No. 2738/499-III-OZ “On Intergovernmental Fiscal Relations in the Orenburg Oblast” dated November 30, 2005 that subventions to municipal areas for the purpose of balancing fiscal capacity of rural/ urban settlements are allocated in proportion to the population of the regions. The method of allocation of donations to rural/ urban settlements from regional funds for financial support to rural/ urban settlements is also regulated by a law on intergovernmental fiscal relations. Under this method such donations are broken down into two parts. The first part is distributed per capita between rural/ urban settlements. The second part is allocated in order to equalize the estimated fiscal capacity of rural/ urban settlements which is calculated as a ratio of the tax potential index to the budget expenditure index. Fiscal capacity is equalized to the maximum regional level. Given a large difference between municipal areas and rural/ urban settlements in their financial position, such mechanism makes actual fiscal capacity of different rural/ urban settlements far different.

A distinguishing feature of the system of financing of municipal entities in the Orenburg Oblast is importance of the land tax as a source of

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<sup>30</sup> The Consultant had an opportunity to participate at meetings of the representatives bodies of two rural/ urban settlements located at the Novosergiyevskiy Region, which had such issues in their agenda.

local budget revenues. In 2006 newly established rural/ urban settlements were entitled to retain 20% of land tax revenues, while in 2007 they are entitled to 100% of such revenues. With regard to the previously established rural/ urban settlements, the land tax became a sizable source of their budget revenues in 2006. For example, land tax revenues at the 'Chernorechensk' Village Council' Municipal Entity grew six times in 2006 year on year to come to account for more than one third of the local budget revenues. As evidenced by the estimates of the Association of Rural Settlements in the Orenburg Oblast, if the land tax revenues were included in full into the budgets of urban/ rural settlements, then, for example, a half of the rural/ urban settlements of the Orenburg Region would become self-sufficient.

*Changes in Authorized Personnel Complement  
and Costs on Maintenance of Local  
Self-Government Bodies*

There is comparable data on a representative sample including 14 municipal areas in the Orenburg Oblast concerning changes in the authorized personnel complement at local self-government bodies (total in the region, without breakdown into local self-government bodies of the municipal area and rural/ urban settlements) as well costs on financing of local self-government bodies of municipal areas and rural/ urban settlements. The relevant information is illustrated in *Tables 3.21* and *3.22*. As evidenced by the data in the Tables, the authorized the personnel complement at local self-government bodies increased within a wide range of less than 1% to almost 40% at all of the regions under consideration. The average increase at the regions under consideration is about 18%. Like in other regions, growth in costs on maintenance of local self-government bodies exceeded the growth in the authorized personnel complement, but such excess was insignificant at the Orenburg Oblast, an average of about 20% at the regions in 2006 year on year, a total of about 24%. Costs grew much faster, about 40%, at rural/ urban settlements. Further, costs on maintenance of local self-government bodies at rural/ urban settlements grew at all of the regions under consideration against municipal areas at

which tendencies varied: costs on maintenance of local self-government bodies reduced at five regions, remained the same at two regions, and grew at the rest of the regions.

*Table 3.21*

**Changes in Authorized Personnel Complement at Local Self-Government Bodies, Total at Municipal Areas in the Period Between 2005 and 2006**

	Authorized personnel complement at local self-government bodies, total in the region		
	2005	2006	Growth, %
Buguruslan Area	158	179	13.3
Buzuluk Area	135.5	164	21.0
Gaisk Area	111	141	27.0
Matveevskiy Area	77	99	28.6
Novoorsk Area	78	82.5	5.8
Novosergeevsk Area	113	158	39.8
Pervomaisk Area	145	163	12.4
Perevolotsk Area	96	129	34.4
Sakmarsk Area	138	186	34.8
Sol-Iletsk Area	219	221	0.9
Sorochinsk Area	167.5	177	5.7
Tashlinsk Area	127	133	4.7
Totsk Area	177	211	19.2
Sharlyksk Area	155	180	16.1
Average in the sample			18.8
Total in the sample			17.21

Table 3.22

**Changes in Costs on Maintenance of Local Self-Government  
Bodies in the Orenburg Oblast, 2005 (actual) –  
2006 (approved budget)**

	Costs on maintenance of local self-government bodies								
	Total in the region			at the regional level			at the settlement level		
	2005	2006	Growth, %	2005	2006	Growth, %	2005	2006	Growth, %
Buguruslan Municipal Area	25 773	28 767	11.6	18 068.0	17 195.0	-4.8	7 705.0	11 572.0	50.2
Buzuluk Municipal Area	30 367	34 087	12.3	17 108.0	15 138.0	-11.5	13 259.0	18 949.0	42.9
Gaisk Municipal Area	20 142	17 297	-14.1	15 744.0	11 595.0	-26.4	4 398.0	5 702.0	29.6
Matveevskiy Municipal Area	14 650	18 630	27.2	9 637.0	9 636.0	0.0	5 013.0	8 794.0	75.4
Novoorsk Municipal Area	20 802	21 610	3.9	14 619.0	12 735.0	-12.9	6 184.0	8 875.0	43.5
Novosergievsk Municipal Area	33 938	42 328	24.7	24 365.0	28 196.0	15.7	9 573.0	14 132.0	47.6
Pervomaisk Municipal Area	30 953	38 565	24.6	20 171.0	26 994.0	33.8	10 782.0	11 571.0	7.3
Perevolotsk Municipal Area	17 806	25 660	44.1	9 206.0	10 645.0	15.6	8 600.0	15 015.0	74.6
Saknarsk Municipal Area	114 121	160 842	40.9	105 307.0	148 937.0	41.4	8 814.0	11 906.0	35.1
Sol-Iletsk Municipal Area	30 666	43 325	41.3	14 955.0	17 616.0	17.8	15 577.0	25 507.0	63.7
Sorochinsk Municipal Area	31 076	38 001	22.3	21 459.0	25 341.0	18.1	9 617.0	12 654.0	31.6
Tashlinsk Municipal Area	24 234	31 205	28.8	16 644.0	19 960.0	19.9	7 590.0	11 245.0	48.2
Totsk Municipal Area	33 006	33 685	2.1	19 395.0	17 661.0	-8.9	13 611.0	16 024.0	17.7
Sharlyksk Municipal Area	24 362	25 148	3.2	14 940.0	15 018.0	0.5	9 422.0	10 140.0	7.6
Average in the sample			19.5			7.0			41.1
Total in the sample			23.7			17.1			39.9

More detailed data was obtained during analysis of specific settlement-type municipal entities. As an example we refer to comparison of the number of local administrative bodies with costs on their maintenance at the 'Nikolsk Village Council' Municipal Entity, the Orenburg Region, and the 'Kardailovsk Village Council' Municipal Entity, the Ilekский Region. It is interesting to compare the two settlements from the point of view that both are run by potent leaders seeking for a high quality municipal administration under the existing restrictions.

#### 'Nikolsk Village Council' Municipal Entity

It has a population of 1 375, local budget in 2006 totaled RUR 4 380 thousand thus its fiscal capacity was RUR 3 185.5 per capita, while tax and non-tax revenues of the Municipal Entity accounted for not more than 5.4% of the local budget revenues.

The administrative personnel of the Municipal Entity comprised 8 persons, exclusive of technical personnel, including:

- Chief Executive of the Administrative Body elected out of the members of the Representative Body and combining two offices, the Chief Executive and the Chairperson of the Representative Body;
- Deputy Chief Executive of the Administrative Body;
- 'A' category specialist in charge of social security and land survey;
- Chief Accountant;
- Accountant – cash keeper;
- 'A' category specialist – records manager;
- Law officer;
- Specialist in charge of military registration and enlistment.

In addition, there are full-time driver and cleaner employed by the Administrative Body, as well as a full-time member of the Representative Body. In 2006 costs on maintenance of local self-government bodies totaled RUR 843 thousand or 19.2% of the local budget costs. In 2007 the number of administrative personnel is scheduled to be increased by 1 person in order to set apart the functions of social security officer and land surveyor. Then one local government servant would be per 125 residents of the settlement.

### ‘Kardailovsk Village Council’ Municipal Entity

The Municipal Entity has a population of 3200, its budget expenditures in 2006 were scheduled to total not more than RUR 945 thousand, thus its fiscal capacity totaled RUR 295.3, which is more than 10 times less than at the ‘Nikolsk Village Council’ Municipal Entity. However, tax and non-tax revenues accounted for almost 63% of its budget expenditures.

The local government body comprises seven persons, including:

- Chief Executive of the Administrative Body;
- Deputy Chief Executive of the Administrative Body;
- Land surveyor;
- Accountant;
- Records manager;
- Specialist in charge of military registration and enlistment;
- Cleaner.

Costs on maintenance of local self-government bodies are close to those of the ‘Nikolsk Village Council’ Municipal Entity, RUR 807 thousand. However, such costs accounts for more than 85% of the local budget expenditures. Less than RUR 140 thousand of budget funds was allocated for resolution of issues of local significance. In 2006 the funds were spent on:

- street lighting (though the number of light bulbs was restricted);
- cleaning of trash dumps: three out of the five unauthorized trash dumps located on the territory of the settlement were liquidated, for which a bulldozer was hired<sup>31</sup>;
- holidays with collection of extra funds from businesses;
- street cleaning;
- payment to the fire engineering service of an agricultural enterprise for the provision of fire security service.

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<sup>31</sup> This type of costs shows that the region failed to delegate the authorities to deal with the issues of local significance between municipal areas and rural/ urban settlements, because the latter only should manage collection and removal of garbage and domestic waste.



The 2007 budget includes RUR 1226.6 thousand of revenues and RUR 1 336 thousand of costs. Tax and non-tax revenues account for 84% of the local budget revenues. Further growth in costs on maintenance of the local government body is expected to be 46%. The number of administrative personnel will be increased by two full-time offices, driver (who also is supposed to perform functions of electrician) and chief inspector of public security. A share of administrative costs in 2007 is expected to account for as much as 87.6%. In 2007 the number of local government personnel is expected to approach that of the 'Nikolsk Village Council' Municipal Entity, with one administrative officer per 355.6 residents of the rural/ urban settlements.

Therefore, it should be noted that the number of personnel complement of local administrative bodies and costs on their maintenance shows weak correlation with both the population of the rural/ urban settlement and the scope of vested authorities as well as financial potential of the rural/ urban settlement. In all appearance, there is a minimum number of personnel to be required irrespective of the scope of authorities at the level of rural/ urban settlements. It is therefore the insufficient scope of administrative activity that leads to substantial losses. Such losses are most illustrative in the case that insignificant funds were scattered to deal with a great number of issues of local significance.

### *Municipal Reform Implementation Costs*

No any uniform system of financing of costs on the implementation of the reform was revealed during the survey. Purchase of personal computers and other office appliances as well as personnel training are financed with Oblast, regional, settlement budget funds. For example, provision of computer hardware in the Orenburg Region was financed by both the Oblast and the Regional Administrative Bodies. Each of the newly established settlement-type municipal entities was equipped with a set of computer hardware at a price of RUR 25 thousand (exclusive of a printer). At low-income regions such costs were financed with regional budget funds. As evident from the available data, the regions differ between each other in availability of computer hardware at the administra-

tive bodies of rural/ urban settlements: from one to four personal computers per administrative body.

Training was performed by both the regional administrative personnel and engaged educational establishments. It is chief executives of rural/ urban settlements and accountants that received training in most cases. Some of the chief executives of rural settlements received training as part of the Public and Municipal Administration Program with regional budget funds, while travel expenses were compensated with local budget funds.

Purchase of service motor vehicles is not subject to regular financing. Service motor vehicles are purchased as far as possible, as evidenced by the data reported by the Orenburg Region. In some cases such purchases are financed with budget funds allocated by rural/ urban settlements. In the 'Kardailovsk Village Council' Municipal Entity, for instance, a second-hand Volga car was purchased at the price of RUR 55 thousand with the budget funds saved on the rental of the administrative body building.

### **3.5. Chelyabinsk Oblast**

#### *General Description of Local Self-Government Reform in the Chelyabinsk Oblast*

##### *Reforming Basic Principles of Local Self-Government*

The two-tier model of local self-government bodies was implemented prior to the inception of the municipal reform in the Chelyabinsk Oblast. However, in fact the overwhelming majority of settlement-type municipal entities with elective local self-government bodies had no essential features of municipal entity, namely local budgets and municipal property. Only 47, including 24 regions and 23 municipalities, out of the 325 territories, which had the status of municipal entity in the period between 2003 and 2005, were autonomous entities of intergovernmental fiscal relations.

The reform of the territorial principles of local self-government had its specific features in the Oblast.

First, total number of municipal entities declined from 325 down to 317 through consolidation of some of the territories thereby more than 20

newly established urban/ rural settlements emerged in the Oblast. At the same time it should be taken into account that during formal reduction in the number of municipal entities the number of entities of intergovernmental fiscal relations is expected to be increased by 270 units or 6.7 times in case of full implementation of the municipal reform.

Second, three regions emerged in the Oblast thereby new municipal areas were established against the overwhelming majority of regions. The said areas were established on the basis of three towns, namely Emazhelin, Korkino and Plast, in which communities and village Councils were located, some of which had the status of autonomous municipal entity. In the course of the reform these urban territories were granted the status of municipal area, while the administrative centers were granted the status of newly established urban settlement.

Therefore, a total of 16 urban districts, 27 municipal areas, 28 urban settlements and 246 rural settlements are located on the territory of Chelyabinsk Oblast as a result of the reform of the territorial principles of local self-government.

#### *Reforming Organizational Principles of Local Self-Government*

The Chelyabinsk Oblast didn't take its privilege specified by the federal law on regulation of establishment of a local self-government administration system over the initial term of office of administrative bodies at newly established municipal entities, which could be easily explained by a small share of newly established municipalities in the region.

#### *Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

In spite of favorable prerequisites for implementation of the local self-government reform due to the existing two-tier model of local self-government, the Chelyabinsk Oblast is not referred to the regions which implemented the municipal reform in full in 2006. It is specified in the Law of the Chelyabinsk Oblast No. 439-ZO "*On the Procedure for Resolution of Issues of Local Significance at Newly Established Urban/ Rural Settlements in the Transition Period*" dated December 22, 2005 that municipal areas are entitled to deal with 15 issues of local significance at the settlement level. As applied to specific municipal areas and rural/ urban settlements (the Katalinskiy and the Katav-Ivanovskiy Municipal Areas;

the Sosnovskiy Municipal Area with regard to the Noviy Kremenkul Rural Settlement) this list was extended by including budget-fiscal and property issues into the same.

In addition, the practice of delegation of authorities from rural/ urban settlements to municipal areas with regard to both newly established and previously established municipal entities has been widely accepted. Given all the authorities delegated to the regional level (both under the Oblast Law and agreements), the number of issues of local significance to be resolved by newly established urban/ rural settlements can be assessed 20 to 30% of that provided for by the Federal Law 131-FZ.

With regard to the previously established rural/ urban settlements, they delegated to municipal areas mostly the authorities to provide public utility services, cultural services as well as draft and execute local budgets. Budgets of rural/ urban settlements are executed through branches of the Federal Treasury-based budget execution integrated into the finance bodies at the municipal areas.

In some cases, however, municipal areas delegated to rural/ urban settlements the authority to provide preschool education services.

#### *Specific Issues on Financial Fundamental Principles of Local Self-Government*

A Regional Fund for Financial Aid to Rural/ Urban Settlements was established in the Region, but it is only the municipal districts, not rural/ urban settlements, that receive donations from the Fund. It is specified in the Law of the Chelyabinsk Oblast No. 413-ZO "On Intergovernmental Fiscal Relations in the Chelyabinsk Oblast" dated 27.10.2005 that the authority to provide financial aid to rural/ urban settlements shall be delegated to municipal areas. Subventions for exercising of this authority are allocated on a per capita basis from the Oblast Compensation Fund. The same way these subventions must be distributed between settlements' budgets.

Besides the funds designed for intergovernmental transfers as provided for by the Budget Code, an Oblast Fund for Support of Local Self-Government Bodies in their efforts aimed at balancing local budgets is under establishment. The conditions for financing of resolution of issues of local significance from the Fund are subject to be determined by the

Governor of the Oblast. However, in 2006 only municipal areas and municipal districts were financed by the Fund.

### ***Implementing the Local Self-Government Reform in the Plastovskiy Region, the Chelyabinsk Oblast***

#### ***Reforming Territorial Principles of Local Self-Government***

The Plastovskiy Region is classified as newly established municipal entity. Three municipal entities were previously located on the territory of the region: the town of Plast and three village councils, namely the Borisovskiy, Demarinskii and Kochkarskiy Village Councils, which had their local self-government bodies, but it is the town of Plast that was autonomous entity of intergovernmental fiscal relations. The town was granted the status of the Plastovskiy Municipal Area as a result of the municipal reform, the Stepninsk Village Council of the adjacent Troitsk Region was integrated into its territory. The town of Plast itself was granted the status of urban settlement having become the administrative center of a newly established municipal area. At the moment the region comprises one urban settlement and four rural settlements. Besides the Plastovskiy Region, the Plast Urban Settlement and the Stepaninskiy Rural Settlement are also classified as newly established ones.

The Plastovskiy Urban Settlement has a population of 17 300, the population of rural settlements ranges 1 857 to 3 250, including 2 002 at the Stepaninskiy Rural Settlement. The population of the region totals 26 200. The Borisovskoye Urban Settlement is regarded as most economically developed one.

#### ***Reforming Organizational Principles of Local Self-Government***

The applicable local self-government administration system of the Plastovskiy Region is uniform for municipal entities. The chief executive of a municipal entity is to be elected at general municipal elections and run the local government body. The number of representative bodies is in line with the federal law. All regional and rural members of representative bodies operate on a part-time basis. Representative bodies at all rural settlements have no status of legal entity and staff. Each of the representative bodies is maintained by an official from the local government body. The Plastovskiy Urban Settlement has one full-time

body. The Plastovskiy Urban Settlement has one full-time deputy, Chairperson of the Council. The representative body of the urban settlement has the status of legal entity and two municipal servants.

*Delimitation of Authority Between Municipal Area and Rural/ Urban Settlements*

Scope of authorities of some of the rural/ urban settlements in the region differs in HR and financial potentials as well as whether such settlement existed before or is newly established. It is specified in the Law of the Chelyabinsk Oblast No. 439-ZO “*On the Procedure for Resolution of Issues of Local Significance at Newly Established Urban/ Rural Settlements in the Transition Period*” dated December 22, 2005 that local self-government bodies of the Plastovskiy Region shall deal with half of the issues of local significance incidental to rural/ urban settlements. Under agreements local self-government bodies of both newly established and previously established rural/ urban settlements delegated to the regions the authority to manage budgeting and execute local budget, as well as the authority to provide cultural services, physical training and sports, public utility services etc. The regional administrative bodies delegated the authority to provide preschool education with regard to maintenance and technical services to educational institutions.

As a result, the newly established Plastovskiy Urban Settlement was granted the authority to deal with issues of local significance in the fields of:

- maintenance of the municipal housing stock;
- domestic waste collection and removal;
- redevelopment and landscaping;
- street lighting.

The authorities vested in the previously established Demarinskiy Rural Settlement differ slightly in the following issues of local significance:

- construction and maintenance of motor roads and bridges;
- holidays;
- development of places of resort;
- preservation and maintenance of cultural heritage facilities;
- redevelopment and landscaping;
- street lighting.

Although under the Federal Law 131-FZ such rural/ urban settlement should have had to deal with all issues of local significance incidental to rural/ urban settlements provided for by the law.

*Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

The authorized personnel complement at local administrative bodies in the Plastovskiy Region grew by approximately a quarter. It is the administrative personnel at rural/ urban settlements that was mostly responsible for the growth, by 15 persons, against three persons of regional administrative personnel. The growth in the number of administrative personnel at rural/ urban settlements was caused by newly established urban/ rural settlements, namely the Plastovskiy Urban Settlement and the Stepaninskiy Rural Settlement. The number of personnel remained the same at other rural/ urban settlements. The growth in the number of regional administrative personnel was caused by expansion of the Department of Finance with 3 new full-time specialists (municipal servants of the regional administrative body) for budgeting in urban/ rural settlements. The number of administrative personnel at rural/ urban settlements in 2006 is illustrated in *Table 3.23*.

*Table 3.23*

**Number of Administrative Personnel at Rural/ Urban Settlements in the Plastovskiy Region**

<b>Rural/ urban settlements at the Plastovskiy Region</b>	<b>Population</b>	<b>Number of communities</b>	<b>The number of administrative personnel</b>	<b>Population per administrative servant</b>
Plast Urban Settlement	17 300	2	17	1 018
Borisovskiy Rural Settlement	3 250	5	11	295
Demarinskiy Rural Settlement	2 050	7	8	256
Stepaninskiy Rural Settlement	2 002	2	7	286
Kochkarskoye	1 857	4	5	371

As illustrated in *Table 3.24*, costs on maintenance of local self-government personnel grew more than 50% to considerably exceed the increase in the number of local administrative bodies. Therefore, growth in the number of local administrative personnel was not the unique factor that caused growth in administrative costs. For instance, growth in costs of the previously established rural/ urban settlements at the Plastovskiy Region accounted for 20 to 24%<sup>32</sup> without any growth in the number of local administrative personnel. The number of regional administrative personnel grew almost 20% given that some of the costs were covered with regional budget funds due to delegation of authority. For instance, a social security department became to be financed with regional budget funds.

*Table 3.24*

**Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies of the Plastovskiy Municipal Area and its Rural/ Urban Settlements**

	Total in the region			Regional administrative bodies (exclusive of administrative bodies of village Councils/ rural/ urban settlements)			Administrative bodies of village Councils (2005) / rural/ urban settlements (2006), total in the region		
	2005	2006	Growth, %	2005	2006	Growth, %	2005	2006	Growth, %
1	2	3	4	5	6	7	8	9	10
Authorized personnel complement executive local self-government bodies – total, persons, including municipal servants	71	89	25.3	51	54	5.8	20	37	85
technical personnel	18	21	16.6	10	10	0	8	11	37.5
Administrative costs – total, RUR thousand, including	11980.4	18283.0	52.6	9483.3	11224.3	18.3	2497.1	7058.7	180.4

<sup>32</sup> No data on the Borisovskiy Rural Settlement is available.



	1	2	3	4	5	6	7	8	9	10
costs on maintenance of executive local self-government bodies		9585.2	14814.9	54.6	7998.0	9556.6	19.5	1587.2	5258.3	231.3
costs on maintenance of other local self-government bodies		2395.2	3468.1	44.8	1485.3	1667.7	12.2	909.9	1800.4	97.9

### Municipal Reform Implementation Costs

The costs on the municipal reform in the Plastovskiy Municipal Area were financed with both Oblast and regional budget funds in 2005 and 2006 (for more details see *Table 3.25*). In 2005 nearly RUR 1350 thousand, including about 57% of the regional budget, was spent on renovation of buildings of administrative bodies at rural/ urban settlements (the bulk of the funds) as well as purchase of office appliances and software for these administrative bodies. In 2006 costs only were covered with the budget of the municipal area and earmarked mostly to purchase of office appliances and software, as well as service motor vehicles for rural/ urban settlements.

*Table 3.25*

### **Municipal Reform Implementation Costs, RUR thousand**

Heads of costs	Budget of the constituent entity of the Russian Federation		Regional budget	
	2005	2006	2005	2006
Renovation of building and premises of administrative bodies at rural/ urban settlements	600.0		450.0	
Furnishing of administrative buildings at rural/ urban settlements (furniture)				50.0
Purchase of office appliances, computer hardware and software for rural/ urban settlements	164.4			380.3
Purchase of motor vehicles for rural/ urban settlements			135.0	243.0
<b>TOTAL</b>	<b>764.4</b>		<b>585.0</b>	<b>673.0</b>

Much larger amounts of budget funds were allocated to finance the Department of Finance of the municipal area in the form of subsidies from the regional Fund for Social Expenditures Co-financing: RUR 3 729 thousand in 2005 and RUR 4 897 thousand in 2006. As evident from the available data, these funds were partially spent on purchase of hardware and software (primarily for the Department of Federal Treasury-Based Budget Execution) as well as in payment for advanced training courses for the administrative personnel.

#### *Supervisory Bodies*

The region has an auditing body which comprises three persons within the structure of regional administrative body and reports to the Chief Executive of the Region. Members of the supervisory body are classified as municipal servants. No supervisory bodies were established at urban/ rural settlements.

### ***Implementing the Local Self-Government Reform in the Troitsk Region of the Chelyabinsk Oblast***

#### *Reforming Territorial Principles of Local Self-Government*

It is only the Troitsk Region, the town of Troitsk and three village councils, namely Nizhnesanarskoye, Peschanskoye and Beloziorskoye, that had the status of municipal entity prior to the inception of the municipal reform on the territory of Troitsk Region. In addition, 10 sub-municipal entities were existed in the form of branches of the regional administrative body. It is only the town of Troitsk and the Troitsk Region that were classified as autonomous entities of intergovernmental fiscal relations.

The town of Troitsk was granted the status of municipal district in the course of the territorial structure reform. Twelve newly established urban/ rural settlements emerged on the territory of Troitsk Municipal Area to total 15 inclusive of the previously existed ones, all of them are classified as rural settlements. The number of newly established urban/ rural settlements totals from 900 to more than five thousand, most of which has a population of about two thousand. The Troitsk Region has a population of 31 815.

### Reforming Organizational Principles of Local Self-Government

Chief executives at two settlements, Novomirskoye and Chernorechenskoye, with a population of less than 1000, are elected at general elections and acting as chairpersons of the representative local self-government bodies and run local administrative bodies, while chief executives of municipal entities at other rural/ urban settlements are elected at general elections and run local government bodies. The head of the representative body is to be elected out of its members. The number of personnel at representative bodies is in line with the federal laws. All regional and rural members work on a part-time basis. Representative bodies at all of the municipal entities in the region has the status of legal entity and personnel. A member of the local government body at each rural/ urban settlement is in charge of provision to the representative body.

#### Delimitation of authority between municipal area municipal area

Under the Law of the Chelyabinsk Oblast No. 439-ZO “*On the Procedure for Resolution of Issues of Local Significance at Newly Established Urban/ Rural Settlements in the Transition Period*” dated December 22, 2005 newly established urban/ rural settlements delegated 15 issues of local significance to the municipal area in 2006. The rest of the issues were delegated to the municipal area on a contractual basis. Therefore, in 2006 the scope of authorities of local self-government bodies at newly established urban/ rural settlements was reduced from the formal point of view down to:

- 1) the authority to approve the budget of the rural/ urban settlement;
- 2) the authority to establish, amend and abolish local taxes and dues of the rural/ urban settlement;
- 3) the authority to provide lower-income persons, which are residing at rural/ urban settlement and need to improve their living conditions, with residential premises in compliance with the housing law; manage construction and maintenance of the municipal housing stock, create conditions for housing construction;
- 4) the authority to create conditions for provision of individuals with communication services, public catering, trade and consumer services;

- 5) the authority to create conditions for recreation and landscaping of public entertainment areas;
- 6) the authority to manage domestic waste collection and removal;
- 7) the authority to manage landscaping and gardening at the urban/ rural settlement; utilize and provide conservation of forests within the boundaries of the rural/ urban settlement;
- 8) the authority to manage street lighting and mount nameboards of streets and numberboards of buildings;
- 9) the authority to provide funeral services and maintain burial sites;
- 10) the authority to establish, develop and provide security of sites of therapeutic value as well as local resorts located on the territory of the urban/ rural settlement;
- 11) the authority to promote agricultural production and create conditions for the development of small businesses;
- 12) the authority to arrange for and hold measures aimed at developing relations with the children and young individuals residing at the urban/ rural settlement.

Agreements initiated by the regional administrative body were concluded not only with local self-government bodies of newly established urban/ rural settlements, but also with previously established ones. Texts of such agreements were identical for both groups of rural/ urban settlements. It is worthy of note that agreements with each rural/ urban settlement on delegation of authority in the field of culture were concluded for not less than five years with a provision for further extension. In this respect, such agreements provided for delegation of the following authorities from rural/ urban settlements to the region:

- the authority to manage provision of library services;
- the authority to create conditions for provision of residents of rural/ urban settlements with recreational and cultural services for;
- the authority to provide security and preservation of cultural heritage facilities located within the boundaries of the rural/ urban settlement;
- the authority to keep accounting and make reports in accordance with the requirements and rules specified in the budget law; maintain control over availability and flow of cash and physical resources in compliance with the approved standards, regulations and estimates.

The authorities related to town planning, territorial planning, land relations etc. were centralized in the same manner at the regional level, but the relevant agreements were subject to one year of effective period.

In addition, the authorities to make forecasts and socio-economic development plans, manage property, draft and execute settlement's budget, set tariffs, manage municipal procurement and other issues which are significant for autonomous municipal administration were delegated by all rural/ urban settlements (both newly established and existing ones) to the regional level.

At the same time, in 2006 the municipal area delegated to rural/ urban settlements the authorities to provide preschool educational services. In 2007 the authority to maintain all educational establishments is scheduled to be delegated to rural/ urban settlements.

Therefore, give the actual situation prevailing at urban/ rural settlements, one may state that local self-government bodies at newly established urban/ rural settlements focused on the following set of issues:

- domestic waste collection and removal;
- redevelopment and landscaping of the territory of the rural/ urban settlements;
- street lighting;
- the authority to provide funeral services and maintain burial sites;
- relations with children and youth;
- preschool education.

#### *Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

The relevant data on the Troitsk Region was fairly fragmentary. In 2006 the number of municipal servants at local administrative bodies increased 35% year on year, including 14% at the regional administrative body and almost 90% at administrative bodies of rural/ urban settlements. The number of administrative personnel at rural/ urban settlements increased mostly due growth in the number of specialists being in charge of municipal procurement and economic issues. Administrative bodies at rural/ urban settlements have not land surveyors. More details on the number of administrative personnel at rural/ urban settlements are presented in *Table 3.26*.

Table 3.26

**The Number of Administrative Personnel at Rural/ Urban Settlements at the Plastovskiy Region**

<b>Rural/ Urban Settlements</b>	<b>Population, persons</b>	<b>Number of communities</b>	<b>The number of administrative personnel, persons</b>	<b>Population per administrative servant, persons</b>
Bobrovskoye	5 028	4	6	838
<i>Nizhnesanarskoye*</i>	<i>2 905</i>	8	5	<i>581</i>
<i>Peschanskoye</i>	<i>2 905</i>	2	5	<i>581</i>
Drobyshevskoye	2 543	11	5	509
Kliyasnitskoye	2 391	6	6	399
Karsinskoye	2 036	3	6	339
Kosobrodskoye	2 010	7	7	287
Troitsko-Sovkhoznoye	2 010	8	5	402
Rodnikovskoye	2 005	6	5	401
Klyuchevskoye	2 003	2	5	401
Yasnopolyanskoye	1 616	4	5	323
<i>Beloziorskoye</i>	<i>1 539</i>	7	5	<i>308</i>
Shantarinskoye	1 000	3	6	167
Novomirskoye	927	2	4	232
Chernorechenskoye	900	2	5	180

\* Italicized are rural/ urban settlements which are not classified as newly established ones.

Therefore, the number of administrative bodies at rural/ urban settlements at rural/ urban settlements at the Troitsk Region varies from four to seven persons. It should be noted that there is no difference between previously the established rural/ urban settlements and new ones.

Costs on maintenance of local self-government bodies are described in *Table 3.27*. It is illustrated in the Table that a share of costs on maintenance of local self-government bodies in the local budget and per capita costs vary over a wide range. For example, a share of administrative costs accounts for 16.7% in the Bobrovskoye Settlement (which has the largest population) to 92.4% in the Shantarinskoye Settlement (the smallest population per local government servant). This share accounts for an average of less than 40% at all rural/ urban settlements. Per capita costs on maintenance of local self-government bodies range from RUR 212 to 1 050. Urban/ rural settlements with a population of 1000 persons and

less have the highest per capita administrative costs (more than RUR 770). Per capita costs of rural/ urban settlements on maintenance of local self-government bodies average RUR 535 at the Troitsk Region.

*Table 3.27*

**Description of Costs on Maintenance of Local Self-Government Bodies**

<b>Rural/ Urban Settlements</b>	<b>Budget expenditures of rural/ urban settlements, RUR thousand</b>	<b>A share of costs on maintenance of local-self government bodies, %</b>	<b>Per capita costs on maintenance of local-self government bodies, RUR</b>
Bobrovskoye	7 007,8	16.7	233,5
<i>Nizhnesanarskoye*</i>	4 244,1	22.7	331,8
<i>Peschanskoye</i>	1 886,6	63,9	669,8
Drobyshevskoye	2 177,6	44.7	382,6
Kliyasnitskoye	4 139,0	24.8	428,7
Karsinskoye	2 729,8	30.9	414,5
Kosobrodskoye	3 403,1	34.3	581,1
Troitsko-Sovkhoznoye	3 100,5	29.9	462,3
Rodnikovskoye	2 901,3	33.6	485,6
Klyuchevskoye	2 802,5	39.6	553,7
Yasnopolyanskoye	3 481,3	28.3	608,9
<i>Beloziorskoye</i>	2 070,8	18.8	211,9
Shantarinskoye	840,8	92.4	777,0
Novomirskoye	1 478,6	52.4	836,0
Chernorechenskoye	2 114,9	44.7	1 050,0
<b>Average at rural/ urban settlements in the region</b>	-	38.5 %	535,2

\* Italicized are rural/ urban settlements which are not classified as newly established ones.

*Availability of Computer Hardware and Motor Vehicles at Administrative Bodies at Rural/ Urban Settlements*

Though administrative bodies of rural/ urban settlements are equipped with computer hardware (one personal computer per rural/ urban settlement), these personal computers are outdated. Four out of the 15 rural administrative bodies have no service motor vehicles. Not all of the rural settlements have their own administrative buildings – three of them have to lease such premises.

### *Municipal Reform Implementation Costs*

As evidenced by the data provided by the Administrative Body of the municipal area, costs on the reform were insignificant. In 2006 about RUR 100 thousand of the municipal area's budget funds were allocated for training of administrative personnel of rural/ urban settlements, RUR 180 thousand were earmarked for purchase of furniture for settlements' administrative buildings. Extra regional budget funds may be allocated for training till the end of the year, but the amount of such funds was unavailable at the time of this survey.

### *Supervisory Bodies*

No supervisory bodies are existing at the settlement level. The relevant body is functioning at the level of municipal area. The supervisory body used to be a part of the local government body of the region and appointed by the chief executive of the administrative body. Since April 2006 the Supervisory Body, aka the Auditing Group, has been reporting to and regarded as a structural unit of the representative body of the regional local self-government body. The Auditing Group comprises its Chairperson and a specialist. The Chairperson of the Auditing Group is to be appointed for a period of five years, and released from the office by a resolution of a Meeting of Deputies of the Troitsk Municipal Area. Costs on maintenance of the Auditing Group are recognized in a separate entry of the cost-estimate on maintenance of the Meeting of Deputies. A total of RUR 220.4 thousand of costs are scheduled for the H2' 2006.

### *Supervisory Body of the Khomutinino Rural Settlement at the Uvelsk Region*

The Khomutinino Rural Settlement is not classified as newly established one. Nevertheless, it was included into this survey, as it is the unique settlement-type municipal entity at the regions under consideration in which the supervisory body (Auditing Commission) has the status of local self-government body.

The Khomutinino Rural Settlement has a population of 1 500 and comprises two communities. The chief executive of a rural/ urban settlement is to be elected at general elections municipal elections and run the



representative body on a full-time basis. The chief executive of a local government body is to be hired on a contractual basis. In 2006 costs on maintenance of local self-government bodies at the rural/ urban settlements totaled about 47% of the local budget funds. It should be noted that in 2006 a share of administrative costs more than doubled year on year due to the fact that the volume of budget expenditures was reduced more than a half by having released the rural settlement from the authorities to deal with the issues related to education and healthcare, while operational costs of local self-government bodies increased.

The Auditing Commission (hereinafter referred to as 'the AC') was established in accordance with Article 36, the Khomutinino Rural Settlement's Charter. The procedure for its establishment and conduct is subject to a provision to be approved by the representative body of the rural settlement. The AC comprises the Chairperson and four Commission's members. The Chairperson and the AC members are to be appointed by the Khomutinino Rural Municipal Council for a period of six years. Neither the Chairperson, nor any member of the AC can be a member of the Khomutinino Rural Municipal Council, a servant of the Administrative Body of the Khomutinino Rural Municipal Entity or employee at organizations, enterprises and companies owned by the municipal entity. Further, neither the Chairperson, nor any member of the AC can be in kin relationship with the Chief Executive of the municipal entity, Deputy Chief Executive, the Chief Accountant of the local government body, chief executives of organizations, enterprises and companies owned by the municipal entity.

Costs on maintenance of the AC in 2006 were estimated RUR 32 thousand to account for about 3% of the costs on maintenance of local self-government bodies at the rural settlement, of which RUR 12 thousand are costs on salaries of the AC's Chairperson and RUR 20 thousand are costs on audits and document preparation. The AC's members operate on a pro bono basis.

In 2006 the AC conducted two audits, namely the municipal entity's accounts payable and utilization of self-taxation funds in the period between 2001 and 2005.

### **3.6. Kaluga Oblast**

#### *General Description of Local Self-Government Reform in the Kaluga Oblast*

The Kaluga Oblast falls into the category of regions which declared that they implemented the local self-government reform in full in 2006. The regional model of territorial pattern prevailed in the Oblast prior to the reform, but there were autonomous rural/ urban settlements on the territory as well. The number of municipal entities increased seven times as well as 274 new municipal entities were established in the course of the reform. At the moment, the Kaluga Oblast has a total of 319 of municipal entities including 24 municipal areas, two municipalities (towns of Kaluga and Obninsk), 31 urban settlements and 269 rural settlements.

The overwhelming majority of municipal entities, including all newly established municipal entities, located on the territory of Kaluga Oblast introduced the model of local self-government organization under which the chief executive is to be established out of the representative body's members, while the chief executive of the local government body is to be hired on a contractual basis. The chief executive of the rural/ urban settlement operates on a part-time basis. As applied to the newly established municipal entities, this model is non-alternative option under the Law No. 8-OZ "On Regulation of Specific Legal Relations Concerning Implementation of the Federal Law dated 06.10.2003 No. 131-FZ "On General Principles of Local Self-Government Organization in the Russian Federation" in the Kaluga Oblast" dated December 28, 2004.

Since under this model the only way the local population may have an effect on administration of the municipal entity is through electing members of the representative body, it makes the local self-government bodies more distant from the general public and is most favorable for build-up of a top-down executive chain of command with the local self-government reform in the Kaluga Oblast being a perfect example of it.

The authority to equalize fiscal capacity of rural/ urban settlements was delegated to municipal areas under the Blast Law<sup>33</sup>. However, the regional method of financial aid provision provides for an approach which differs largely from that specified by federal laws and regulations. It is envisaged in the method that instead of fiscal capacity equalization each rural/ urban settlement is compensated by donations for the gap between revenues and estimated costs on retention of the maximum level of local budget deficit allowed by the law. Costs of rural/ urban settlements are regulated in detail, and the method provides a formula for each cost-item. Costs are basically determined on the basis of conditionally standard costs incurred in the current year taking into account inflation and the population, net of transportation costs which depend on the amount of losses sustained by transport enterprises from passenger transportation at established tariffs. Physical data on service volumes is used instead of population size in the field of public utility service.

This method provides strict regulation of maintenance costs on administrative bodies which are calculated based on the authorized personnel complement at local self-government bodies and annual average conditionally standard costs on maintenance (monetary and current) of a single servant. The Law specifies the following number of administrative bodies at rural/ urban settlements at rural/ urban settlements:

- rural settlements with a population till one thousand – 2;
- rural settlements with a population of more than one thousand – 3;
- urban settlements with a population till two thousand – 3;
- urban settlements with a population till 10 thousand – 5;
- urban settlements with a population of more than 11 thousand – 8 to 9;
- urban settlements with a population of more than 20 thousand – 11.

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<sup>33</sup> The Law of the Kaluga Oblast No. 120-OZ “On Delegation of Specific Public Authorities to Local Self-Government Bodies at Municipal Areas and Urban Districts a the Kaluga Oblast” dated September 26, 2005.

## ***Implementing the Local Self-Government Reform in the Maloyaroslavets Region***

### ***Reforming Territorial Principles of Local Self-Government***

Three municipal entities, namely the Maloyaroslavets Region, the Detchino Settlement' Municipal Entity (rural settlement) and the town of Maloyaroslavets, were located on the territory of the Maloyaroslavets Region prior to the reform. The 'Maloyaroslavets Region' Municipal Entity included 16 village councils not classified as autonomous municipal entities.

The reform of territorial local self-government pattern had some specific features as follows. First, not all of the previously existed autonomous municipal entities, inclusive of the town of Maloyaroslavets (with a population of 31.4 thousand), were granted the status of rural/ urban settlement. Second, rural/ urban settlements were established on the basis of previously existed village councils; no consolidation of territories took place as part of the municipal reform. Accordingly, at the moment Maloyaroslavets Municipal Area comprises 17 rural and one urban settlement, to which 16 rural/ urban settlements are classified as newly established.

The population of rural settlements is as follows. Population seven rural/ urban settlements have a population of 400 to 750; four rural/ urban settlements have a population of 1000 to 1500 persons, another four rural/ urban settlements have a population of 1500 to 2000. The 'Kudinovo Village' Municipal Entity and the 'Detchino Settlement' Municipal Entity have the largest population of 3.9 and 5.6 thousand respectively. The municipal area has a total population of 55.5 thousand, of which the town of Maloyaroslavets accounts for about 57%.

### ***Delimitation of Authority Between the Municipal Area and Rural/ Urban Settlements***

Upon implementation of the reform of territorial structure of local self-government the status of urban/ rural settlements, which previously were autonomous municipal entities, and sub-municipal bodies remained different. In 2006 the 'Detchino Settlement' Municipal Entity entered into an individual agreement on delimitation of authority; the town of

Maloyaroslavets delegated no authorities. At the same time all newly established urban/ rural settlements entered into agreements according to a uniform format established by the administrative body of the municipal area. However, the administrative body of the municipal area is vested with a series of authorities to deal with issues of local significance even in default of agreements, “actual”. Accordingly, rural/ urban settlements were left with a minimum scope of authorities to primarily resolve the following issues of local significance:

- the authority to create conditions for recreation of settlement’s residents and development of public resort areas;
- the authority to manage domestic waste collection and removal;
- the authority to develop and landscape territories of rural/ urban settlements;
- the authority to manage street lighting and mount nameboards of streets and numberboards of buildings;
- the authority to provide funeral services and maintain burial sites.

Given that under the agreements the road maintenance authority was delegated to the municipal area, the relevant costs are also envisaged for by settlements’ budgets. However, it is not always that administrative bodies at rural/ urban settlements can arrange for resolution of the rest of issues of local significance, because the funds earmarked for resolution of some or other issues might be insufficient to perform even a minimum volume of work to be done.

The budget and fiscal authorities were formally retained at the settlement level. At the same time, as noted above, the authority to provide financial equalization of rural/ urban settlements was delegated by the Kaluga Oblast Administrative Body to the level of municipal area, and the regional donation is virtually of target nature. Therefore rural/ urban settlements’ budget and finance autonomy is actually insignificant. Budgets of rural/ urban settlements are executed at the regional level.

In 2007 it is also planned to retain a uniform approach to delegation from newly established urban/ rural settlements to the municipal area of the authority to deal with issues of local significance. However, neither the difference between financial and HR potential of newly established urban/ rural settlements, nor the point of view of the administrative au-

thorities of rural/ urban settlements on this issue are taken into account. At issue is retention at the settlement level of the authority to deal with the issue of local significance 'to create conditions for provision of recreational and cultural services to the residents of the urban/ rural settlements'. It is, however, not the readiness of local self-government bodies of rural/ urban settlements to exercise this authority, but the need for unification of the scope of authorities of settlements with other regions of the Kaluga Oblast, which could be regarded as decentralized, and where the relevant authorities were exercised as early as prior to the inception of the reform village councils thereby were retained at the settlement level in 2006.

At the same time administrative bodies of rural/ urban settlements are more interested in autonomous resolution of issues related to land use and development which are retained at the level of municipal area. In addition, they are concerned about the fact that delegation of authorities to municipal area may make some of the budget services less accessible to the general public, and residents of rural/ urban settlements are encountering additional problems in receiving such services.

#### *Changes in Authorized Personnel Complement and Costs on Maintenance of Local Self-Government Bodies*

The Kaluga Oblast is distinguished by a strict top-down regulation of the number of local administrative bodies. It should be noted that such regulation is governed by relevant regional laws and the number of municipal servants is forced by the administrative body to be reduced.

In the Maloyaroslavets Region the number of municipal servants was effected by various diverse movements as applied to the previously and newly established municipal entities. The number of local administrative bodies at the previously established settlement-type municipal entities tended to decline as a result of both reduction in their functions and administrative enforcement. For example, the number of municipal servants in the 'Detchino Settlement' Municipal Entity reduced from 13 to 7 persons, i.e. almost by half. From the technical point of view, the number of administrative personnel reduced substantially from 36 to 26 at the Maloyaroslavets Urban Settlement as well, in which case the costs on maintenance of local self-government bodies reduced almost by half. As

a matter of fact, no actual reduction in the number of administrative personnel occurred, as evident from the available data. Such servants moved to municipal undertakings to keep performing the same duties they did at their previous offices. Such consequences are quite common under the circumstances when administrative costs are tended to be forced top-down.

As applied to the newly established municipal entities, it was originally expected to retain the number of administrative personnel bodies, i.e. 3 to 4 persons, in which case a centralized accounting office was expected to be established at the level of municipal area to service budgets of rural/ urban settlements. However, it was resolved thereafter to establish an accountant office for each newly established urban/ rural settlement, as a result of which the number of administrative personnel was permitted to be increased one person. Not all of the rural/ urban settlements made use of the permission. Accordingly, the number of local administrative personnel in the newly established rural/ urban settlements at the Maloyaroslavets Region ranged from 3 to 5 persons in 2006.

Let us consider the ‘Shumiatino Village’ Municipal Entity (with a population of 1 117 and 21 communities) as a good example of administrative body with minimum personnel complement. The administrative body of this settlement comprises three persons, exclusive of technical personnel, namely:

- chief executive of the administrative body;
- ‘A’ category specialist – accountant;
- ‘B’ category specialist who is virtually in charge of all technical issues, namely records management, certificate issuance, passport and military registration and enlistment service, as well as cashier.

The technical personnel also includes a half-paid cleaner.

However, given a miserable number of authorities retained in the settlement, the number of administrative bodies constitutes a fairly heavy burden on local budgets. For example, the ‘Shumiatino Village’ Municipal Entity has a nearly 60% share of costs on maintenance of local self-government bodies, including administrative wages, more than 45%. The ‘Kudinovo Village’ Municipal Entity (with a population of 3 864 and 11 communities), which is one of the most developed newly established ur-

ban/ rural settlements, a share of administrative costs accounts for about 30% (which is equal to the national average).

According to the estimates provided by administrative bodies of rural/ urban settlements, the existing number of local administrative personnel is definitely insufficient for them to be able to deal with all of the issues of local significance provided for in Federal Law 131-FZ. For example, the 'Shumiatino Village' Municipal Entity only has one servant, alias the chief executive of the local government body, to deal with all issues of local significance with the existing number of administrative personnel. Both the authorized personnel complement and costs on maintenance of local administrative bodies need to be doubled at least. Therefore, in spite of the fact that the Kaluga Oblast declared that it has been implementing in full the municipal reform since 2006, growth potential of costs on maintenance of local self-government bodies level has not been exhausted yet at the settlement.

The number of local government personnel totaled 63 prior to the inception of the reform at the level of municipal area. In 2006 the number of administrative personnel increased 17 due to delegation of public social security authorities to the regional level.

#### *Municipal Reform Implementation Costs*

The Kaluga Oblast falls into the category of the regions which made no allowance for municipal reform financing in their budget laws for 2005 and 2006. Nevertheless, in the period between 2005 and 2006 the newly established urban/ rural settlements at the Maloyaroslavets Region were equipped with personal computers and other office appliances, as well as relevant software, through donations on fiscal capacity equalization which were allocated by the municipal area and, as noted above, are of target nature. In 2006 the value of a set of office appliances was about RUR 30 thousand.

No allowance was made for costs on training of municipal servants. Training was managed by regional administrative personnel, the Legislative Assembly of the Kaluga Oblast as well as part of international projects. It is the chiefs executives of administrative bodies at rural/ urban settlements that were most in charge of this work. The authorized personnel complement of the regional administrative body was added with two



financial officers which provided over several months on-the-job training of accountants at rural/ urban settlements. It was for the first time that funds on training were allocated in updating the budget for 2006. In March 2006 a subsidy of RUR 98 thousand was allocated to the Maloyaroslavets Region. The Regional Administrative Body has not decided yet on how to spend these funds. According to the estimates provided by administrative body, with this amount they only can afford training of about 10 persons at two-day seminars.

#### Supervisory Bodies

With regard to the settlement level, a supervisory body is only allowed for by the Charter of the town of Maloyaroslavets, in which no such body has been established to date. The authorized personnel complement of the administrative body of the municipal area includes an auditor who is, however, not entitled to conduct audits at the settlement level. The regional administrative body spends approximately RUR 150 thousand annually on auditor maintenance.

### **3.7. Conclusions**

Case studies related to implementation of the municipal reform at specific regions show that policies of regional administrative bodies aimed at implementing the reform differ by region, which is, therefore, should be taken into account in assessment of extra costs. Basic analysis-based inferences boil down to the following.

1. Naturally, analysis of variances of the number of executive bodies of municipal entities and costs on financing of local self-government bodies has some errors deviating towards either opposite directions. For example, growth in costs on financing of local self-government bodies may be overestimated due to the fact that administrative personnel at rural/ urban settlements or sub-municipal entities, who previously were not classified as municipal servants and were financed through industrial items of the functional budget classification, now are granted such status and financed through the 'National Issues' item of the same. Growth in the relevant costs may be underestimated due to the fact that some of the local administrative personnel, who actually have retained their administrative functions, were forced to be excluded from the authorized admin-

istrative personnel complement of municipal enterprises and organizations with a view to reducing administrative costs thereby their wage costs are not recognized in the 'National Issues' item.

2. None of the surveyed regions which claimed full implementation of the municipal reform in 2006 have newly established urban/ rural settlements entitled to deal with the entire set of issues of local significance. Most of the authorities are delegated under agreements to local self-government bodies of municipal areas, while none of the subventions allotted to exercise such authorities are sufficient to cover costs on dealing with relevant issues of local significance. A substantial share of costs on delegation of authorities is financed with municipal budget funds. Though lists of issues of local significance to be dealt with by newly established rural/ urban settlements differ by region, there are common authorities incidental to all local self-government bodies such as:

- the authority to create conditions for public recreation at the rural/ urban settlement and manage land development and landscaping of the relevant areas;
- the authority to domestic waste collection and removal;
- the authority to manage land development and landscaping of the territory of the rural/ urban settlement;
- the authority to manage street lighting and mount nameboards of streets and numberboards of buildings;
- the authority to provide funeral services and maintain burial sites.

In some cases the above listed authorities are also complemented with authorities to maintain roads, maintain relations with children and youth, provide cultural services. The practice of delegation by municipal areas the authority to manage preschool education to rural/ urban settlements has been widely accepted. In all cases the authority to dispose of land resources are centralized at the regional level. Federal treasury-based execution of budgets of rural/ urban settlements is also performed at the level of municipal areas.

3. The regions are distinguished by a great variety from the point of view of the number of executive local self-government personnel and their operational costs. For example, dispersion of the authorized personnel complement at local administrative bodies in urban/ rural settlements

with a population of 1 000 to 2 000 varies 6 to 18 in the Vologda Oblast, 3.5 to 4.5 in the Maloyaroslavets Region of the Kaluga Oblast, approximately the same number at the Maryinsk-Posad Region of the Chuvash Republic, 5 to 6 at the Troitsk Region of the Chelyabinsk Oblast. The analysis revealed some factors which have a substantial effect on the number of local administrative personnel as well as administrative costs at newly established of municipal entities.

First – the relevant policies pursued by regional administrative bodies. In a series of regions (the Kaluga Oblast, the Chuvash Republic) the administrative body of a constituent entity of the Russian Federation has been using strict administrative powers to prevent growth in administrative personnel and relevant costs irrespective of the way the authorities of municipal entities are changing.

Second – approaches to the way newly established urban/ rural settlements should be established in the course of reorganization of the territorial local self-government pattern. If sub-municipal entities were consolidated in establishing rural/ urban settlements during territorial reorganization, the total number of administrative personnel and administrative costs could remain unchanged or increase insignificantly. However, if a rural/ urban settlement was established on the basis of each sub-municipal entity, the ‘cost of the reform’ turned out to be much higher from the point of view of maintenance of local self-government bodies. A good example of this is comparison of costs on maintenance of local self-government bodies in Griazovets Region, the Vologda Oblast, at which the policy of consolidation of sub-municipal entities was pursued and costs estimated through the ‘National Issues’ item were reduced in 2006 year on year, as well as the Sokolskiy Region of the same Oblast in which rural/ urban settlements were established on the basis of each sub-municipal entity and the relevant costs almost doubled.

Third, the nature of the territory on which municipal entities are located. Analysis showed that per capita costs on maintenance of local self-government bodies depend largely on the regional population and urban to rural population ration at both the regional and the settlement levels. For example, in 2006 per capita costs on maintenance of local self-government bodies in the consolidated regional budgets in the Vologda

Oblast exceeded RUR 2 thousand at totally rural regions with a population of less than 10 thousand (except for one region), while the same costs were RUR 1 thousand less in the regions with a population of more than 50 thousand and a above 60% share of urban population.

By all appearances, the effect of scope of actually exercised authorities is for the time being insignificant on the authorized personnel complement at local administrative bodies and the amount of administrative costs.

4. Given a wide scope of authorities were delegated by rural/ urban settlements to municipal areas, as well as based on the questionnaires with administrative officials at rural/ urban settlements, it may be inferred that the regions which claimed full implementation of the municipal reform still have some growth potential in the number of settlements' administrative bodies and subsequently costs on maintenance of local self-government bodies at newly established urban/ rural settlements. Not all of the newly established rural/ urban settlements have accountants, and land surveyors can't be frequently found at the settlement level, and only a few of rural administrative bodies have law officers. Assessments that were made in conjunction with administrative officers of rural/ urban settlements showed that the number of administrative bodies at urban/ rural settlements which at the moment have a minimum number of local government personnel (3 to 4 persons) should be doubled so that they be able to deal with all relevant issues of local significance. However, as noted above, the number of administrative bodies at rural/ urban settlements differ largely by region and even within a single region, and a small sample is insufficient to allow the nationwide situation to be assessed. Therefore extra costs incidental to growth in the number of administrative bodies at rural/ urban settlements when they deal with all of the issues of local significance provided for by the Federal Law 131-FZ can be estimated very conditionally. Given that in 2006 nationwide share of costs on maintenance of local self-government bodies at rural/ urban settlements accounted for 2.5% of the consolidated municipal budget at the regions in which the municipal reform was implemented in full, extra costs may be estimated 1% of the consolidated municipal budget, which is about RUR

12 bln at mid- 2006 values, provided that annual costs of the consolidated municipal budget are recognized as doubled semi-annual costs.

5. At all of the surveyed regions the authority to execute budgets of rural/ urban settlements were delegated to local self-government bodies of municipal areas. Federal Treasury-based execution of budgets of rural/ urban settlements follows the procedure as follows. Costs are authorized, depending on the region, either by the Treasury-Based Budget Execution Department under the Regional Administration of Finance, or the Oblast Treasury Department located in the regional center, under agreement with the administrative body of a municipal area. It is in special cases that administrative bodies at rural/ urban settlements deal directly with branches of the Federal Treasury which are also located in the regional centers<sup>34</sup>. Therefore payment documents and cost notices are prepared by the administrative body of a rural/ urban settlement and subsequently transferred to the regional center. As evidenced by the data reported by representatives of rural/ urban settlements, one accountant (and, respectively, one personal computer) is needed on the basis of RUR 4 to 5 mln of budget funds.

6. In view of the foregoing, administrative bodies of urban/ rural settlements need at least 2 to 3 personal computers and one service motor vehicle to be able to deal with issues of local significance. As evidenced by the data obtained from the surveyed regions, the cost of a set of computer hardware and office appliances and service motor vehicle is about RUR 30 and about RUR 200 thousand respectively. As evidenced by the survey results, the situation with provision of computer hardware in urban/ rural settlements is not critical, each of the rural settlements under consideration has at least one personal computer, the demand for computer hardware at urban settlements is satisfied. However, it is realistic to assume that each rural settlement on average needs at least one extra set of computer hardware and office appliances to be able to fully deal with its issues of local significance. Accordingly, on the assumption that the Russian Federation has 10 720 rural settlements classified as newly established ones, costs on extra computer hardware total RUR 321 600 thou-

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<sup>34</sup> For example, such cases were revealed at the previously established rural/ urban settlements at the Orenburg Oblast which was not included into this survey.

sand based on the accepted assumptions. However, given that a great number of previously established rural/ urban settlements had not their own budgets and were close to sub-municipal entities, this figure should be increased at least 1.5. times. As a result, total demand in extra funds on purchase computer hardware can be estimated about RUR 500 mln.

The situation with provision of service motor vehicles is more complicated. Many sub-municipal entities had no such vehicles. It is only the Vologda Oblast out of the surveyed regions that is allocating budget funds for the purpose of purchasing motor vehicles for administrative bodies at rural/ urban settlements. It is highly probable to assume that at least half of the rural settlements are in need of service motor vehicles. Therefore the relevant costs will total about RUR 2 bln at mid-2006 values.

7. It is much more difficult to assess costs required for training of local administrative personnel. As evidenced by the survey, many regions allocate no funds at all for this purpose, while training is managed by local and regional administrative bodies. If any budget funds are allocated, it is mostly for the purpose of training chief executives of administrative bodies at rural/ urban settlements as well as finance specialists. The needs in training and advanced training of personnel are difficult to assess as well. Administrative officials at the majority of rural/ urban settlements are unable to specify such needs stating that 'everyone' has to undergo training on 'everything'. Therefore, at the moment it is impossible to provide realistic assessment of the needs in costs on training and advanced training of municipal servants due to the local self-government reform.

8. The situation with supervisory bodies at municipal entities develops as follows. There are rare cases of establishment of supervisory bodies at the settlement level in the surveyed regions. With regard to the level of municipal areas, either local administrative bodies have auditors, or an auditing group is established within the representative body of local self-government bodies. The survey revealed two cases of establishment of a supervisory body as a local self-government body: in the Griazovets Region of the Vologda Oblast and the Khomutinskiy Rural Settlement of the Chelyabinsk Oblast.

The supervisory body at the Griazovets Region comprises 4 persons (the chairperson and three members). Not only does it perform supervisory functions at the regional level, but also assumes on a contractual basis the authority to conduct audits at local self-government bodies of rural/ urban settlements. A total of RUR 724.4 thousand are allocated to cover operational costs of the supervisory body in the 2006 budget. The supervisory body at the Khomutinskiy Rural Settlement also comprises four persons, but the chairperson is operating on a partial-payment basis. In 2006 budget allocations to cover operational costs of this body are insignificant, RUR 32 thousand.

Given the financial status of rural/ urban settlements, the assumption that it is possible to provide a full-time financing of more than one servant of the supervisory body seems impracticable. Based on the data obtained from other regions, RUR 150 to 180 thousand at 2006 values could be sufficient to provide the required financing of operational costs of the supervisory body, provided that only one of its members operate on a full-time basis. Since cases of establishment of supervisory bodies at the settlement level are individual, the minimum need in financial resources for supervisory bodies at urban/ rural settlements may be estimated to total about RUR 3.5 bln.

## **Conclusion**

The first issue to be addressed during monitoring of the municipal reform is how big is the difference between the regions in which the municipal reform was implemented in full and those in which it was not implemented in full in 2006. Case studies allowed us to assume that such difference is not big. None of the surveyed regions which claimed full implementation of the municipal reform in 2006 had newly established urban/ rural settlements entitled to deal with issues of local significance. Agreements on delegation of authority were concluded in this respect at those regions where regional laws made no allowance for redistribution of issues of local significance between rural/ urban settlements and municipal areas during the transition period. In the overwhelming majority of cases agreements were entered into with violation of the

of cases agreements were entered into with violation of the applicable laws, most flat of those that were detected are as follows:

- Such agreements are substantially not concluded on a voluntary basis (i.e. the right turns out to be an obligation). Authorities are delegated uniformly from all rural/ urban settlements within the municipal area.
- It is not the authorities but all issues of local significance that are delegated. As a result, local self-government bodies of rural/ urban settlements fail to keep an issue of local significance under control, while technically they are still responsible to their communities for this issue to be settled. Accordingly, neither any monitoring and control whatsoever by local self-government bodies of rural/ urban settlements over exercising of the authorities delegated to the municipal area, nor any reporting by regional local self-government bodies to rural/ urban settlements, etc. are provided for by such agreements. It is therefore impossible to implement a provision of financial penalties for default.
- Subventions for financing of delegated authorities are either unavailable or allocated to amounts which are knowingly insufficient for the relevant function to be adequately performed. Basic costs on delegated authorities are allocated from the municipal area's budget. It should be noted that the applicable law makes no provision for financing of authorities delegated on a contractual basis, as opposed to delegated public authorities which can be co-financed with local budget funds.

As a result, local self-government bodies at newly established urban/ rural settlements at any region, whether or not they reported full or incomplete implementation of the municipal reform in 2006, have the following most common authorities to perform:

- the authority to create conditions for public recreation at the rural/ urban settlement and manage land development and landscaping of the relevant areas;
- the authority to domestic waste collection and removal;
- the authority to manage land development and landscaping of the territory of the rural/ urban settlement;



- the authority to manage street lighting and mount nameboards of streets and numberboards of buildings;
- the authority to provide funeral services and maintain burial sites.

In some cases the foregoing authorities are also complemented with road maintenance, relations with children and youth, provision of cultural services. The practice of delegation of the authority to manage preschool education from municipal areas to rural/ urban settlements has been widely used. In all cases the authority to land resources is centralized at the regional level. Federal Treasury-based execution of budgets of rural/ urban settlements is performed at the level of municipal areas.

At the same time by comparing populations of the regions which implemented with those which didn't implement the municipal reform in full it was revealed that the former has some peculiarities. For example, this population of regions has a 16.6% share of settlements' budgets in consolidated regional budgets against 6.2% at the regions in which the municipal reform was not implemented in full in 2006. Further, it shows a higher growth in administrative costs with a stronger effect from increase in the number of municipal entities on the regions in which the municipal reform was implemented in full than on the regions which didn't do the same in 2006. It is only the follow-up that may allow one to make any inference on whether such difference is irregular or not, as well as whether it reflects real peculiarities of the regions which claimed full implementation of the municipal reform.

The second inference that can be made based on the results of the analysis made is real losses from insufficient scope of administrative functions at the settlement level. This inference can be justified by the arguments as follows:

- as evidenced by the analytical results of H1 2006 budgets, a share of costs on maintenance of local self-government bodies accounts for more than 30% at the settlement level against 7%, more than four times less, while it is more than 80% at some rural/ urban settlements included into case-studies;
- calculations of settlements' population per servant of local administrative bodies show a clear inverse proportion incidental to the population at rural/ urban settlements;

- a share of administrative costs increased substantially as a result of reformed delimitation of authorities as well as implementation of the provisions of the Federal Law 131-FZ in a series of rural/ urban settlements which existed prior to the inception of the municipal reform. For example, it more than doubled at the Khomutinskiy Rural Settlement.

At the regions where administration of municipal entities is strictly regulated by the constituent entity of the Russian Federation, the administrative body of a typical rural/ urban settlement (with a population of about 1 500) comprises 4 to 5 servants, and responsibility for dealing with issues of local significance is either chaotically distributed between an extremely limited number of personnel, or the chief executive of administrative body is responsible for dealing with all issues of local significance. It is obvious that under such circumstances most of issues of local significance of rural/ urban settlements are inevitably dealt with at the level of municipal area. If no strict regulation by regional administrative bodies is in place, then administrative officials of rural/ urban settlements seek to bring any kind of logic into specialization of administrative personnel thereby the number of such personnel is found to be no less than 7 to 8 persons.

At the same time, since urban/ rural settlements' budgets account for a small share of consolidated municipal budgets, such a disproportionate administrative costs of rural/ urban settlements is an insignificant burden, about 2% in the total population of regions, on consolidated municipal budgets, 2.5% in the regions in which the municipal reform was implemented. It is obvious, however, that growth in administrative costs of local budgets in 2006 year on year is effected not only by factors directly related to the municipal reform, in particular a nationwide increase in the number of settlement-type municipalities. The growth was effected by other factors as well, most important of which is increase in wages of municipal servants, including newly established urban/ rural settlements, as supported by the results obtained by case-studies.

Based on the results of the analysis and assumptions made, it may be inferred that growth in costs on maintenance of local self-government bodies caused by implementation of the Federal Law 131-FZ totaled

about RUR 13.6 bln. It should be noted that growth in administrative costs incidental to implementation of the local self-government reform has not been over yet. The presented assessments and estimates show that a total of about RUR 15.4 bln of potential for further growth in costs on maintenance of local self-government bodies incidental to implementation of the reform, or 1.3% of the consolidated municipal budget of the Russian Federation at mid-2006 values. Should the number of supervisory bodies grow substantially, the foregoing amount may increase at least RUR 3.5 bln. At a conservative estimate, another RUR 2.5 bln would be required to provide additional equipment support for administrative bodies at rural/ urban settlements. At the moment it is impossible to make a reliable assessment of costs required for training and advanced training of local administrative personnel, because it is difficult to determine subjects of training (the concept of training seems unclear – to train ‘everyone’ on ‘everything’).

Though it is noted in the Foreword this analysis is not intended to cover financial aspects of implementation of the local self-government reform, some interesting results were obtained in this field.

First, changes in the land tax collection method had quite different impacts on the financial status of municipal entities. Some regions sustained substantial financial losses: for example, the Kaluga Oblast saw a substantial reduction of revenues from this tax, while others generated considerable revenues: land tax payments increased six times in some of the regions in the Orenburg Oblast. Therefore this tax, as a key local tax for budgets of rural/ urban settlements, differs in significance between regions from the point of view of building up a basis for municipal entities autonomy.

Second, regions differ in their approach towards provision of financial aid to individuals. However, the use of guidelines arising from the provisions of the Budget Code is not sufficient to be able to provide real financial equalization of rural/ urban settlements. For example, real difference in fiscal capacity of rural/ urban settlements between the regions is more than 10 times in the Orenburg Oblast where the authority to provide financial equalization is regional but delegated to the area level and financial aid is provided on the basis of fiscal capacity equalization taking into

account tax potential and budget expenditures indices (i.e. the system is fully compliant with the federal law in this respect).

Third, the authority to execute budgets of rural/ urban settlements was delegated to local self-government bodies at municipal areas at all of the surveyed regions. Federal Treasury-based execution of budgets of rural/ urban settlements is followed the procedure as follows. Costs are authorized, depending on the region, either by the Treasury-Based Budget Execution Department under the Regional Administration of Finance, or the Oblast Treasury Department located in the regional center, under agreement with the administrative body of a municipal area. It is in special cases that administrative bodies at rural/ urban settlements deal directly with branches of the Federal Treasury which are also located in the regional centers. Therefore payment documents and cost notices are prepared by the administrative body of a rural/ urban settlement and subsequently transferred to the regional center. As evidenced by the data reported by representatives of rural/ urban settlements, one accountant (and, respectively, one personal computer) is needed on the basis of RUR 4 to 5 mln of budget funds.

## **Appendix 1. Socio-Economic Standing at Regions and Areas Included into the Survey**

### *Vologda Oblast*

The Vologda Oblast is situated in the northwest of Ciscaucasian Russia, a part of the North-Western Federal District and belongs to the North Economic Zone. Its territory is facing the North border of the Republic of Karelia and the Archangelsk Oblast, the East border of the Kirov Oblast, the South border of the Kostroma, Yaroslavl and Tver Oblasts, the West border of the Novgorod and the Leningrad Oblasts. It occupies a territory of 145.7 thousand square kilometers (0.9 of the territory of Russia). The Vologda Oblast has a population of 1 245.5 thousand (0.8% of the total population of Russia). Its administrative center is the city of Vologda (with a population of 288.4 thousand). The Oblast is included into a group of sponsor-regions which received no fiscal capacity equalization donations from the federal budget in 2006.

The Vologda Oblast is situated in the north-east of the East-European Plain covered with undulating lands, lowlands, ridges and elevations. Its eastern land forms are distinguished by the Severny Uvaly, the western ones by low elevations and marshy lands. Primary mineral resources comprise peat, mineral water and construction materials (sand, clay).

The Oblast has uneven distribution of population with an average population density of 8.7 persons per square kilometer with the same parameter being 4 of less persons per square kilometer in the northern and eastern regions and 70 persons per square kilometer in the southern regions (the Vologodsky and Cherepovets Regions). The urbanization level in the Oblast is 69%, which is lower than the nationwide average; small towns (11 of 15) with a population of 5 to 16 thousand prevail. Major cities are Cherepovets (with a population of 312.2 thousand), Vologda (with a population of 292.8 thousand), Sokol (with a population of 41.7 thousand). The Kemerovo and Vologda Oblasts are the two regions of the Russian Federation whose administrative centers have no the largest population in the oblast.

In 2003 its gross regional product totaled RUR 114164 mln, its GRP per capita RUR was 91 661.2, which is 13.5% more than the nationwide average. The local economy includes ferrous metallurgy (62.7% of the total output), electric power industry (7.9%). The Vologda Oblast accounts for 17% of the nationwide rolled stock output, 16% of steel output, 11% of fertilizers, 14% of ball bearing output, 7% of industrial wood output, and 11.4% of linen fabric output. Its products account for 1.5% of the nationwide export.

The metallurgical sector is represented by enterprises integrated into the Sever Stal Group, which are mostly located in the city of Cherepovets thus causing serious disproportions in fiscal capacity of the regions of the Oblast.

The agricultural sector accounts for 5.3% of the GRP. The local agricultural industry is specializing in dairy stock farming, potato and line production. Manufacturing of dairy products is concentrated in the southern regions adjoining the major cities (the Vologodskiy, Cherepovetskiy, Sheksninskiy, Griazovets Regions). Crop production is intended to satisfy stock farming needs. Feed crop accounts for more than a half of crops: perennial and monocyclic grass. Grain crops, primarily barley and oats, account for 23% of the cropping pattern.

Motor roads in the Oblast are represented by two federal routs (the Moscow – Arkhangelsk and the Vologda – Novaya Ladoga) and four regional roads (the Sukhonskiy Trakt, P5, P6 and P7). The Moscow – Arkhangelsk and the St. Petersburg – Ekaterinburg Railways run through the Oblast. The eastern zone of the Oblast has a well developed river network with the largest port of the Volga-Baltic Waterway located in the city of Cherepovets. There are two airports each locating at the cities of Vologda and Cherepovets.

#### Griazovets Region, Vologda Oblast

The Griazovets Region is situated in the southern part of the Vologda Oblast as far as 44 km of the Oblast center. The regions borders on the Vologodskiy, Mezhdurechenskiy, Babushkinskiy, Totemskiy Regions, as well as the Pervomaiskiy and Lyubimskiy Regions of the Yaroslavl Oblast, and the Buiskiy and Soligachichskiy Regions of the Kostroma Oblast. Three essential thruways, the Moscow-Arkhangelsk route, rail-

ways connecting Moscow with Arkhangelsk and St. Petersburg with Urals run through the territory of the Oblast.

The Griazovets Region occupies an area of 5 029 square kilometers (3.4% of the Oblast territory). Its population is 45.6 thousand (3.4% of the Oblast population), including 50% urban population. Its administrative center is the town of Griazovets with a population of 15.8 thousand (34% of the regional population).

Regional primary mineral resources are forests, peat and sand and gravel as well as proved oil reserves. Forest resources of the Region occupy 371 thousand hectares (about 74% of the territory).

At the moment the regional industrial sector comprises 54 enterprisers operating in six basic sectors: timber and wood working industry (51.7% of the total output), machine building industry (4.8%), light and food industry (39.7%), construction materials industry (0.3%), electric power industry (3.3%) and printing industry (0.2%).

The Griazovets Region is one of the Oblast's largest agricultural manufacturers accounting for 6.9% of the total agricultural output in the Vologda Oblast. The Region occupies 54.1 thousand hectares of hayfields and grass lands. The local agricultural industry is specializing in dairy and meat stock farming accounting for more than 60% of the gross agricultural output.

In 2006 regional fiscal capacity reached RUR 1 251 per capita (15% more than the Oblast average), tax and non-tax revenues accounted for 35% of the budget (the Oblast average is 24%). Basic production facilities which generate the biggest share of budget tax revenues are located in the administrative center, the town of Griazovets, and the Vokhtoga Urban Settlement. Rural settlements still receive donations and are facing financing problems.

#### Sokolskiy Region, Vologda Oblast

The Sokolskiy Region is situated as far as 45 km to the north of Vologda. Its territory is facing the North borders of the Kahrovskiy and Syamzhenskiy Regions, the East border of the Totemskiy Region, the South borders of the Mezhdurechenskiy and Vologodskiy Regions, and the West border of the Ust-Kubenskiy Region. The Region occupies a territory of 4.1 thousand square kilometers (2.8% of the total area of the

Oblast). The Region is situated in the intersection of two routes, the Sukhony river (a tributary to the Northern Dvina river) and the Moscow-Arkhangelsk Railway thus providing advantageous transport and geographic location.

The Region has a population of 57.4 thousand, including 47.8 thousand (83%) and 9.6 thousand (17%) of urban and rural population respectively. The regional administrative center is the town of Sokol with a population of 41.7 thousand (more than 72% of the regional population). The town of Kadnikov with a population of 5.1 thousand (9% of the regional population) is rated No. 2 in the Region.

The Region is ranked No. 3 in industrial products and No. 1 in lumber production manufacturing in the Oblast. Most of industrial production is paper-and-pulp industry (71.8%) and food industry (25.1%). The Region accounts for 1.9% in the Oblast industrial production.

Food industry is well developed in the Region. The largest enterprises of this industry are located mostly at the town of Kadnikov. The Region is specializing in manufacturing dairy products and potato-processed products.

Regional transportation routes run along the Vologda-Sokol Road (a section of the Moscow-Arkhangelsk Route), the Moscow-Arkhangelsk Railway and the Sukhona river. The Ukhta – Torzhok Cross Country Pipeline runs through the Region.

About 2500 employees are reported to be involved in the local agricultural industry, the volume of dispatched products totaled RUR 1.1 bln in 2005. Crop production is specializing in potato production for subsequent potato processing on the territory of the Region. Vologodskiy Kartofel OJSC is involved in potato processing in the town of Kadnikov.

In 2006 fiscal capacity of the Region was below the Oblast average to total RUR 993 per capita (the average is RUR 1 082.6 per capita), tax and non-tax revenues accounted for 23% of the regional budget, which is also below the Oblast average (24.8%). Since the Region has a pretty long west-to-east range (more than 100 km), it has to allocate extra costs on execution of budgets of rural/ urban settlements – daily motor trips that local administrative officials are obliged to take to the regional center for



the purpose of submitting financial documents make local administrative transportation costs much higher.

### *Tver Oblast*

The Tver Oblast is situated in the northwestern region of Russia, the Central Federal District. Its territory is facing the North border of the Novgorod and Vologda Oblasts, the East border of the Yaroslavl Oblast, the South border of the Moscow and Smolensk Oblasts, and the West border of the Pskov Oblast. The Oblast occupies a territory of 84.1 thousand square kilometers (0.4 of the territory of Russia), with a population of 1 425.6 thousand. The administrative center – the city of Tver (406.7 thousand). Pursuant to the Federal Law “On Federal Budget for the Year of 2006”, the Oblast has the region-recipient status to be entitled to donations for the purpose of budget equalization to the amount of RUR 83441 thousand (0.4% of the Oblast budget revenues).

The Oblast has a population of 1425.6 thousand (0.9% of the total population of Russia ), including 1048.2 thousand (73.5%) urban residents. The Russians (92.5%), the Ukrainians (1.5%), the Karelians (1%) account for the biggest share of the regional population. Other nations account for 5% of the total regional population. The regional largest cities are Tver (with a population of 406.7 thousand), Rzhev (with a population of 62.4 thousand), Vyshniy Volochek (with a population of 54.6 thousand), Kimry (with a population of 51.4), Torzhok (with a population of 48.2 thousand), Konakovo (with a population of 44.8 thousand).

The gross regional product totals 74 128 mln RUR (0.6% of the Russian GDP) with dominating industrial production (28.3%), construction industry (12.6%) and commerce (11.9%). The agricultural industry accounts for 8% of the Oblast GRP. The Tver Oblast is ranked No. 41 in total industrial output of Russia. Its basic industries are machine building industry and metal working, electric power industry, food production. The regional light industry is represented by textile, leather, fur and footwear industries.

Farmland and cropland account for 28.8% and 17.9% respectively of the total regional land. The agricultural industry is specializing mostly in livestock farming, including meat and dairy cattle, sheep, goat, and poul-

try farming. Crop production is represented by fiber flax, potatoes, vegetables, feed crops.

#### Konakovo Region, Tver Oblast

The Konakovo Region is situated in the south-eastern part of the Tver Oblast facing the border of the Moscow Oblast, at the intersection of main routs of Ciscaucasian Russia, namely the federal Moscow – St. Petersburg route (M10) and the Volga river (the Ivankovskoye Water-Storage Reservoir). The Region's territory is facing the borders of the Kalininskiy and Kimrskiy Regions of the Tver Oblast, as well as the Kliniskiy and Dmitrovskiy Regions of the Moscow Oblast. Favorable geographic location of the Region makes it attractive for holiday village construction mainly for residents of the city of Moscow and the Moscow Oblast.

The Region occupies a territory of 2 114 square kilometers (2.5% of the Oblast territory) with a population of 98.2 thousand as of January 1, 2004, including 20.2 thousand of rural population and 78 thousand of urban population. The administrative center is the town of Konakovo with a population of 44.8 thousand.

More than a half of the Region's population is working. More than 36 thousand persons are employed by the industrial and social sectors, 67% of which are involved in production industries, 20% in social-cultural and research fields, 13% in the public utility service infrastructure, administrative bodies, non-profit social organizations, credit, insurance, judicial and other organizations.

The regional economy is based on industrial production including eight industries embracing 25 large and medium-size enterprises. The Konakovo Region is ranked second after the city of Tver in industrial production in the Tver Oblast. The leading industries are electric power industry and machine building industry which account for 67.5% and 12.7% respectively of the industrial output. Besides machine building and electric power industries, there a developed glass and whiteware industry represented by the Konakovo Faience Ware Plant, the largest delft ware and majolica production in Russia.

The regional transport network is well developed due to the three water routes existing in the Region, 1) the Volga and the Lama rivers con-

necting the Region with the Tver Oblast and the west part of the city of Moscow and the Moscow Oblast, 2) the Moscow – St. Petersburg highway and 3) the Oktyabrskaya Railway.

The local agricultural sector is specializing mostly in meat and dairy stock farming (7 out of 11 enterprises), poultry industry (2 out of 11 enterprises) and suburban vegetable production (2 enterprises).

In 2006 tax and non-tax budget revenues (according to the resolution on the Konakovo Region Budget for the year of 2006) totaled 41% equal to the regional average of the Tver Oblast. Fiscal capacity was 2 387 RUR/persons (against 2 707 RUR/persons of the regional average at the Oblast). Basic taxpayers and real estate are located in the regional administrative center, the town of Konakovo, thus resulting in disproportion of fiscal capacity of rural/ urban settlements as well as creating conditions for a conflict between administrative authorities of the Konakovo Region and the town of Konakovo.

### *Chuvash Republic*

The Chuvash Republic (Chuvashia) is situated on the east of the East European Plain with most of its territory located on the right bank of the Volga river between its Sura and Sviyaga tributaries. Its territory is facing the West border of the Nizhniy Novgorod Oblast, the North border of the Republic of Mariy-El, the East border of Tatarstan and Mordovia, the South border of the Ulyanovsk Oblast. The Republic occupies a territory of 18.3 thousand square kilometers (0.1 of the territory of Russia), with a population of 1 299.3 thousand (0.9% of the total population of Russia). The capital is the city of Cheboksary (442.6 thousand). The Chuvash Republic is entitled to federal budget donations (in compliance with the Federal Law “On Federal Budget for the Year of 2006”) to the amount of RUR 177345 thousand (1.2% of the Republic’s budget expenditures).

Average population density is 71 persons/square kilometers, including 791.2 thousand (60.9% of the Republic’s population) of urban population and 508.1 thousand of rural population. The largest local cities are Cheboksary (with a population of 442.6 thousand), Novocheboksarsk (with a population of 125.5 thousand), Kanash (with a population of 49.1 thousand), Alatyry (with a population of 42.7 thousand).

The gross regional product of the Republic totals RUR 50181 mln (0.4% of the Russian GDP), GRP per capita is RUR 38 353 (the nationwide average is 80 739.9 RUR). Industrial sector (28%), agricultural industry (13.4%), commerce (11.5%), construction industry (9.5%) account for the largest share in the Republic's GRP, while transport and communication sectors account for 7.4% of the Republic's GRP, other economic sectors and non-marketed services account for 30.2% of the same. The Republic's economy is based on machine building industry and metal-working manufacturing as well as agricultural industry

Chuvashia is ranked No. 50 in industrial output among the regions of the Russian Federation (0.5% of the total nationwide industrial output). It has well developed food industry, electric power industry as well as chemical and petrochemical industry. The Chuvash Republic account for 97.9% of the nationwide textile machine production, 23.5% – bulldozers.

Its farmland and cropland accounts for 56.5% and 44.5% respectively of the total Republic's land. Local agricultural industry is specializing in meat and dairy stock farming. Poultry farming and grain, hop, potatoes production are under development.

#### Cheboksary Region, Chuvash Republic

The Cheboksary Region is situated in the north of the Chuvash Republic where it borders on the Republic of Mariy-El. Further, its territory is facing the East border of the Maryinsk-Posad Region, the South border of the Tsvil'skiy and Krasnoarmeiskiy Regions, and the West border of the Margaushskiy Region (of the Republic).

The Region occupies a territory of 1 331.7 square kilometers (about 7% of the Republic's territory) with a population of 59.3 thousand (exclusive of the cities of Cheboksary and Novocheboksarsk). The Region has two urban districts, namely the cities of Cheboksary and Novocheboksarsk. The administrative center is the Kugesi Rural Settlement situated as far as 14 km eastward to the city of Cheboksary. It has a population of 11.6 thousand to account for 19% of the total regional population. Average population density is 43 persons per square kilometer.

The regional economy tends to specialize in agricultural production. Owing to its vicinity to the sales markets of major industrial centers (the cities of Cheboksary and Novocheboksarsk), the Region has a well de-

veloped suburban high-performance agricultural industry supplying the local population with potatoes, vegetables, fruits, berries, milk, dairy butter, eggs. Regional agricultural reserves are developed 87%. Its cropland accounts for 76% of the cultivated land. The Region is specializing in meat and dairy stock farming, and has a well developed poultry farming, hog farming, grain production, potato and vegetable production.

Local industrial facilities are located mostly in the town of Kugesi as well as in the vicinity (the Oktiabrskoye Village) of the city of Cheboksary. The Region has a distillery, a non-standard equipment manufacturing production plant, an enamel wires plant, and a sawn timber plant, as well as consumer and cultural goods production facilities. In addition, wood harvesting is operated in small volumes. S&M businesses specializing in repairing of motor and agricultural equipment, viny products manufacturing, tailoring, food production (confectionery and bakery products, soft drinks, canned food, etc.) are well developed in the Region.

The local transport network includes basically by the Krasniy Uzel – Kanash – Cheboksary Railway, the Nizhniy Novgorod – Cheboksary – Kazan and the Cheboksary – Tsvilsk – Uliyanovsk – Syzran motor roads. The Volga river is the key transport route in the Region and in the Chuvash Republic at large.

Under the approved Regional Budget for the year of 2006, the regional revenues account for RUR 906 per capita. Tax and non-tax revenues account for 16% of the regional budget, while other revenues are remitted to the Region in the form of intergovernmental transfers.

#### Maryinsk-Posad Region of the Chuvash Republic

The Maryinsk-Posad Region is situated as far as 36 km of the city of Cheboksary in the north-east part of the Chuvash Republic. Its territory is facing the North and East banks of the Volga, the West border of the Cheboksarskiy and Tsvilskiy Regions, and South border of the Kozlovskiy Region (of the Republic). It is 27 km and 36 km long west-to-east and north-to-south respectively.

The Region occupies a territory of 686.1 square kilometers (3.7% of the Republic's territory) The Region has a population of 28,2 thousand, including 11.1 thousand (39%) and 17.1 thousand (61%) of urban and rural population respectively. Population density is 42.4 persons per 1

square kilometer. The Chuvashs account for 79.4% of the regional population. The administrative center is the town of Maryinsk-Posad with a population of 10.2 thousand (36% of the regional population).

The Maryinsk-Posad Region has no much development in mining operations. At the moment, the Region produces peat that is used as fertilizer, as well as clay and clay loams (the Marposadskiy Field) used as building materials plant for brick manufacture. The Region is regarded as having prospects in oil field discovery, but no industry-purpose oil has been discovered with new-field wildcats to date.

The Maryinsk-Posad Region is specializing in agricultural industry, mainly meat and dairy stock farming as well as well developed hop production. It produces milk, meat, grain, food crops, hop (an important culture) as well as substantial volumes of potatoes. The livestock sector is prevailing over crop growing. The livestock sector is specializing in meat and dairy stock farming along with well developed hog and sheep farming. The Region is capable to satisfy its internal needs as well as exporting its agricultural products.

Total mileage of the local transport network includes 129 km of motor roads (including 94 km of hard-surface roads) and 45 km of navigable river routes. The river network includes a 45-km section of the Volga river (the Kuibyshev Water Reservoir) and a 25-km section of lower reaches of the Tsivil river. The Ioshkar Ola – Maryinsk-Posad – Tsivilsk motor road of republican significance as well as the Pervoye Churayevo - Andreevo - Bazary motor road run through the west area of the Region. External relations are provided via the Volga river in the shipping period through the Maryinsk-Posad Hithe. Motor transport accounts for 47% of cargo carriage and 87% of passenger transportation; motor transport is responsible for the most of transportation of goods within the Region.

In 2006 tax and non-tax revenues accounted for 12% of the regional budget, fiscal capacity was 645 RUR/persons, which a bit less than the average regional of the Republic.

### *Orenburg Oblast*

The Orenburg Oblast is situated on the south-west of the Ural Mountains where it borders on Kazakhstan. The Oblast belongs to the Volga Federal District and the Urals Economic Zone. Its territory is facing the

North border of the Republics of Tatarstan and Bashkortostan, the East border of the Chelyabinsk Oblast, the South border of Kazakhstan, and the West border of the Samara Oblast. The Orenburg Oblast occupies 124 thousand square kilometers (0,07% of the territory of the Russian Federation). The administrative center is the city of Orenburg (with a population of 538.6 thousand). The Orenburg Oblast is entitled to federal budget donations for the purpose of equalizing the regional budget. In 2006 donations (in conformity with the Federal Law “On Federal Budget for the Year of 2006”) totaled RUR 348667 thousand (1.7 of the Oblast budget revenues).

The Oblast has a population of 2 150.4 thousand (1% of the total population of Russia), with 1 240.8 thousand (57.7%) of urban dwellers. Ethnically, the local population comprises the Russians (73.9%) as well as the Tatars (7.6%), the Kazakhs (5.8%), the Ukrainians (3.5%), the Bashkirs (2.4%), the Mordva (2.4%), others (4.4%). Average population density is 17.3 persons per square kilometer. The largest local cities and towns are Orenburg (with a population of 538.6 thousand), Orsk (with a population of 247.6 thousand), Novotroitsk (with a population of 104.9 thousand), Buzuluk (with a population of 87.1 thousand), Buguruslan (with a population of 53.1 thousand).

The gross regional product totals 125203 mln RUR (1% of the Russian GRP), GRP per capita is RUR 58223.1 (27.8% less than the Russian average). Its structure includes basically industrial sector (36.5%), agricultural industry (11.9%) and transport sector (8.9%).

The Oblast is ranked No. 21 in Russia (in the Federal District – 6) in industrial output. Fuel industry is leading within the industrial production structure. Well developed are ferrous metallurgy, electric power industry and non-ferrous metallurgy. The Oblast accounts for 36.6% of the nationwide production of plant and equipment for non-ferrous metallurgy, 16.2% of table salt production, 3.6% of oil production, 3.4% of gas production.

The regional farmland and cropland account for 87.6% and 49.6% respectively of all the Oblast land. The oblast is specializing in durum wheat and sunflower production. Meat and dairy stock farming and poultry production as well as down goat farming are developed as well.

### *Chelyabinsk Oblast*

The Chelyabinsk Oblast is situated in the south of the Urals near the Kazakh border, as part of the Urals Federal District. The Oblast occupies a territory of 88 thousand square kilometers (it is ranked No. 39 among the regions of the Russian Federation). It's territory is facing the North border of the Sverdlov Oblast, the East border of the Kurgan Oblast, the south border of the Orenburg Oblast, and the West Border of the Republic of Bashkortostan. Its Kazakh border accounts for about 25% the total border length. The administrative center is the city of Chelyabinsk with a population of about 1 million. In 2006 the Oblast was entitled to direct federal budget donations to the amount of RUR 277 188 thousand (0.8% of the Oblast budget revenues).

The Chelyabinsk Oblast has a population of 3603 thousand (it is ranked No. 9 among the regions of the Russian Federation). Further, it is ranked second to none in population density among the regions of the Urals Federal District and No. 24 among the regions of the Russian Federation (average population density is 40.9 persons/square kilometers), as well as No. 2 and No. 4 respectively in urbanization (81.9%). The local largest cities and towns are Chelyabinsk (with a population of 1 095 thousand), Magnitogorsk (with a population of 416.7) and Zlatoust (with a population of 191.5).

In 2003 the Oblast's gross regional product totaled RUR 230 359 mln, of which the industrial production sector accounted for 43.8%, commerce sector for 11.2%, transport sector for 9.2%, agricultural industry for 6%, and construction industry for 5.1. The local economy is based basically on ferrous and non-ferrous metallurgy enterprises operating on local raw materials. They account for 59.3% of the Oblast's gross regional product. The Oblast has the largest Russian integrated iron and steel works (the cities of Magnitogorsk and Chelyabinsk), semi-integrated steelworks in the city of Zlatoust, ferro-alloys and pipes manufacturing plants in the city of Chelyabinsk. In addition, there are also copper smelting non-ferrous integrated plant (Karabash, Kyshtym) as well as zinc (Chelyabinsk) and nickel (Verkhniy Ufaley, Rezh) production plants.

The Chelyabinsk Oblast has the biggest number of so-called 'nuclear cities' as part of a nuclear fuel cycle, namely Snezhinsk (former Chelyab-



insk-70), Ozersk (former Chelyabinsk-65) and Tryokhgornyy (former Zlatoust-36).

In spite of a large share of industrial production in the Oblast GRP, local agricultural industry, in particular in its southern regions rich with black soils, has considerably been developed. The Oblast is involved in crop production, especially wheat. Suburb-type vegetable farming has been developed in the areas adjacent to the major industrial centers. The livestock sector is specializing in meat and dairy stock farming along with some fine-wool sheep farming.

### *Kaluga Oblast*

The Kaluga Oblast is situated in the Central Federal District as far as 150 km to the south-west of the city of Moscow. Its territory is facing the North border of the Moscow Oblast, the East border of the Tula Oblast, the South border of the Oriol and the Bryansk Oblasts, and the West border of the Smolensk Oblast. The Oblast occupies a territory of 29.9 thousand square kilometers (0.1 of the total territory of Russia) with a population of 1 021.5 thousand (0.7% of the total population of Russia). The Oblast administrative center is the town of Kaluga with a population of 329.5 thousand. The Kaluga Oblast is not regarded as sponsor-region and in 2006 was entitled to a total of RUR 223 348 thousand (1.7% of the Oblast's budget revenues) federal budget donation (in conformity with the Federal Law "On Federal Budget for the Year of 2006").

The Oblast's urban population totals 770 thousand (75.3%) out of a total of 1021.5 thousand of the Oblast's population. The largest towns are Kaluga (with a population of 329.5 thousand), Obninsk (with a population of 105.9 thousand), Lyudinovo (with a population of 41,4 thousand), Kirov (with a population of 38.9), and Maloyaroslavets (with a population of 31.3).

In 2003 the gross regional product totaled RUR 53 383 mln (0.4% of the Russian GDP), GRP per capita – RUR 52 259.4 (35.3% less than the Russian average). Industrial production (29.7%), agricultural industry (11.1%) and commerce (12.7%) account for the largest share in the GRP.

The Oblast is ranked No. 48 and No. 13 in production output in Russia and the Federal District respectively. The local economy is based basically on machine building industry and metalworking production, food

industry, timber, woodworking and paper-pulp industry, electric power industry.

Its farmland and cropland account for 32.3% and 46.4% respectively of the Oblast land. Developed are dairy stock farming, hog farming, poultry farming, as well as crop production, especially potato and feed crop production.

#### *Maloyaroslavets Region, Kaluga Oblast*

The Maloyaroslavets Region is situated on the north of the Kaluga Oblast as far as 55 km of the town of Kaluga, and is facing the borders of the Borovskiy, Zhukovskiy, Ferzikovskiy, Dzerzhinskiy, Medynskiy and Tarusskiy Regions of the Kaluga Oblast. Major rivers are the Luzha and the Sukhodrev.

The Region occupies a territory of 1 547 square kilometers with a population of 54.9 thousand, including 56% urban dwellers (the town of Maloyaroslavets). A total of 250 communities are located on the territory of the Region. The administrative center is the town of Maloyaroslavets with a population of 31.3 thousand.

The Region has a mechanical plant, a coupling and fastening parts pilot production plant, and an appliance production plant; well developed is general mechanical rubber goods production. In addition, there are factories, namely a furniture factory, a clothing factory, and a souvenirs factory.

The Moscow – Briansk – Kiev Trunk Railway, as well as the Moscow – Briansk – Kiev and the Moscow – Roslavl motor roads run through the Region.

In 2006 regional fiscal capacity totaled RUR 2 213 /persons, tax and non-tax budget revenues accounted for 36%.

## **Appendix 2. Quantitative Analysis of Changes in Local Budget Costs on Local Self-Government Due to the Municipal Reform**

### **Analytical Methods and Data**

This section provides analytical results of factors which have an effect on changes in local budget costs in the course of the municipal reform. The analysis was made of the entire sample of constituent entities of the Russian Federation considered in this survey<sup>35</sup> (a total of 81 regions) as well as of specific groups of regions, in particular the group of regions in which the reform was implemented in full in 2006 (41 regions) and the group of regions in which the reform was implemented in part in 2006 (40 regions).

The following data sources were used for the analysis:

- data provided by the Ministry of Finance of the Russian Federation on execution of consolidated local budgets in H1 2005 and H1 2006;
- data provided by the Russian State Statistics Committee on the population of the constituent entities of the Russian Federation and individual communities as of 1.01.2004;
- data on the number of administrative-territorial units at different types of constituent entities of the Russian Federation as of January 1, 2002;
- data on the number of municipal entities at different types of constituent entities of the Russian Federation as of October 1, 2005<sup>36</sup>;
- information provided by the Fiscal Policy Center on models of local self-government territorial pattern at the constituent entities of the Russian Federation which were implemented prior to the inception of the reform in 2003.

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<sup>35</sup> The list of regions included into the sample as well as the reasons for exclusion of specific regions from the sample were considered above in Chapter 2 herein.

<sup>36</sup> The Issues of Implementation of the Federal Law No. 131-FZ "On General Principles of Local Self-Government in the Russian Federation" dated October 6, 2003// Analytical Bulletin. M: The State Duma Committee for Local Self-Government. Issue 4. 2005.

Variables describing administrative costs of local budgets were selected as explanatory variables, namely:

- growth in local budget administrative costs over a period between H1' 2005 and H1' 2006 (*d*);
- per capita administrative costs of local budgets in H1' 2006 in constant price terms (*e06*).

Both quantitative and qualitative variables were used as explanatory variables. Quantitative variables that were included into the analysis can be broken down into three groups. The first group comprises variables describing financial status of municipal entities in the region. The second group comprises the number of municipal entities and changes in their number against that in the pre-reform period. The third group comprises variables describing the number of and the population structure of the municipal entities.

The first group includes variables such as

- per capita administrative costs of the consolidated local budget in H1' 2005;
- fiscal capacity of the consolidated local budget by revenue in H1' 2006 ;
- growth in fiscal capacity of the consolidated local budget by revenue in H1 2006 year on year;
- a share of financial aid in the consolidated local budget revenues.

A share of financial aid was calculated based on both the data on H1' 2005 and H1 2006.

Calculation of parameters of the first group was based on the data published by the Ministry of Finance of the Russian Federation on execution of local budgets and information on the population of the regions.

The second group of parameters includes parameters describing

- number of municipal entities in the region as of October 1, 2005;
- growth in the number of municipal entities in the region that occurred in the course of the reform;
- growth/decline in the number of rural/ urban settlements against the number of previously established sub-municipal entities.

The parameters describing ‘growth/decline in the number of rural/ urban settlements against the number of previously established sub-municipal entities’ were calculated based on the data published by the Ministry for Regional Development of the Russian Federation on the number of rural/ urban settlements as of October 1, 2005, as well as data published by the State Duma Analytical Bulletin on the Issues of Local Self-Government<sup>37</sup> in which data on the number of sub-municipal entities prior to the inception of the reform was published. This parameter was included into the analysis, because most of the regions pursued a policy of consolidation of territories in establishing rural/ urban settlements, which couldn’t but effect administrative costs<sup>38</sup>.

The third group includes two parameters, namely

- a share of urban population in total population of the region;
- population per rural/ urban settlement with the population less than 20 thousand in the region as a whole.

The second parameter is describing the size of rural/ urban settlements on the territory of the region. To calculate this parameter large communities with a population of more than 20 thousand were excluded from calculation of the population of the region, because it was included into the number of urban districts and rural/ urban settlements in the region, exclusive of the number of municipal entities with a population of more than 20 thousand.

Besides quantitative variables, the analysis also included dummies describing:

- the model of territorial local self-government pattern prior to the municipal reform;
- whether the municipal reform is implemented in full or otherwise;
- location in a particular Federal District.

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<sup>37</sup> The Issues of Legislative Support to the Territorial Local Self-Government Pattern/ Under the editorship of S. Mokry // Analytical Bulletin. M: The State Duma Committee for Local Self-Government. 2002. Issue No. 8.

<sup>38</sup> More comprehensive analysis of regional politics during establishment of rural/ urban settlements is described in a book of Starodubovskaya I., Slavgorodskaya M. et al. Monitoring the Municipal Reform in Progress. M.: IET, 2006.

All the regions of the sample were broken down into four groups based on the models of territorial local self-government that were implemented prior to the municipal reform:

- the regions which implemented the regional model under which municipal entities were established only at administrative regions and large cities;
- the regions which implemented the settlement model under which municipal entities were established at the settlement level only (cities, towns, urban/ rural settlements, village councils);
- the regions which implemented the two-tier model under which municipal entities were established both at administrative regions and rural/ urban settlements (cities, towns, urban/ rural settlements, village councils);
- the regions which prior to the reform of 2003 – 2006 had no municipal entities, or which the model of territorial local self-government pattern failed to be clearly identified<sup>39</sup>.

The regions were broken down into two groups based on the way they implemented the municipal reform: the regions at which the Federal Law 131-FZ took its full force on January 1, 2006, and the regions at which some issues of local significance of rural/ urban settlements were delegated to municipal areas under regional laws in 2006<sup>40</sup>.

All parameters, their symbols and units of measurement are listed in *Table A2–1*.

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<sup>39</sup> Classification of regions according to the model of territorial local self-government pattern prior to the municipal reform is described in a book by Starodubovskaya I.V., Slavgorodskaya M.Yu.. *Problemy reformy mestnogo samoupravleniya: strukturny i finansovy aspekty* M.: IEPP, 2005 г. p. 41-67 (Starodubovskaya I.B., Slavgorodskaya M.Yu. *Issues of the Local Self-Government Reform: Structural and Financial Aspects*. M.: IET, 2005, pp. 41 – 67.)

<sup>40</sup> For more details see Starodubovskaya I.V., Slavgorodskaya M.Yu. et al. *Monitoring khoda munitsipalnoy reformy*. M.: IEPP, 2006. (Starodubovskaya I., Slavgorodskaya M. et al. *Monitoring the Minicial Reform in Progress*. M.: IET, 2006.)

Table A2–1

## List of Variables

No.	Variable	Symbol	Unit of measurement
1.	Growth in CLB's costs on maintenance of local self-government bodies in H1' 2006 year on year	<i>d</i>	%
2.	CLB's per capita costs on maintenance of local self-government bodies in H1' 2006	<i>e06</i>	RUR
3.	CLB's per capita costs on maintenance of local self-government bodies in H1' 2005	<i>e05</i>	RUR
4.	Growth in the number of municipal entities in the region	<i>dmo</i>	%
5.	Number of municipal entities in the region as of October 1, 2005	<i>mo</i>	pcs
6.	Relative reduction in the number of rural/ urban settlements against the number of previously established rural/ urban settlements / sub-municipal entities	<i>sm</i>	%
7.	Population per rural/ urban settlement with the population of less than 20 thousand in the regional as a whole	<i>ap_p</i>	persons
8.	A share of urban population in the total population of the region	<i>u_p</i>	%
9.	CLB's fiscal capacity in H1 2006	<i>bo06_kmb</i>	RUR
10.	Growth in CLB's fiscal capacity in H1 2006 year on year	<i>dd_bo_kmb</i>	%
11.	A share of financial aid in CLB's revenues in H1' 2005	<i>fa05_kmb</i>	%
12.	A share of financial aid in CLB's revenues in H1' 2006	<i>fa06_kmb</i>	%

## Dummy variables

	Variables	Qualitative description of the region
13.	$s_0 = 1$ for regions with mixed pattern, $s_1 = 1$ for regions with regional pattern, $s_2 = 1$ for regions with settlement pattern, $s_3 = 1$ for regions with two-tier pattern. In other cases variables equal to 0.	Model of territorial local self-government pattern prior to the municipal reform
14.	$r = 1$ for regions in which the reform was implemented in full, $r = 0$ for others	Municipal reform implementation, full or otherwise

15.  $f_{-1} = 1$  for the Central Federal District,  
 $f_{-2} = 1$  for the North-Western Federal District,  
 $f_{-3} = 1$  for the Southern Federal District,  
 $f_{-4} = 1$  for the Volga Federal District,  
 $f_{-5} = 1$  for the Urals Federal District,  
 $f_{-6} = 1$  for the Siberian Federal District,  
 $f_{-7} = 1$  for the Far East Federal District.  
 In other cases variables equal to 0. Federal district
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Multiple regression linear models were estimated by using the least squares method to determine how in 2006 the growth in costs and per capita costs on maintenance of local self-government bodies effected variables 3 to 15. Therefore, model specification is as follows:

$$y_i = \alpha + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_k x_{ki} + \varepsilon_i, \quad i=1, \dots, N,$$

where  $i$  means observation number,  $N$  means quantity of observations,  $k$  means number of explanatory variables,  $y$  means dependent variable,  $x_1, \dots, x_k$  means explanatory variables,  $r$  means dummy which equals 1 for regions that fully implemented the municipal reform in 2006 and 0 for other regions,  $\alpha, \beta_1, \dots, \beta_k$  means coefficients,  $\varepsilon$  means error. Errors are expected by independent equally distributed values with zero mean. The observation index and error were subsequently discarded for the purpose of simplification.

Significance of coefficients estimates was determined by using the  $t$ -test, while the  $F$ -test was used to determine general significance of regression. Adjustment quality was determined according to the determination coefficient  $R^2$  and adjusted  $R^2$  ( $R^2$  and  $R^2_{adj}$ ). The absence of heteroscedasticity was examined employing the White test. In the event by results of the test the hypothesis of heteroscedasticity was rejected, for a consistent estimation of dispersions we employed standard errors in the White's form.

### Preliminary Analysis

Before estimating the regression equations, we conducted a correlation analysis to identify variables that are most closely related to the variables "growth in local self-governance administrative costs" and per capita local self-governance administrative costs in the period of the municipi-



pal reform implementation". As well, we analyzed matrixes of paired correlation coefficients between explanatory variables, in order to prevent the problem of multicollinearity. The respective tables are given in *Appendix 2a*.

While conducting the preliminary analysis, we revealed a positive correlation between growth in administrative costs and growth in budget capacity and a negative correlation between growth in local self-governance administrative costs and per capita local self-governance administrative costs over the prior period<sup>41</sup>. These phenomena were revealed for the sample of regions as a whole.

As to the sample of regions that fully implemented the reform, the growth in administrative costs appears correlated with growth in their budget capacity and growth in the number of municipal entities, as well as the presence of a district model of local self-governance prior to the reform. There also is a negative correlation between growth in local self-governance administrative costs with the presence of a two-tier model prior to the reform<sup>42</sup>. (This kind of model was noted in 3 regions out of 41 that implemented the reform).

For regions that implemented reform otherwise there was exposed a negative correlation between growth in local self-governance administrative costs and administrative costs in the prior period, while positive correlations were found between growth in administrative costs in municipalities and the share of urban population in a region, as well as growth in municipal administrative costs and affiliation to the Central federal district<sup>43</sup>.

If one considers the level of per capita local self-governance administrative costs in 2006, for all the three samples in question it correlates

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<sup>41</sup> The respective correlation coefficients for the sample comprising all the regions are:  $\rho(d, dd\_bo\_kmb) = 0.26$  и  $\rho(d, e05) = -0.27$ .

<sup>42</sup> For the sample of regions that implemented the reform in full,  $\rho(d, dd\_bo\_kmb) = 0.31$ ,  $\rho(d, dmo) = 0.37$ ,  $\rho(d, s\_1) = 0.54$  и  $\rho(d, s\_3) = -0.40$ .

<sup>43</sup> For the sample of regions that implemented the reform otherwise,  $\rho(d, e05) = -0.31$ ,  $\rho(d, u\_p) = 0.26$  и  $\rho(d, fo\_1) = 0.28$ .

most intensively with the budget capacity of the 2006 local budgets<sup>44</sup>. As well, the three samples exhibit a negative correlation of the 2006 per capita expenditures with the number of municipal entities in a given region<sup>45</sup>.

The sample that comprises all the regions and those that failed to implement the reform display a positive correlation between the index of the local self-governance per capita administrative costs and the fact of a region's affiliation to the Far East Federal District<sup>46</sup>. This correlation cannot be noticed so far as the regions that implemented the reform are concerned, but it should be noted that there were just 2 regions that have implemented the reform in the District in question.

As to regions that implemented the reform otherwise, there exists a strong positive correlation between per capita administrative costs and the share of financial aid, and the share of urban population<sup>47</sup>.

As concerns possible correlations between the regressors, the strongest correlation should be noted between the district structure of local self-governance prior to the reform and growth in the number of municipal entities in a region in the course of the reform implementation. This correlation does not appear strictly unambiguous, as a modification of the territorial structure of local self-governance was equally dependent on a regional authorities' policy with regard to demarcation of borders of settlements in the course of the reform. Values of coefficients of the correlation between these variables for all the three samples find themselves

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<sup>44</sup> For the sample comprising all the regions  $\rho(e06, bo06\_kmb) = 0.73$ , for the one of regions that implemented the reform in full  $\rho(e06, bo06\_kmb) = 0.88$ , for the regions that implemented the reform otherwise  $\rho(e06, bo06\_kmb) = 0.68$ .

<sup>45</sup> For the sample comprising all the regions  $\rho(e06, mo) = -0.37$ , for the one of regions that implemented the reform in full  $\rho(e06, mo) = -0.30$ , for the regions that implemented the reform otherwise  $\rho(e06, mo) = -0.37$ .

<sup>46</sup> For the sample comprising all the regions  $\rho(e06, fo\_7) = 0.47$ , for the one of regions that implemented the reform in full  $\rho(e06, fo\_7) = 0.54$ .

<sup>47</sup> For the sample of regions that implemented the reform otherwise  $\rho(e06, fa06\_kmb) = 0.48$ ,  $\rho(e06, u\_p) = -0.56$ .

within a range between 0.67 and 0.80<sup>48</sup>, which should inevitable lead to multicollinearity, should both variables fall into the group of regressors.

As well, one can note a great value of the coefficient of the correlation between the variables “Relative reduction in the number of rural/ urban settlements” and “Population per rural/ urban settlement with the population of less than 20 thousand”<sup>49</sup>. Meanwhile, both variables in question appear loosely correlated with explained variables and most likely would fail to be included in the final equations. As well, one should note a negative correlation between the share of urban population and the share of financial aid in CLB’s revenues<sup>50</sup>, which is most explicit in the regions that implemented the reform in full.

The transition to ortogolized explanatory variables with the use of the main components method to eliminate multicollinearity in this case appears inappropriate, because of complexities with interpretation of results. That is why to avoid multicollinearity under the regression analysis strongly correlated variables are not included in the same equation as regressors.

### Regression Analysis Results

#### *An Analysis of the Impact of Explanatory Variables on growth in Local Self-Governance Administrative Costs*

All of the above listed groups of regions were analyzed. The entire sample regions revealed dependence of growth in municipal administrative costs on three variables, namely per capita administrative costs in H1 2005, growth in the number of municipal entities and growth in fiscal

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<sup>48</sup> For the sample comprising all the regions  $\rho(dmo, s\_1) = 0.71$ , for the one of regions that implemented the reform in full  $\rho(dmo, s\_1) = 0.80$ , for the regions that implemented the reform otherwise  $\rho(dmo, s\_1) = 0.67$ .

<sup>49</sup> For the sample comprising all the regions  $\rho(sm, ap\_p) = 0.66$ , for the one of regions that implemented the reform in full  $\rho(sm, ap\_p) = 0.50$ , for the regions that implemented the reform otherwise  $\rho(sm, ap\_p) = 0.67$ .

<sup>50</sup> For the sample comprising all the regions  $\rho(fa06\_kmb, up\_p) = 0.62$ , for the one of regions that implemented the reform in full  $\rho(fa06\_kmb, up\_p) = 0.72$ , for the regions that implemented the reform otherwise  $\rho(fa06\_kmb, up\_p) = -0.38$ .

capacity of local budgets. As a result, the entire population of regions can be described by the formula as follows:

$$d = \alpha + \beta_1 e05 + \beta_2 dmo + \beta_3 dd\_bo\_kmb, \tag{A2-1}$$

For an accurate estimating of the value of  $R^2$  and adjusted  $R^2$  we kept a common constant. Results of the estimating of equation (1) are given in *Table A2-1*. *Table A2-1* provides statistically significant coefficients, standard deviations of t-statistics values and P-value. In addition, the Table contains values of  $R^2$  and adjusted  $R^2$ , results of testing significance of the regression as a whole and results of the White test on the presence of heteroscedasticity. For the White test there was given the probability of accuracy of the hypothesis of homoscedasticity.

*Table A2-1*

**Results of Estimation of Equation (1)**

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Method of estimation: *OLS*  
 Number of regions:  $N = 81$   
 Dependent variable:  $d$ , growth in the local self-governance administrative, %

<u>Explanatory variables</u>	Coefficient	Standard deviation	<i>t</i> -statistics	<i>P</i> -value
$dd\_bo\_kmb*r$ , growth in budgetary capacity for regions that implemented the reform in full, %	0.58	0.22	2.64	0.010
$dmo*r$ , growth in the number of municipal entities in a region in the reform implementation process for regions that implemented the reform in full, %	2.30	0.78	2.95	0.004
$e05*(1-r)$ , per capita local self-governance administrative costs in H1 of 2005 for regions that implemented the reform otherwise, Rb per capita.	-0.012	0.005	-2.27	0.026
$const*(1-r)$	27.9	9.6	2.90	0.005
<i>Const</i>	6.2	8.5	0.72	0.471

Adjustment quality criteria:  $R^2 = 0,195$ ,  $R^2_{adj} = 0,152$   
 Test of regression in general:  $F(4, 76) = 4.59$ ,  $P = 0.0023$   
 The White test for heteroscedasticity:  $(NR^2)_w = 3.067$ ,  $P = 0.930$

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As evidenced by the Table, the hypothesis of homoscedasticity is not rejected, while the value of  $R^2$  highlights a low quality of the adjustment. The growth in the budgetary capacity and growth in the number of municipal entities have a positive impact on the growth in the local self-governance administrative costs in the regions that implemented the reform in full. The level of the per capita local self-governance administrative costs negatively affects the growth of this particular value in the process of the reform implementation in the regions that implemented the reform otherwise in 2006.

Thus, the regressive analysis for the regions that implemented the reform in full in 2006 exposed that growth in the municipal self-governance administrative costs was affected by such factors as the rise in the number of municipal entities and increment in the budgetary capacity of local budgets. The sample of the regions that implemented the reform otherwise displays the impact of the pre-reform per capita municipal self-governance costs on the rise in administrative costs. But, as shown by *Table A2-2*, the impact of the factors in question contribute to the explanation of just a negligible fraction of the dispersion of the explained variable ( $R^2_{\text{adj}} = 0,152$ ), which evidences that the rise in administrative costs finds itself to a greater extent affected by some other factors that have been left beyond the framework of the present research.

Such factors as federal district, the number of municipal entities in the region upon implementation of the reform, reduction in the number of sub-municipal entities (at rural/ urban settlements), a share of urban population in the region, regional population and population per single urban/ rural settlement (with a population of less than 20 thousand) have no statistically significant effect on growth in municipal administrative costs in the region. The territorial local self-government pattern prior to the reform was not found to have a direct effect on growth in costs on local self-government in 2006, but it did have some indirect effect through growth in the number of municipal entities in the region. Neither did fiscal capacity of consolidated local budgets, nor a share of financial aid in consolidated local budget revenues have any effect on growth in local self-government costs.

## *An Analysis of the Impact of Explanatory Variables on the Level of Per Capita Costs of Maintenance of Local Self-Governance Bodies*

The correlation between per capital self-governance administrative costs and various factors is depicted by equation (A2–2), the results of estimating of which are given in Table A2–3.

$$e06 = \alpha(1 - r) + \beta_1 bo06\_kmb + \beta_2 \cdot r \cdot fa06\_kmb + \beta_3(1 - r)u\_p + \beta_4(1 - r)fo\_7 \quad (A2-2)$$

Table A2–3

### Results of Estimation of Equation (A2–2)

Explanatory variables	Coefficient	Standard deviation	<i>t</i> -statistics	<i>P</i> -value
Method of estimation: LS, White Heteroskedasticity-Consistent Standard Errors & Covariance <sup>51</sup>				
Number of regions: <i>N</i> = 81				
Dependent variable: <i>e06</i> , per capita local self-governance administrative costs in H1 2006, Rb. per capita				
<i>bo06_kmb</i> , budgetary capacity of CLB in H1 2006, Rb. Per capita	0.098	0.020	4.83	0.000
<i>fa06_kmb</i> *, the share of a financial aid in CLB revenues in H1 2006 for regions that implemented the reform in full, %	-6.1	2.7	-2.28	0.026
<i>u_p</i> *(1- <i>r</i> ), the share of urban population in a region, for regions that implemented the reform otherwise, %	-21.5	5.9	-3.62	0.001
<i>fo_7</i> *(1- <i>r</i> ), affiliation with the Far East Federal District, for regions that implemented the reform otherwise	612	204	3.00	0.004
<i>const</i> *(1- <i>r</i> )	1113	454	2.45	0.017
<i>const</i>	213	170	1.26	0.213
Adjustment quality criteria: $R^2 = 0.780$ , $R^2_{adj} = 0.765$				
Test of regression in general: $F(7, 73) = 53.19$ , $P = 0.0000$				

<sup>51</sup> In this case when we evaluate with OLS, White test demonstrates the presence of heteroskedasticity that is why the mistakes were evaluated according to White form.

As evidenced by results of the regression analysis, given other conditions being equal, regions with a greater level of budgetary capacity exhibit a greater level of administrative costs.

Regions that in 2006 implemented the municipal reform in full display a correlation between per capita municipal self-governance costs and the share of financial aid in budget revenues: the greater the share of financial aid in a region is, the lower its level of administrative costs.

In regions that in 2006 implemented the municipal reform otherwise the level of administrative costs was influenced by such factors as the share of urban population in a region. Meanwhile, given other conditions being equal, regions with a greater share of urban population displayed a lower level of administrative costs than other territories. Plus, given other conditions being equal, a greater level of the municipal self-governance costs was noted for the regions of the Far East Federal District vis-à-vis other regions.

## Appendix 2a. Correlation Matrixes of Explanatory Variables

*Table A2a-1*

**Correlation Matrix for Variables under Studying into the Growth in Costs of Maintenance of Local Self-Governance Bodies in 2006 for the Sample of all Regions**

	D	E05	DMO	SM	AP_P	U_P	DD_BO_KMB	FA05_KMB
1	2	3	4	5	6	7	8	9
D	1.00	-0.27	0.21	0.02	-0.11	0.10	0.26	0.09
E05	-0.27	1.00	-0.12	-0.06	-0.12	-0.13	-0.16	0.09
DMO	0.21	-0.12	1.00	0.05	-0.16	-0.07	-0.20	0.07
SM	0.02	-0.06	0.05	1.00	0.66	0.29	-0.22	-0.16
AP_P	-0.11	-0.12	-0.16	0.66	1.00	0.28	0.10	-0.32
U_P	0.10	-0.13	-0.07	0.29	0.28	1.00	0.01	-0.56
DD_BO_KMB	0.26	-0.16	-0.20	-0.22	0.10	0.01	1.00	-0.04

FA05_KMB	0.09	0.09	0.07	-0.16	-0.32	-0.56	-0.04	1.00
S_0	-0.08	0.11	-0.29	-0.07	-0.06	-0.13	0.03	0.08
S_1	0.19	-0.09	0.71	0.38	0.24	0.11	-0.18	-0.03
S_2	-0.09	0.11	-0.23	-0.21	-0.06	-0.04	0.21	-0.01
S_3	-0.11	-0.08	-0.45	-0.30	-0.22	0.02	0.08	-0.04
R	0.08	-0.17	-0.02	-0.34	-0.33	-0.42	0.18	0.24
FO_1	0.16	-0.15	0.03	0.17	-0.08	0.10	0.01	-0.13
FO_2	-0.03	0.05	0.15	0.11	0.15	0.15	0.14	-0.05
FO_3	-0.11	-0.14	-0.22	-0.21	0.04	-0.30	0.18	0.18
FO_4	0.09	-0.17	0.13	0.01	-0.16	-0.03	-0.11	-0.03
FO_5	-0.08	0.07	-0.15	0.02	0.30	0.23	-0.05	-0.29
FO_6	0.09	-0.07	0.15	-0.23	-0.15	-0.18	0.00	0.12
FO_7	-0.19	0.48	-0.16	0.12	0.01	0.07	-0.16	0.18

*Table A2a-1 continued*

	S_0	S_1	S_2	S_3	R	FO_1	FO_2	FO_3	FO_4	FO_5	FO_6	FO_7
1	10	11	12	13	14	15	16	17	18	19	20	21
D	-0.08	0.19	-0.09	-0.11	0.08	0.16	-0.03	-0.11	0.09	-0.08	0.09	-0.19
E05	0.11	-0.09	0.11	-0.08	-0.17	-0.15	0.05	-0.14	-0.17	0.07	-0.07	0.48
DMO	-0.29	0.71	-0.23	-0.45	-0.02	0.03	0.15	-0.22	0.13	-0.15	0.15	-0.16
SM	-0.07	0.38	-0.21	-0.30	-0.34	0.17	0.11	-0.21	0.01	0.02	-0.23	0.12
AP_P	-0.06	0.24	-0.06	-0.22	-0.33	-0.08	0.15	0.04	-0.16	0.30	-0.15	0.01
U_P	-0.13	0.11	-0.04	0.02	-0.42	0.10	0.15	-0.30	-0.03	0.23	-0.18	0.07
DD_BO_KM B	0.03	-0.18	0.21	0.08	0.18	0.01	0.14	0.18	-0.11	-0.05	0.00	-0.16
FA05_KMB	0.08	-0.03	-0.01	-0.04	0.24	-0.13	-0.05	0.18	-0.03	-0.29	0.12	0.18
S_0	1.00	-0.62	-0.15	-0.29	0.07	-0.17	-0.07	0.22	0.05	0.14	-0.11	0.01
S_1	-0.62	1.00	-0.23	-0.44	-0.30	0.10	0.16	-0.20	-0.03	-0.09	0.08	-0.07
S_2	-0.15	-0.23	1.00	-0.11	0.12	-0.12	0.08	0.10	0.03	-0.07	0.06	-0.09
S_3	-0.29	-0.44	-0.11	1.00	0.25	0.13	-0.17	-0.06	-0.05	0.00	0.00	0.14
R	0.07	-0.30	0.12	0.25	1.00	0.04	-0.15	0.21	0.04	-0.19	0.22	-0.23
FO_1	-0.17	0.10	-0.12	0.13	0.04	1.00	-0.19	-0.18	-0.24	-0.14	-0.21	-0.19
FO_2	-0.07	0.16	0.08	-0.17	-0.15	-0.19	1.00	-0.14	-0.19	-0.11	-0.17	-0.15



FO_3	0.22	-0.20	0.10	-0.06	0.21	-0.18	-0.14	1.00	-0.18	-0.11	-0.16	-0.14
FO_4	0.05	-0.03	0.03	-0.05	0.04	-0.24	-0.19	-0.18	1.00	-0.14	-0.21	-0.19
FO_5	0.14	-0.09	-0.07	0.00	-0.19	-0.14	-0.11	-0.11	-0.14	1.00	-0.12	-0.11
FO_6	-0.11	0.08	0.06	0.00	0.22	-0.21	-0.17	-0.16	-0.21	-0.12	1.00	-0.17
FO_7	0.01	-0.07	-0.09	0.14	-0.23	-0.19	-0.15	-0.14	-0.19	-0.11	-0.17	1.00

*Table A2a-2*

**Correlation Matrix for Variables under Studing into the Growth in Costs of Maintenance of Local Self-Governance Bodies in 2006 for the Sample of Regions that Introduced the Reform in Full**

	D	E05	DMO	SM	AP_P	U_P	DD_BO_KMB	FA05_KMB
1	2	3	4	5	6	7	8	9
D	1.00	-0.15	0.38	0.13	0.12	0.03	0.31	0.01
E05	-0.15	1.00	-0.06	-0.22	-0.24	0.00	0.03	-0.01
DMO	0.38	-0.06	1.00	0.22	0.07	-0.07	-0.29	0.12
SM	0.13	-0.22	0.22	1.00	0.50	0.10	-0.37	-0.02
AP_P	0.12	-0.24	0.07	0.50	1.00	0.09	0.11	-0.10
U_P	0.03	0.00	-0.07	0.10	0.09	1.00	0.10	-0.67
DD_BO_KMB	0.31	0.03	-0.29	-0.37	0.11	0.10	1.00	-0.27
FA05_KMB	0.01	-0.01	0.12	-0.02	-0.10	-0.67	-0.27	1.00
S_0	-0.13	-0.10	-0.16	0.28	0.13	-0.12	0.00	0.18
S_1	0.54	-0.11	0.80	0.14	0.05	-0.03	-0.15	0.07
S_2	-0.08	0.49	-0.26	-0.21	0.07	0.03	0.26	0.00
S_3	-0.40	-0.07	-0.53	-0.32	-0.23	0.14	-0.01	-0.27
FO_1	0.02	-0.13	-0.20	0.01	-0.15	0.15	0.02	-0.22
FO_2	-0.11	0.59	0.11	-0.01	0.08	0.11	0.15	-0.34
FO_3	-0.13	-0.21	-0.32	-0.21	0.23	-0.18	0.25	0.22
FO_4	0.11	-0.15	0.13	0.61	0.09	0.05	-0.20	0.00
FO_5	-0.14	-0.04	-0.15	-0.08	-0.14	-0.04	-0.03	0.17
FO_6	0.22	0.00	0.31	-0.31	-0.09	-0.18	-0.07	0.15
FO_7	-0.20	0.17	0.07	-0.12	-0.10	0.18	-0.13	0.04

*Table A2a-2 continued*

	S_0	S_1	S_2	S_3	FO_1	FO_2	FO_3	FO_4	FO_5	FO_6	FO_7
1	10	11	12	13	14	15	16	17	18	19	20
D	-0.13	0.54	-0.08	-0.40	0.02	-0.11	-0.13	0.11	-0.14	0.22	-0.20
E05	-0.10	-0.11	0.49	-0.07	-0.13	0.59	-0.21	-0.15	-0.04	0.00	0.17
DMO	-0.16	0.80	-0.26	-0.53	-0.20	0.11	-0.32	0.13	-0.15	0.31	0.07
SM	0.28	0.14	-0.21	-0.32	0.01	-0.01	-0.21	0.61	-0.08	-0.31	-0.12
AP_P	0.13	0.05	0.07	-0.23	-0.15	0.08	0.23	0.09	-0.14	-0.09	-0.10
U_P	-0.12	-0.03	0.03	0.14	0.15	0.11	-0.18	0.05	-0.04	-0.18	0.18
DD_BO_KMB	0.00	-0.15	0.26	-0.01	0.02	0.15	0.25	-0.20	-0.03	-0.07	-0.13
FA05_KMB	0.18	0.07	0.00	-0.27	-0.22	-0.34	0.22	0.00	0.17	0.15	0.04
S_0	1.00	-0.49	-0.20	-0.41	-0.07	0.01	0.26	0.07	-0.11	-0.25	0.09
S_1	-0.49	1.00	-0.21	-0.43	-0.10	-0.01	-0.20	0.04	-0.12	0.38	-0.17
S_2	-0.20	-0.21	1.00	-0.17	-0.15	0.28	0.11	0.09	-0.05	-0.16	-0.07
S_3	-0.41	-0.43	-0.17	1.00	0.28	-0.17	-0.13	-0.16	0.28	-0.05	0.13
FO_1	-0.07	-0.10	-0.15	0.28	1.00	-0.15	-0.25	-0.27	-0.08	-0.29	-0.12
FO_2	0.01	-0.01	0.28	-0.17	-0.15	1.00	-0.14	-0.15	-0.05	-0.16	-0.07
FO_3	0.26	-0.20	0.11	-0.13	-0.25	-0.14	1.00	-0.25	-0.08	-0.26	-0.11
FO_4	0.07	0.04	0.09	-0.16	-0.27	-0.15	-0.25	1.00	-0.08	-0.29	-0.12
FO_5	-0.11	-0.12	-0.05	0.28	-0.08	-0.05	-0.08	-0.08	1.00	-0.09	-0.04
FO_6	-0.25	0.38	-0.16	-0.05	-0.29	-0.16	-0.26	-0.29	-0.09	1.00	-0.13
FO_7	0.09	-0.17	-0.07	0.13	-0.12	-0.07	-0.11	-0.12	-0.04	-0.13	1.00

*Table A2a-3*

**Correlation Matrix for Variables under Studing into the Growth in Costs of Maintenance of Local Self-Governance Bodies in 2006 for the Sample of Regions that Introduced the Reform Otherwise**

	D	E05	DMO	SM	AP_P	U_P	DD_BO_KMB	FA05_KMB
1	2	3	4	5	6	7	8	9
D	1.00	-0.31	0.05	0.00	-0.15	0.27	0.19	0.11
E05	-0.31	1.00	-0.19	-0.10	-0.18	-0.39	-0.22	0.20
DMO	0.05	-0.19	1.00	-0.08	-0.32	-0.12	-0.09	0.04

	1	2	3	4	5	6	7	8	9
SM		0.00	-0.10	-0.08	1.00	0.67	0.26	-0.05	-0.12
AP_P		-0.15	-0.18	-0.32	0.67	1.00	0.26	0.23	-0.35
U_P		0.27	-0.39	-0.12	0.26	0.26	1.00	0.09	-0.35
DD_BO_KMB		0.19	-0.22	-0.09	-0.05	0.23	0.09	1.00	0.09
FA05_KMB		0.11	0.20	0.04	-0.12	-0.35	-0.35	0.09	1.00
S_0		-0.04	0.23	-0.46	-0.27	-0.10	-0.09	0.04	-0.06
S_1		-0.04	-0.18	0.67	0.43	0.21	0.01	-0.12	0.02
S_2		-0.15	-0.05	-0.19	-0.20	-0.07	-0.03	0.07	-0.11
S_3		0.22	-0.02	-0.33	-0.22	-0.19	0.15	0.11	0.13
FO_1		0.28	-0.17	0.32	0.33	-0.05	0.11	-0.02	-0.07
FO_2		0.04	-0.14	0.20	0.09	0.13	0.10	0.20	0.20
FO_3		-0.14	-0.08	-0.04	-0.13	0.12	-0.40	-0.03	0.03
FO_4		0.06	-0.19	0.13	-0.36	-0.27	-0.11	-0.04	-0.09
FO_5		-0.04	0.05	-0.19	-0.04	0.31	0.34	0.00	-0.46
FO_6		-0.11	-0.08	-0.12	-0.07	-0.11	0.04	0.01	-0.05
FO_7		-0.17	0.53	-0.35	0.10	-0.06	-0.18	-0.13	0.36

*Table A2a-3 continued*

	S_0	S_1	S_2	S_3	FO_1	FO_2	FO_3	FO_4	FO_5	FO_6	FO_7
1	10	11	12	13	14	15	16	17	18	18	20
D	-0.04	-0.04	-0.15	0.22	0.28	0.04	-0.14	0.06	-0.04	-0.11	-0.17
E05	0.23	-0.18	-0.05	-0.02	-0.17	-0.14	-0.08	-0.19	0.05	-0.08	0.53
DMO	-0.46	0.67	-0.19	-0.33	0.32	0.20	-0.04	0.13	-0.19	-0.12	-0.35
SM	-0.27	0.43	-0.20	-0.22	0.33	0.09	-0.13	-0.36	-0.04	-0.07	0.10
AP_P	-0.10	0.21	-0.07	-0.19	-0.05	0.13	0.12	-0.27	0.31	-0.11	-0.06
U_P	-0.09	0.01	-0.03	0.15	0.11	0.10	-0.40	-0.11	0.34	0.04	-0.18
DD_BO_KMB	0.04	-0.12	0.07	0.11	-0.02	0.20	-0.03	-0.04	0.00	0.01	-0.13
FA05_KMB	-0.06	0.02	-0.11	0.13	-0.07	0.20	0.03	-0.09	-0.46	-0.05	0.36
S_0	1.00	-0.78	-0.10	-0.17	-0.27	-0.12	0.13	0.03	0.30	0.05	-0.01
S_1	-0.78	1.00	-0.22	-0.39	0.35	0.21	-0.07	-0.07	-0.19	-0.19	-0.15
S_2	-0.10	-0.22	1.00	-0.05	-0.08	-0.08	-0.04	-0.08	-0.06	0.56	-0.08
S_3	-0.17	-0.39	-0.05	1.00	-0.14	-0.14	-0.07	0.12	-0.11	-0.08	0.33

FO_1	-0.27	0.35	-0.08	-0.14	1.00	-0.22	-0.11	-0.22	-0.18	-0.14	-0.24
FO_2	-0.12	0.21	-0.08	-0.14	-0.22	1.00	-0.11	-0.22	-0.18	-0.14	-0.24
FO_3	0.13	-0.07	-0.04	-0.07	-0.11	-0.11	1.00	-0.11	-0.09	-0.07	-0.12
FO_4	0.03	-0.07	-0.08	0.12	-0.22	-0.22	-0.11	1.00	-0.18	-0.14	-0.24
FO_5	0.30	-0.19	-0.06	-0.11	-0.18	-0.18	-0.09	-0.18	1.00	-0.11	-0.19
FO_6	0.05	-0.19	0.56	-0.08	-0.14	-0.14	-0.07	-0.14	-0.11	1.00	-0.15
FO_7	-0.01	-0.15	-0.08	0.33	-0.24	-0.24	-0.12	-0.24	-0.19	-0.15	1.00

*Таблица А2а-4*

**Correlation Matrix for Variables in the Analysis of per Capita Expenditure on the Upkeep of the Local Bodies of Self-Government in 2006 for the Sampling of all Regions**

	E06	MO	AP_P	U_P	BO06_KMB	FA06_KMB	S_0	S_1	S_2
1	2	3	4	5	6	7	8	9	10
E06	1.00	-0.37	-0.13	-0.06	0.73	0.20	0.09	-0.09	0.14
MO	-0.37	1.00	-0.31	-0.01	-0.30	-0.05	0.02	-0.15	-0.08
AP_P	-0.13	-0.31	1.00	0.28	-0.06	-0.35	-0.06	0.24	-0.06
U_P	-0.06	-0.01	0.28	1.00	0.15	-0.62	-0.13	0.11	-0.04
BO06_KMB	0.73	-0.30	-0.06	0.15	1.00	0.07	0.19	-0.19	0.09
FA06_KMB	0.20	-0.05	-0.35	-0.62	0.07	1.00	0.29	-0.23	-0.03
S_0	0.09	0.02	-0.06	-0.13	0.19	0.29	1.00	-0.62	-0.15
S_1	-0.09	-0.15	0.24	0.11	-0.19	-0.23	-0.62	1.00	-0.23
S_2	0.14	-0.08	-0.06	-0.04	0.09	-0.03	-0.15	-0.23	1.00
S_3	-0.07	0.22	-0.22	0.02	-0.03	-0.02	-0.29	-0.44	-0.11
R	-0.16	0.18	-0.33	-0.42	-0.15	0.27	0.07	-0.30	0.12
FO_1	-0.16	0.06	-0.08	0.10	-0.19	-0.26	-0.17	0.10	-0.12
FO_2	0.08	-0.21	0.15	0.15	0.12	-0.09	-0.07	0.16	0.08
FO_3	-0.17	-0.02	0.04	-0.30	-0.19	0.25	0.22	-0.20	0.10
FO_4	-0.19	0.37	-0.16	-0.03	-0.18	-0.07	0.05	-0.03	0.03
FO_5	0.11	-0.10	0.30	0.23	0.35	-0.04	0.14	-0.09	-0.07
FO_6	-0.06	0.07	-0.15	-0.18	0.01	0.09	-0.11	0.08	0.06
FO_7	0.47	-0.28	0.01	0.07	0.21	0.17	0.01	-0.07	-0.09

*Таблица А2а-4 continued*

	S_3	R	FO_1	FO_2	FO_3	FO_4	FO_5	FO_6	FO_7
1	11	12	13	14	15	16	17	18	19
E06	-0.07	-0.16	-0.16	0.08	-0.17	-0.19	0.11	-0.06	0.47
MO	0.22	0.18	0.06	-0.21	-0.02	0.37	-0.10	0.07	-0.28
AP_P	-0.22	-0.33	-0.08	0.15	0.04	-0.16	0.30	-0.15	0.01
U_P	0.02	-0.42	0.10	0.15	-0.30	-0.03	0.23	-0.18	0.07
BO06_KMB	-0.03	-0.15	-0.19	0.12	-0.19	-0.18	0.35	0.01	0.21
FA06_KMB	-0.02	0.27	-0.26	-0.09	0.25	-0.07	-0.04	0.09	0.17
S_0	-0.29	0.07	-0.17	-0.07	0.22	0.05	0.14	-0.11	0.01
S_1	-0.44	-0.30	0.10	0.16	-0.20	-0.03	-0.09	0.08	-0.07
S_2	-0.11	0.12	-0.12	0.08	0.10	0.03	-0.07	0.06	-0.09
S_3	1.00	0.25	0.13	-0.17	-0.06	-0.05	0.00	0.00	0.14
R	0.25	1.00	0.04	-0.15	0.21	0.04	-0.19	0.22	-0.23
FO_1	0.13	0.04	1.00	-0.19	-0.18	-0.24	-0.14	-0.21	-0.19
FO_2	-0.17	-0.15	-0.19	1.00	-0.14	-0.19	-0.11	-0.17	-0.15
FO_3	-0.06	0.21	-0.18	-0.14	1.00	-0.18	-0.11	-0.16	-0.14
FO_4	-0.05	0.04	-0.24	-0.19	-0.18	1.00	-0.14	-0.21	-0.19
FO_5	0.00	-0.19	-0.14	-0.11	-0.11	-0.14	1.00	-0.12	-0.11
FO_6	0.00	0.22	-0.21	-0.17	-0.16	-0.21	-0.12	1.00	-0.17
FO_7	0.14	-0.23	-0.19	-0.15	-0.14	-0.19	-0.11	-0.17	1.00

*Table A2a-5*

**Correlation Matrix for Variables under Studing into the Growth in Costs of Maintenance of Local Self-Governance Bodies in 2006 for the Sample Regions that Implemented the Municipal Reform Otherwise**

	E06	MO	AP_P	U_P	BO06_KMB	FA06_KMB	S_0	S_1
1	2	3	4	5	6	7	8	9
E06	1.00	-0.30	-0.24	0.00	0.88	-0.13	-0.13	-0.04
MO	-0.30	1.00	-0.19	0.33	-0.22	-0.07	-0.08	-0.11
AP_P	-0.24	-0.19	1.00	0.09	-0.19	-0.10	0.13	0.05
U_P	0.00	0.33	0.09	1.00	-0.06	-0.72	-0.12	-0.03

BO06_KMB	0.88	-0.22	-0.19	-0.06	1.00	0.02	-0.07	-0.07
FA06_KMB	-0.13	-0.07	-0.10	-0.72	0.02	1.00	0.36	-0.08
S_0	-0.13	-0.08	0.13	-0.12	-0.07	0.36	1.00	-0.49
S_1	-0.04	-0.11	0.05	-0.03	-0.07	-0.08	-0.49	1.00
S_2	0.48	-0.12	0.07	0.03	0.36	-0.07	-0.20	-0.21
S_3	-0.12	0.28	-0.23	0.14	-0.07	-0.25	-0.41	-0.43
FO_1	-0.13	0.11	-0.15	0.15	-0.24	-0.25	-0.07	-0.10
FO_2	0.59	-0.21	0.08	0.11	0.52	-0.20	0.01	-0.01
FO_3	-0.23	-0.10	0.23	-0.18	-0.26	0.30	0.26	-0.20
FO_4	-0.15	-0.10	0.09	0.05	-0.15	-0.03	0.07	0.04
FO_5	-0.06	0.11	-0.14	-0.04	-0.03	0.11	-0.11	-0.12
FO_6	0.05	0.18	-0.09	-0.18	0.17	0.08	-0.25	0.38
FO_7	0.13	0.01	-0.10	0.18	0.24	0.01	0.09	-0.17

*Table A2a-5 continued*

	S_2	S_3	FO_1	FO_2	FO_3	FO_4	FO_5	FO_6	FO_7
1	10	11	12	13	14	15	16	17	18
E06	0.48	-0.12	-0.13	0.59	-0.23	-0.15	-0.06	0.05	0.13
MO	-0.12	0.28	0.11	-0.21	-0.10	-0.10	0.11	0.18	0.01
AP_P	0.07	-0.23	-0.15	0.08	0.23	0.09	-0.14	-0.09	-0.10
U_P	0.03	0.14	0.15	0.11	-0.18	0.05	-0.04	-0.18	0.18
BO06_KMB	0.36	-0.07	-0.24	0.52	-0.26	-0.15	-0.03	0.17	0.24
FA06_KMB	-0.07	-0.25	-0.25	-0.20	0.30	-0.03	0.11	0.08	0.01
S_0	-0.20	-0.41	-0.07	0.01	0.26	0.07	-0.11	-0.25	0.09
S_1	-0.21	-0.43	-0.10	-0.01	-0.20	0.04	-0.12	0.38	-0.17
S_2	1.00	-0.17	-0.15	0.28	0.11	0.09	-0.05	-0.16	-0.07
S_3	-0.17	1.00	0.28	-0.17	-0.13	-0.16	0.28	-0.05	0.13
FO_1	-0.15	0.28	1.00	-0.15	-0.25	-0.27	-0.08	-0.29	-0.12
FO_2	0.28	-0.17	-0.15	1.00	-0.14	-0.15	-0.05	-0.16	-0.07
FO_3	0.11	-0.13	-0.25	-0.14	1.00	-0.25	-0.08	-0.26	-0.11
FO_4	0.09	-0.16	-0.27	-0.15	-0.25	1.00	-0.08	-0.29	-0.12
FO_5	-0.05	0.28	-0.08	-0.05	-0.08	-0.08	1.00	-0.09	-0.04
FO_6	-0.16	-0.05	-0.29	-0.16	-0.26	-0.29	-0.09	1.00	-0.13
FO_7	-0.07	0.13	-0.12	-0.07	-0.11	-0.12	-0.04	-0.13	1.00

*Table A2a-6*

**Correlation Matrix for Variables under Studing into the Growth  
in Costs of Maintenance of Local Self-Governance Bodies in 2006  
for the Sample Regions that Implemented the Municipal  
Reform in Full**

	E06	MO	AP_P	U_P	BO06_KMB	FA06_KMB	S_0	S_1	S_2
1	2	3	4	5	6	7	8	9	10
E06	1.00	-0.37	-0.19	-0.27	0.68	0.48	0.23	-0.21	-0.07
MO	-0.37	1.00	-0.31	-0.17	-0.31	-0.13	0.08	-0.09	-0.11
AP_P	-0.19	-0.31	1.00	0.26	-0.11	-0.39	-0.10	0.21	-0.07
U_P	-0.27	-0.17	0.26	1.00	0.23	-0.40	-0.09	0.01	-0.03
BO06_KMB	0.68	-0.31	-0.11	0.23	1.00	0.18	0.37	-0.35	-0.07
FA06_KMB	0.48	-0.13	-0.39	-0.40	0.18	1.00	0.21	-0.25	-0.06
S_0	0.23	0.08	-0.10	-0.09	0.37	0.21	1.00	-0.78	-0.10
S_1	-0.21	-0.09	0.21	0.01	-0.35	-0.25	-0.78	1.00	-0.22
S_2	-0.07	-0.11	-0.07	-0.03	-0.07	-0.06	-0.10	-0.22	1.00
S_3	0.03	0.11	-0.19	0.15	0.07	0.15	-0.17	-0.39	-0.05
FO_1	-0.18	0.02	-0.05	0.11	-0.18	-0.31	-0.27	0.35	-0.08
FO_2	-0.14	-0.17	0.13	0.10	-0.05	0.04	-0.12	0.21	-0.08
FO_3	-0.11	-0.02	0.12	-0.40	-0.14	0.06	0.13	-0.07	-0.04
FO_4	-0.22	0.74	-0.27	-0.11	-0.20	-0.13	0.03	-0.07	-0.08
FO_5	0.11	-0.13	0.31	0.34	0.43	-0.04	0.30	-0.19	-0.06
FO_6	-0.09	-0.13	-0.11	0.04	-0.04	-0.04	0.05	-0.19	0.56
FO_7	0.54	-0.36	-0.06	-0.18	0.16	0.40	-0.01	-0.15	-0.08

*Table A2a-6 continued*

	S_3	FO_1	FO_2	FO_3	FO_4	FO_5	FO_6	FO_7
1	11	12	13	14	15	16	17	18
E06	0.03	-0.18	-0.14	-0.11	-0.22	0.11	-0.09	0.54
MO	0.11	0.02	-0.17	-0.02	0.74	-0.13	-0.13	-0.36
AP_P	-0.19	-0.05	0.13	0.12	-0.27	0.31	-0.11	-0.06
U_P	0.15	0.11	0.10	-0.40	-0.11	0.34	0.04	-0.18
BO06_KMB	0.07	-0.18	-0.05	-0.14	-0.20	0.43	-0.04	0.16

FA06_KMB	0.15	-0.31	0.04	0.06	-0.13	-0.04	-0.04	0.40
S_0	-0.17	-0.27	-0.12	0.13	0.03	0.30	0.05	-0.01
S_1	-0.39	0.35	0.21	-0.07	-0.07	-0.19	-0.19	-0.15
S_2	-0.05	-0.08	-0.08	-0.04	-0.08	-0.06	0.56	-0.08
S_3	1.00	-0.14	-0.14	-0.07	0.12	-0.11	-0.08	0.33
FO_1	-0.14	1.00	-0.22	-0.11	-0.22	-0.18	-0.14	-0.24
FO_2	-0.14	-0.22	1.00	-0.11	-0.22	-0.18	-0.14	-0.24
FO_3	-0.07	-0.11	-0.11	1.00	-0.11	-0.09	-0.07	-0.12
FO_4	0.12	-0.22	-0.22	-0.11	1.00	-0.18	-0.14	-0.24
FO_5	-0.11	-0.18	-0.18	-0.09	-0.18	1.00	-0.11	-0.19
FO_6	-0.08	-0.14	-0.14	-0.07	-0.14	-0.11	1.00	-0.15
FO_7	0.33	-0.24	-0.24	-0.12	-0.24	-0.19	-0.15	1.00

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## **Chapter 4. Variations in Municipal Government Structure: Can Russia Learn Anything from Canadian Experience?**

### **4.1. Introduction**

The recent trend where the municipal sector in most countries has increased its reliance on own source funding and reduced its reliance on grants has been accompanied by a renewed interest in municipal structure and organization. This includes interest in municipal consolidations, amalgamations, and reliance on voluntary arrangements including inter-municipal agreements and/or service boards to improve the overall efficiency of the municipal sector. Perhaps the most notable recent restructuring activity in countries where municipal reform has been on the agenda has occurred in a few provinces in Canada – Ontario being the most active although some initiatives have been undertaken in New Brunswick, Nova Scotia and Quebec.

Municipal amalgamations, consolidations, and restructuring generally occur in response to the rapid increase in urbanization, a need to provide additional services passed down from senior levels of government, the desire of senior levels of government to deal with fewer municipalities, and the necessity of getting access to a local tax base that encompasses a wide geographical area. In almost every instance, major municipal consolidations and amalgamations have been initiated (driven) by senior levels of government with the major rationale generally being that of cost savings and improved efficiency. Many of these initiatives have been accompanied by offers of financial rewards for the restructured municipalities and nothing if restructuring does not take place; for example, withdrawing provincial grants if municipalities do not restructure or merge. Not surprisingly, a senior government initiative of this sort is often the subject of considerable discussion, debate, and frequent dispute. Most locally driven initiatives, on the other hand, have involved the creation or extension of some kind of voluntary association,

generally through the use of inter-municipal agreements or local service boards. These, however, are not free of problems and difficulties.

The governing structure for a municipality is particularly important. It can affect the quantity and quality of service, the efficiency with which services are delivered, and their funding; that is, whether service costs are shared throughout the region, area, or district in a fair, accountable, transparent and effective manner. All of this has a significant impact on a municipality's ability to deliver services that will make the municipality competitive on an international scale (*Slack, Bourne, and Gertler, 2003*). Given the importance of municipal structure and organization, then, this paper is divided into the following sections.

Section 4.2. starts with a brief description of unincorporated communities. This is followed by an inter-provincial and inter-temporal comparison of municipal expenditure responsibilities and revenue sources. This section concludes with a brief description of the structure of municipal government in each Canadian province. These structures fall into one of the following classifications – a two-tier system; a large single tier option; and multiple smaller single tier municipalities with some kind of voluntary cooperative body for services that spread across municipalities. Section 4.3. outlines the strengths and weaknesses of each municipal structure with the intent of providing guidance for our Russian researchers who are responsible for examining municipal reform in Russia. Section 4.4. identifies some lessons that may be useful for Russia as they embark on municipal restructuring. Section 4.5. summarizes the paper.

## **4.2. Structure of Municipal Government**

Canada is a federation with three levels of government – one federal, thirteen provincial/ territorial, and about 4 000 municipal governments. As well, parts of some provinces (Ontario, for example) and most of the territories (Yukon, Northwest Territories, and Nunavut) are not incorporated. Here, municipal government does not exist. There is a further anomaly in the Canadian governance structure and this is the existence of a number of First Nation communities. They are scattered throughout both the incorporated and unincorporated parts of some

provinces and all territories. These communities are not deemed to be municipalities because First Nations see themselves as being equal to provinces in their dealings with the Federal government and not as municipalities which are, under the Constitution, 'creatures of the province'. For First Nation communities, the province generally assumes no responsibility because they are the responsibility of the Federal government, both in terms of funding, services, and governance. However, where First Nation communities use services provided by neighbouring incorporated municipalities or by the province, they either pay for the services directly or the Federal government pays for the services by reimbursing the service provider (province or municipality) for the cost of services used. Because First Nation communities are not deemed to be municipalities in the Canadian Constitution and they certainly, don't see themselves as being like municipalities, their structure, funding, and functions will not be discussed in this paper.

This section starts by commenting on unincorporated communities, although there is not much to say about them. This is followed by a brief discussion of incorporated municipalities, their governing structures, and major spending responsibilities. From the information, readers will note a number of similarities and differences in structure and service responsibilities across provinces.

#### *4.2.1. Unincorporated Communities*

Unincorporated parts of provinces and the territories exist where there are very few residents. People who live in unincorporated municipalities tend to fall into one of the following settlement patterns. Many of them live close to the border of an incorporated municipality. These people almost always use public services provided by a neighbouring incorporated municipality with the province/territory imposing some kind of tax or charge on them and remitting the money to the incorporated municipality to cover the cost of services consumed.

In addition, a few people live in small hamlets that tend to be isolated and remote from each other and isolated and remote from incorporated municipalities (most of these isolated hamlets are First Nation communities and these are the responsibility of the Federal government). Seldom is there a rail or road link between communities. In addition,

these communities have no solid economic base - residents exist on provincial and federal assistance (income relief programs and housing, mainly) and a subsistence form of living garnered from trapping, hunting and fishing. These areas do not have any agricultural possibilities because the climate, terrain, and soil are not amenable to growing crops. These communities do not have a local governing and administrative structure such as exists in municipalities although they generally have some kind of citizens advisory group that makes recommendations to the province/territory (who will have an administrative person or persons in the community) on the type and range of public services they would like. The range and quality of public services is almost always lower than in incorporated municipalities. Since service provision is the responsibility of provincial and territorial governments (they either provide services directly or in many cases, delivery is contracted out to a local business). For these services, residents generally pay a tax or fee to the provincial/territorial government. The way in which the tax or fee is determined varies from province to province and from province to territory. In Ontario, for example, the provincial government is in the process of reforming the tax imposed on these people. Through its property assessment corporation, every property in non-First Nation unincorporated areas of the province is being assessed and once this is completed, property owners will pay a tax based on assessed property values, just as is done in the incorporated municipalities. The rate of tax, however, will be set by the province. Ideally, the rate should be set to generate enough revenue to pay for the local public services. If this happened, however, the rate would be so high that it would impose an excessive burden on most residents. To avoid this burden and recognizing that these communities do not have a strong tax base, continued grant support from provincial/ territorial governments will be required.

In the territories and some other provinces, other types of charges may exist. For example, where there is no real estate market and no effective property assessment base, a fixed charge may be imposed. This may be a charge per square foot or square metre of dwelling unit, or it may be a fixed charge per dwelling unit, or it may be based on the number of people living in the dwelling. The important point is that people pay

something towards the cost of local public services consumed. This is essential if one is to avoid waste and get some semblance of accountability, efficiency and transparency in the use of local government services.

Provincial and territorial legislation (and statutes) does not spell out the conditions when an unincorporated area becomes incorporated. This is a decision that is made by the residents of the local community (if they develop a tax base and wish to have control over local expenditures), or more likely, by the provincial/territorial government if the local community develops a tax base, such as has happened in a few hamlets in the Northwest Territories that have grown over the past few years because of diamond discoveries. This has boosted local economic activity and created a viable tax base, or a least one that can support an incorporated municipality that is responsible for providing some local public services.

In summary, unincorporated communities exist where

- there is a very small, almost non-existent, population base;
- the hamlets are remote and isolated from each other;
- there are no road or rail links between them;
- there is no viable or productive economic base and hence, no local tax base; and
- it would be expensive to set up a local administrative and governing structure.

#### *4.2.2. Incorporated Municipalities*

Municipalities, under the Canadian constitution, are creatures of the province. The province has the power to create or eliminate municipalities, to determine where they can spend their money, and what revenue sources they can use to meet their spending obligations.

In general, municipal government structures consist of a mix of single tier and two-tier incorporated municipalities. Under a single tier structure, each municipality is responsible for all services. Frequently, however, these municipalities rely on inter-municipal or joint-use agreements or special purpose bodies for sharing some of these services with neighboring jurisdictions.

The most common type of municipal structure in Canada is the two-tier system. This is made up of a number of lower tiers or area municipalities – cities, towns, villages, and townships – and an upper tier that is called a county, region or district. Here, the lower tier assumes responsibility for certain services, although this varies across provinces and quite often across regions/counties/districts within a province. For some services, lower tiers rely on inter-municipal agreements (fire and roads being the most common). The upper tier is responsible for the remaining services and generally, because of its geographic area, is more self-sufficient and much less dependent on inter-municipal agreements (*Kitchen, 2002, chapter 12*).

Specific services that are generally, but not exclusively, the responsibility of the upper tier include water and sewer, solid waste disposal and sometimes collection, arterial roads, public transit, police, social services and social housing where these are partially (shared with the province) a local responsibility, public health and land ambulance where these are partially a local responsibility, regional land use planning, and economic development. Lower tiers are generally responsible for local roads and streets, fire protection, street lighting, sidewalks, local land use planning, local libraries, parks and recreation.

Where there is only a single tier of local government, it is responsible for all municipal services.

Before reviewing the municipal structure in each province, an inter-provincial comparison of municipal expenditure responsibilities and revenue sources across provinces will illustrate, partially at least, the quantitative changes (as opposed to attitude changes which are difficult, and basically impossible, to measure) in provincial policies towards municipalities over the past fifteen to twenty years.

### Spending Responsibilities

Even though changes have been made in the Municipal Act in many provinces over the past few years, municipal governments are still tightly controlled and directed by provincial policy and legislation. Many municipal expenditures are mandated (social services, in Ontario is a particular problem for municipalities) and those that aren't, frequently must meet provincial standards; for instance, building inspection, septic tank

inspection, water and sewage treatment standards, road standards, police protection, and fire inspection to name a few. As well, municipalities in some provinces have had to assume (unwillingly) new spending responsibilities transferred (offloaded) from the province.

To gain a perspective on municipal responsibilities, *Table 4.1* records municipal per capita spending by province along with the distribution of these expenditures across functions (responsibilities) for 2005 (the latest year for which interprovincial data were available). More specifically, the first row records the range in per capita municipal spending by province. This extended from a low of \$582 per capita in Prince Edward Island to a high of \$2 144 for Ontario with the weighted average for Canada being \$1 814. Interprovincial differences of the sort noted in this table may be attributed to a number of factors including:

- different municipal expenditure responsibilities;
- higher servicing costs in some areas;
- greater municipal needs in the more highly urbanized provinces;
- higher quality of service; or possibly,
- more waste and inefficiency in service delivery in some places.

While quantification of the extent to which each of these factors is responsible for interprovincial differences is not possible, *Table 4.1* sheds some light on the relative importance of municipal spending by function (what they actually do) in each of the provinces. The more notable observations are noted here:

- Social services are almost entirely a provincial funding responsibility in every province except for Ontario where they account for almost 20 percent of municipal spending.
- Education is a provincial responsibility everywhere – although Nova Scotia lists education as a local funding responsibility, it isn't because the province requires municipalities to collect local education taxes which are used for funding elementary and secondary schooling. Municipalities have no control over this tax rate.
- Health expenditures are the responsibility of the provinces except for relatively small expenditures made by municipalities for preventative health care programs (anti-smoking campaigns, for example).

- Expenditures on transportation (roads, streets, snow removal, public transit).
- protection (police and fire) and environmental (water, sewage, solid waste collection and disposal) services account for well over 50 percent of all municipal expenditures in every province.
- Expenditures on recreation and cultural services account for between 9 and 18 percent of the municipal total everywhere.
- Debt charges (for capital projects only because municipalities are not permitted to borrow to cover a budgeted operating deficit) show considerable variation ranging from a high of almost 9 percent of total municipal spending in Newfoundland to a low of slightly more than 1 percent in Saskatchewan.

A comparison of *Table 4.1* with *Table 4.2*, which shows municipal expenditures by function and province in 1988, suggests the following:

- The most important municipal expenditures over the period were on transportation, protection, and environment.
- Overall, spending on social service increased but this was driven entirely by Ontario where they increased from less than 15 percent of all municipal spending in 1988 to almost 20 percent in 2005. In Nova Scotia and Manitoba over this same period, all social service spending became a provincial responsibility.
- Expenditures on environmental services (water, sewer, and solid waste) increased in relative importance in every province over this period, reflecting the growing importance that municipalities are placing on concerns for clean water and environmental issues and the need to meet provincially set standards.
- Debt charges (interest cost on long term borrowing for capital purposes) have dropped dramatically in relative importance in every province over this period. This has arisen for two main reasons; interest rates have dropped considerably over this period and municipalities have reduced their borrowing for local infrastructure. In place of borrowing, they have moved towards pay-as-you-go financing (annual property taxes and user fees put into reserves) and increased their reliance on development charges (collected up front,



prior to development) that are imposed on new growth to cover the costs of growth related capital expenditures.

### Revenue Sources

Municipal revenues consist of grants (conditional and unconditional) and funds generated from own sources including property taxes and user fees with small sums coming from investments and a miscellaneous collection of amusement taxes, licences and permits, and fines and penalties. Since municipalities cannot budget for operating deficits, the annual budget must include sufficient revenues to cover all operating expenditures. If actual expenditures do not match actual revenues, a deficit may arise, in which case the following year's budget must be set to generate enough revenue to eliminate the previous deficit. *Table 4.3* notes the relative importance of the major revenue sources available to municipalities in every province/territory for 2005. From this table, the following observations may be drawn.

- Own source revenue (OSR) accounted for a high of 93 percent of municipal revenue in Prince Edward Island and Nova Scotia, and a low of 76 percent in Manitoba with the average for Canada being 83 percent.
- Conditional and unconditional grants account for the remaining municipal revenues – ranging from 24 percent in Manitoba to more than 6 percent in British Columbia, Prince Edward Island, and Nova Scotia.
- Property taxes, the major component of OSR, accounted for more than 73 percent of all municipal revenue in Nova Scotia (the highest) and 42 percent in Manitoba and Alberta (the lowest). For all of Canada, property taxes contributed almost 53 percent of all municipal revenue in 2005.
- User fees – there is considerable variation in the relative importance of user fees - they accounted for a high of 29 percent of all municipal revenue in British Columbia and Alberta, and a low of 16 to 17 percent in Nova Scotia and Quebec.

When *Table 4.3* is compared with *Table 4.4*, which shows municipal revenues by source and province in 1988, the following observations may be made.

- As a percent of municipal revenues, unconditional grants have fallen across the entire country by about 3 percentage points, from almost 6 percent of municipal revenue to slightly less than 3 percent. This decrease in relative importance has been noted in almost every province.
- Conditional grants have likewise decreased in relative importance across the country. They fell by almost 3 percentage points for the entire country – from more than 17 percent of municipal revenue in 1988 to slightly more than 14 percent by 2005.
- Over the period from 1988 to 2005, conditional and unconditional grants combined have declined in relative importance as a source of municipal revenue – falling from almost 23 percent of local revenue in 1988 to a little more than 17 percent in 2005.
- Over the entire country, property taxes increased in relative importance – rising from 48.6 percent of all municipal revenue in 1988 to 52.7 percent in 2005. Only in Quebec, Manitoba, and Saskatchewan has there been a small proportionate reduction in the importance of property taxes.
- User fees have increased in relative importance almost everywhere over this period.

In summary, since the late 1980s, the relative importance of (reliance on) municipal property taxes and user fees has grown with dependence on both conditional and unconditional grants falling.

#### *4.2.3. Structure*

The remainder of this section will review the municipal structure in each of the ten Canadian provinces.

##### Newfoundland

There are 466 incorporated municipalities in Newfoundland made up of three cities, 279 towns, one regional council, and 183 local service districts. The cities of St. John's, Corner Brook and Mount Pearl are incorporated under separate statutes while the remainder are incorporated under the Municipalities Act. Not all municipalities are accorded the same powers, however. The city of St. John's, for example, has more powers than other municipalities – it does its own property assessment whereas

the remaining municipalities rely on a provincial assessment authority. Unlike other municipalities, it may also borrow small sums of money without provincial approval – under \$1.5 million, to be specific. The city is also responsible for bus services but like all other municipalities, it is not responsible for police which is a provincial responsibility. On January 1, 2000, a new *Municipal Act* became effective. This Act provides greater municipal autonomy in the areas of taxation, administration and financial management.

*Table 4.1*

**Per Capita Level and Distribution (in percent) of Municipal Government Expenditures by Province, 2005**

Province	Nfld.	Prince Edward Is.	Nova Scotia	New Bruns.	Quebec	Ontario	Manitoba	Sask.	Alberta	British Columbia	Canada
Population (000)	516.0	138.1	937.9	752.0	7598.1	12541.4	1177.6	994.1	3256.8	4254.5	32270.5
Per Capita Expenditure	\$806	\$582	\$1,360	\$1,078	\$1,676	\$2,144	\$1,281	\$1,475	\$1,963	\$1,555	\$1,814
<b>Municipal Services</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
General Administration	19.7	13.4	12.7	8.8	12.9	8	16.4	15.3	12.1	9.6	10.4
Protection	5.7	19.8	19.3	20.4	16.4	16	19.2	15.8	15.4	19.6	16.5
Transportation	25.8	17.4	15	21.9	22.5	16.7	24.9	32.3	24.9	18	19.7
Health	0.1	0	0.1	0.4	0.1	4.7	2.5	0.6	1.8	1	2.6
Social Services	0.2	0.1	2.4	0	0.7	19.5	0.3	0.6	1.7	0.2	9.4
Education	0	0	12.4	0	0.1	0.1	0	0	0.3	0	0.3
Resource Conservation	0.9	1.9	0.7	2.9	2.9	1.4	2.4	2.2	2.9	1.7	2
Environment	23.6	29.3	24.2	26.6	16.5	16.1	17.7	18.1	14.9	22.6	17.3
Recreation/Culture	13	13.1	8.8	11.9	12.8	9.2	10	2.1	16.7	18.4	12.1
Housing	0.8	0	0	0.4	3.2	5.2	0.4	0.1	1.2	0.5	3.4
Regional Planning	1.3	2.5	1.6	2.3	2.7	1	1.3	1.6	3.1	2.2	1.8
Debt Charges	8.8	2.6	2.9	3.8	6.2	2	4.9	1.2	5.1	5.4	3.8
Other	0.1	0	0.1	0.6	3.1	0.1	0.1	0	0	1	0.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

- Protection includes courts of law, correction and rehabilitation, police, firefighting, and regulatory measures.
- Transportation and communications includes roads and streets, snow and ice removal, parking, and public transit.
- Health includes hospital and preventive care.
- Resource conservation & Industrial Development includes agriculture, tourism, trade and industrial development.
- Environment covers water, sewer, solid waste collection and disposal, and recycling.
- Regional planning and development covers planning, zoning and community development.
- Debt charges cover interest payments.

*Table 4.2*

**Per Capita Level and Distribution (in percent) of Municipal Government Revenue by Province and Territory, 2005**

Revenue Source	Nfld.	Prince Edward Island	Nova Scotia	New Bruns.	Quebec	Ontario	Manitoba	Sask	Alberta	British Columbia	Canada
Per Capita Level	\$857	\$519	\$1,206	\$1,093	\$1,476	\$2,145	\$1,293	\$1,358	\$2,135	\$1,326	\$1,747
Property Taxes	58.6	65.7	73.3	54.2	66.3	49.8	41.6	46.9	42.0	54.2	52.7
Other Taxes	1.2	1.2	0.8	0.5	0.4	1.3	2.5	6.0	1.8	2.9	1.5
User Fees	18.4	24.5	16.4	25.0	16.6	21.3	23.7	24.0	29.1	29.0	22.2
Investment Income	1.6	0.4	2.1	0.4	1.7	4.2	7.0	4.0	13.3	7.4	5.1
Other	0.5	1.6	0.7	0.4	2.2	1.4	1.4	1.0	1.7	0.5	1.4
Own Source Revenue	80.2	93.4	93.2	80.5	87.1	77.9	76.2	82.0	87.8	93.9	82.9
Unconditional Grants	5.6	2.6	3.1	8.1	2.6	2.7	13.9	6.0	0.3	2.0	2.9
Conditional Grants	14.6	4.0	3.7	11.4	10.3	19.4	9.9	12.1	11.9	4.1	14.3
Federal	1.8	0.4	1.0	3.7	0.2	2.1	2.6	5.9	0.6	0.8	1.5
Provincial	12.9	3.6	2.7	7.7	10.1	17.3	7.3	6.2	11.3	3.3	12.8
Total Grants	19.8	6.6	6.8	19.5	12.9	22.1	23.8	18.0	12.2	6.2	17.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- Property taxes: taxes on real property, developers contributions and lot levies, special assessments, grants-in-lieu of taxes and business property taxes.
- Other taxes: amusement taxes, licences and permits.
- User Fees: water and sewage, rentals, concessions and franchises.
- Investment Income: profits from own enterprises, interest and penalties from taxes.
- Other: fines and penalties.

Table 4.3

### Per Capita Level and Distribution (in percent) of Municipal Government Revenue by Province and Territory, 1988

Revenue Source	Nfld.	Prince Edward Island	Nova Scotia	New Bruns.	Quebec	Ontario	Manitoba	Sask	Alberta	British Columbia	Canada
Property Taxes	41.9	50.0	58.0	41.7	68.8	41.7	44.5	48.1	36.3	48.0	48.6
Other Taxes	1.9	0.5	0.6	0.5	1.0	1.3	2.2	3.9	1.0	2.5	1.4
User Fees	12.6	30.7	10.8	18.9	16.5	20.0	17.7	21.4	26.5	23.7	20.0
Investment Income	1.9	3.7	3.7	1.2	3.0	5.1	8.3	6.7	12.8	10.1	6.0
Other Own Source Revenue	0.4	1.2	0.8	0.6	2.0	0.7	1.0	1.4	1.4	0.5	1.1
Unconditional Grants	18.2	12.2	4.6	26.5	0.5	7.3	7.8	10.1	6.8	4.3	5.8
Conditional Grants	24.0	1.7	21.6	10.5	8.3	23.9	18.5	8.5	15.2	10.8	17.1
Federal Provincial	3.1	0.2	0.4	1.6	0.2	0.9	1.2	0.3	0.5	1.1	0.7
Total Grants	19.9	1.5	21.2	8.9	8.1	23.0	17.3	8.2	14.7	9.7	16.4
TOTAL	41.2	13.9	26.3	37.0	8.7	31.2	26.3	18.7	22.0	15.1	22.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- Property taxes: taxes on real property, developers contributions and lot levies, special assessments, grants-in-lieu of taxes and business property taxes.
- Other taxes: amusement taxes, licences and permits.
- User Fees: water and sewage, rentals, concessions and franchises.
- Investment Income: profits from own enterprises, interest and penalties from taxes.
- Other: fines and penalties.
- new authority in the area of economic development, and new and expanded responsibilities in service delivery and municipal control.

Unlike municipalities, which are empowered to provide a range of municipal services and to impose municipal taxes, local service districts

have no taxing authority and are limited to providing a maximum of five basic municipal services for which they can impose user fees.

### Prince Edward Island

Prince Edward Island is, by far, the smallest province in Canada with a population of slightly more than 135 000 (*Table 4.1*). This is smaller than the 25 largest Census Metropolitan Areas in Canada. At the moment, there are two cities, seven towns, and 66 communities for a total of 75 incorporated municipalities with approximately 495 elected representatives. Historically, municipal governments have not been strong in Prince Edward Island. The relatively small size of municipalities and the fact that people are in close touch with the provincial government has led to provincial responsibility for some services that are municipal in other provinces. The most notable is solid waste removal which is entirely a provincial responsibility in PEI and a municipal responsibility elsewhere. Land ambulance is also a provincial responsibility. Fewer service responsibilities at the local level are reflected in the comparatively low municipal per capita expenditures reported in *Table 4.1*.

The 2 cities of Charlottetown and Summerside are governed by separate legislation. This means, for example, that these 2 cities are responsible for maintaining their own streets while the province maintains roads and streets in the other 73 municipalities. The *Municipal Act* also sets out differences in the preparation of municipal budgets. Local councils in towns and cities are responsible for approving budgets, but local councils in the 66 communities only prepare budgetary estimates with approval coming after a supporting vote by the community at large at an annual meeting.

### Nova Scotia

Every part of Nova Scotia is incorporated and is divided into 18 counties. Within these counties, there are no incorporated cities but there are 31 towns, three regional municipalities (Halifax, Cape Breton, and Queens) and 22 rural municipalities. Each town is geographically located within a rural municipality but forms no part of it politically. Except for some joint expenditure responsibilities, counties and towns are entirely independent of each other. Each provides its own services and levies its

own taxes. There are, however, a number of cooperative arrangements between towns and rural municipalities, often involving the extension of services from the town to the adjacent built-up area of the rural municipality.

There are also a number of villages and they have one distinguishing characteristic when compared with towns. Villages are part of the rural municipality (effectively, a two tier structure) in which they are located. They are governed by local commissions and may provide a number of services (streets, fire, street lighting, sidewalks, etc.) and levy local property taxes to fund these services or they may delegate the tax collection power to the rural governing jurisdiction of which they are a part.

### New Brunswick

New Brunswick was the first province in Canada to enter into a serious reorganization of municipal and provincial service and funding responsibilities and in almost every way when compared with the other provinces in Canada, it more closely approximates an efficient and fair assignment of these responsibilities. This 1967 reorganization was a direct result of the Byrne Commission's (1963) identification of many inequities in the original provision and financing of local services in New Brunswick. Many functions that had originally been the responsibility of municipalities were transferred to the province.

There are 103 incorporated municipalities – eight cities, 25 towns and 70 villages. There are also 270 unincorporated local service districts (LSDs) and one rural community (made up of a number of local service districts with the power to make local planning decisions for this area). There are also 15 community economic development agencies, 12 solid waste commissions, and 12 land use planning commissions, as well as numerous ad hoc regional commissions responsible for police services, wastewater, airports, libraries, public transit, emergency planning, pest control, etc. Ten regional commissions serve the Greater Moncton area alone. In addition, a multitude of local services are provided on a regional basis without joint institutions. Many LSDs buy fire services from a neighbouring municipality without a regional fire department. Finally, no administrative county or regional government exists in New Brunswick.

Municipalities have the power to levy property taxes to fund a number

of local services for which they are responsible. Municipalities are only mandated to provide police protection, land use planning, and dog control, but the vast majority also provide a number of discretionary services including fire protection, streets, sidewalks, street lighting, water, sewage, solid waste collection, and parks and recreation. In addition, the larger municipalities, mainly cities, often provide public transit, building inspection, traffic and parking control, libraries, museums, concert halls, and art galleries. Services such as solid waste disposal, economic development and emergency measures are the responsibility of regional commissions/bodies.

LSDs, by comparison, do not have the same authority and powers as municipalities. LSDs are not municipal organizations. They may elect advisory committees but these have no jurisdictional powers. They simply report to the provincial government on matters of local service provision. The province is ultimately responsible for providing and funding three general categories of services in LSDs. First, mandatory services including policing, roads, and dog control; second, services designated in legislation such as land use planning, solid waste collection and disposal, and property assessment; and third, elective services including fire protection, recreation, community services, and street lighting. Elective services are only provided if approved through a referendum that includes a property tax rate increase to cover costs, and if the Municipal Affairs Minister approves.

The existence of LSDs creates significant problems for neighbouring incorporated municipalities primarily because of the differential property tax treatment of properties in the incorporated areas (higher) versus the unincorporated service districts (lower). This has had an impact on business and residential location decisions.

Most of the regional commissions are funded and governed by municipal councils. Some LSDs fund and govern regional commissions but they do not have much power.

### Quebec

Quebec's municipal governments are classified as regional (upper tier) and local (lower tier). Local municipalities cover a variety of organizational structures. There are 1 090 local municipalities – 200 cities and



towns, 890 other municipalities called township, united township, parish, municipality, and village. In addition, there are 96 unorganized territories, 30 Indian Reserves, 14 northern villages north of the 55th parallel, eight Cree villages, and one Naskapi village. As well, each local municipality is a member of an urban or regional municipality. Specifically, there are two urban communities (Montreal Urban Community and the Quebec Urban Community) whose responsibilities include land use planning, establishing a tax base sharing program, determining and financing regional facilities, infrastructure, activities and services. In addition, there are 86 regional county municipalities that bring together all urban, rural and unorganized municipalities within their boundaries and whose responsibilities deal mainly with regional development and property assessment. Finally, there is the Katimavik regional administration covering northern municipalities and villages, the Naskapi village and one unorganized territory. This regional structure is responsible for a wider range of services including policing, transportation, water and sewerage, solid waste disposal, communications, training and use of manpower.

### Ontario

There are three types of municipal government structures in Ontario – a two-tier county system, a two-tier regional system and a single-tier. All three forms of government are found in southern Ontario, while most northern municipalities are organized as single tier governing units. Following the provincial election of 1995, the province initiated a series of municipal amalgamations and annexations. From July 1996 to January 2004, the number of municipalities in Ontario fell by 370 (from 815 to 445) and the number of locally elected councillors declined by more than 2,800 politicians.

At the moment, there are 22 counties, 6 regions and 417 Cities, Towns, Villages, and Townships. As well, there are 36 Consolidated Municipal Service Managers (CMSMs) in the south and 11 District Social Service Administration Boards (DSSABs) in the north delivering Ontario Works (workfare), social services including child care, social housing, health prevention programs, and land ambulance. Counties and regions only exist in southern Ontario. Cities and towns located within a county that are not part of the county system and do not contribute taxes to the

county are referred to as single tier municipalities and are responsible for the provision of all municipal services to their residents. There are no single tier municipalities in regions.

Historically, lower tier municipalities (towns, villages and townships) within counties provided the majority of municipal services while lower tiers in the regions had fewer responsibilities. To illustrate, police, water, sewer, and solid waste disposal were generally the responsibility of the lower tier in counties and the upper tier in regions. The relative importance of the upper tier versus the lower tier for service responsibility changed substantially in the late nineties for two reasons. First, in 1998, the province transferred increased funding responsibilities to the upper-tier level of municipal government (social services, workfare, 50 percent of land ambulance, public health, and provincial highways, for example); and second, an acceptance by many provincial, if not local, politicians that economies of scale and cost savings could be achieved if a number of services that had traditionally been the responsibility of the lower tiers were transferred to the upper tier – roads, police, some emergency services and solid waste management. The result of this was to leave lower tiers with considerably less spending responsibility than it had in the past. Specifically, most regions were left with responsibility for services that absorbed between seventy and eighty cents of every municipal tax dollar and area municipalities were left with the remaining twenty to thirty cents. For counties, this split in tax dollars was roughly even.

In the mid-1990s, the province announced its intention to have fewer municipalities in the province. To achieve this, the province openly stated that municipalities must restructure on their own or else the province reserved the right to do it for them. Furthermore, for those municipalities that voluntarily restructured, the province would provide them with one-time grants to cover the transitional costs of restructuring. The elimination of 370 municipalities was a combination of voluntary amalgamations and provincially imposed amalgamations. Many of the amalgamations involved single tier annexations in Northern Ontario (two or three contiguous municipalities merging) and many involved the amalgamation of a number of lower tier municipalities while retaining the upper tier in

county systems in Southern Ontario. The more publicized and frequently mentioned large scale amalgamations creating a number of new single tier municipalities include the following:

- On January 1, 1998, the region of Metropolitan Toronto plus six area municipalities became the City of Toronto (provincially imposed amalgamation).
- On January 1, 1998, the county of Kent and twenty lower-tier municipalities plus the City of Chatham amalgamated to become the single tier municipality of Chatham-Kent (provincially imposed amalgamation).
- On January 1, 1998, ten lower tier municipalities in Prince Edward County plus the county level of government were replaced with a single tier structure (voluntary amalgamation).
- On January 1, 1999, six lower tier municipalities (but not the City of Brantford which remains a separated city) in Brant County plus the county merged into a single tier municipality (voluntary amalgamation).
- On January 1, 2001, the former region of Hamilton-Wentworth and six lower tier municipalities amalgamated to become the City of Hamilton (provincially imposed amalgamation).
- On January 1, 2001, the former region of Ottawa-Carleton and eleven lower tier municipalities amalgamated to become the City of Ottawa (provincially imposed amalgamation).
- On January 1, 2001, the former region of Sudbury and seven lower tier municipalities amalgamated to become the City of Greater Sudbury (provincially imposed amalgamation).
- On January 1, 2001, the former County of Victoria and eighteen lower tier municipalities became the City of Kawartha Lakes (provincially imposed amalgamation).
- On January 1, 2001, two new single tier municipalities were created out of the former region of Haldimand-Norfolk plus its six lower tier municipalities (provincially imposed).

Recent changes to the Municipal Act have provided municipalities with more power and autonomy, and less stringent provincial controls in setting by-laws and conducting local business. It did not, however, give

municipalities access to additional tax sources and did not take back some spending responsibilities that are in the provincial domain elsewhere and should be in Ontario. At the same time, the city of Toronto has been accorded special status. This grants Toronto special powers that are not available to other municipalities in the province – more power to legislate, raise revenues, and organize itself for service provision.

### Manitoba

There are two types of municipalities – rural and urban. Urban municipalities include incorporated cities, towns and villages except for Winnipeg which has its own Charter giving it more power than the other municipalities. Some rural municipalities contain local urban districts, which are not politically independent, but which develop service plans for the urbanized areas they represent.

There are currently 116 rural municipalities (with 71 local urban districts), 21 villages, 51 towns, nine cities, and two local government districts with provincially appointed resident administrators. In addition, there are 50 northern affairs communities (47 unincorporated and 3 incorporated). Within the rural municipalities, there are a number of incorporated cities, towns and villages that are politically independent of the rural municipal councils.

Unlike other provinces, the provincial government has a separate Department of Urban Affairs solely responsible for Winnipeg. This separate department recognizes Winnipeg's size relative to other municipalities, its strategic importance and certain unique interests. The Department of Rural Development provides transfers to municipal governments outside the City of Winnipeg. For these municipalities, a new *Municipal Act* emphasizing less provincial regulatory activity and more local autonomy was proclaimed on January 1, 1997. For example, provincial approval of annual budgets was eliminated and new authority was provided for municipalities to form and invest with the municipal finance authority – a province wide body set up for raising money for municipal infrastructure funding.

## Saskatchewan

Saskatchewan has three basic municipal structures; northern, rural and urban. Urban municipalities are incorporated under the *Urban Municipality Act* except for the City of Lloydminster which has its own charter. There are 487 urban municipalities made up of 289 villages, 145 towns, 13 cities, 39 resort villages, and one district. There are 296 rural municipalities incorporated *under The Rural Municipality Act* and 169 organized hamlets which are not incorporated. The *Northern Municipalities Act* has established organized municipal governments in 24 of 35 recognized northern communities. The remaining eleven unorganized communities as well as the unorganized remainder of the northern administration district outside of community boundaries are under provincial jurisdiction.

Saskatchewan's municipal system consists only of one-tier municipalities. As well, there are no multi-functional regional special purpose authorities. Instead, there is a wide range of single-function special purpose authorities including regional health authorities, regional educational authorities, regional transportation planning authorities, regional land-use authorities, watershed authorities, regional economic development authorities, emergency planning authorities, regional park authorities, and regional library authorities. This abundance of special purpose bodies has created a highly fragmented local government system and created noticeable problems for accountability, efficiency, and effectiveness in local service provision.

All municipalities essentially operate under the same provisions in the Municipal Acts. There are, however, considerable differences among many of them in both the nature and scope of functions actually performed. Differences are generally linked to the type and size of municipalities. Rural municipalities and very small municipalities tend to perform very limited functions related to the provision of basic infrastructure services (i.e., roads, water, waste management, etc.). Medium and larger municipalities generally perform a broader set of functions not only related to basic infrastructure services but also related to protective services (i.e., policing and fire); community services (i.e., recreational and cultural services); land use planning and development services; and economic

development initiatives. Not surprisingly, the most diverse and extensive range of functions are performed by the cities.

### Alberta

The *Municipal Government Act* provides for urban (cities, towns, and villages) and rural (municipal districts and special areas) municipalities as well as specialized municipalities, summer villages and improvement districts. There are 16 cities (a city can be formed when population is 10,000 or more), 109 towns (can be formed when population is 1,000 or more), 102 villages (can be formed when population is 300 or more), 64 municipal districts, three special areas, 51 summer villages, seven improvement districts, and four specialized municipalities. These special areas were created because of severe drought conditions and they are located on the eastern boundary of the province and are managed by an incorporated board under the jurisdiction of the Department of Municipal Affairs. Specialized municipalities are in place where the province has decided that the existing municipal structure does not meet residents' needs. Finally, there are a number of Metis (aboriginal) settlements and a broad range of special purpose bodies.

Relatively recent initiatives include a new *Municipal Government Act* (1994) that gives municipalities 'natural person' powers that broadly enables them to exercise a wide range of permissive powers. Although these changes are generally viewed as among the most progressive in Canada, critics have argued that they do not amount to a fundamental change of the Alberta Constitution and many municipal powers and actions still require provincial approval.

Municipalities in Alberta generally provide a wide range of local services with cities and towns providing more services than their rural counterparts. Inter-municipal or joint use agreements, or service boards, or special purpose bodies are often used for service provision that crosses municipal boundaries. These are discussed in Section C below.

### British Columbia

About 1.3 percent of British Columbia's total area is incorporated municipally into a two tier structure. The upper tier is referred to as a regional district of which there are 28. Within these districts are a number

of incorporated municipalities including 47 cities, 47 districts, 15 towns, 42 villages, one Indian Government District (Sechelt), one island municipality (Bowen), one resort municipality (Whistler), and three townships. In addition, there are 164 unincorporated Regional District 'electoral areas'.

All incorporated municipalities provide a range of services to their residents and fund these services through a combination of provincial grants, property taxes, user fees and a miscellaneous collection of other locally generated revenues. Regional districts are responsible for delivering services to areas outside of municipalities with service responsibilities set by the province and varying from district to district. These districts, however, frequently combine with neighbouring municipalities to provide services across a wider geographical area. Regional districts do not tax. Instead, they requisition funds from the areas consuming the services - from municipalities for services used in these municipalities and from provincial property taxes (province levies the tax on district taxpayers) for services provided outside of municipalities.

Recently, the provincial government developed a Community Charter that is designed to give communities the powers, freedom, and resources to make decisions locally. The Charter is intended to create a partnership between municipalities and the province where municipal councils will be responsible for community governance and the province will be responsible for matters of provincial public interest. This has permitted municipalities to become more self-reliant by giving them more autonomy, independence, new powers and better financial tools for governing communities and delivering services. As well, it has created a new accountability framework for citizens to ensure citizen accessibility and accountability.

### Summary

The range and diversity of municipal government spending responsibilities tends to be greater than the range and diversity of municipal governing structures. In most provinces, municipal governments have little if any spending responsibilities for social services. In Ontario, this is an important local government responsibility. In Newfoundland, police protection is a provincial responsibility, whereas in others, it is the

responsibility of local government. In general, municipal governments everywhere are responsible for the more traditional municipal services including fire protection, local roads and streets, public transit, street lighting, sidewalks, water, sewerage, solid waste collection and disposal, local planning, parks and recreation, and local libraries.

Municipal structures may be classified as single tier or two-tier with the former showing very little variation from province to province and the latter showing some variation. All provinces but one, have some kind of two tier structure for some, if not all of their municipalities. Most provinces, however, have a mix of single tier and two tier systems.

In a single tier structure, each municipality is responsible for all services. In a two tier system, the upper tier may be referred to as a county, region, or district level of government with responsibility for a distinct set of services and its own elected council. Alternatively, the upper tier may be an elected or appointed special purpose board, body, or agency with responsibility for providing specific services over a geographical area that is beyond the borders of any single lower tier jurisdiction. In some cases, it may be mandatory that the special purpose body provide services across a wide geographical area; in other cases, it may be voluntary in the sense that the lower tiers can choose whether they want to provide the service themselves or assign service responsibility to the Board. Regardless of the design of the upper tier structure, the lower tier has a separate governing jurisdiction for each municipality that is part of the upper tier. It also has responsibility for a range of services, some of which may shared with the upper tier and some that are not shared with the upper tier.

### **4.3. Structural Options**

In evaluating municipal government structures and trying to determine what might be of use for Russia, emphasis should be on discussions of responsibility for setting policy and determining funding. It should not be on delivery (*Batley, 2001, p 202; and World Bank, 1994*). Services may be delivered in a variety of ways – by the municipality itself, by purchasing from another governing jurisdiction, by a special purpose body, by contracting out, and so on. Furthermore, it must be mentioned that a de-



sirable governing structure for one municipality or a group of municipalities may differ from a desirable structure for another municipality or another group of municipalities. For example, the governance structure for a large metropolitan area or an area where there is a mix of contiguous rural and urban areas very likely will differ from the structure for non-contiguous, sparsely populated, municipalities in remote areas (*Bird and Slack, 2004; Kitchen and Slack, 2006*).

Governing structures, as the previous section noted, generally revolve around three possible options. The most common type of municipal structure is the two-tier system. This is made up of a number of lower tiers or area municipalities – cities, towns, villages, and townships – and an upper tier that may be called a county, region or district. Here, the lower tier assumes responsibility for specific services, although this varies from province to province and sometimes from municipality to municipality within a province. For some services, lower tiers rely on inter-municipal agreements (fire and roads being the most common). The upper tier is responsible for the remaining services and generally, because of its geographic area, is more self-sufficient and much less dependent on inter-municipal agreements.

A second type, although less common, is a large single tier structure. Here, each municipality is responsible for all services.

A third type of governing structure consists of a number of single tier municipalities with some kind of voluntary cooperation for providing and funding services that spill across municipal boundaries. This is often preferred by officials of smaller municipalities who do not want to become part of a larger municipal unit. Each of these governing units is considerably smaller in size and scale than the large single tier units mentioned above. At the same time, many advocates of this structure support some kind of special purpose body(ies), service board(s) or inter-municipal agreement(s) for services that would otherwise be the responsibility of an upper-tier in a two-tier system.

Each of these options is evaluated in terms of the criteria described in the next section.

#### 4.3.1. Criteria

In designing a municipal governing structure, it should be efficient, accountable, transparent, and easy to administer. If these criteria are met, an effective municipal governing structure should ensue. To achieve this, several criteria may be used (*Slack, 2001*). At the outset, however, it should be mentioned that it will not likely be possible to satisfy all criteria simultaneously and it may not be possible to secure agreement on whether one type of structure or another best meets certain criteria. For example, some individuals might argue that a specific structure adequately controls spillovers while others might argue that it does not. Similar disagreements may exist for the other criteria. Finally, depending on local characteristics and features of the area, criteria that are deemed to be more important in one municipality or part of a country may not be deemed to be important in another municipality or part of the country.

*Controlling spillovers or externalities:* There are at least three ways in which spillovers from municipal services may be controlled. First, the affected municipalities may be combined (amalgamated) into a single tier municipality that is large enough to include all benefits from public services within its governing jurisdiction and large enough to ensure that all costs of government activity are funded by the residents within the jurisdiction. Second, services generating spillovers could become the responsibility of the upper tier level of government in a two-tier municipal government structure. Either structure should ensure that the proper level of service is provided and that all costs and benefits are taken into consideration in reaching decisions on service quantity and quality. Third, spillovers may be controlled or internalized through grants from senior levels of government or from other benefiting local governments, or coordination among the affected municipalities. In reality, neither of these latter two possibilities is likely to be as effective. Intergovernmental grants are declining in most countries and where they are used, they are generally ineffective in capturing spillovers. Fourth, spillovers may be internalized through the use of inter-municipal agreements, special purpose bodies, or service boards. These are seldom 'first best' solutions, however, because they have the potential for being unaccountable, inefficient and ineffective over the long run (see discussion later).

*Economies of Scale:* Economies of scale exist when per unit costs of delivering services decline as the population base increases. As with services generating spillovers, there are two ways in which economies may be realized; either through the creation of a large single tier structure or through upper tier responsibility in a two-tier system. Using economies of scale as a criterion for creating a large single tier government, it has been suggested, creates problems because different services achieve the lowest per unit cost at different scales of operation. Single tier responsibility means that some services may be beyond the most efficient size (diseconomies set in) of municipal structure. For example, the optimal size of government may be different for fire services than for waste management.

In a two-tier structure, economies of scale may be achieved by assigning services displaying economies of scale to the upper tier and the remainder to the lower tier. Service boards or inter-municipal agreements may also handle these services where there is a series of smaller (non-metropolitan) single tier municipalities. Examples where economies of scale are found generally include water, sewerage, major transportation routes, and solid waste management (most of these services have large infrastructure costs).

*Ensuring A Uniform Quantity and Quality of Service:* Provision of a uniform quantity and quality of service (regardless of whether it is mandated by a senior level of government or because it is desired by local residents) across a large geographical area could be the responsibility of a large single tier municipality, or it could be the responsibility of the upper tier in a two-tier governing structure, or it could be provided through some type of voluntary arrangement. Examples include arterial roads, water and sewers, and policing. Failure to provide these services at uniform levels in some municipalities can lead to harmful and costly externalities for other municipalities within the same geographical area.

*Local Preferences:* This supports small-scale, fragmented local governments because they maintain a quasi-market. It results in competition and provides an incentive for efficient, accountable and effective service responsibility because neighbouring municipalities may benchmark service costs with each other. The benefits of competition cannot be dis-

puted. In a two-tier system and when everything else is equal, services that differ because of local preferences should be the responsibility of the lower tier. In a larger single tier system, similar preferences could be captured through the creation of delivery zones and by benchmarking with other municipalities and the private sector where applicable.

*Redistribution of Taxes:* Redistributive issues are also important in designing government structure. Local government fragmentation means that there are likely to be some rich communities and some poor communities. Richer communities will have a relatively large tax base from which to fund services and a relatively low demand for some services (fire and police protection). Poorer communities, on the other hand, may have higher demands for services and a small revenue base for funding these services. One solution would be to consolidate these municipalities into one jurisdiction, in effect taxing the rich municipalities and using some of the proceeds to subsidize the poor municipalities just as is currently done in any municipality where there are both rich neighbourhoods and poor neighbourhoods.

Alternatively, the upper tier in a two-tier structure could have some taxing power that would attempt to tax richer areas to help fund services in poorer areas within any jurisdictional setting. This is akin to the funding of central governments where taxes imposed on taxpayers in some areas of the country are taxed to finance projects or services in other areas. After all, an inherent characteristic of a 'public' service is that it has some income redistributive consequences; that is why it is a responsibility of government and not the private sector.

*Accessibility:* This criterion suggests that citizens should have access to local government so that they can influence government policy. This is done through public meetings, hearings, elections, and direct contacts with officials. Smaller government units, it is often suggested, can provide the average citizen with greater "access" to local politicians, better representation, and better decisions.

This may also be tied in with the subsidiarity principle where it is argued that a service should be provided by the level of government that is closest to the people subject to satisfying the above noted criteria.

*Summary:* The optimal design of government structure may depend on which criteria are to be satisfied. Four criteria (benefiting from economies of scale, controlling externalities, providing services at a uniform quantity and quality, and redistribution of taxes) lend themselves to large government units over a large geographical area; or to provision by the upper tier level of government in a two-tier governing structure; or to the use of voluntary arrangements across a number of single tier municipalities. Other criteria (local preferences and access) point towards smaller government units or a role for lower tier municipalities in a two-tier governing system.

#### 4.3.2. Two-Tier Structure

*What is it?* A two-tier model consists of an upper-tier governing body (usually region, county, district, or metropolitan area) encompassing a fairly large geographic area and a number of lower tier municipalities (including incorporated cities, towns, villages, townships, and possibly unincorporated areas). In designing a two-tier structure, there are two issues that are important – service responsibility and funding; and governance.

*Service responsibility and funding – upper tier.* Within this two-tier structure, the upper tier should be responsible for services that generate spillovers (benefits or costs), that benefit from economies of scale, that are income distributional in nature, and where uniform standards are important across the entire area. *Table 4.4* takes these criteria and uses them in assigning a fairly common range of local public services to either the upper or lower tier. As the reader will observe, most of the responsibilities rest with the upper tier.

On the tax side, tax rates for upper tier services are generally levied at uniform rates across the region/district/area and the contribution of each lower tier municipality to the upper tier municipality depends on the size of its tax base. The larger the tax base in any one municipality, the larger is its contribution to the upper tier government. The result of a uniform property tax at the upper-tier level is a redistribution of resources from relatively large tax base municipalities to relatively small tax base municipalities. Of course, user fees should be used for services where beneficiaries can be identified.

Table 4.4

### Allocation of Expenditure Responsibilities in a Two-tier Model

Function	Upper Tier	Lower Tier	Justification
Welfare assistance	X		Income redistribution; externalities
Child care services	X		Income redistribution; externalities
Social housing	X		Income redistribution; economies of scale; externalities
Public health	X		Income redistribution; economies of scale; externalities
Land ambulance	X		Economies of scale; externalities
Roads and bridges	X		Local versus regional roads
Public transit	X	X	Externalities; economies of scale
Street lighting	X	X	No externalities
Sidewalks		X	No externalities
Water system	X		Economies of scale
Sewer system	X		Economies of scale
Garbage collection	X		Economies of scale; externalities
Garbage disposal	X		Economies of scale; externalities
Police protection	X		Externalities; economies of scale
Fire suppression	X		Local responsiveness; scale economies for specialized services
Fire prevention/training	X		Economies of scale
Local land use planning		X	Local access, responsiveness
Regional land use planning	X		Externalities
Economic development	X		Externalities
Parks and recreation		X	Local responsiveness
Libraries		X	Local responsiveness

*Source:* Enid Slack, “Fiscal Aspects of Alternative Methods of Governing Large Metropolitan Areas”, a paper prepared for the World Bank Institute, Washington, D.C., October 2001, at 17; and reproduced in Bird, Richard M. and Enid Slack, 2004, “Fiscal Aspects of Metropolitan Governance” International Tax Program Paper 0401 (Toronto: Joseph L. Rotman School of Management, University of Toronto), at 69.

*Service responsibility and funding – lower tier.* Here, responsibility should include services that do not have the above characteristics and whose benefits are confined primarily to the local community where residents have a choice over both quantity and quality. Tax rates may vary from municipality to municipality to reflect differences in standards and tax bases. Here, as with the upper tier, user fees should be used where consumers of specific services can be identified.

*Governing Structure.* The governing structure for the lower tier consists of directly elected councillors – sometimes through a ward system (this separates a municipality into a series of defined geographical areas with one or two councillors elected from each area), and sometimes ‘at-large’ across the municipality. Occasionally, there is a mix of both types of elected councillors serving on the same council.

As for the upper tier, there are essentially two ways in which upper tier councils are elected. The simplest, although least common option, is by direct election to the upper tier council. The more common method is for councillors to be elected to the lower tier and by virtue of this, they automatically become members of the upper tier council as well (this is called double direct election). In addition, some upper tier governing councils are made up of a mix of directly elected and double directly elected councillors. A typical example of a mixed council would include a number of directly elected councillors plus the mayors, reeves, or heads of the lower tier municipalities.

Of these two options, directly elected councillors seem to be more progressive and they seem to have a greater capacity for and interest in considering region or area wide interests. These councillors are only elected to one council and they have only that council’s interest at heart.

Double directly elected councillors tend to be more parochial and less interested in region or area-wide issues. Since they were elected to the lower tier council, in the first instance, they frequently treat the upper tier council as a body from which they try to extract as much as they can for their lower tier municipality. They generally have considerably less interest in region or area wide issues.

In designing a two-tier structure it should be done so that is accountable, transparent, efficient, and effective in its operation. At the outset, it must be noted that the upper tier council should be an agency of the electorate and should exist to provide individual residents of the county, region, district, or metropolitan area with a range of services. It should not be an agent of the lower tier municipalities and it should not be a contract agency delivering services on behalf of the lower tiers. Lines of communication and accountability between the upper tier Council and individual residents should be direct and not filtered through local councils.

The objective in creating an effective upper tier governing structure is to disentangle the lines of accountability from the upper tier council to the electorate on the one hand and local councils to the electorate on the other. Upper-tier councillors should represent people, not other governments, and should be responsible for their actions to the electorate, not to other politicians. By clearly differentiating the political structures of the two tiers of municipal government, voters may exercise their judgment of and communicate their needs to the upper tier council independently of any expressions they may wish to make to their local councillors. A clearer demarcation between the two tiers is intended in part to clear up the confusion among voters about responsibilities between the upper tier and lower tier municipalities, an important prerequisite for increased accountability and effectiveness. Local municipalities may protest that the importance of the upper tier Council's decisions to their communities requires that they be represented as municipalities on the upper tier council. That logic, of course, would also require that representatives of local municipalities sit on the governing body of senior levels of government. To be sure, the two tiers must work in a co-operative manner, co-ordinating their efforts so as to achieve effectiveness and efficiency in service delivery. This is an argument for administrative co-ordination, however, not for political intermarriage.

*Strengths and weaknesses.* Supporters of a two-tier structure argue that it permits a division of service responsibility that leads to an efficient, effective and accountable governing structure. The upper tier should be responsible for services that provide region, area or district wide benefits, generates spillovers, entails some redistribution, and displays economies of scale. Services that provide local benefits should be the responsibility of the lower tier.

On the other hand, critics of the two-tier model argue that costs are higher because of waste and duplication. Furthermore, they continue, two-tier levels of government are less transparent and more confusing to taxpayers who cannot figure out who is responsible for what services. Finally, two municipal councils (upper tier and lower tier) are said to lead to considerable wrangling, inefficiency in decision-making and frequent stalling or postponement of the implementation of policies that would



benefit taxpayers across the entire local government jurisdiction (*Artibise, 1999; Kitchen, 1999; and Kitchen, 2000*).

*Where is it appropriate?* While the usefulness of this structure depends on the objectives to be achieved, the breadth of service responsibility, the size and similarity or diversity of the area considered, it is an option that may be appropriate where there are a number of contiguous urban centres, and in metropolitan areas (*Slack, 2001; and Bird and Slack, 2004*), and rural areas around an urban centre. Examples include the Greater Toronto Area (*Slack, 1997; and Slack and Bird, 2004, at 51–52*) and Greater Montreal Area in Canada; London, England (*Bird and Slack, 2004, 53–54*); and Santiago, Chile. None of these municipalities, however, are currently structured as described here.

In remote areas where municipalities are isolated from each other, distances are such that benefits or costs of services provided by one municipality are unlikely to spill over into adjacent municipalities. Similarly, distance between municipalities and their isolation from each other prevents them from benefiting from economies of scale. Hence, the rationale for a two-tier structure at the municipal level in remote areas is far less compelling than it is for larger metropolitan areas or areas where municipalities are contiguous with each other (*Kitchen and Slack, 2006*).

Finally, if local governments are only responsible for a few services such as local streets, sidewalks, street lights and if these services are not income redistributive in nature and generate no spillovers, a two tier structure may be inappropriate. Local responsibilities could be handled by a single tier of local government.

#### *4.3.3. Large Single Tier Structure*

*What is it?* Large single tier governments in Canada have been created by merging (through amalgamations or annexations) a number of smaller lower tier municipalities within an existing county, region, district, or metropolitan area into one municipality or by amalgamating a number of separate contiguous single tier municipalities into one large municipality. Since there is only one level of municipal government across the entire geographical area, all municipal services become the responsibility of this newly created municipality and it is responsible for all municipal taxes

and user fees. As well, there is only one political body responsible for making all policy decisions.

*Strengths and weaknesses.* Consolidated single tier governments, it has been argued, are more coordinated in service delivery, have clearer lines of accountability, more stream-lined decision making processes, and greater efficiency in service delivery. They provide a fairer base for funding services whose benefits spread across the entire area and they have greater ability to borrow and to recover operating and capital costs from user fees and local taxes (*Bahl and Linn, 1992*).

Critics of large single tier municipalities (*Sancton, 1996 and 2000; Bish, 2001; Slack, 2000*) argue that this structure reduces competition between municipalities, leading to higher costs because there is less incentive to be efficient and responsive to local needs. Second, it is claimed that the least costly and most efficient size of government may differ for different services; that is, efficiency and cost savings may be different for roads than for fire or police or recreation. In other words, some services will benefit from economies of scale if assigned to larger units of government while others will incur diseconomies of scale. Third, for services whose benefits are entirely local in nature, local preferences may not be reflected in the quantity and quality of service provided. For example, services provided to rural and tourist areas should not be included in the same governing structure as urban areas because the range and level of services may be different. Fourth, the area is too large and citizens are removed from their local politicians leading to a reduction in accountability.

Concerns such as these are important but most of them are concerns with the cost of delivering services and not specifically with the governance structure. For example, competition can be secured through greater use of alternative service delivery vehicles such as 'contracting out' and creating delivery zones within a municipality. Further improvements could be secured through effective monitoring including performance measures and benchmarking.

In reply to the criticism that the opportunity to differentiate service levels to reflect local preferences will not be possible, single tier responsibility does not mean that all services need to be provided with uniform

standards and service levels across the entire area. Differentials in both service levels and funding could exist to reflect differences in the range and level of services – urban versus rural, neighbourhood versus neighbourhood, for example. In fact, differential service levels should be funded through area rates, special charges and user fees (*Kitchen, 2001*). The recently amalgamated Regional Municipality of Halifax, Nova Scotia, Canada, has a large number of different tax rates to reflect differences in service levels. It might even be argued that service level differentials could be captured more easily in a large municipality than in the pre-amalgamated municipalities as long as the former is able to establish seamless service areas that are not restricted by the original municipal boundaries.

Furthermore, designing a municipal structure to capture variations in local preferences (particularly for municipalities around a major urban centre or a series of smaller urban areas adjacent to each other) may be less relevant today than it was at one time. Population growth and its subsequent sprawl have, in many places, melded what were noticeably distinct municipalities into larger, more integrated and cohesive communities with far fewer differences than previously existed. A growing tendency for people to live in one jurisdiction and work in neighbouring jurisdictions has effectively removed most inter-municipal differences attributed to local preferences and produced a levelling out of citizen expectations for both the quantity and quality of public services provided across all municipalities. Requirements of senior levels of government that municipalities meet specific service standards (social services, social housing; fire prevention, training and education; building and fire inspections, and by-law enforcement; and so on) have, in many instances, removed the opportunity for municipalities to provide services with different standards.

Arguments that rural and tourist areas should be excluded from urban areas in any governing structure may also be unrealistic and impractical. Urban areas are the focal point for most economic, recreational and social activity across a large geographical area. Consequently, the governance of urban centres revolves around the need to maintain a coherent balance among policies for the entire area. Urban growth can enhance or restrict

the area's economy. Transportation issues impact on the rural area as much as the urban area. Provision of social services and social housing for the rural and urban area alike must be shared across the entire region to prevent the migration of recipients to the urban centres leaving them with the task of paying the entire bill. Region or area wide land use planning is important if the rural and tourist communities are to retain their identity and resist the temptation to urbanize in order to capture increased property assessment and more property tax revenue. Area-wide environmental protection practices are essential if some municipalities are to prevent their neighbours from ignoring their environmental responsibilities. Rural areas around an urban centred jurisdiction generally have better arterial roads, more recreation programs, enhanced library services and better fire protection and safety standards, to name only a few, when compared with municipalities that are not part of an urban/rural governing structure (*Church, 1999*).

The claim that larger governing units are likely to be less accountable and more costly (less efficient) has created many hotly contested discussions and disputes. In terms of accountability, it has been suggested that large-scale, one-tier governments reduce access and accountability because the jurisdiction is too large and bureaucratic. To alleviate this concern, satellite offices and community committees have sometimes been established to address neighbourhood issues. If properly structured, residents can pay their local tax bill, apply for building permits, and so on at these offices. This has been the practice in recent large single tier amalgamations in Ontario, Canada. The success of these, however, is uncertain - they may increase accessibility but it is not clear how they impact on accountability. Furthermore, they could remove potential cost savings that might result from a larger government unit.

In terms of efficiency improvements that lead to cost savings, the evidence from municipal amalgamations is controversial. Perhaps the best way to address this is to attempt to answer two questions. First, could cost savings emerge? Second, have costs fallen in recently restructured municipalities? For the latter question, reference will be made to recent Canadian experience.

*Could cost savings emerge?* The answer is yes, but will they? They might, but they might not! Ultimately, it will depend on the decisions made by the politicians elected to the council of the newly structured municipality. If the new municipal council decides to retain all former employees and if it continues to 'do business' as in the past, it is unlikely that cost savings and tax reductions will be experienced. Similarly, if the amalgamation brings together municipal employees that previously received differing levels of compensation, the tendency to level up may negate any cost savings from restructuring. If, on the other hand, politicians are innovative and willing to change and 'do business' in different and innovative ways, and if they are resistant to levelling up, costs could fall and average tax rates could decline.

*Have costs fallen in recently restructured municipalities in Canada?* This has become a highly controversial issue and one that is difficult to pin down. Critics of amalgamation have argued that restructuring will not lead to cost savings (Sancton, 1996 and 2000; Bish, 2001; Slack, 2000, at 24) and they sight a variety of international studies to support their position.

A major concern with many of these studies, however, is that they do not hold everything else constant. For example, amalgamations in Ontario, Canada came at a time when the province downloaded increased spending responsibilities to municipal governments. Separating out the additional cost of increased service responsibilities from potential savings of amalgamation has not been easy and not been carefully done. In other words, the evidence is not persuasive. Neither do these studies hold service levels constant. Following an amalgamation, parts of the newly amalgamated municipality often get more and better services. Failure to standardize the before and after cost comparisons by holding expenditure responsibilities and service levels constant can provide misleading conclusions. Finally, the critics never suggest that more municipalities be created (that is, more than before the amalgamation) – a logical and symmetrical extension to their argument – in the pursuit of lowering service costs. In other words, why should one believe that the size or number of pre-amalgamated municipalities was optimal and that by creating

fewer municipalities, we have moved away from the optimal number. What is the benchmark for optimality?

Some financial reports and other publicly provided municipal documents from recently amalgamated municipalities in Canada have attempted to separate the cost impact of amalgamation from the cost impact of downloading and other factors that have changed over time. Their conclusions differ from those of their critics, however. For example, a financial review of the first three years of the single tier amalgamated municipality of Chatham-Kent (created in 1998) suggested that annual net savings due to restructuring amounted to \$6.8 million or 13 percent of 1997 taxes. This did not translate into a tax decrease because the province, at the same time, downloaded an additional \$7.1 million in funding responsibility and the municipality was able to generate an additional \$325 000 in other revenue. Overall, this produced a zero tax increase through the first three years although taxpayers in some former municipalities experienced decreases while taxpayers in others experienced tax increases.

The new City of Toronto, Canada, (also created in 1998) claimed that annual savings from amalgamation by the end of the third year (2000) amounted to \$136.5 million. Cumulative amalgamation savings from 1998 to 2000 were estimated to be \$305 million (*Toronto, 2001, at 19*).

Where amalgamations have equalized services to a higher level, this harmonization may not be bad. If some municipalities could not afford an adequate level of service because they did not have adequate resources, amalgamation has permitted them to provide service levels comparable to other municipalities in their area. This is a benefit if it creates a fairer tax base for sharing service costs that benefit taxpayers across a wider geographical area.

Supporters of large single tier municipalities in certain areas, but not everywhere, argue that improvements in economic efficiency (cost savings because of fewer politicians, more efficient service delivery, less bureaucracy) arise from the removal of administrative duplication; pooling of insurance; lower input prices associated with greater purchasing power; and greater scope for using sophisticated and specialized technical equipment. Second, all spillovers or externalities would be internalized (*Slack, 2001*). Third, clearer lines of responsibility may lead to more ac-

countability because there is only one level of municipal government and taxpayers know who is responsible for the vast array of local services. Fourth, better service coordination and more streamlined decision-making could emerge because there is only one municipal council instead of two (*Boyne, 1992, at 333*). Fifth, funding fairness in the provision of municipal services occurs because there is a wider tax base responsible for sharing the cost of services benefiting taxpayers across the entire area. The larger taxable capacity of a one-tier government increases its ability to borrow and recover capital and operating costs from user fees (*Bahl and Linn, 1992, at 415*).

Finally, a single tier may be more effective at providing an environment in which the business community and residents are able to meet and adapt to the challenges of the new economy and to compete effectively on the provincial, national and international scene. In particular, a single tier municipality can more efficiently and effectively work towards a uniform and improved physical (highways and roads, road, water, sewer and electricity) and social or recreational (parks, recreation, libraries) infrastructure. It can eliminate the inefficient and wasteful competition that frequently exists when one municipality competes with others to attract economic development away from neighbouring jurisdictions without recognizing that it matters not where the new development locates or expands because everyone in the wider area benefits. A single tier region-wide level of government could have the financial strength (base) to accept new responsibilities and to implement cost-sharing equity for those services that benefit all residents of the area. As well, a single tier municipality may more effectively initiate policies that avoid social decay and environmental degradation that frequently surfaces in an area fractured by a number of separate governing units.

*Where is it appropriate?* While large single tier municipalities currently exist and are an option in highly urbanized areas and in areas that are a mix of rural and urban, they are only ever created when the pre-amalgamated municipalities are adjacent to or contiguous with each other. They do not exist and would not be appropriate in remote areas.

*Reaction or response to amalgamations*, especially large scale amalgamations, has come from four groups; first, provincial members of par-

liament; second, locally elected councillors and some local government administrators; third, local residents; and fourth, a few policy analysts. At the outset, it should be noted that in each of these groups, only a small proportion of the group expressed an opinion, but many who did were certainly outspoken and passionate in their comments.

For the most part, provincial politicians have supported amalgamations, perhaps because municipalities are ‘creatures’ of the province in the Canadian Constitution and provinces have the power to control most municipal activities including structure. Local government officials have been mixed in their views with as many supporting it as there are who oppose it. Local residents, or a small percentage of them who paid any attention to amalgamation, were strongly opposed, predicting serious and severe consequences for all kinds of things if the amalgamation proceeded. As it turns out, these concerns, which were generally based on fear-mongering, have not been substantiated in any meaningful or consistent manner. Life continues and residents seem happy! The new jurisdictions continue to deliver local services and residents have experienced fiscally sustainable, vibrant, and healthy communities. Policy analysts seem to have become enmeshed in the issue of whether or not cost savings have been achieved. This, however, has turned out to be a ‘red herring’. It has not been possible to separate clearly and unequivocally, the cost impact of amalgamation from the additional cost of provincially downloaded services which happened simultaneously, from the impact of having a wider range and higher quality of local services in some parts of each newly amalgamated municipality. In short and as noted earlier, nothing substantial can be concluded from the debate over cost savings.

For most large scale amalgamations, a number of concerns were expressed. These tended to be the same everywhere. Those most commonly mentioned are reported here. First, many residents and local politicians suggested that amalgamations would lead to a loss in local identity. That is, if a number of small municipalities are amalgamated together to form a larger city, the identity of the smaller municipalities would be lost. As it turns out, this has not happened. Each of the former municipalities has retained its name within the larger incorporated area. Within the City of Toronto, for example, North York continues to be North York, Scarbor-



ough continues to be Scarborough, East York continues to be East York, and so on. This is true for the other large scale amalgamations as well.

Second, there was considerable concern on the part of taxpayers that they would have to pay for services that did not benefit them or were not accessible to them. This is an important concern. The way that it has been handled is to adopt area rating (different property tax rates applied to different parts of the city depending on services provided) and specific charges or user fees for services that benefit specific individuals or properties. This has effectively eliminated this concern.

Third, a lot of concern was expressed by residents of rural communities that they did not want to merge with urban communities under the same governing umbrella. This marriage would not work, it was alleged, because the differences are so great that they could not be accommodated. As it turns out, this has not been a serious concern, primarily because the property tax rate on rural properties covers the cost of services used by rural properties, and the property tax rate on urban properties covers the cost of services used by urban communities. Furthermore, the issue of whether or not rural and urban areas should be included in the same governing jurisdiction is not new. Many large cities and two tier governing structures that have not experienced recent amalgamations have had large tracts of rural and urban properties under the same governing umbrella for some time and it has worked well.

Fourth, a major concern was whether cost savings (discussed earlier) was the only rationale for restructuring? The short answer to this question is no! Obviously, cost savings are important but there is at least one other valid reason for restructuring and that is to create a fairer tax base for sharing the cost of those municipal services whose benefits spread across the entire governing area.

Fifth, people were frequently concerned that an amalgamation would reduce local residents/taxpayers access to local politicians. While access may be worse than before, this is not the same thing as saying that the political system is worse. Accessibility, effectiveness and the quality of the representation system depends on the quality of elected officials and not numbers or location.

Sixth, many residents and local politicians spoke of the importance of maintaining volunteerism within each local community. Volunteerism is an important and essential ingredient in the vitality and life of communities and should not be discouraged. The question that must be asked is whether the level of volunteerism is driven by the governing structure of the municipality. There is no evidence to suggest that this is the case. Volunteerism is determined by communities of interest and these communities have continued under the new governing structure.

Seventh, a major concern of many residents and politicians revolved around what would happen to the assets and liabilities of former municipalities after they merged or amalgamated. This issue has been resolved in the following way. All accumulated reserves, reserve funds and development charge funds remain with the taxpayers in the municipality that created them. These funds are then applied to their former municipality's share of future capital costs within the newly amalgamated municipality. Similarly, after amalgamation, the existing debt of a municipality (except for municipal buildings which are shared across all municipalities) remains with property owners in that municipality's original boundaries. It is not transferred to the property owners of the other municipalities within the amalgamated area.

In summary, most of the pre-amalgamation concerns have disappeared. Except for a minority of locally elected councillors (those that are still hanging around from the pre-amalgamation days) and a small percentage of the population (generally, older people), the rest of the people have embraced these new communities. Every once in a while, however, this small minority (identified in the previous sentence) tries to turn back the clock and return to the old days. Fortunately, their attempts have been rejected by the vast majority of residents who simply want to move forward. One exception to this has been the City of Montreal where some de-amalgamation has occurred. The issue here, however, had more to do with the English/French factor than with arguments against amalgamation based on economic and structural issues.

#### *4.3.4. Smaller Single Tier Structure*

*What is it?* Here, there is no formerly constituted upper tier council as it is currently known in the two tier structures and there are no large sin-

gle tier municipalities such as those resulting from large scale single-tier amalgamations. Instead, this structure consists of a number of single tier municipalities with some kind of area-wide body based on voluntary co-operation or participation for services that spread across municipal boundaries. Although this area wide body does not include an elected, area wide government, it is intended to recognize the inter-relationships of all municipalities within a given area (*Bird and Slack, 2004, at 13*).

Such structures are common in the United States. They take the form of consortia, communities of communes, urban communities (France), joint inter-municipal authorities (Spain and Belgium), public bodies, joint agencies and core cities (the Netherlands) (*Bird and Slack, 2004; Hermann et. al., 1999*). These bodies are ways of providing services across a wider geographical area without resorting to amalgamations or annexations.

*Strengths and weaknesses.* As a starting point, the case for and the case against this option should be noted. The arguments listed here compare the multiple single tier option with the single tier for a large geographical area.

The case for multiple single tiers rather than one single tier tends to be as follows. Each municipality's smaller geographical area improves accessibility, democracy and accountability to taxpayers. It should be more sensitive to local preferences by recognizing urban and rural differences and historical ties. It more easily permits communities of interest to have different standards and levels of service. There is less of a tendency for 'levelling up' of municipal service costs. The existence of multiple municipalities should provide a more competitive environment and an improved incentive for each of them to be more vigilant in controlling their costs. Finally, there is a greater opportunity to 'benchmark' specific service costs across municipalities.

Multiple single tiers are generally criticized because of greater duplication and higher costs created by a number of basically identical administrative structures. This structure would require more politicians and staff. It could lead to wasteful, expensive and inefficient competition when municipalities compete against each other in efforts and programs to attract new business and development. For some services, it would not

be able to take advantage of economies of scale without some kind of inter-municipal agreement, special purpose body or upper tier governance unit.

When one weighs the arguments for and against the option of having multiple single tier municipalities, some of them are more substantial than others. The jury is out on whether or not one gets *better* representation under the multiple single tier alternative; certainly, one might get more representation. While it may also be true that multiple municipalities could better capture local preferences, the requirement that municipalities adhere to standards set by senior levels of government, the importance of controlling spillovers, and the opportunity to benefit from economies of scale suggest that there are very few services where local preferences are strictly confined to smaller municipalities (see *Table 4.3*).

The argument that multiple municipalities would be more likely to prevent 'levelling up' should be addressed. As suggested earlier, there may be very good arguments for improving service levels. In addition, the proximity of multiple single tier municipalities to each other suggests that levelling up under this option is unlikely to be any different than any potential levelling up that might emerge under one municipality for a much larger area. Arguments that multiple municipalities would provide a more competitive environment and a better opportunity to 'benchmark' are really arguments for the way in which services are delivered and not necessarily for the governing structure as noted earlier.

Having argued that competitive forces are important in securing efficiency gains and saving costs in delivering municipal services, there is one area in which inter-municipal competition is often wasteful, costly and unproductive. It is in expenditures on economic development and tourism (*Kitchen, 1985*). For example, each municipality does what every other municipality of a comparable size does and that is, it initiate policies and programs designed to attract more economic activity through expanded development and tourism. Situations such as this where municipalities compete with each other work against area-wide interests and undermine the ability of the entire area to speak with a single identifiable voice. This type of competition is prone to generating conflict rather than co-operation. It is a major concern that should not be treated lightly, es-

pecially in a rapidly changing and global economy where the importance of co-ordinated and integrated policies cannot be understated (*O'Brien, 1999, at 35*). Indeed, creating a co-operative and co-ordinated working environment for economic development was a major driving force behind the creation of the amalgamated Regional Municipality of Halifax, Nova Scotia, Canada.

Additional problems may also be encountered in this structure. How do taxpayers benefit from services that provide area wide economies of scale or how are spillovers internalized? The general response is that these concerns can be resolved through the judicious use of inter-municipal agreements or special purpose service boards or commissions such as is used in the Metropolitan zone around Mexico City (*Raich, 2004, at 61*). While these are used, they are frequently second-best solutions as is noted below

#### Inter-Municipal Agreements

Inter-municipal (joint-use or joint-service) agreements create the potential for serious problems. For instance, at some point in time, difficulties generally emerge and problems almost always surface with these arrangements. The municipality buying the service generally becomes upset with the cost and suspects that it is being overcharged, particularly with respect to overhead. The municipality selling the service frequently develops concerns because it does not feel that it is fairly compensated (*Kitchen, 2002, at 317–318*). Discontent with these agreements tends to be greater than it should be. In reality, inter-municipal agreements are all too frequently a 'second best' solution for they lead to a jungle of 'ad hoc' and complex arrangements that even the most conscientious municipal voter has trouble understanding. They can reduce local accountability and lead to inefficiency and ineffectiveness in service responsibility.

#### Service Board(s)

Another suggestion for handling area wide services involves the creation of a service board or service boards. The Province of Ontario, for example, established the Greater Toronto Area Services Board (across a number of two tier governing jurisdictions and responsible for regional transit, mainly) in the 1990s and abolished it in the fall of 2001. A service

board has a single purpose or objective; that is, it is responsible for making policy decisions and delivering a specific service or bundle of services (public transit, or water, or economic development, or other utility type services, and so on) for a group of local governing jurisdictions that are adjacent to each other but which are not large enough, on their own, to benefit from economies of scale and to effectively deliver this service or these services because they could not internalize spillovers or externalities.

*Table 4.5* provides a brief discussion of the voluntary service board that exists in the Greater Vancouver Regional District (GVRD) in Canada and notes some of its deficiencies as a governing structure.

A service board is like a two-tier system of municipal government. In many ways, however, it is inferior to the type of two tier governing structure discussed above. While advocates of the service board concept are generally uniform in their view that the service board's role is to provide and sell services to area municipalities, this is where uniformity and consistency over their responsibility and operation stops. For example, views differ on the services for which these boards should be responsible (social services, arterial roads, police, public transit, water and sewer, solid waste management, major roads and highways, planning and economic development, and so on); whether or not they should be structured as a special purpose body or bodies (as many are in the United States) whether they should continue as local governing units; how they should be governed (appointed or elected officials, and if elected, should they be directly elected or indirectly elected); how they should be financed (taxing authority or not); and whether or not the purchase of services by the area municipalities from the service board should be voluntary or compulsory. The following discussion illustrates the kinds of problems they pose.

*Table 4.5*

### **Greater Vancouver Regional District (GVRD): An Example of Voluntary Cooperation**

<p>The GVRD is a two tier system of local government which includes 1.8 million people and is made up of 18 municipalities and three unincorporated areas. The GVRD was created in 1967 to improve municipal cooperation in the Vancouver city-region without adding another layer of local government. Its major responsibilities include land use planning, borrowing for municipalities, air pollution control, parks, solid waste disposal, public housing, collective labour relations and public transit.</p>
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The governing body of the GVRD consists of municipal representatives who are elected to their local councils and then appointed by their respective governments to the Board of the GVRD. Member municipalities can opt out of many district functions, and the district provides different services for different areas, especially for unincorporated areas.

The advantages of this model are that it preserves local autonomy, diversity, and the distinct identity of its member municipalities. Problems have arisen, however, because the GVRD has no authority to implement policies and municipalities are not required to respect the wishes of the GVRD. The system has been ineffective in ensuring that region-wide concerns are taken into account in local decisions. No one speaks for the region – the GVRD only does what it is delegated to do by its member municipalities. Finally, the voluntary nature of the GVRD has led to an inequitable sharing of the costs of some services. For example, for services that benefit the entire area (cultural and recreational facilities, and municipally funded social services) but are located in the urban core, they are funded entirely by taxpayers in the core (City of Vancouver), rather than by taxpayers across the entire region. For services such as water and sewers where specific beneficiaries can be identified and their consumption measured, financing is fair and equitable across the region.

*Source:* Summarized from the following – Bird, Richard M. and Enid Slack, 2004, “Fiscal Aspects of Metropolitan Governance” International Tax Program Paper 0401 (Toronto: Joseph L. Rotman School of Management, University of Toronto), at 55–56.

*Service Responsibility:* To satisfy the criteria for optimum service responsibility in a two tier structure, there is no conceptual basis for assigning services to the service board in a different fashion than one would use to assign service responsibility to the upper tier in the current system. These include services benefiting from economies of scale, services generating spillovers, those that are primarily income redistributive, and those where area-wide uniform standards are required (see *Table 4.3*).

*Special Purpose Body or Municipal Government:* Once the board has been assigned specific service responsibilities, should it be structured as a special purpose body(ies) or should it operate like a municipal government? If the latter, it is like the current upper tier structure in most two tier systems. If it is set up as a special purpose body, there is a strong possibility that it will take on its own powers and be less efficient and accountable than a system where all decision making on municipal services is made by directly elected municipal councillors.

*Should the board be governed by appointed or elected officials?* It has been argued that the governing structure for service boards should be made up of appointed officials because, it is alleged, appointees could be technical experts in a particular field(s) and therefore more efficient in decision making when compared with local politicians. The case against appointed officials is fairly strong because it is undemocratic to have ap-

pointed officials making policy-decisions on expenditures funded by tax dollars and user fees. Accountability is likely to be missing if taxpayers do not have the opportunity to vote for the individuals who make public policy decisions. Appointed officials may create an environment where the upper tier governing structure becomes autonomous and independent from local councils.

*If members are elected, should they be directly elected or double directly elected?* While arguments in favour of elected officials are stronger than arguments in favour of appointees, there is disagreement over whether the elected members of the service board should be directly elected (only to the service board) or double directly elected (to the council of the area municipality and the service board simultaneously).

Double directly elected decision-makers provide for strong communication between the service board and the area municipalities because the same individuals are on both governing bodies. This may be appropriate if the service board is regarded as an agency or instrument of the area municipalities.

On the other hand, in a double directly elected system, accountability may become entangled because citizens/voters are unable to separate their vote for local issues from their vote for service board issues. For example, suppose a taxpayer is happy with a councillor at the local level but not as a member of the service board, for whom is he or she voting at election time - is it the individual as a local councillor or as a member of the service board? A further criticism of double directly elected councillors is that the service board could become the instrument or agency of local councils. This electoral system has the potential for parochialism in decision making and may not be directly accountable to taxpayers/voters.

Directly elected members of the service board are generally preferred because accountability is enhanced when each member represents only area-wide issues. Those charged with the responsibility for directing area-wide operations will have an opportunity to present their ideas about area-wide issues directly to the public and to hear clearly their responses during election periods, without confusing the issues with matters of concern for the area municipalities. Elected members on the service board can be judged by the electorate on the basis of their performance on the



service board and will be less likely to face conflict between service board and local interests. Members of the service board will be able to focus their energies entirely on region-wide issues and the less onerous workload may allow for an expanded pool of candidates for council/service board issues. The potential for parochialism will be reduced and the electoral process will be greatly simplified with separate slates of candidates for each level or unit of municipal government.

The case against directly elected members on the service board is that lines of communication between the service board and area municipalities may be weaker if elected members only serve on one level of local government. This concern, however, may be alleviated through administrative arrangements.

*Financing of a Service Board:* Some supporters of a service board have suggested that it should not have taxing authority. Instead, they argue it should sell services to area municipalities with the latter assuming responsibility for raising the necessary funds (from its taxpayers). This role for a service board may be appropriate where the board is responsible for providing services such as solid waste collection and disposal, and water provision and sewage treatment where specific beneficiaries can be identified and user fees or charges imposed. This, then, is similar to the financing of water and sewerage in many municipalities and solid waste in some.

If, however, a service board is responsible for services where specific beneficiaries cannot be identified and specific charges not imposed such as for land ambulance, social services, social housing and police, it is difficult to see how the service board could finance these services without fairly and equitably raising the money through local taxation on taxpayers across the entire area. This basis for covering costs, of course, is identical to that which is currently in place or ought to be in place for financing services in either a single tier system or a two tier system. To do it in any other way would almost certainly be more inequitable, less accountable and more inefficient.

*Voluntary or Compulsory Purchasing from the Service Board:* This is not an issue if the service board deals directly with taxpayers – in this instance, the role and structure of the board is similar, perhaps identical,

to that of a region, county, district, or metropolitan area. It is an issue, however, if local municipalities buy services from the service board and, in turn, fund them from taxes and fees collected from their taxpayers. This is what happens in the Greater Vancouver Regional District. Compulsory purchasing may be a problem if each area municipality has the opportunity to determine its level and standard of purchased services that benefit from economies of scale, generate spillovers, and are redistributive in nature. If, on the other hand, area municipalities have no choice over the level and standard (such as where the province sets the standards – social services, land ambulance, for example), purchase of service by the area municipalities from the regional service board seems like an unnecessary, wasteful and inefficient step.

Voluntary purchasing may also create problems if area municipalities can ‘opt in and opt out’ as they wish. First, if some municipalities refuse to participate, this could prevent the service board from benefiting from economies of scale – a major reason for creating them, in the first place. Second and possibly more important, area municipalities in an attempt to gain control over all services provided to citizens in their municipalities (sometimes referred to as ‘empire building’) may simply refuse to buy from the service board and, in turn, provide the service themselves even when this is more costly. As well, provision of services by each area municipality creates further problems if spillovers are generated or if the services are income redistributive.

*Summary:* There is no consensus on a number of critical issues around the concept of a service board. Indeed, when these concerns have been raised with many proponents of the service board structure, the conclusion generally leads to an operational structure with service responsibilities and funding that are virtually identical to the current upper tier in a two tier structure of municipal government.

#### **4.4. Are There Lessons for Russia?**

Perhaps the overriding conclusion that emerges from what the Canadian experience in municipal structure may suggest for Russia is that ‘one size does not fit all’. Optimal or desirable municipal structures may vary from place to place depending on local expenditure responsibilities and

types of municipal settlements; for example, pockets of large metropolitan areas, isolated municipalities in the north and more remote parts of the country, one company towns (based on oil, mining, forestry, and so on), small urban areas that are contiguous with each other, small and large urban areas that are not contiguous with each other and are the hub of neighbouring agricultural activities, and so on. Differentiating municipalities in this way is important for their population base, geographical location, and topographical features will have an impact on the type of municipal structure that should be implemented and how it should be governed if services are to be provided in an efficient, effective, accountable, fair, and transparent manner.

Two tier structures may be particularly appropriate where local governments are responsible for a fairly wide range of local services and where there are a number of contiguous urban centres, large metropolitan areas, and even rural areas around or neighbouring on an urban centre.

A two-tier structure is not likely to be appropriate in remote areas where municipalities are isolated from each other, where distances are such that benefits or costs of services provided by one municipality are unlikely to spill over into adjacent municipalities, and where distance between municipalities and their isolation from each other prevents them from benefiting from economies of scale. Here, a one tier structure makes more sense.

A large single tier structure is also an option where there are a number of contiguous urban centres, large metropolitan areas, and even rural areas around or neighbouring on an urban centre. This may be preferred to a two-tier structure if the lower tiers have relatively few spending responsibilities or if the political decisions of the lower tier generally impede the economic growth and development of the wider area.

Creation of a series of small single tiers with some kind of inter-municipal agreement or co-ordinating body for services that benefit the entire area generally encounters a multitude of problems. At best, it is a second-best' solution and should be avoided as much as possible. In its place, a properly constituted and functioning two-tier system is a much better choice if one is to achieve an efficient, effective, accountable, and transparent local government structure.

Finally, if local governments are only responsible for a few services such as local streets, sidewalks, street lights and if these services are not income redistributive in nature and generate no spillovers, a two tier structure may be inappropriate. Local responsibilities could be handled by a single tier of local government without relying on intermunicipal agreements or intermunicipal coordinating bodies.

#### **4.5. Summary**

Municipal government structures across Canada consist of a mix of single tier and two-tier municipalities. In a single tier system, each municipality is responsible for all services and each has a directly elected governing council. In a two-tier structure, each level of local government is responsible for specific services although some of these may be shared between both levels of local government. The upper tier in this structure is sometimes referred to as a county, region, district, or metropolitan level of government. In other cases, the upper tier may be an elected or appointed special purpose board, body, agency, or commission with responsibility for providing specific services over a geographical area that is beyond the borders of any single lower tier jurisdiction. In still other cases, region or area wide services may be provided through joint-use or inter-municipal agreements.

In designing a municipal government structure, the emphasis should be on a system that is responsible for setting policy and determining funding, not on delivery for this may be handled in a variety of ways. Recent initiatives in consolidating or amalgamating municipalities in a number of countries have generally concentrated on three possible options: a two-tier structure; a large single tier government; and the existence of multiple, smaller single tiers with a service board.

When each option is examined in terms of its ability or capacity to meet the following criteria; capacity for benefiting from economies of scale, controlling externalities, providing services at uniform standards, redistributing taxes, capturing local preferences, and being accessible, the optimal design may depend on which of the criteria is given the highest

priority. The first four support larger governing units and the last two support smaller units. As well, the ideal structure may vary depending on whether one is considering a large metropolitan area, an area where there is a mix of contiguous rural and urban areas, or municipalities in non-contiguous, sparsely populated and isolated communities in remote areas.

For large urbanized or metropolitan areas such as big cities, either a two-tier structure or a large single tier could satisfy the criteria even though each has a different set of potential strengths and weaknesses. For areas where there is contiguous mix of rural and urban communities, either a two-tier or large single tier could work. Once again, the choice may depend on local circumstances and the importance assigned to specific criteria. Nowhere, however, are there solid arguments in support of multiple smaller single tiers with an area wide service board. For municipalities in remote areas, the governing structure may be very different. Neither a two-tier or large single tier is likely to work. Here municipalities will be left with small single tiers and quite probably, proportionately more dependence on senior levels of government for service responsibility and funds.

Although the municipal government system does not, in itself, determine the success or failure of local economies and social policies, it plays an important role in the financial and economic viability of municipalities, especially those that are urban centered because they are critical for the growth and vitality of the Canadian economy. These municipalities are frequently referred to as city-regions. City-regions are economically and socially becoming more and more important as recent trends – urbanization, social instability and migration – focus on major urban centres. Not only are city-regions critical to success in the new global economy, they face serious problems with the cost of urban sprawl and higher demands for social service expenditures to accommodate the homeless and economically deprived. Resolving these problems is a major concern and is likely best handled under either a two-tier structure or large single tier. Multiple single tiers with inter-municipal agreements or special purpose bodies will underestimate the integrative and important role for urban centred governance.

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6. The Law of the Tver Oblast No. 142-ZO “On Resolution by Local Self-Government Bodies at the Tver Oblast of Specific Issues of Local Significance Concerning Newly Established Urban/ Rural Settlements at the Tver Oblast” dated December 9, 2005.
7. The Law of the Tver Oblast No. 94-ZO “On Resolution by Local Self-Government Bodies at the Tver Oblast of Issues of Local Significance Concerning Rural/ Urban Settlements at the Tver Oblast in 2007” dated September 28, 2006.
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9. The Law of the Chelyabinsk Oblast No. 29-ZO “On Maximum Standards of Labor Remuneration of Chief Executives of Municipal Entities, the Members of the Representative Bodies at Municipal Entities Performing their Duties on a Permanent Basis, Municipal Servants, Employees of Municipal Enterprises and Bodies” dated May 25, 2006.
10. The Law of the Chuvash Republic No. 7 “On Municipal Service in the Chuvash Republic” dated May 12, 2000.
11. A Resolution of the Presidential Office of the Chuvash Republic No. 90 “On Approval of the Training Program for the Municipal Servants



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